

Macquarie Infrastructure Corp  
Form 10-K  
February 21, 2017

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

**FORM 10-K**

(Mark One)

☒

**ACTUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2016**

**OR**

☐

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-32384**

**MACQUARIE INFRASTRUCTURE CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

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Delaware  
(Jurisdiction of Incorporation  
or Organization)

43-2052503  
(IRS Employer  
Identification No.)

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

(Address of Principal Executive Offices) (Zip Code)

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

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

Title of Each Class:	Name of Exchange on Which Registered:
Common stock, par value \$0.001 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: <b>None</b>	

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the outstanding shares of stock held by non-affiliates of Macquarie Infrastructure Corporation at June 30, 2016 was \$5,497,965,173 based on the closing price on the New York Stock Exchange on that date. This calculation does not reflect a determination that persons are affiliates for any other purposes.

There were 82,125,367 shares of common stock, with \$0.001 par value, outstanding at February 17, 2017.

## **DOCUMENTS INCORPORATED BY REFERENCE**

The definitive proxy statement relating to Macquarie Infrastructure Corporation's Annual Meeting of Stockholders for fiscal year ended December 31, 2016, to be held May 17, 2017 is incorporated by reference in Part III to the extent described therein.

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## FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

- our ability to make, finance and integrate acquisitions and the quality of financial information and systems of acquired entities;

- changes in patterns of commercial or general aviation air travel, including variations in customer demand;

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

- the regulatory environment, including U.S. energy policy, and the ability to estimate compliance costs, comply with any changes thereto, rates implemented by regulators, and the relationships and rights under and contracts with governmental agencies and authorities;

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

- sudden or extreme volatility in commodity prices;

- changes in competitive dynamics affecting our businesses;

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

- technological innovations leading to changes in energy production, distribution and consumption patterns;

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

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

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our ability to make alternate arrangements to account for any disruptions or shutdowns that may affect suppliers facilities or the operation of the barges upon which our gas processing and distribution business is dependent;  
our ability to implement operating and internal growth strategies;  
environmental risks, including the impact of climate change and weather conditions;  
the impact of weather events, including potentially hurricanes, tornadoes and/or seasonal extremes;  
changes in electricity or other energy costs, including natural gas pricing;  
unplanned outages and/or failures of technical and mechanical systems;  
payment of performance fees, if any, and base management fees to the Manager that could reduce distributable cash if paid in cash or could dilute existing stockholders if satisfied with the issuance of shares;  
changes in U.S. income tax laws;  
work interruptions or other labor stoppages;  
the inability of principal off-takers in the contracted power businesses to take and/or pay for the energy supplied;  
our Manager's affiliation with the Macquarie Group or equity market sentiment, which may affect the market price of our shares;  
our limited ability to remove the Manager for underperformance and the Manager's right to resign;  
unanticipated or unusual behavior of municipalities and states brought about by financial distress; and  
the extent to which federal spending reduces the U.S. military presence in Hawaii or flight activity at airports at which Atlantic Aviation operates.

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

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

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

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## PART I

### ITEM 1. BUSINESS

Macquarie Infrastructure Corporation is the successor to Macquarie Infrastructure Company LLC (MIC LLC) pursuant to the conversion (the Conversion) of MIC LLC from a Delaware limited liability company to a Delaware corporation on May 21, 2015. MIC LLC was formed on April 13, 2004. Except as otherwise specified, all references in this Form 10-K to MIC, we, us and our refer (i) from and after the time of the Conversion, to Macquarie Infrastructure Corporation and its subsidiaries and (ii) prior to the Conversion, to the predecessor MIC LLC and its subsidiaries. Except as otherwise specified, all references in this Form 10-K to common stock or shares refer (i) from and after the time of the Conversion, to common stock and (ii) prior to the Conversion, LLC interests.

### MIC Level Strategy

We intend to own and efficiently operate and grow a diversified portfolio of businesses with the aim of producing an attractive risk adjusted total stockholder return. We intend to achieve this by:

providing optimal service levels while maintaining the highest safety, environmental and governance standards;  
prudently deploying capital in:  
growing our existing businesses; and  
developing and acquiring additional businesses;  
optimizing price, volume and margin;  
effectively managing expenses;  
optimizing capital structures and tax planning; and  
realizing both cross-selling and cost synergies across our businesses.

We expect these efforts, collectively, to produce growth in the amount of cash generated by our businesses and growth in our stockholder dividend.

### General

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:

**International-Matex Tank Terminals (IMTT):** a bulk liquid terminals business providing bulk liquid storage, handling and other services to third parties at ten marine 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 69 airports throughout the U.S.;

**Contracted Power (CP):** comprising a gas-fired facility and controlling interests in wind and solar facilities in the U.S.; and,

**MIC Hawaii segment:** 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, all based in Hawaii.

We buy, develop and invest in the growth of our businesses based on a general assumption that we will own them indefinitely. It is neither our intent nor our expectation that we will divest of a business at a particular point in our ownership or as a result of having achieved certain targets, financial or otherwise. This view of ownership as a



long-term relationship does not preclude sales of assets when we believe that we have either maximized the amount of value in the asset relative to our capability, or the asset is more highly valued by another owner. Since listing in December 2004, we have divested a total of approximately \$360.0 million

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in assets including partial interests in several non-U.S. businesses, two businesses in the U.S. and several of the facilities owned and operated by our Atlantic Aviation business. In general, we have redeployed the proceeds from these asset sales in the development of our remaining businesses either through investment in growth projects or acquisitions of small, bolt-on operations consistent with our view of MIC as a long-term owner.

Deployment of growth capital has been and is expected to continue to be an important part of our strategy and the creation of stockholder value. Our sources of growth capital include the capital generated by our businesses but not distributed as a cash dividend to our stockholders, capital generated through the issuance of additional debt and/or equity securities, or, as noted above, the proceeds of sales of certain assets.

Since 2006, we have owned and operated businesses in the four segments in which we operate today, having acquired a 50% interest in IMTT in May 2006 and the Hawaii Gas business (Hawaii Gas) in June of that year. Since then, and excluding the investment in the second half of IMTT and our initial investment in Bayonne Energy Center (BEC), we have deployed over \$2.7 billion in the expansion or improvement of, or bolt-on acquisitions on behalf of our businesses. Over time, we expect to deploy growth capital of approximately \$350.0 million per year in projects and bolt-on acquisitions across all of our businesses.

Importantly, we are not obligated to invest in the growth of any one business or segment. If the opportunities in any of our businesses or segments are insufficient or the risk adjusted returns are inadequate relative to our financial targets, we will seek to drive stockholder value through other means. That may mean that in some years we invest very little in growth and focus instead on operational improvement driving top line increases and/or managing expenses (or the rate of growth in expenses) down. Further, although we find value in diversification and the generally uncorrelated nature of the businesses in our current portfolio, ideally we would prefer to have a portfolio of five or six lines of business as we had following our initial public offering (IPO). However, we do not intend to pursue diversification for the sake of diversification if the opportunities are insufficient in number or the expected returns are inadequate relative to our financial hurdles.

## **Businesses**

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

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

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



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In addition to the benefits associated with these characteristics, margins generated by most of our businesses generally can be expected to keep pace with historically normal rates of inflation. The price escalators built into many customer contracts, and the inflation and cost pass-through adjustments typically a part of pricing terms or provided for by the regulatory process to regulated businesses serve to insulate our businesses to a significant degree from the negative effects of inflation and commodity price risk. We sometimes employ hedging contracts in connection with our businesses floating rate debt and limited commodity price exposure.

## **Our Manager**

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

Our Manager is responsible for and oversees the management of our operating businesses. Our Manager has assigned, or seconded, to us two of its employees to serve as our chief executive officer and chief financial officer and seconds or makes other personnel available as required. The services performed for us by our Manager are provided at our Manager's expense, and include the compensation of our seconded personnel.

We pay our Manager a monthly base management fee based primarily on our market capitalization and holding company net debt and excluding debt in support of specific operating entities. Our Manager may also earn a performance fee if the quarterly total return for our stockholders (capital appreciation plus dividends) is positive and exceeds the quarterly total return of a U.S. utilities index benchmark, both in the quarter and cumulatively. If payable, a performance fee is equal to 20% of the difference between the benchmark return and the total return for our stockholders during the quarter. Our Manager may elect to invest its fees in shares of our common stock and may only change the election during a 20 trading day window following our earnings release. Any change would apply to fees incurred thereafter. The current method of settling both base management and performance fees, if any, is through the reinvestment of the fees in shares.

## **Our Businesses**

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

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

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 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) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* in Part II, Item 7, 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.

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# **IMTT**

## **Industry Overview**

Bulk liquid terminals provide an important link in the supply chain for a broad range of liquid commodities (see below). In addition to renting storage tanks, dock access and intra-modal transportation access, bulk liquid terminals generate revenue by offering ancillary services including product transfer (throughput), heating, blending and packaging. Pricing for storage and other services typically reflects local supply and demand as well as the specific attributes of each terminal including access to deepwater berths and connections to land-based infrastructure such as roads, pipelines and rail.

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

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

## **Business Overview**

IMTT is one of the larger independent providers of bulk liquid terminal services in the U.S., based on capacity. IMTT stores or handles primarily refined petroleum products, various commodity and specialty chemicals, renewable fuels and vegetable and animal oils (collectively liquid commodities). Crude oil constitutes an immaterial portion of IMTT's overall storage and handling operations. The business operates a network of 12 terminals including ten in the U.S. and two in Canada (one partially owned) with principal operations in the New York Harbor market and on the Lower Mississippi River.

We acquired a 50% interest in IMTT from the firm's founding family in May 2006 and operated the business on a joint basis through July 15, 2014. On July 16, 2014, we completed the acquisition of the remaining 50% interest that we did not previously own (IMTT Acquisition). Over the period of our ownership through the year ended December 31, 2016, excluding the acquisition of the business, we (and our co-owners in the period prior to July 16, 2014) deployed approximately \$1.0 billion in the growth and development of additional storage capacity, facilities and related infrastructure (pipes, pumps, docks, etc.) and an acquisition of a facility in Illinois. Consistent with IMTT's strategy below, we expect to be able to continue to deploy capital in the growth and expansion of storage capacity and capabilities provided that they generate attractive risk-adjusted returns.

IMTT also owns OMI Environmental Solutions (OMI), an environmental emergency response, industrial services, waste transportation and disposal business.

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The table below summarizes the breakdown of revenue generated by IMTT for the year ended December 31, 2016:

Refined Products	Chemical	Renewable/Vegetable & Animal Oil	Crude Oil & Asphalt	Other
55%	24 %	6 %	4 %	11 % <sup>(1)</sup>

(1) Includes 5% of revenues from OMI.

Following is summary financial information for 100% of IMTT (\$ in millions):

	As of, and for the Year Ended, December 31,		
	2016	2015	2014
Revenue <sup>(1)</sup>	\$ 532.5	\$ 550.0	\$ 567.5
Net income <sup>(1)</sup>	83.1	74.7	92.7
EBITDA excluding non-cash items <sup>(1)(2)</sup>	321.9	302.1	285.2
Total assets	3,978.4	4,000.1	4,040.8

(1) IMTT contributed \$255.9 million, \$34.9 million and \$127.8 million to our consolidated revenue, net income and EBITDA excluding non-cash items, respectively, for the period July 16, 2014 through December 31, 2014 following our acquisition of the 50% of the business we did not already own. Prior to July 16, 2014, IMTT's results were accounted for using the equity method.

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

## Strategy

IMTT is pursuing a strategy that has five principal components:

1. to continuously drive improvements in safety;
2. to grow revenue and cash flows by attracting and retaining customers who place a premium on flexibility, speed and efficiency in storage and handling of bulk liquid products;
3. to deploy growth capital in the development of existing locations by constructing new terminal assets (for example tanks, docks, rail offloading capacity, pipelines or other logistics infrastructure) and other non-terminal assets that support MIC's other lines of business when such construction is supported by customer demand and the returns are attractive;
4. to optimize the scale and performance of the business through acquisitions, developments, divestitures and partnerships; and
5. to improve business processes and systems with particular focus on cost and risk reduction, control of maintenance capital expenditures and revenue optimization.

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TABLE OF CONTENTS**IMTT (continued)****Locations**

As of December 31, 2016, IMTT comprised the following facilities and storage capacity, not including tanks used in packaging, recovery tanks, and/or other storage capacity not typically available for rent.

Facility	Land	Aggregate Capacity of Storage Tanks in Service (Millions of Barrels)	Percent of Ownership
<b>Facilities in the United States:</b>			
Louisiana Terminals (4)	Owned	20.8	100.0 %
Bayonne Terminal	Owned	15.7	100.0 %
Other Terminals (5)	Owned	3.7	100.0 %
<b>Facilities in Canada:</b>			
Quebec City, Quebec	Leased	2.0	100.0 %
Placentia Bay, Newfoundland	Leased	3.0	20.1 %
<b>Total</b>		45.2	

IMTT facilities generally operate 24/7 providing shippers, refiners, manufacturers, traders and distributors with prompt access to a wide range of storage services. In each of its two key markets, IMTT's scale ensures availability of sophisticated product handling and storage capabilities. IMTT continues to improve its facilities' speed and flexibility of operations by investing in upgrades of its docks, pipelines and pumping infrastructure and facility management systems.

**Louisiana Terminals (52% of gross profit)**

On the Lower Mississippi River, IMTT currently operates four terminals (St. Rose, Gretna, Avondale and Geismar).

With combined storage capacity of 20.8 million barrels, the four sites give IMTT substantial market share in the storage of black oil, bulk liquid chemicals and vegetable oils on the strategically important Lower Mississippi River.

The Louisiana facilities also give IMTT a substantial presence in a key domestic transport hub. The Lower Mississippi River serves as a major transshipment point between the central U.S. and the rest of the world for agricultural products (such as vegetable oils) and commodity chemicals (such as methanol). The region also has substantial traffic related to the petroleum industry. Gulf Coast refiners and traders send products to other regions of the U.S. and overseas and use IMTT's Louisiana facilities to perform some of these functions. These facilities enjoy relatively unencumbered marine and road access when compared to other, more congested waterways such as the Houston Ship Channel.

**Bayonne Terminal (39% of gross profit)**

Located on the Kill Van Kull between New Jersey and Staten Island, the 15.7 million barrel capacity terminal occupies an attractive position in New York Harbor. As the largest independent bulk liquid terminal in New York Harbor, IMTT-Bayonne has substantial market share of independent storage of refined petroleum products and chemicals.

New York Harbor serves as the main petroleum trading hub in the northeast U.S. and a physical settlement site for the gasoline and ultra-low sulfur diesel futures contracts traded on the New York Mercantile Exchange. In addition to waterborne shipments, products reach New York Harbor through petroleum product pipelines from the U.S. Gulf region and elsewhere. New York Harbor also serves as the starting point for refined product pipelines linked to inland markets and as a key port for refined petroleum product exports and imports. IMTT-Bayonne has connections to the Colonial, Buckeye and Harbor refined petroleum product pipelines as well as rail and road connections and substantial blending capabilities. As a result, IMTT-Bayonne provides its customers with logistical flexibility.

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**IMTT (continued)**

IMTT-Bayonne has the capability to quickly load and unload the largest bulk liquid transport ships entering New York Harbor. The U.S. Army Corp of Engineers has dredged the Kill Van Kull channel passing the IMTT-Bayonne docks to 50 feet (IMTT has dredged two of its docks to 47 feet). Most of IMTT's competitors in New York Harbor have facilities located on the southern portion of the Arthur Kill (water depth of approximately 37 feet) and force large ships to transfer a portion of their cargoes to barges (a process known as lightering) before docking. This technique increases the cost of loading and unloading.

**Competition**

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

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

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

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

**Customers**

IMTT provides bulk liquid terminal services primarily to vertically integrated petroleum product producers and refiners, chemical manufacturers, food processors and traders of bulk liquid petroleum, chemical and agricultural products. IMTT does not depend on a single customer, the loss of which would have a material adverse effect on IMTT.

For the year ended December 31, 2016, approximately 55% of IMTT's revenue was generated by its top ten customers of which seven were rated as investment grade and the other three were not rated. Customers typically sign contracts which, among other things, provide for a fixed periodic payment (usually monthly) for access to and use of IMTT's facilities. This payment may be expressed in terms of cents per barrel of storage capacity, a dollar amount per unit of

infrastructure, or a dollar amount per month. These amounts are payable whether the customer uses the facilities or not.

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

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**IMTT (continued)**

**Regulation**

The rates that IMTT charges for its services are not subject to regulation. However, a number of regulatory bodies oversee IMTT's operations. IMTT must comply with numerous federal, state and local environmental, occupational health and safety, security, tax and planning statutes and regulations. These regulations require IMTT to obtain and maintain permits to operate its facilities and impose standards that govern the way IMTT operates its business. If

IMTT does not comply with the relevant regulations, it could lose its operating permits and/or incur fines and increased liability. As a result, IMTT has developed environmental and health and safety compliance functions overseen by terminal managers at the terminal level, as well as by IMTT's Vice President of Environmental, Health, Safety and Security, Chief Operating Officer and Chief Executive Officer. While changes in environmental, health and safety regulations pose a risk of higher operating costs, such changes are generally phased in over time to manage the impact on both the industry and the business.

The Bayonne terminal has significant environmental remediation requirements that were partially assumed at the time of purchase from the various former owners. One former owner retained environmental remediation responsibilities for a purchased site as well as responsibility for sharing other remediation costs. Remediation efforts entail removal of the free product, groundwater control and treatment, soil treatment, repair/replacement of sewer systems, and the implementation of containment and monitoring systems. These remediation activities are expected to continue for an additional ten to twenty years. See Legal Proceedings in Part I, Item 3, for further discussions.

The Lemont terminal has entered into a consent order with the State of Illinois to remediate contamination at the site that pre-dated IMTT's ownership. This remediation effort, including the implementation of extraction and monitoring wells and soil treatment, is estimated to continue for an additional ten to twenty years.

**Employees and Management**

As of December 31, 2016, IMTT (excluding the Newfoundland terminal) had a total of 1,052 employees, of which 230 employees were unionized. In January 2017, IMTT agreed to a new, five year collective bargaining agreement with its Bayonne employees represented by the United Steel Workers. This agreement is expected to be executed within the quarter ended March 31, 2017. We believe employee relations at IMTT are good.

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

**Atlantic Aviation**

**Industry Overview**

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

FBOs often operate in environments with high barriers to entry. Airports tend to have limited physical space for additional FBOs. Airport authorities generally do not have an incentive to add additional FBOs unless there is a significant demand for additional services. Government approvals and design and construction of a new FBO can also take significant time and require significant capital expenditures. Furthermore, airports typically impose minimum standards with respect to the experience, capital investment and breadth of services provided by the FBO.

TABLE OF CONTENTS**Atlantic Aviation (continued)**

The ownership of FBOs in the U.S. is fragmented with the majority of facilities individually owned and operated rather than part of networks or chains. Consolidation has been and is expected to continue to be an important feature of the industry with larger networks that are able to achieve economies of scale in fuel and insurance purchasing, marketing and back office operations acquiring locations from individual owners/operators. We believe that this is a trend that will continue over the medium term.

Demand for FBO services is driven by the level of GA flight activity and is defined as the number of take-offs and landings in a given period. Industry wide, GA business jet take-offs and landings increased by 1.3% for the year ended December 31, 2016 compared with the year ended December 31, 2015 according to flight data reported by the Federal Aviation Administration (FAA). GA business jet take-off and landings at airports where Atlantic Aviation operates increased by 1.1% during the year ended December 31, 2016. We believe GA flight activity will continue to expand consistent with increased economic activity in the U.S. and Atlantic Aviation's presence in some of the more popular business and recreational destinations in the U.S.

**Business Overview**

At December 31, 2016, Atlantic Aviation operated FBOs at 69 airports in the U.S. Atlantic Aviation's FBOs provide fueling and fuel-related services, aircraft parking and hangar services to owners/operators of jet aircraft, primarily to the GA sector of the air transportation industry, but also to commercial, military, freight and government aviation customers.

Atlantic Aviation has been a part of the MIC portfolio since our IPO. In December 2004, the business owned and operated a total of 16 FBOs. Through a roll-up of FBOs since then, we have acquired a total of 69 facilities. Consistent with our strategy of seeking to optimize the portfolio by exiting markets we believe have limited growth potential in favor of entering those with better prospects, we have divested of a total of 16 sites. Today Atlantic Aviation operates FBOs on 69 airports in the U.S. Including the acquisition of additional FBOs, we have deployed over \$1.7 billion in Atlantic Aviation in the development of projects including the construction of terminals and aircraft hangars, fuel tank farms, aircraft parking (ramps) and a range of smaller projects through the year ended December 31, 2016.

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

	As of, and for the Year Ended, December 31,		
	2016	2015	2014
Revenue	\$ 740.2	\$ 738.5	\$ 779.3
Net income	59.5	22.8	37.0
EBITDA excluding non-cash items <sup>(1)</sup>	225.1	203.6	167.9
Total assets	1,564.7	1,502.5	1,510.7

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

## Strategy

Atlantic Aviation is pursuing a strategy that has five principal components:

1. to make Atlantic Aviation the preferred FBO provider at all of the airports at which it operates by providing the best service and safety in the industry;
2. to prudently deploy capital in equipment and leasehold improvements;
3. to optimize the portfolio of FBOs through acquisitions, divestitures and lease extensions;
4. to manage the business to optimize its operating expenses; and
5. to grow the business by leveraging the size of the Atlantic Aviation network and its information technology capabilities to identify marketing and cross-selling opportunities.

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**Atlantic Aviation (continued)**

**Operations**

Atlantic Aviation has high-quality facilities and focuses on attracting customers who desire a high level of personalized service. Fueling and fuel-related services generated 64% of gross margin for the year ended December 31, 2016. Other services, including de-icing, aircraft parking, hangar rental and catering, provided the balance. Fuel is stored in tank farms and each FBO operates refueling vehicles owned or leased by the FBO to move fuel from the tank farms to the aircraft being serviced. The FBO either owns or has access to the fuel storage tanks to support its fueling activities. At some of Atlantic Aviation's locations, services are also provided to commercial airlines and the military. Services provided to the airlines may include refueling from the airline's own fuel supplies, de-icing and/or ground and ramp handling services.

Atlantic Aviation buys fuel at a wholesale price and sells fuel to customers either at a contracted price, or at a price negotiated at the point of purchase. While wholesale fuel costs can be volatile, Atlantic Aviation generally passes fuel cost changes through to customers and attempts to maintain and, when possible, increase its dollar-based margin per gallon. Atlantic Aviation also fuels aircraft with fuel owned by third parties and charges customers a fee for this service. The business has minimal exposure to commodity price risk as it generally carries a limited inventory of jet fuel on its books.

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

**Locations**

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

Atlantic Aviation's EBITDA-weighted average remaining lease length (at Atlantic Aviation's discretion) was 19.6 years at December 31, 2016 and 2015, notwithstanding the passage of one year. The leases at nine of Atlantic Aviation's FBOs, collectively accounting for approximately 10.0% of Atlantic Aviation's gross margin, will expire within the next five years. No individual FBO generates more than 10% of the gross margin of the business at December 31, 2016.

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

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

## Marketing

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

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

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## **Atlantic Aviation (continued)**

### **Competition**

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

Atlantic Aviation's main competitors are Signature Flight Support, Jet Aviation, Million Air, Sheltair Aviation and TAC Air. In February 2016, Signature Flight Support acquired Landmark Aviation, resulting in the combination of two of Atlantic Aviation's biggest competitors. Signature Flight Support competes with Atlantic at 22 airports, but only three of these locations were added as a result of the merger. Atlantic Aviation has not noticed a significant shift in customer or competitor behavior and remains confident in its ability to compete effectively. To our knowledge, other than the competitors listed, no other competitor operated more than 20 FBOs in the U.S. at December 31, 2016.

### **Customers**

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

### **Regulation**

The aviation industry is overseen by a number of regulatory bodies, but its primary regulator is the FAA. In addition, local airport authorities also regulate the FBOs. The business must comply with federal, state and local environmental statutes and regulations associated in part with the operation of fuel storage tank systems and mobile fueling vehicles.

These requirements include, among other things, tank and pipe testing for tightness, soil sampling for evidence of leaking and remediation of detected leaks and spills.

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

### **Employees and Management**

As of December 31, 2016, the business employed 1,956 people, of which 190 employees were subject to collective bargaining agreements. We believe relations with union and non-union employees at Atlantic Aviation are good.

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

## Contracted Power

### Industry Overview

The power industry represents a large and critical infrastructure market, both in terms of the number and value of facilities as well as their contribution to overall economic activity. In developed economies, capital spending in the sector is driven by aging infrastructure, new technologies, increased legislation regarding emissions, the use of renewable energy and modest demand growth.

The Energy Information Administration forecasts the demand for electricity in the U.S. to grow at a compound annual rate of approximately 0.7% over the next twenty years. As aging and inefficient generating capacity is retired or replaced, opportunities for deployment of capital in the growth of our CP segment are expected to increase.

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## **Contracted Power (continued)**

Transaction activity in the electricity generating sector of the industry has been driven by a combination of portfolio optimization and a significant number of renewable power projects being developed as a result of the adoption of Renewable Portfolio Standards (RPS). RPS are state-level regulatory mandates that aim to create demand for electricity derived from renewable sources by obligating utilities and other load-serving entities to provide a specific portion of their electricity generation from qualifying renewable technologies by a specified date. Transactions involving both existing and greenfield power assets have increased in number as CP projects offer an attractive risk-adjusted return, particularly in a low interest rate environment.

### **Business Overview**

The businesses in our CP segment sell electricity to creditworthy off-takers, typically pursuant to multi-year contracts. These contracts include either long-term power purchase agreements (PPAs) or tolling arrangements whereby a counterparty has contracted with one of our businesses to deliver a specified suite of energy and related services. These contracts provide a hedge against volatility in revenue from fluctuations in demand or price. MIC's current portfolio of electricity generating facilities utilize wind, solar and gas-fired technologies. We expect to continue to seek attractive investment opportunities in a range of conventional and renewable energy production and distribution projects and to pursue expansion opportunities at existing facilities.

At our IPO, we invested in a district energy business in Chicago, Illinois. We owned 100% of the business from our IPO until December 2009 at which time we sold a 49.99% interest in the business to a third party. In August 2014, we divested our remaining 50.01% interest. The financial results for the district energy business were reported as a component of CP through the date it was divested.

At December 31, 2016, CP consisted of controlling interests in six solar facilities, two wind facilities and a 100% interest in a gas-fired facility. We made our first investment in a solar facility in late 2012. Our portfolio consists of two solar facilities in Arizona, two in California, one in Texas and one in Utah. These solar facilities have an aggregate generating capacity of 137 megawatts (MW). Our wind facilities are located in Idaho and New Mexico and have a combined generating capacity of 203 MW. The gas-fired facility, BEC, has a generating capacity of 512 MW and is located in Bayonne, New Jersey, adjacent to IMTT's Bayonne terminal.

The solar and wind projects sell electricity under PPAs with initial terms of 20–25 years. The PPAs generate a fixed amount of revenue for each unit of electricity sold and certain of the PPAs have fixed or CPI-linked escalators. All of CP's solar facilities and the wind project in New Mexico are owned through tax-equity partnership structures in which we have controlling interests whereby we receive cash distributions disproportionate to our investment during the first several years of the projects' operations and taxable income or loss disproportionate to our interest thereafter. Our interest in the wind project located in Idaho is an approximately 75% ordinary economic interest.

The renewable energy facilities utilize arrays of photovoltaic solar panels and wind turbine generators to convert energy from sunlight and wind into electricity. The electricity is aggregated and fed directly into regional power grids. These technologies tend to produce a predictable amount of electricity within the bounds of seasonal variability in insolation and wind. The business also generates Renewable Energy Certificates (RECs) based on the amount of electricity provided to off-takers. These RECs are either bundled with the electricity under the terms of the PPAs or sold separately to third-parties.



TABLE OF CONTENTS**Contracted Power (continued)**

In April 2015, we completed the acquisition of BEC, a 512 MW gas-fired simple cycle power facility in Bayonne, New Jersey, adjacent to IMTT. The BEC facility comprises eight natural gas turbine power generating sets (installed in 2012). Power produced by BEC is transmitted via a dedicated cable beneath New York Harbor to a substation in Brooklyn, New York, from where it is distributed into the New York City power market. The majority of the facility's output is contracted with a creditworthy power wholesaler that has entered into tolling agreements with BEC for 62.5% of the facility's capacity. The tolling agreements generate revenue whether or not the facility is in use for power production. In addition to revenue related to the tolling agreement and capacity payments from the grid operator, BEC generates an energy margin when the facility is dispatched and also receives revenue for ancillary services provided to support grid stability and the system-wide transmission of capacity and energy. Revenue from these ancillary services does not require the facility to dispatch. In late 2015, we commenced the process of expanding the generating capacity of BEC by at least 130 MW and the connection of the facility to a second gas pipeline that runs beneath IMTT's property.

The financial results discussed in this Form 10-K reflect 100% of the performance of the solar and wind facilities within the CP segment since our acquisitions, not the contribution based on our economic interest, and the performance of BEC from the date of our acquisition on April 1, 2015, unless specified otherwise. The financial results for the CP segment, including the results of the district energy business through August 21, 2014, the date it was divested, is presented below (\$ in millions):

	As of, and for the Year Ended, December 31,		
	2016	2015	2014
Revenue	\$ 150.0	\$ 123.8	\$ 51.1
Net income (loss)	14.1	(7.2 )	(6.2 )
EBITDA excluding non-cash items <sup>(1)</sup>	98.2	68.2	22.7
Total assets	1,516.6	1,411.2	613.1

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

**Strategy**

Our CP businesses are pursuing a strategy that has four principal components:

1. to deliver cost-competitive electricity in a safe and reliable manner;
2. to deploy additional capital at attractive risk-adjusted returns by developing or acquiring energy projects across a range of technologies and geographies;
3. to leverage the growing scale of our portfolio to manage costs and increase efficiencies across the businesses; and
4. to recycle capital through the sale of selected facilities to third parties.

**Operations**

Operation and maintenance (O&M) of the CP facilities is performed by qualified contracted personnel and by established third-party service providers under long-term contracts. Other costs such as insurance and land leases are also based on annual contracts. Accordingly, a significant portion of the operating costs of these facilities is highly

predictable. The business regularly evaluates which O&M services are best provided by employees, contractors or third-parties.

## **Customers**

The primary customers of the contracted power business are creditworthy counterparties including utilities and power remarketers. Customers have entered into long-term PPAs or tolling agreements with remaining terms ranging from 11 to 22 years as of December 31, 2016.



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## **Contracted Power (continued)**

### **Seasonality**

Each CP facility has unique seasonality based on local market factors including weather and energy demand. The solar projects generate a disproportionate amount of their revenue in the summer months when insolation is highest, while wind energy revenues vary by season depending on the location of the specific project. Other CP projects may also exhibit seasonality based on the respective market's varying electricity demand. For example, BEC is a peaking power plant that is dispatched when energy demand increases above a base load, therefore BEC is dispatched more often in the summer and winter months.

### **Competition**

The contracted portion of CP's business is not subject to substantial direct competitive price pressure due to the long-term nature of the PPAs and tolling agreements with creditworthy off-takers. Our BEC facility has incremental generating capacity which is available for sale in the spot power market. After the expiration of the PPAs or tolling agreements, our facilities could be subject to greater competition.

### **Regulation**

The power and energy sectors are the subject of substantial and complex laws, rules and regulations. Sector regulators include the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NERC). The FERC has jurisdiction over the transmission and wholesale sale of electricity in interstate commerce and over the transportation, storage and certain sales of natural gas in interstate commerce, including the rates, charges and other terms and conditions for such services. The NERC serves to establish and enforce reliability standards applicable to all users, owners and operators of the bulk power system. The U.S. Environmental Protection Agency also oversees certain environmental matters related to the construction and operations of CP's electric generating facilities.

The New York competitive wholesale electricity market in which BEC participates is administered by the New York Independent System Operator (NYISO). NYISO is a not-for-profit agency that serves to ensure regional grid reliability, comprehensive planning, and open and efficient markets. BEC is also subject to certain New York State and New York City regulations and to environmental regulations by the State of New Jersey's Department of Environmental Protection.

Each of the solar and wind facilities comprising CP is subject to regulation and oversight in the jurisdictions in which they operate.

### **Employees and Management**

At December 31, 2016, the CP businesses had seven employees and two contractors that provide certain management oversight, while O&M is provided by third parties.

## **MIC Hawaii**

### **Industry Overview**

Beginning in 2008 with the Hawaii Clean Energy Initiative, Hawaii implemented a RPS that required increasing levels of electricity be derived from renewable resources with the goal of generating cleaner and lower cost electricity. In 2015, Hawaii accelerated its RPS and currently targets 100% of its electricity generated from renewable resources by 2045 with interim milestones in 2020, 2030 and 2040.

MIC Hawaii's businesses support the State's clean energy goals of lowering emissions, increasing energy security and decreasing costs for all energy users in Hawaii. For example, at Hawaii Gas, we are focused on diversifying our feedstock to include fuels which are cleaner burning and have the potential to lower energy costs for our customers, such as renewable natural gas (RNG) and liquefied natural gas (LNG). Further, natural gas-fired generation better complements Hawaii's growing renewable power generation sources given its efficiency and operating flexibility. At Waihonu Solar, we are generating renewable energy that serves customers on Oahu. At Critchfield Pacific, Inc. (CPI), we work with customers to lower their overall energy use through the design and construction of energy efficient infrastructure.

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**MIC Hawaii (continued)**

In 2016, over 25% of Hawaii's electricity was generated from renewable sources, where the primary sources were solar, wind, and biomass. While geographic location and the high cost of electricity make Hawaii an attractive market for solar power generation, there is the potential to increase the amount of all renewables-based power generation in the market. MIC Hawaii has made one investment in the solar sector and expects to pursue further growth opportunities in line with Hawaii's energy goals.

**Business Overview**

MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii. From mid-2006 to 2016, our MIC Hawaii segment consisted of only Hawaii Gas, the state's government-franchised gas utility and an unregulated liquefied petroleum gas (LPG) distribution business. Founded in 1904, Hawaii Gas serves Hawaii's 1.4 million residents and 8.9 million visitors across Oahu, Hawaii, Maui, Kauai, Molokai and Lanai (the main islands).

In July 2016, we commenced commercial operations at the Waihonu Solar facilities on Oahu. Waihonu Solar has an installed capacity of 7 MW and produces clean energy under a long-term feed-in tariff with the regulated electric utility. O&M is conducted by a third party provider. During its development phase, Waihonu Solar was reported as a part of our CP business.

In August 2016, we acquired CPI, a design-build mechanical contractor with a focus on engineering and constructing energy efficient infrastructure. CPI serves a broad range of end markets including hospitality, real estate and the military throughout Hawaii. With the acquisition of CPI, the portfolio of MIC Hawaii companies now offers a range of clean energy solutions including energy efficient design/build services, cleaner fuel supply and renewable power generation.

The largest business within MIC Hawaii is Hawaii Gas. Hawaii Gas comprises a regulated gas utility and an unregulated LPG distribution business. The utility business includes the processing, distribution and sale of synthetic natural gas (SNG) and the distribution and sale of regasified LNG on the island of Oahu and the distribution and sale of LPG on all of the main islands. The non-utility business distributes and sells LPG to customers on all the main islands. LPG is delivered by truck to individual tanks located on customer sites or is distributed in cylinders filled at central locations. The gas distributed by Hawaii Gas has a wide range of commercial and residential applications including water heating, drying, cooking, emergency power generation and decorative lighting, such as tiki torches. LPG is also used as a fuel for specialty vehicles such as forklifts. Users include residential customers and a wide variety of commercial, hospitality, military, public sector and wholesale customers.

Hawaii Gas products are relatively cleaner-burning fuels that produce lower levels of carbon emissions than other hydrocarbon fuels such as coal or oil. This is particularly important in Hawaii where heightened public awareness of the environmental impact of using hydrocarbon fuels makes lower emission fuels attractive to customers. Hawaii Gas is evaluating several projects to source cleaner, locally generated RNG, which include the recovery of gas from municipal waste water treatment plants and landfills as well as the processing of locally sourced biomass. In August 2016, the City and County of Honolulu awarded the Honouliuli Wastewater Treatment Plant Biogas contract to Hawaii Gas. Under the terms of the agreement, Hawaii Gas will purchase approximately 800,000 therms of biogas per year at a fixed rate through December 31, 2024. The agreement is pending approval by the Hawaii Public Utilities Commission (HPUC) and, if approved, operations are expected to commence in 2018.

Hawaii Gas primary products consist of:

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

TABLE OF CONTENTS**MIC Hawaii (continued)**

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

*Liquefied Natural Gas (LNG):* In March 2014, the business received regulatory approval to procure, transport and utilize LNG as a backup fuel for the SNG utility distribution system and currently uses conventional intermodal cryogenic containers to transport LNG from the U.S. mainland. The first shipment of LNG was regasified in April 2014 and LNG operations have been ongoing since that time. In April 2016, the business received regulatory approval to invest \$12.8 million in its utility business to replace up to 30% of its SNG gas demand with containerized LNG. Hawaii Gas expects this transition to a cleaner fuel source to be completed in 2017.

*Renewable Natural Gas (RNG):* In August 2016, the City and County of Honolulu awarded a wastewater biogas contract to the business. The agreement is subject to approval by the HPUC. The business continues to evaluate a range of renewable feedstock sources including waste water treatment plants, landfills and biomass.

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

	As of, and for the Year Ended, December 31,		
	2016	2015	2014
Revenue	\$ 233.9	\$ 227.0	\$ 264.6
Net income	35.7	24.0	21.3
EBITDA excluding non-cash items <sup>(1)</sup>	62.8	60.1	57.0
Total assets	501.7	386.1	392.5

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

**Strategy**

Our MIC Hawaii businesses are pursuing a strategy that has four principal components:

1. to lower the cost of energy in Hawaii in a safe and environmentally sustainable manner;
2. to diversify sources of energy and power generation to ensure energy security for the State of Hawaii;
3. to increase and diversify the customers served by the businesses of MIC Hawaii; and,
4. to maintain positive relationships with regulators, government agencies, customers, the communities MIC Hawaii serves and other stakeholders.

**Customers**

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.

MIC Hawaii does not depend on any single customer, the loss of which would have a material adverse effect on the business.

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**MIC Hawaii (continued)**

**Utility Regulation**

Hawaii Gas utility business and Waihonu Solar are regulated by the HPUC. The HPUC exercises broad regulatory oversight and investigative authority over all public utility companies in Hawaii.

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

Hawaii Gas utility rates are established by the HPUC in periodic rate cases typically initiated by Hawaii Gas. The business initiates a rate case by submitting a request to the HPUC for an increase in rates based, for example, upon materially higher costs related to providing the service. Following initiation of the rate increase request and submissions by other intervening parties of their positions on the rate request, and potentially an evidentiary hearing, the HPUC issues a decision establishing the revenue requirements and the resulting rates that Hawaii Gas will be allowed to charge. Hawaii Gas last rate case had a test year of 2009 and was approved in 2010. Hawaii Gas expects to file a rate case in 2017.

The HPUC also establishes the rate for solar power feed-in-tariff projects such as Waihonu Solar.

*Other Regulations.* In addition to regulating utility rates, the HPUC acts on requests for the acquisition, sale, disposition or other exchange of utility properties, including mergers and consolidations; acts on requests for financings; and approves material supply contracts. When we acquired Hawaii Gas, we agreed to 14 regulatory conditions with the HPUC that address a variety of matters including: a requirement that the ratio of consolidated debt to total capital for Hawaii Gas and HGC Holdings LLC (HGC) does not exceed 65%; and a requirement to maintain \$20.0 million in readily-available cash resources at Hawaii Gas, HGC or MIC.

**Competition**

Depending upon the end-use, Hawaii Gas competes with electricity, diesel, solar, geo-thermal, wind, other gas providers and alternative energy sources. Electricity in Hawaii is generated by four electric utilities and various independent power producers. In addition, residential and some commercial customers in Hawaii have increased the rate at which they are installing distributed solar photovoltaic generating capacity.

*Hawaii Gas Utility Business.* Hawaii Gas holds the only government franchise for utility gas services in Hawaii. This enables Hawaii Gas to utilize public easements for its pipeline distribution systems. This franchise also provides for the exclusive use of extensive below-ground distribution infrastructure that Hawaii Gas owns and maintains. In certain instances, the business utility customers also have the ability to use alternative sources of energy, such as diesel.

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

*CPI.* CPI competes with a variety of mechanical contractors in Hawaii based on technical skills, equipment distributor relationships and cost. There are a limited number of competitors in Hawaii that provide comprehensive design and engineering services combined with the capability to construct major mechanical projects.



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**MIC Hawaii (continued)**

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

**Fuel Supply**

Hawaii Gas obtains the majority of its LPG supply from off-island producers with the remainder supplied by Island Energy Services. Hawaii Gas currently sources naphtha feedstock for its SNG plant from Par Hawaii and on September 30, 2016, Hawaii Gas filed an application with the HPUC requesting approval of a new multi-year contract with Par. The HPUC subsequently issued an Interim Decision and Order in January 2017 providing interim approval of the new feedstock supply agreement. Issuance of a final decision and order is expected in the first half of 2017.

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

Hawaii Gas processes and distributes SNG from its plant located west of the Honolulu business district. The life of the plant continues to be extended through routine maintenance and additional capital investments. A 22-mile transmission pipeline links the SNG plant to a distribution system at Pier 38 in south Oahu. From Pier 38, a pipeline distribution system consisting of approximately 900 miles of distribution and service pipelines transports gas to customers. On islands other than Oahu, LPG is distributed by direct deliveries from off-island suppliers by ship and by barge from Oahu. It is then distributed via pipelines to utility customers. Approximately 90% of the Hawaii Gas pipeline system is on Oahu.

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

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

**Environmental Permits**

*Hawaii Gas:* This business requires environmental operating permits, the most significant of which are air and wastewater permits required for the SNG plant. Hawaii Gas is in compliance in all material respects with all applicable provisions of these permits.

*CPI:* Certain of CPI's projects are subject to air and wastewater permits. CPI is in compliance in all material respects with all applicable provisions of these permits.

**Employees and Management**

As of December 31, 2016, MIC Hawaii had 570 employees, of which 412 are union employees. Hawaii Gas has 211 union employees that are subject to the terms of a collective bargaining agreement. The remaining 201 union employees at CPI are subject to the terms of one of four multi-employer industry collective bargaining agreements. MIC Hawaii believes it has a good relationship with its union and non-union employees and there have been no major disruptions in operations due to labor matters for over 30 years. Management for all of the businesses are

headquartered in Honolulu, Hawaii.

## **Consolidated**

### **Our Employees**

As of December 31, 2016, we employed approximately 3,600 people across our consolidated businesses of which approximately 23% were subject to collective bargaining agreements. The MIC holding company does not have any employees.

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## AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the operations of the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Macquarie Infrastructure Corporation) file electronically with the SEC. The SEC's website is [www.sec.gov](http://www.sec.gov).

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

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

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

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

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

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

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## ITEM 1A. RISK FACTORS

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

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

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

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

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

The volatility in the financial markets makes projections regarding future obligations under pension plans difficult.

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

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

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

- incur additional indebtedness;
- pay dividends, redeem subordinated debt or make other restricted payments;
- make certain investments or acquisitions;
- grant or permit certain liens on our assets;
- enter into certain transactions with affiliates;

merge, consolidate or transfer substantially all of our assets; and  
transfer or sell assets, including capital stock of our subsidiaries.

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

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

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

**Our inability to successfully implement shared services could negatively impact our business.**

We are currently forming and staffing a shared service center that is expected to provide common administrative functions, including payroll processing, health and benefit plan administration, information technology, procurement, tax, legal and certain finance and accounting functions to the businesses in our portfolio. If the implementation of the shared services center is delayed, or if any of these shared service functions do not perform effectively, or if we fail to adequately monitor their performance, we may not be able to achieve expected cost savings or we may have to incur additional costs to correct errors made by such shared service functions and our reputation could be harmed.

Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, effects on financial reporting, litigation or remediation costs. In addition, the concentration of processes in one shared service center means that any disruption could impact all or a substantial portion of our businesses. Any of these potential effects could have an adverse effect on our results of operations, financial condition and cash flows.

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

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

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

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

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**Our holding company level debt could adversely affect our financial condition and results of operations, limit our operational and financing flexibility and negatively impact our business.**

At December 31, 2016, we had outstanding \$752.5 million of convertible senior notes and had available a \$410.0 million senior secured revolving credit facility, which remained undrawn. These holding company level debt instruments increase our interest payments and could have significant adverse effects on our business, including:

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

our ability to obtain additional financing may be impaired;

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

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

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

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

We expect to obtain the funds to pay our expenses and to repay our indebtedness primarily from our operating businesses. Our ability to meet our expenses and make these payments therefore depends on the future performance of our businesses, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our businesses may not generate sufficient cash flow from operations in the future, which could result in our inability to repay indebtedness or to fund other liquidity needs. As a holding company with no operations, we are dependent on the ability of our businesses to make distributions to us to pay our expenses and repay our indebtedness.

In addition, the senior secured revolving credit facility is guaranteed by MIC Ohana Corporation, our direct, wholly owned subsidiary. MIC Ohana Corporation is a holding company whose only material asset is the capital stock of our other subsidiaries. If we do not have enough funds, we may be required to refinance all or part of our then existing debt, sell assets or borrow more funds, which we may not be able to accomplish on terms acceptable to us, or at all. In addition, the terms of existing or future debt agreements may restrict us from pursuing any of these alternatives.

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

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



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

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

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

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

As of December 31, 2016, approximately 23% of our businesses' employees were covered by collective bargaining agreements. These agreements have staggered expirations over the next several years. Although we believe our employee relations to be generally good and we have not in our period of ownership of any of our businesses experienced any industrial action, a prolonged work stoppage, strike or other slowdown at any facility with union employees could significantly disrupt our operations and could have a material adverse effect on our business, results of operations or financial condition. In addition, we cannot ensure that upon the expiration of existing collective bargaining agreements, new agreements will be reached without union action or that any such new agreements will be on terms satisfactory to us. Any renegotiation of labor agreements could significantly increase our costs for wages, healthcare and other benefits.

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

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

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

If we do not manage the day-to-day operations of a joint venture, we may not have complete visibility into operational and financial systems, controls or processes, including among others, as they relate to EHS measures. We may not be

able to evaluate whether such financial, operational, or EHS systems or controls are sufficiently robust or executed appropriately.

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

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

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IMTT's and BEC's operations in particular are subject to complex, stringent and expensive environmental regulations, including compliance with emission limitations and/or air permits, and future compliance costs are difficult to estimate with certainty. IMTT also faces risks relating to the handling and transportation of significant amounts of hazardous materials. Failure to comply with regulations or other claims may give rise to interruptions in operations and civil or criminal penalties and liabilities that could adversely affect the profitability of this business and the distributions it makes to us, as could significant unexpected compliance costs. Further, these rules and regulations are subject to change and compliance with any changes could result in a restriction of the activities of our businesses, significant capital expenditures and/or increased ongoing operating costs.

A number of the properties owned by IMTT have been subject to environmental contamination in the past and require remediation for which IMTT is liable. These remediation obligations exist principally at IMTT's Bayonne and Lemont facilities and could cost more than anticipated or could be incurred earlier than anticipated, or both. In addition, IMTT may discover additional environmental contamination at its Bayonne, Lemont or other facilities that may require remediation at significant cost to IMTT. Further, the past contamination of the properties owned by IMTT, including by former owners or operators of such properties, could result in remediation obligations, personal injury, property damage, environmental damage or similar claims by third parties.

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

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

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

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

**take actions adverse to us.**

Our businesses generally are, and will continue to be, subject to substantial regulation by governmental agencies. In addition, our businesses rely on obtaining and maintaining government permits, licenses, concessions, leases or contracts. Government entities, due to the wide-ranging scope of their authority, have significant leverage over us in their contractual and regulatory relationships with us that they may exercise in a manner that causes us delays in the operation of our businesses or pursuit of our strategy, or increased administrative expense. Furthermore, government permits, licenses, concessions, leases and contracts are

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generally very complex, which may result in periods of non-compliance, or disputes over interpretation or enforceability. If we fail to comply with these regulations or contractual obligations, we could be subject to monetary penalties or we may lose our rights to operate the affected business, or both. Where our ability to operate a business is subject to a concession or lease from the government, the concession or lease may restrict our ability to operate the business in a way that maximizes cash flows and profitability. Further, our ability to grow our current and future businesses will often require consent of numerous government regulators. Increased regulation restricting the ownership or management of U.S. assets by non-U.S. persons, given the non-U.S. ultimate ownership of our Manager, may limit our ability to pursue acquisitions. Any such regulation may also limit our Manager's ability to continue to manage our operations, which could cause disruption to our businesses and a decline in our performance. In addition, any required government consents may be costly to seek and we may not be able to obtain them. Failure to obtain any required consents could limit our ability to achieve our growth strategy.

Our contracts with government entities may also contain clauses more favorable to the government counterparty than a typical commercial contract. For instance, a lease, concession or general service contract may enable the government to terminate the agreement without adequate compensation. In addition, government counterparties also may have the discretion to change or increase regulation of our operations, or implement laws or regulations affecting our operations, separate from any contractual rights they may have. Governments have considerable discretion in implementing regulations that could impact these businesses. Governments may be influenced by political considerations to take actions that may hinder the efficient and profitable operation of our businesses.

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

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

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

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

Accidents and incidents involving the aviation industry, particularly those involving the airports and heliport at which we operate, whether or not directly related to our Company's services, and the media coverage thereof, can adversely impact our Company's reputation and the demand for our services. Similarly, negative publicity or public perception of the energy-related industries in which we operate, including through media coverage of environmental contamination and climate change concerns, could reduce demand for our services and harm our reputation. Any reduction in demand for the services our businesses provide or damage to our reputation could have a material adverse effect on our results of operations and business prospects.

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



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

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

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

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

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

Revenue at our Atlantic Aviation and Hawaii Gas businesses is generated primarily from the re-sale of a commodity. Accordingly, fluctuations in the underlying cost of the commodity may be reflected in a similar movement in revenue and cost of services/goods sold such that:

a decline in the commodity price (assuming constant volume) may result in a decline in revenue and a corresponding decline in the cost of services/goods sold; and,  
an increase in the commodity price (assuming constant volume) may result in an increase in revenue and an increase in the cost of services/goods sold.

This volatility may or may not be apparent in our consolidated results given (i) revenue, costs of services/goods sold and gross margin in our segments may not exhibit the same degree of commodity price fluctuation (for example, the majority of revenues in our IMTT and CP segments are contracted revenues); (ii) the commodities sold in our Atlantic Aviation and Hawaii Gas businesses may not exhibit the same degree of volatility; and (iii) such commodities may not do so simultaneously.

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

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

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



demand.

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

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

Although our businesses tend to produce stable financial results owing to a preponderance of contracted/concession based revenues and the provision of generally essential services, each operates in an environment which can generate seasonal variations in results. Our bulk liquid terminals business may

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generate incrementally more cash during cold weather months as a result of increased heating, throughput of certain products such as heating oil or the reduction in maintenance expenses. Our aviation services business may generate relatively more cash during cold weather months as a result of increased GA traffic into bases in Florida and intermountain West. Our BEC gas power facility generates more cash during periods of extreme temperature. Our solar facilities may generate incrementally more cash during summer months when the number of daylight hours increases. Our gas production and distribution business may generate incrementally more cash during the peak tourism periods in Hawaii between mid-December and the end of March and from mid-June through mid-September. To the extent that our businesses collectively appear to generate more cash in the first quarter of the year, such performance, if annualized, could result in an overly optimistic estimate of the value of our shares.

### **Security breaches or interruptions in our information systems, or the loss or misappropriation of confidential information could materially adversely affect our business.**

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

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

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

Climate change is receiving increased attention and there is an ongoing debate as to the extent to which climate is changing, the possible causes of any change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. The outcome of federal and state actions to address global climate change could result in significant new regulations, additional changes to fund energy efficiency activities or other regulatory actions. These actions could increase the costs of operating our businesses, reduce the demand for our products and services and impact the prices we charge our customers, any or all of which could adversely affect our results of operations. In

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

addition, climate change could make severe weather events more frequent, which would increase the likelihood of capital expenditures to replace damaged physical property at our businesses.

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

Financial accounting standards are promulgated by the Financial Accounting Standards Board (FASB), and interpreted by the SEC and various regulatory bodies formed to interpret, modify and/or create new accounting policies. Changes in those policies can have a significant effect on our financial condition, results

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of operations and cash flows and may affect our reporting, in particular our reporting related to transactions completed prior to implementation of policy. For example, significant changes to revenue recognition and lease accounting standards have been enacted and will be effective for us in January 2018 and January 2019, respectively.

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

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

## **Risks Related to IMTT**

### **IMTT's business is dependent on the demand for bulk liquid terminals capacity in the locations where it operates.**

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

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

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

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

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

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

A portion of IMTT's historical growth has been dependent on the deployment of growth capital. IMTT faces significant uncertainties and competition in the pursuit of growth opportunities. For example, decisions regarding new growth projects rely on numerous estimates, including among other factors, predictions of future demand for IMTT's services, future supply shifts, crude oil production estimates, commodity price environments, economic conditions and potential changes in the financial condition of IMTT's customers. IMTT's predictions of such factors could cause it to forego certain investments or to lose opportunities to competitors who make investments based on more aggressive predictions. If IMTT cannot find projects with economically acceptable terms, future growth of this business may be limited.

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

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

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

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

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

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

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

In addition, the terminal properties were previously owned and operated by other parties and those parties from time to time also have spilled or released refined petroleum products or crude oil, chemicals, hazardous

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substances or wastes. The terminal properties are subject to federal, state and local laws that impose investigatory, corrective action and remedial obligations, some of which are joint and several or strict liability obligations without regard to fault, to address and prevent environmental contamination. IMTT may incur significant costs and liabilities in responding to any soil and groundwater contamination that occurs on its properties, even if the contamination was caused by prior owners and operators of its facilities. IMTT may not be able to recover some or any of these costs from insurance or other sources of contractual indemnity. To the extent that the costs associated with meeting any or all of these requirements are substantial and not adequately provided for, there could be a material adverse effect on IMTT's business, financial condition and results of operations.

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

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

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

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

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



hurricanes in the U.S. Gulf and Northeast regions may result in lower insurance coverage and/or increased insurance premiums for IMTT's properties.

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

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

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increase in these expenditures, costs or liabilities could materially adversely affect IMTT's results of operations, financial position or cash flows.

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

Petroleum and other products that IMTT stores and transports are sold by customers for consumption into the public market. Various federal, state and local agencies have the authority to prescribe specific product quality specifications for commodities sold into the public market. Changes in product quality specifications or blending requirements could reduce IMTT's revenue, require IMTT to incur additional costs or require capital expenditures. If IMTT is unable to recover these costs through increased revenue, its cash flows could be adversely affected.

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

As of December 31, 2016, IMTT's ten largest customers by revenue generated approximately 55% of its revenue. The loss of one or more of these customers for any reason, including, but not limited to, insolvency, industry consolidation or deconsolidation or changes in market conditions, could result in a reduction in storage capacity utilization in the event such capacity is not rented to other customers and may adversely affect IMTT's revenue and profitability and the distributions it makes to us.

## **Risks Related to Atlantic Aviation**

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

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

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

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

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

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

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

FBO operators at a particular airport compete based on a number of factors, including location of the facility relative to runways and street access, service, value added features, reliability and price. Many of Atlantic Aviation's FBOs compete with one or more FBOs at their respective airports and with FBOs at nearby airports. Furthermore, leases related to FBO operations may be subject to competitive bidding at the

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end of their term. Some present and potential competitors may have or may obtain greater financial and marketing resources than Atlantic Aviation, which may negatively impact Atlantic Aviation's ability to compete at each airport or for lease renewal. Some competitors may aggressively or irrationally price their bids for airport concessions, which may limit the business's ability to grow or renew its portfolio. Excessive price discounting may cause fuel volume and market share decline, potential decline in hangar rentals and de-icing and may result in increased margin pressure, adversely affecting the profitability of this business.

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

The merger of Signature Flight Support and Landmark Aviation closed in February 2016. Accordingly, Signature Flight Support has a network of FBOs materially larger than Atlantic Aviation's and materially larger than has ever existed in the industry. This may enhance Signature Flight Support's competitive position in the industry and adversely affect Atlantic Aviation's results of operations.

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

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

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

Atlantic Aviation's revenue is derived from long-term leases on 69 airports in the U.S. If Atlantic Aviation defaults on the terms and conditions of its leases, including upon insolvency, the relevant authority may terminate the lease without compensation. In this case, Atlantic Aviation would then lose the income from that location and potentially the expected returns from prior capital expenditures. Such an event could have a material adverse effect on Atlantic Aviation's results of operations.

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

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

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

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

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

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

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

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

We may not be able to achieve anticipated levels of financial performance at the acquired assets within our expected time frames or at all. Atlantic Aviation may incur additional indebtedness to fund future acquisitions, expansions or developments. This increased level of indebtedness will increase interest expense and could reduce funds available for reinvestment or distribution to us.

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

As of December 31, 2016, Atlantic Aviation had total long-term debt outstanding of \$449.7 million, consisting of \$400.0 million in term loan debt, \$48.0 million drawn on the senior secured revolving credit facility and \$1.7 million in stand-alone debt facilities. The terms of these debt arrangements require compliance with certain operating and financial covenants. The ability of Atlantic Aviation to meet its respective debt service obligations and to refinance or repay their outstanding indebtedness will depend primarily upon cash produced by this business.

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

The U.S. military operates non-combat aircraft that are serviced at Atlantic Aviation FBOs around the U.S. and combat and non-combat aircraft that are serviced at certain airports where specific fuel and fuel-related services are provided by Atlantic Aviation. Cuts in U.S. military spending, to the extent they result in a reduction in the number of flights by military aircraft, could reduce revenue at Atlantic Aviation.

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

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

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

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

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## **Risks Related to CP**

### **Changes in rules or policies by the governmental agencies that regulate the power and energy sectors could adversely affect operating results at our CP businesses.**

The power and energy sectors are the subject of substantial and complex laws, rules and regulations. These regulators include the FERC, which has jurisdiction over the transmission and wholesale sale of electricity in interstate commerce and over the transportation, storage and certain sales of natural gas in interstate commerce, including the rates, charges and other terms and conditions for such services and the NERC, the purpose of which is to establish and enforce reliability standards applicable to all users, owners and operators of the bulk power system. The wholesale power markets are also subject to regulation by independent system operators, such as the NYISO, regional transmission operators and various state and local authorities. Changes in generation capacity requirements or other components of wholesale market design or other changes in regulation by these governmental agencies could adversely impact demand for the services provided by our CP businesses, and could adversely affect the prices our CP businesses are able to receive for such services. Significant changes in demand or price could adversely affect the results of operations at our CP businesses.

### **Some of our generating capacity and certain associated attributes of those facilities are not contracted and the price at which we can sell electricity may be adversely effected by price fluctuations in the wholesale power and energy markets.**

Market prices for electricity, capacity and ancillary services are unpredictable and may fluctuate substantially. Unlike most other commodities, power can only be stored on a very limited basis and generally must be produced concurrently with its use. As a result, power prices are subject to significant volatility due to supply and demand imbalances, especially in the day-ahead and spot markets. CP's results of operations, cash flows and financial condition may be negatively affected by lower prices for wholesale power.

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

Three solar projects and one wind project have minimum production clauses included in their respective PPAs. These minimum production levels are specified in each respective contract. Failure to meet these minimum production levels, could result in liquidated damages, other financial penalties, or contract termination.

BEC participates in the NYISO Installed Capacity Market, directly realizing capacity payments associated with the 37.5% untolled portion of BEC's plant capacity. Failure to perform when called upon to do so by the system operator could result in penalties and other obligations as determined by the NYISO.

These liquidated damages or penalties could have a negative impact on the financial performance of the projects and their ability to comply with their respective debt covenant obligations.



**The ownership and operation of our BEC facility exposes us to certain risks and hazards that could have an adverse effect on our revenues and results of operations and we may not have adequate insurance to cover these risks and hazards.**

BEC connects to a 6.5 mile, 345-kilovolt submarine power line under the New York Harbor connecting with a Consolidated Edison substation in Brooklyn, New York.

In addition to natural risks such as earthquake, flood, lightning, hurricane and wind, the generation of power in Bayonne and its transmission of power from Bayonne to Brooklyn via the submarine cable, and its supply of fuel via natural gas laterals and tank-stored fuel oil exposes us to other hazards such as fire, explosion, structural collapse, equipment failure and other unplanned outages both in respect of BEC and our adjacent Bayonne operations at IMTT. The occurrence of any of these events may result in our being named as a defendant in lawsuits asserting claims for substantial damages, including for environmental cleanup costs, personal injury and property damage and fines and/or penalties. At a minimum, the occurrence of any of these events may result in a significant interruption to business operations, potentially for extended periods, which could have a material adverse effect on CP's result of operations, cash flows and financial condition.

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While we maintain an amount of insurance protection that we consider adequate, we cannot provide any assurance that this insurance will be sufficient or effective under all circumstances and against all hazards or liabilities to which we may be subject to. A successful claim for which our Company is not fully insured could hurt our financial results and materially harm our financial condition. Further, due to rising insurance costs and changes in the insurance markets, we cannot provide any assurance that this insurance coverage will continue to be available at all or at rates or on terms similar to those presently available. Any losses not covered by insurance could have a material adverse effect on our financial condition, results of operations or cash flows.

As part of our acquisition of BEC, we announced our intention to add incremental generating capacity on land owned by our IMTT business adjacent to the existing facility. While we have received reports indicating that the existing submarine cable is capable of transmitting both the existing and incremental electricity to Brooklyn, BEC has not historically operated at this capacity. If we are not able to transmit some or all of the expected incremental power via the existing cable, it could have a material adverse effect on CP's financial condition, results of operations or cash flows.

### **Development and investment in the power industry involve various development, construction, operational, and regulatory risks that could materially adversely affect our financial results.**

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

Our CP businesses may also face construction risks typical for power generation and related infrastructure businesses, including, without limitation:

- labor disputes, work stoppages or shortages of skilled labor;
- shortages of fuels or materials;
- slower than projected construction progress and the unavailability or late delivery of necessary equipment;
- delays caused by or in obtaining the necessary regulatory approvals or permits;
- adverse weather conditions and unexpected construction conditions;
- accidents or the breakdown or failure of construction equipment or processes;
- difficulties in obtaining suitable or sufficient financing; and

force majeure or catastrophic events such as explosions, fires and terrorist activities and other similar events beyond our control.

Such developments could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of construction activities once undertaken. Construction costs may exceed estimates for various reasons, including inaccurate engineering and planning, labor and building material costs in excess of expectations and unanticipated problems with project start-up. Such unexpected increases may result in increased debt service costs and funds being insufficient to complete construction. Our facilities under development may receive little or no cash flow through the date of completion of development and may experience operating deficits after the

Development and investment in the power industry involve various development, construction, operational, and regulatory risks that could materially adversely affect our financial results.

date of completion. In addition, market conditions may change during the course of development that make such development less attractive than at the time it was commenced. Any events of this nature could severely delay or prevent the completion of, or significantly increase the cost of, the construction. In addition, there are risks inherent in the construction work which may

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give rise to claims or demands against us from time to time. Delays in the completion of any power project may result in lost revenues or increased expenses, including higher O&M costs.

Investments in electric power industries continue to experience increasing competitive pressures, primarily in wholesale markets, as a result of consumer demands, technological advances, greater availability of natural gas and other factors. Changes in regulation may support not only consolidation among domestic utilities and other power producers, but also the disaggregation of vertically integrated utilities into separate generation, transmission and distribution businesses. As a result, additional significant competitors could become active in the independent power industry.

### **We rely on third-party suppliers and contractors when developing our power projects. The failure of those third parties to perform could adversely affect our results of operations.**

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

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

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

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

We rely on third-party suppliers and contractors when developing our power projects. The failure of those third parties

**CP depends on electric interconnection and transmission facilities that we do not own or control and that are potentially subject to transmission constraints. If these facilities fail to provide adequate transmission capacity, CP may be restricted in its ability to deliver electricity to customers.**

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

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

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

**We are exposed to the risk of fuel price volatility and interruptions in supplies and our failure to have adequate contingencies in place could have an adverse impact on our financial condition and results of operations.**

For certain of CP's current and future generating facilities, including BEC, we may be responsible for the purchase of fuel and face the risks of supply interruptions and fuel price volatility, as fuel deliveries may not exactly match those required for energy sales. CP's fuel supply arrangements must be coordinated with transportation agreements, storage services, financial hedging transactions and other contracts so that the fuel is delivered to our facilities at the times, in the quantities and otherwise in a manner that meets CP's needs. In addition, CP faces risks with regard to the delivery to and the use of fuel including the following:

- transportation may be unavailable if pipeline infrastructure is damaged or disabled;
- pipeline tariff changes may adversely affect our ability to, or cost to, deliver fuel supply;
- third-party suppliers may default on supply obligations, and we may be unable to replace supplies currently under contract;
- market liquidity for fuel or availability of storage services may be insufficient or available only at unfavorable prices;
- and

fuel quality variation may adversely affect our operations.

**The generation of electricity from our solar and wind facilities is dependent on meteorological conditions. If conditions are unfavorable, CP's facilities may underperform which could materially adversely affect CP's financial condition, cash flows and result of operations.**

CP's solar and wind facilities are dependent on the available solar and wind resources. Historical solar insolation and wind speed data, combined with computer modeling, is used to project expected power generation. Actual conditions are beyond our control and may vary substantially from our projections. If actual conditions cause material underperformance, CP's result of operations, cash flows and financial condition may be materially adversely affected. This may cause a default under some or all of CP's debt facilities and/or limit CP's ability to pay distributions to MIC.

**We may not be able to replace expiring PPAs or tolling agreements with contracts on similar terms. If we are unable to replace an expired contract with an acceptable new contract, we will experience lower than anticipated revenues.**

We may not be able to replace an expiring PPA or tolling arrangement with a contract on equivalent terms and conditions, including at prices that permit operation of the related facility on a profitable basis. If we are unable to replace an expiring contract, the affected site may temporarily or permanently cease operations. In the case of a facility that ceases operations, the PPA may require that we remove the assets, including fixing or reimbursing the site owner for any damages caused by the assets or the removal of such assets. Alternatively, we may agree to sell the assets to the site owner, but we can offer no assurances as to the terms and conditions, including price, that we would receive in any sale, and the sale price may not be sufficient to replace the revenue previously generated by the project.

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

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

**Laws, governmental regulations and policies supporting renewable energy, and specifically solar and wind energy (including tax incentives), could change at any time, including as a result of new political leadership, and such changes may materially adversely affect our business and our growth strategy.**

Renewable assets currently benefit from various federal, state and local governmental incentives. In the U.S., these incentives include investment tax credits (ITC) or cash grants in lieu of ITCs, loan guarantees, RPS programs, modified accelerated cost-recovery system of depreciation and bonus depreciation. In addition, many U.S. states have adopted RPS programs mandating that a specified percentage of electricity sales come from eligible sources of renewable energy. If these government incentives or RPS requirements are reduced or eliminated, it could lead to fewer future power contracts or lead to lower prices for the sale of power in future power contracts, which could have a material adverse effect on future projects.

**CP is subject to environmental laws that impose extensive and increasingly stringent requirements on CP's ongoing operations, as well as potentially substantial liabilities arising out of environmental contamination. In addition, certain of CP's current and future facilities may be subject to operating restrictions and limitations by a variety of regulatory bodies.**

CP is subject to the environmental laws of U.S., federal, state and local authorities. CP must comply with numerous environmental laws and obtain numerous governmental permits and approvals to build and operate CP's plants. Should CP fail to comply with any environmental requirements that apply to its operations, CP could be subject to administrative, civil and/or criminal liability and fines, and regulatory agencies could take other actions seeking to curtail operations. In addition, conventional power facilities, such as BEC, are subject to federal, state and local regulations which require certain permits to be obtained for their operations. Certain of these permits may restrict CP's power facilities from operating under certain conditions or for more than a set number of hours per year. These regulatory limitations could adversely affect CP's cash flow, results of operations or competitive position.



**Policies at the national, regional and state levels to regulate Greenhouse Gas emissions, as well as climate change, could adversely impact CP's results of operations, financial condition and cash flows.**

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

CP operates generating units in New Jersey that are not subject to the Regional Greenhouse Gas Initiative (RGGI), which is a regional cap and trade system. Future state-level legislative changes may result in generating units in New Jersey being subject to RGGI. These new rules could adversely impact CP's results of operations, financial condition and cash flows.

**CP competes with both conventional power industries and renewable power industries, which could limit our returns and materially adversely affect our financial condition.**

The power industry faces intense competition from both conventional and renewable energy providers. Other energy sources may benefit from innovations that reduce costs, increase safety or otherwise improve their competitiveness.

New natural resources may be discovered, or global economic, business or political developments may disproportionately benefit certain energy sources.

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Other companies with which CP competes may have greater liquidity, greater access to credit and other financial resources, lower cost structures, more effective risk management policies and procedures, greater ability to incur losses, longer-standing relationships with customers, greater potential for profitability from ancillary services or greater flexibility in the timing of their sale of generation capacity and ancillary services than CP does.

CP's competitors may be able to respond more quickly to new laws or regulations or emerging technologies, or to devote greater resources to the construction, expansion or refurbishment of their power generation facilities than CP can. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among current and new competitors and rapidly gain significant market share. There can be no assurance that CP will be able to compete successfully against current and future competitors, and any failure to do so could have a material adverse effect on CP's results of operations.

## **Risks Related to MIC Hawaii**

The following risks relate specifically to the Hawaii Gas and CPI businesses within this segment. See **Risks Related to CP** for risks related to our solar facilities within the MIC Hawaii segment.

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

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

**The operations of Hawaii Gas are subject to a variety of competitive pressures and the actions of competitors, particularly those involved in other energy sources, could have a materially adverse effect on operating results.**

Other fuel sources such as electricity, diesel, solar energy, geo-thermal, wind, other gas providers and alternative energy sources may be substituted for certain gas end-use applications, particularly if the price of gas increases relative to other fuel sources, whether due to higher costs or otherwise. Customers could, for a number of reasons, including increased gas prices, lower costs of alternative energy or convenience, meet their energy needs through alternative sources. This could have an adverse effect on the business' revenues and cash flows.

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

Disruptions at the SNG plant resulting from mechanical or operational problems or power failures could affect the ability of Hawaii Gas to produce SNG. Most of the utility sales on Oahu are of SNG and all SNG is produced at the Oahu plant. Disruptions to the primary and redundant production systems would have a significant adverse effect on

Hawaii Gas revenues and cash flows.

**Hawaii Gas obtains both LPG and the primary feedstock for its SNG plant from oil refineries located on Oahu. Disruptions or shutdowns at either of these may have an adverse effect on the operations of the business.**

Hawaii Gas processes SNG and distributes SNG and LPG. SNG feedstock or LPG supply disruptions could increase Hawaii Gas costs as a result of an inability to source feedstock at rates comparable to those being paid currently. The extended unavailability of one or both of the refineries, both of which have experienced ownership changes in the past four years, or a disruption in crude oil supplies or feedstock to Hawaii could also result in an increased reliance on off-island sources. An inability to purchase LPG from off-island sources would adversely affect operations. The business has a limited ability to store LPG, and any disruption in supply may cause a depletion of LPG stocks. All supply disruptions of SNG or LPG, if occurring for an extended period, could adversely impact the business gross margin and cash flows.

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**Hawaii Gas and CPI are subject to risks associated with volatility in the Hawaii economy.**

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

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

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

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

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

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

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

**The RNG initiatives expose Hawaii Gas to new technology, supply, counterparty and regulatory risks.**

Hawaii Gas continues to evaluate a range of RNG sources for conversion into pipeline quality gas in scalable quantities. These initiatives include ongoing commercial negotiations to source biogas from waste water treatment plants, landfills and biomass. Blending of RNG with existing fuels and integrating RNG into the Hawaii Gas pipeline network could present technical challenges resulting in project delays, cost overruns or pipeline disruptions. Use of

RNG also has the risk of supply fluctuations due to the organic digestion processes inherent in its production. Hawaii Gas must report annually to the HPUC the percentage of feedstock and quantity of gas produced from non-petroleum feedstock. The Hawaii legislature could impose a RPS on the business, resulting in significantly increased energy costs to the business and its customers.

### **Hawaii Gas's LNG initiatives include regulatory, environmental, contractual and market based risks.**

Hawaii Gas has invested over \$6.0 million to evaluate and plan for a scalable statewide LNG import, storage and distribution program to supply multiple end markets including power generation and ground and marine transportation. In August 2015, Hawaii's Governor announced that his administration is opposed to LNG for electricity generation, the largest potential LNG customer. Separately, Hawaii Gas received regulatory approval in April 2016 to invest \$12.8 million in its utility business to replace up to 30% of its SNG gas demand with containerized LNG. Hawaii Gas anticipates this project to be completed in late 2017. Both of these projects are subject to ongoing implementation risks including but not limited to: the timely

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issuance of necessary permits; licenses and approvals by governmental agencies and third parties; unanticipated changes in market demand or supply; site difficulties; environmental conditions; delays of critical equipment and materials; and commercial arrangements to transport and distribute LNG. If the projects are delayed or cancelled, the actual cost of planning and implementation may increase beyond the amounts currently estimated in our capital and operating budgets.

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

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

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

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

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

The changing nature of the Hawaii energy complex has had an impact on our Company's staffing requirements. Volatility in feedstock prices, together with the impact of the State of Hawaii's goals to reduce dependency on imported petroleum, requires staff with specialized knowledge of the energy sector. Because the resident labor pool in Hawaii is both small, and oriented mainly to Hawaii's basic industries, it is difficult to find individuals with these specialized skill sets. Moreover, relocation to Hawaii is costly and often requires employees to make cultural and family adjustments not normally required for a change of employment. The inability to source and retain staff with appropriate skill sets could adversely impact the performance of our business.

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

The Jones Act requires that all goods transported by water between U.S. ports be carried in U.S.-flag ships and that they meet certain other requirements. The business has time charter agreements allowing the use of two barges that

currently have a cargo capacity of approximately 420,000 gallons and 490,000 gallons of LPG, respectively. The barges used by the business are the only two Jones Act qualified barges available in the Hawaiian Islands capable of carrying large volumes of LPG. If the barges are unable to transport LPG from Oahu and the business is not able to secure off-island sources of LPG or obtain an exemption to the Jones Act that would permit importation of a sufficient quantity of LPG from the mainland U.S., the profitability of the business could be adversely affected. If the barges require refurbishment or repair at a greater frequency than forecast, cash outflows for capital costs could adversely impact Hawaii Gas' results and cash flows.

**CPI's backlog is subject to unexpected adjustments and cancellations and, therefore, may not be a reliable indicator of future revenue or earnings.**

As of December 31, 2016, CPI's backlog was approximately \$75.0 million. This backlog generally consists of projects for which we have an executed contract or commitment with a client and reflects expected revenue from the contract or commitment, which is often subject to revision over time. We cannot guarantee that the revenue projected in our backlog will be realized or profitable. Project cancellations, scope adjustments or deferrals may occur with respect to contracts reflected in our backlog and could reduce the

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dollar amount of our backlog and the revenue and profits that we actually earn. In addition, projects may remain in our backlog for an extended period of time. Finally, poor project or contract performance could also impact our backlog and profits. Such developments could have a material adverse effect on our business and our profits.

### **CPI's project execution activities may result in liability for faulty engineering or similar professional services.**

CPI's business involves professional judgments regarding the planning, design, development, and construction of facilities and infrastructure. While we do not generally accept liability for consequential damages, and although we have adopted a range of insurance, risk management and risk avoidance programs designed to reduce potential liabilities, an adverse event at one of our project sites or completed projects resulting from the services we have performed could result in significant liability, warranty or other claims against us as well as reputational harm. These liabilities could result in a material impact to our CPI business. In addition, clients, subcontractors or suppliers who have agreed to indemnify us against any such liabilities or losses might refuse or be unable to pay us. An uninsured claim, either in part or in whole, if successful and of a material magnitude, could have a substantial impact on our operations.

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

### **We are subject to the terms and conditions of the Management Services Agreement between us and our Manager.**

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

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

Our Manager, in its sole discretion, determines whether to reinvest base management and performance fees in shares of our common stock and whether to hold or sell those securities. Reinvestment of base management and performance fees in additional common stock would increase our Manager's ownership stake in our Company. As of February 21, 2017, our Manager owned 5.56% of our outstanding shares. Our Manager has sold, and is expected to continue to sell from time to time, our common shares that it acquires upon reinvestment of fees. If our Manager decides to reduce its position in our Company, such sales may be interpreted by some market participants as a lack of confidence in our Company and put downward pressure on the market price of our common stock. Sales of shares of common stock by our Manager would increase the available supply and could decrease the price if demand is insufficient to absorb such sales.

### **Certain provisions of our Management Services Agreement, certificate of incorporation and bylaws make it difficult for third parties to acquire control of our Company and could deprive investors of the opportunity to obtain a**



## **takeover premium for their shares of common stock.**

In addition to the limited circumstances in which our Manager can be terminated under the terms of the Management Services Agreement, the Management Services Agreement provides that in circumstances where our common stock ceases to be listed on a recognized U.S. exchange as a result of the acquisition of our common stock by third parties in an amount that results in our common stock ceasing to meet the distribution and trading criteria on such exchange or market, our Manager has the option to either propose an alternate fee structure and remain our Manager or resign, terminate the Management Services Agreement upon 30 days' written notice and be paid a substantial termination fee. The termination fee payable on our Manager's exercise of its right to resign as our Manager subsequent to a delisting of our common stock could delay or prevent a change in control that may favor our stockholders. Furthermore, in the event of such a delisting, any proceeds from the sale, lease or exchange of a significant amount of assets must be reinvested in new assets of our Company, subject to debt repayment obligations. We would also be prohibited from incurring any new

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indebtedness or engaging in any transactions with stockholders or our affiliates without the prior written approval of our Manager. These provisions could deprive stockholders of opportunities to realize a premium on the common stock owned by them.

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

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

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

prohibiting stockholders from taking any action by written consent;

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

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

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

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

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

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

Under our Management Services Agreement, we are obligated to pay performance fees to our Manager if we outperform a benchmark index that reflects broader utility industry components. The amount of the performance fees can be substantial, and could adversely affect the price of our common stock and our ability to pay dividends. For example, if our absolute performance (as described in the Management Services Agreement) increases slightly and the benchmark index substantially decreases, we could be obligated to pay a significant performance fee. As a result, we

Our Manager's decision to reinvest its monthly base management fees and quarterly performance fees, ~~as~~ applica

may be obligated to pay our Manager a performance fee, which could be substantial, even when there has not been a substantial increase in the performance of our common stock. The benchmark index comprises numerous utility stocks, the performance of which may or may not correlate to our actual performance. Moreover, the benchmark index is unpredictable and variable. The

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Manager is entitled to select whether a performance fee will be settled in cash, shares of our common stock or a combination thereof, which could result in a material cash expense or dilution of our shares.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

our common stock underperforms a weighted average of two benchmark indices by more than 30% in relative terms and more than 2.5% in absolute terms in 16 out of 20 consecutive quarters prior to and including the most recent full quarter, and the holders of a minimum of 66.67% of the outstanding shares of our common stock (excluding any shares owned by our Manager or any affiliate of the Manager) vote to remove our Manager;

our Manager materially breaches the terms of the Management Services Agreement and such breach has been unremedied within 60 days after notice;

our Manager acts with gross negligence, willful misconduct, bad faith or reckless disregard of its duties in carrying out its obligations under the Management Services Agreement, or engages in fraudulent or dishonest acts; or

our Manager experiences certain bankruptcy events.

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

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

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

Our Company is a holding company with no operations. Therefore, we are dependent upon the ability of our businesses to make distributions to our Company to enable it to meet its expenses, and to pay dividends to stockholders in the future. The ability of our operating subsidiaries and the businesses we own to make distributions to our Company is subject to limitations based on their operating performance, the terms of their debt agreements and the applicable laws of their respective jurisdictions. In addition, the ability of each

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business to reduce its outstanding debt will be similarly limited by its operating performance, as discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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

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

Our common stock has been the subject of short selling efforts by certain market participants. Short sales are transactions in which a market participant borrows, then sells a security that it does not own. The market participant is obligated to replace the security borrowed by purchasing the security at or before the time the security is recalled. If the price at the time of recall is lower than the price at which the security was originally sold by the market participant, then the market participant will realize a gain on the transaction. Thus, it is in the market participant's interest for the price of the security to decline during the period up to the time of recall.

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

The market price and marketability of our common stock may from time to time be significantly affected by numerous



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

We may issue shares of preferred stock in one or more financing transactions. We may also use the authorized preferred stock for funding transactions, including, among other things, acquisitions, strategic partnerships, joint ventures, restructurings, business combinations and investments, although we have no immediate plans to do so. We cannot provide assurances that any such transaction will be consummated on

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favorable terms or at all, that they will enhance stockholder value, or that it will not adversely affect our business or the trading price of our common stock. Any shares of preferred stock could be issued with rights, preferences and privileges that may be superior to those of our common stock. In addition, preferred stock could be issued for capital raising, financing and acquisition needs or opportunities that have the effect of making an acquisition of our Company more difficult or costly, as could also be the case if the board of directors were to issue additional common stock.

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

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

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

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

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

Our total assets reflect a substantial amount of goodwill and other intangible assets. At December 31, 2016, goodwill and other intangible assets, net, represented 38.5% of our total assets. Goodwill and other intangible assets were primarily recognized as a result of the acquisitions of our businesses. Other intangible assets consist primarily of airport operating rights, customer relationships and trade names. On at least an annual basis we assess whether there has been any impairment in the value of goodwill and other intangible assets when there are triggering events or circumstances. If the carrying value of the tested asset exceeds its estimated fair value, impairment is deemed to have occurred. In this event, the intangible is written down to fair value. Under current accounting rules, this would result in a charge to reported earnings. We have recognized significant impairments in the past, and any future determination requiring the write-off of a significant portion of goodwill or other intangible assets would negatively affect our reported earnings and total capitalization, and could be material.

Our reported Earnings per Share (EPS), as defined under GAAP, does not reflect the cash generated by our businesses

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

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

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## **Risks Related to Taxation**

### **We have significant NOL carryforwards that may be fully utilized over the next several years thereby subjecting us to payment of substantial federal income taxes and reducing our distributable Free Cash Flow.**

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

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

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

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

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

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

We have \$398.1 million in federal NOL carryforwards at December 31, 2016. While we have concluded that all of the NOLs will more likely than not be realized, there can be no assurance that we will utilize the NOLs generated to date or any NOLs we might generate in the future. In addition, we have incurred state NOLs and have provided a valuation allowance against a portion of those. As with our federal NOLs, there is also no assurance that we will utilize those state losses or future losses that may be generated. Further, the State of Louisiana has imposed limitations on the ability of NOL carryforwards to offset current year income. There can be no assurance that other states will not

suspend or limit the use of NOL carryforwards.

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

Under current law, certain capital expenditures are eligible for accelerated depreciation, including 50% bonus depreciation for assets placed in service prior to December 31, 2017, for U.S. federal income tax purposes. In addition, certain other expenses are eligible to be deducted for U.S. federal income tax purposes. This tax treatment may be adversely affected, changed or repealed by future changes in tax laws at any time, which may affect market perceptions of our Company and the market price of our shares could be negatively affected.

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

We are subject to various taxing regimes, including federal, state, local and foreign taxes such as income, excise, sales/use, payroll, franchise, property, gross receipts, withholding and ad valorem taxes. New tax laws

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and regulations and changes in existing tax laws and regulations or the interpretation thereof are continuously being enacted or proposed and could result in increased expenditures for tax in the future and could have a material adverse effect on our Company's financial condition, results of operations, and liquidity.

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

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

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## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

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

### IMTT

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

### Atlantic Aviation

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

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

### Contracted Power

At December 31, 2016, the CP business owned six operating solar facilities, two wind facilities and a gas-fired power facility. The business owns the solar panels and wind turbines and leases the land. For further details, see Our Businesses *Contracted Power Business Overview* in Part I, Item 1.

Project	State	Ownership or Lease Information
Picture Rocks	Arizona	Long-term property lease until 2032.
Bryan	Texas	Long-term property leases until 2039 and 2040.
DMAFB	Arizona	Long-term property lease until 2039.

Valley Center	California	Long-term property lease until 2038.
Ramona	California	Long-term property lease until 2037.
Red Hills	Utah	Long-term property lease until 2039.
Brahms	New Mexico	Five long-term property leases until 2044.
IWP	Idaho	Eighteen long-term property leases until from 2037 to 2050.
BEC	New Jersey	Long-term property lease with IMTT until 2045.

## **MIC Hawaii**

Hawaii Gas has facilities and equipment on all major Hawaiian Islands including: land beneath the SNG plant; several LPG holding tanks and cylinders; approximately 1,000 miles of underground piping, of which approximately 900 miles are on Oahu; and a 22-mile transmission pipeline from the SNG plant to Pier 38 in Honolulu. In addition, MIC Hawaii has a controlling interest in operating solar facilities and a design-build mechanical contractor, both located on Oahu.



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

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

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

The following represents the properties leased by the CPI business.

Island	Description	Use	Lease
Oahu	Kanakanui Office <sup>(1)</sup>	Executive office	Lease
Oahu	Hart Warehouse <sup>(1)</sup>	Engineering and warehouse	Lease
Oahu	Paiea Office <sup>(1)</sup>	Executive office and warehouse	Lease
Oahu	Kaihikapu building	Fabrication workshop	Lease
Oahu	Fire Protection Office	Engineering	Lease

- (1) The Kananakui executive office and Hart warehouse leases are expected to be vacated in the first half of 2017 and will be replaced with the Paiea executive office and warehouse lease.

Our solar facilities on Oahu have long-term property leases through 2036.

## ITEM 3. LEGAL PROCEEDINGS

### IMTT Bayonne Remediation Estimate

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

information, in undiscounted U.S. dollars and is inherently subject to relatively large fluctuation.

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

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY,  
RELATED STOCKHOLDER MATTERS AND ISSUER  
PURCHASES OF EQUITY SECURITIES**

**Market Information**

Our shares are traded on the NYSE under the symbol "MIC". The following table sets forth, for the fiscal periods indicated, the high and low sales prices per share on the NYSE:

	High	Low
<b>Fiscal 2015</b>		
First Quarter	\$ 83.65	\$ 67.55
Second Quarter	87.88	80.63
Third Quarter	85.70	69.84
Fourth Quarter	83.38	64.06
<b>Fiscal 2016</b>		
First Quarter	\$ 71.82	\$ 51.83
Second Quarter	75.00	65.00
Third Quarter	84.51	71.79
Fourth Quarter	85.45	77.18
<b>Fiscal 2017</b>		
First Quarter (through February 17, 2017)	\$ 83.48	\$ 73.24

As of February 17, 2017, we had 82,125,367 shares issued and outstanding that we believe were held by 351 holders of record.

The following represents the Company's relative share price performance from December 31, 2011 through December 31, 2016.

TABLE OF CONTENTS**Dividend Policy**

MIC has been structured to provide investors with an opportunity to generate an attractive total return based on the capital appreciation resulting from the improved operating performance of our businesses over time and the payment of a cash dividend that we believe will grow over time. Our dividend payments are determined based on the cash flows available to the MIC holding company from its operating companies and paid subject to maintaining a prudent level of reserves and without creating undue volatility in the amount of such dividends where possible.

Since January 1, 2015, MIC has paid or declared the following dividends:

Declared	Period Covered	\$ per Share	Record Date	Payable Date
February 17, 2017	Fourth quarter 2016	\$ 1.31	March 3, 2017	March 8, 2017
October 27, 2016	Third quarter 2016	1.29	November 10, 2016	November 15, 2016
July 28, 2016	Second quarter 2016	1.25	August 11, 2016	August 16, 2016
April 28, 2016	First quarter 2016	1.20	May 12, 2016	May 17, 2016
February 18, 2016	Fourth quarter 2015	1.15	March 3, 2016	March 8, 2016
October 29, 2015	Third quarter 2015	1.13	November 13, 2015	November 18, 2015
July 30, 2015	Second quarter 2015	1.11	August 13, 2015	August 18, 2015
April 30, 2015	First quarter 2015	1.07	May 14, 2015	May 19, 2015
February 17, 2015	Fourth quarter 2014	1.02	March 2, 2015	March 5, 2015

**Tax Treatment of 2016 Dividends**

The Company has determined that 32.4% of the dividends paid in the year ended December 31, 2016 were characterized as a dividend for U.S. federal income tax purposes. The remaining 67.6% of dividends paid were characterized as returns of capital, capital gain, or combination thereof depending on each stockholder's tax basis.

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

**Future Dividends**

We currently intend to maintain, and where possible, increase our quarterly cash dividend to our stockholders. The MIC Board has authorized a quarterly cash dividend of \$1.31 per share for the quarter ended December 31, 2016, or a 1.6% increase over the dividend for the quarter ended September 30, 2016 and 13.9% increase over the dividend for the quarter ended December 31, 2015. Together with the dividends for the first three quarters for 2016, this represents a cumulative 2016 dividend of \$5.05 per share compared with \$4.46 per share for the year ended December 31, 2015, or an increase of 13.2%. 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 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.

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

The selected financial data includes the results of operations, cash flow and balance sheet data for the years ended, and as of, December 31, 2016, 2015, 2014, 2013 and 2012 for our consolidated group, with the results of businesses acquired during those five years being included from the date of each acquisition. The selected financial data for each of the five years in the period ended December 31, 2016 have been derived from the consolidated financial statements of the Company, which financial statements have been audited by KPMG LLP. The information below should be read in conjunction with the consolidated financial statements (and notes thereon) and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(\$ In Thousands, Except Share and Per Share Data)				
<b>Statement of operations data:</b>					
<b>Revenue</b>					
Service revenue	\$1,288,562	\$1,288,501	\$1,064,682	\$770,360	\$768,617
Product revenue	363,169	350,749	284,400	267,096	260,893
Financing and equipment lease income			1,836	3,563	4,536
Total revenues	1,651,731	1,639,250	1,350,918	1,041,019	1,034,046
<b>Cost and expenses</b>					
Cost of services	524,423	551,029	546,609	434,177	448,993
Cost of product sales	142,731	168,954	192,881	185,843	188,099
Selling, general and administrative expenses	303,033	304,862	265,254	210,060	213,372
Fees to Manager-related party	68,486	354,959	168,182	85,367	89,227
Depreciation	226,492	215,243	98,442	39,150	31,587
Amortization of intangibles	65,425	101,435	42,695	34,651	34,601
Total operating expenses	1,330,590	1,696,482	1,314,063	989,248	1,005,879
<b>Operating income (loss)</b>	321,141	(57,232 )	36,855	51,771	28,167
Interest income	132	55	112	204	222
Interest expense	(116,933 )	(123,079 )	(73,196 )	(37,044 )	(46,623 )
Equity in earnings and amortization charges of investee			26,391	39,115	32,327
Gain from acquisition/divestiture of businesses <sup>(1)</sup>			1,027,054		
Other income (expense), net	21,786	1,288	(2,307 )	(7,923 )	2,443
Net income (loss) before income taxes	226,126	(178,968 )	1,014,909	46,123	16,536
(Provision) benefit for income taxes	(71,257 )	65,161	24,374	(18,043 )	(2,285 )
Net income (loss)	\$154,869	\$(113,807 )	\$1,039,283	\$28,080	\$14,251
Less: net (loss) income attributable to noncontrolling interests	(1,512 )	(5,270 )	(2,745 )	(3,174 )	930
Net income (loss) attributable to MIC	\$156,381	\$(108,537 )	\$1,042,028	\$31,254	\$13,321
Basic income (loss) per share attributable to MIC	\$1.93	\$(1.39 )	\$16.54	\$0.61	\$0.29
Weighted average number of shares outstanding: basic	80,892,654	77,997,826	62,990,312	51,381,003	46,635,049

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Diluted income (loss) per share attributable to MIC	\$1.85	\$(1.39	) \$16.10	\$0.61	\$0.29
Weighted average number of shares outstanding: diluted	82,218,627	77,997,826	64,925,565	51,396,146	46,655,289
Cash dividends declared per share	\$5.05	\$4.46	\$3.8875	\$3.35	\$2.20

Includes the gain of \$948.1 million from the acquisition of the remaining 50% interest in IMTT from the (1)remeasuring to fair value of the Company's previous 50% ownership interest and the gain of \$78.9 million from the sale of the Company's interest in the district energy business.

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	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(\$ In Thousands)				
<b>Statement of cash flows data:</b>					
Cash provided by operating activities	\$560,320	\$381,156	\$251,615	\$155,117	\$217,911
Cash (used in) provided by investing activities	(376,845)	(448,816)	(1,068,806)	(139,636)	2,477
Cash (used in) provided by financing activities	(161,313)	42,896	632,422	76,516	(101,798)
Effect of exchange rate changes on cash and cash equivalents	211	(856 )	(590 )		
Net increase (decrease) in cash and cash equivalents	\$22,373	\$(25,620 )	\$(185,359 )	\$91,997	\$118,590
	As of December 31,				
	2016	2015	2014	2013	2012
	(\$ In Thousands)				
<b>Balance sheet data:</b>					
Total current assets	\$244,668	\$216,569	\$231,478	\$400,353	\$247,107
Property, equipment, land and leasehold improvements, net	4,346,536	4,116,163	3,362,585	854,169	708,031
Total assets	\$7,559,253	\$7,308,804	\$6,567,739	\$2,471,928	\$2,209,046
Total current liabilities	\$251,009	\$308,790	\$224,332	\$271,452	\$245,330
Long-term debt, net of current portion	3,039,966	2,746,525	2,332,829	808,287	1,044,739
Total liabilities	4,411,719	4,106,362	3,597,571	1,318,660	1,511,481
Stockholders' equity	\$2,952,894	\$3,030,190	\$2,787,163	\$1,042,228	\$655,028



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## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

We own and operate a diversified group of businesses that provide services including, bulk liquid terminalling and handling services, aircraft fueling, contracted power generation and utility gas services to businesses, government agencies and individuals primarily in the U.S. Our businesses consist of IMTT, Atlantic Aviation, interests in several contracted power facilities and in the businesses that comprise MIC 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. Overall they tend to generate sustainable, stable and growing cash flows over the long term.

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 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.

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

At Atlantic Aviation, our focus is on attracting and maintaining relationships with GA aircraft owners and pilots and encouraging them to purchase fuel and other services from our FBOs. Atlantic Aviation's gross margin is correlated with 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 segment generate revenue by producing and selling electric power pursuant primarily to long-dated PPAs and 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.

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	Year Ended December 31,			Change (From 2015 to 2016) Favorable/(Unfavorable)		Change (From 2014 to 2015) Favorable/(Unfavorable)	
	2016	2015	2014	\$	%	\$	%
(\$ In Thousands, Except Share and Per Share Data) (Unaudited)							
Revenue							
Service revenue	\$1,288,562	\$1,288,501	\$1,064,682	61	0.0	223,819	21.0
Product revenue	363,169	350,749	284,400	12,420	3.5	66,349	23.3
Financing and equipment lease income			1,836			(1,836 )	(100.0)
Total revenues	1,651,731	1,639,250	1,350,918	12,481	0.8	288,332	21.3
Costs and expenses							
Cost of services	524,423	551,029	546,609	26,606	4.8	(4,420 )	(0.8 )
Cost of product sales	142,731	168,954	192,881	26,223	15.5	23,927	12.4
Selling, general and administrative	303,033	304,862	265,254	1,829	0.6	(39,608 )	(14.9 )
Fees to Manager-related party	68,486	354,959	168,182	286,473	80.7	(186,777 )	(111.1)
Depreciation	226,492	215,243	98,442	(11,249 )	(5.2 )	(116,801 )	(118.6)
Amortization of intangibles	65,425	101,435	42,695	36,010	35.5	(58,740 )	(137.6)
Total operating expenses	1,330,590	1,696,482	1,314,063	365,892	21.6	(382,419 )	(29.1 )
Operating income (loss)	321,141	(57,232 )	36,855	378,373	NM	(94,087 )	NM
Other income (expense)							
Interest income	132	55	112	77	140.0	(57 )	(50.9 )
Interest expense <sup>(1)</sup>	(116,933 )	(123,079 )	(73,196 )	6,146	5.0	(49,883 )	(68.1 )
Equity in earnings and amortization charges of investee			26,391			(26,391 )	(100.0)
Gain from acquisition/divestiture of businesses <sup>(2)</sup>			1,027,054			(1,027,054 )	(100.0)
Other income (expense), net	21,786	1,288	(2,307 )	20,498	NM	3,595	155.8
Net income (loss) before income taxes	226,126	(178,968 )	1,014,909	405,094	NM	(1,193,877 )	(117.6)
(Provision) benefit for income taxes	(71,257 )	65,161	24,374	(136,418 )	NM	40,787	167.3
Net income (loss)	\$154,869	\$(113,807 )	\$1,039,283	268,676	NM	(1,153,090 )	(111.0)
Less: net loss attributable to noncontrolling interests	(1,512 )	(5,270 )	(2,745 )	(3,758 )	(71.3 )	2,525	92.0
Net income (loss) attributable to MIC	\$156,381	\$(108,537 )	\$1,042,028	264,918	NM	(1,150,565 )	(110.4)

Basic income (loss) per share attributable to MIC	\$ 1.93	\$ (1.39	) \$ 16.54	3.32	NM	(17.93	) (108.4)
Weighted average number of shares outstanding: basic	80,892,654	77,997,826	62,990,312	2,894,828	3.7	15,007,514	23.8

NM Not meaningful

(1) Interest expense includes losses on derivative instruments of \$5.0 million, \$28.5 million and \$19.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Includes the gain of \$948.1 million from the acquisition of the remaining 50% interest in IMTT from the (2)remeasuring to fair value of the Company's previous 50% ownership interest and the gain of \$78.9 million from the sale of the Company's interest in the district energy business.

### Key Factors Affecting Operating Results for the Year:

an absence of performance fees;  
an improvement in total revenues and cost of services and product sales; and  
an increase in other income (expense), net, from IMTT and CP.

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**Results of Operations: Consolidated (continued)**  
**Year Ended December 31, 2016 Compared with Year Ended December 31, 2015**

**Revenues**

Consolidated revenues increased for the year ended December 31, 2016 compared with the year ended December 31, 2015 primarily reflecting improved results at CP, principally our renewables business, and contribution from acquisitions at Atlantic Aviation and within MIC Hawaii. In addition, consolidated revenues increased for the year ended December 31, 2016 due to the full year contribution from BEC. These increases were partially offset by a decrease in revenue from IMTT and a decline in the wholesale cost of fuel at Atlantic Aviation and cost of gas at MIC Hawaii.

**Cost of Services and Product Sales**

Consolidated cost of services and product sales decreased for the year ended December 31, 2016 compared with the year ended December 31, 2015 primarily due to a decline in the wholesale cost of fuel at Atlantic Aviation, lower costs at IMTT and unrealized gains on commodity hedges and a decline in cost of gas at Hawaii Gas. These decreases were partially offset by the full year contribution from BEC and acquisitions at Atlantic Aviation and within MIC Hawaii.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses decreased slightly for the year ended December 31, 2016 compared with the year ended December 31, 2015 primarily due to absence of transaction costs related to the BEC acquisition, costs associated with the Conversion and a decrease in costs at IMTT. The decrease was partially offset by incremental expenses associated with BEC for the first quarter of 2016, transactional and incremental costs from new acquisitions at both Atlantic Aviation and MIC Hawaii and professional fees associated with the implementation of a shared service 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 our total stockholder return relative to a U.S. utilities index. For the years ended December 31, 2016 and 2015, we incurred base management fees of \$68.5 million and \$70.6 million, respectively, and performance fees of \$284.4 million for the year ended December 31, 2015. No performance fees were incurred for the year ended December 31, 2016. In accordance with the Third Amended and Restated Management Service Agreement, our Manager has currently elected to reinvest base management fees, and performance fees, if any, 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 our consolidated balance sheets. The following table shows our Manager's reinvestment of its base management fees and performance fees, if any, in shares, except as noted:

Period	Base Management Fee Amount (\$ in thousands)	Performance Fee Amount (\$ in thousands)	Shares Issued
<i>2016 Activities:</i>			
Fourth quarter 2016	\$ 18,916	\$	230,773 <sup>(1)</sup>
Third quarter 2016	18,382		232,488
Second quarter 2016	16,392		232,835
First quarter 2016	14,796		234,179
<i>2015 Activities:</i>			
Fourth quarter 2015	\$ 17,009	\$	227,733
Third quarter 2015	18,118		226,914
Second quarter 2015	18,918	135,641	1,167,873 <sup>(2)</sup>
First quarter 2015	16,545	148,728	2,068,038

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

Period	Base Management Fee Amount (\$ in thousands)	Performance Fee Amount (\$ in thousands)	Shares Issued
<i>2014 Activities:</i>			
Fourth quarter 2014	\$ 14,192	\$	208,122
Third quarter 2014	13,915	116,586	947,583 <sup>(3)</sup>
Second quarter 2014	9,535	4,960	243,329
First quarter 2014	8,994		164,546

Our Manager elected to reinvest all of the monthly base management fees for the fourth quarter of 2016 in shares.

(1) The Company issued 230,773 shares for the quarter ended December 31, 2016, including 76,914 shares that were issued in January 2017 for the December 2016 monthly base management fee.

(2) In July 2015, our Board requested, and our Manager agreed, that \$67.8 million of the performance fee for the quarter ended June 30, 2015 be settled in cash in July 2015 to minimize dilution. The remaining \$67.8 million obligation was settled and reinvested in 944,046 shares by our Manager on August 1, 2016 using the June 2016 volume weighted average share price of \$71.84.

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

**Depreciation**

Depreciation expense increased for the year ended December 31, 2016 compared with the year ended December 31, 2015 primarily due to the full year depreciation at BEC, the write-off of damaged tanks and docks at IMTT and the depreciation associated with FBOs acquired at Atlantic Aviation. The increase in depreciation expense was partially offset by the absence of non-cash impairments at Atlantic Aviation.

**Amortization of Intangibles**

Amortization of intangibles decreased for the year ended December 31, 2016 compared with the year ended December 31, 2015 primarily due to the absence of non-cash impairments at Atlantic Aviation.

**Interest Expense and Losses on Derivative Instruments**

Interest expense includes losses on derivative instruments of \$5.0 million and \$28.5 million for the years ended

December 31, 2016 and 2015, respectively. Losses on derivative instruments recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments. For the year ended December 31, 2016, interest expense also included the non-cash write-off of deferred financing costs at Atlantic Aviation related to the October 2016 refinancing of its term loan and revolving credit facility and at Hawaii Gas related to the February 2016 refinancing of its \$80.0 million term loan and its \$60.0 million revolving credit facility. For the year ended December 31, 2015, interest expense also included the non-cash write-off of deferred financing costs at IMTT related to the May 2015 refinancing.

Excluding the derivative adjustments and deferred financing cost write-offs, interest expense decreased for the year ended December 31, 2016 compared with the year ended December 31, 2015 primarily due to an overall lower weighted average interest rate, partially offset by a higher average debt balance. Cash interest expense was \$107.9 million and \$112.4 million for the years ended December 31, 2016 and 2015, respectively. See discussions of interest expense for each of our operating businesses below.

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

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

As part of the refinancing of IMTT's debt in May 2015, IMTT paid \$31.4 million in interest rate swap breakage fees related to the termination of out-of-the-money interest rate swap contracts related to prior debt facilities. In July 2015, the Company fully repaid the outstanding debt balance at BEC and paid \$19.2 million in interest rate swap breakage fees. See further discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources*.

**Other Income (Expense), net**

Other income (expense), net, increased for the year ended December 31, 2016 compared with year ended December 31, 2015 primarily due to insurance recoveries on damaged docks at IMTT and escrow proceeds received during the year related to our acquisition of BEC.

**Income Taxes**

We file a consolidated federal income tax return that includes the financial results for IMTT, Atlantic Aviation, BEC, MIC Hawaii and our allocable share of the taxable income (loss) from our solar and wind facilities, which are 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 MIC consolidated federal income tax return.

The change from income tax benefit for the year ended December 31, 2015 to income tax expense for the year ended December 31, 2016 is primarily due to the absence of any tax benefit associated with the performance fees incurred during the first half of 2015. The change in tax rate from a benefit of 36.4% for the year ended December 31, 2015 to a tax expense of 31.5% for the year ended December 31, 2016 was primarily attributable to the impact of the performance fee on taxable income for the year ended December 31, 2015.

For the year ended December 31, 2016, our consolidated federal income tax liability was fully offset by our NOL carryforwards. We believe that we will be able to use all of our federal prior year NOLs prior to their expiration. Our federal NOL balance at December 31, 2016 was \$398.1 million. As a result of having federal NOLs, together with planned tax strategies, we do not expect to make regular federal tax payments any earlier than the second half of 2019. For the year ended December 31, 2016, our taxable income was \$60.4 million. For the year ended December 31, 2016, any Federal Alternative Minimum Tax liability will be fully offset by available investment tax credits.

For the year ended December 31, 2016, we expect to pay state income taxes of \$7.3 million. In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOLs, the use of which is uncertain.

**Valuation allowance:**

At December 31, 2016 and 2015, we did not have a valuation allowance for our consolidated federal NOL carryforwards. 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. During the year ended December 31, 2016, a significant portion of the state valuation allowance was reversed primarily due to the change in New York State tax law regarding consolidated filing requirements. As such, we decreased the valuation allowance by \$14.7 million.



**Protecting Americans from Tax Hikes Act (PATH Act)**

The PATH Act retroactively extends several tax provisions applicable to corporations, including the extension of 50% bonus depreciation for certain assets placed in service in 2015, 2016 and 2017, 40% bonus depreciation for eligible property placed in service in 2018 and 30% bonus depreciation for eligible property placed in service in 2019. Other than the extension of the bonus depreciation provision, the Company does not expect the provisions of the PATH Act to have a material effect on its tax profile.

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**Results of Operations: Consolidated (continued)**  
**Year Ended December 31, 2015 Compared with Year**  
**Ended December 31, 2014**

**Revenues**

Consolidated revenues increased for the year ended December 31, 2015 compared with the year ended December 31, 2014 primarily reflecting the consolidation of IMTT's results, contribution from the acquisition of BEC and wind facilities and improved results at Atlantic Aviation including the contribution from acquired FBOs. These increases were offset by the decline in the wholesale cost of fuel at Atlantic Aviation, cost of gas at MIC Hawaii and the sale of the district energy business in August 2014.

**Cost of Services and Product Sales**

Consolidated cost of services increased for the year ended December 31, 2015 compared with the year ended December 31, 2014 primarily due to the full year contribution from IMTT and contributions from acquired FBOs at Atlantic Aviation. These increases were partially offset by a decline in the wholesale cost of fuel at Atlantic Aviation and the sale of the district energy business in August 2014.

Consolidated cost of product sales decreased for the year ended December 31, 2015 compared with the year ended December 31, 2014 primarily due to a decline in cost of gas at Hawaii Gas. These decreases were partially offset by the full year contribution from the wind facilities and contribution from the acquisition of BEC on April 1, 2015.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the year ended December 31, 2015 compared with the year ended December 31, 2014 primarily due to contributions from the 2015 and 2014 acquisitions at CP and Atlantic Aviation, the consolidation of IMTT and costs associated with the Conversion. These increases are partially offset by costs incurred for the IMTT Acquisition during the third quarter of 2014 and the sale of the district energy business in August 2014.

**Fees to Manager**

For the years ended December 31, 2015 and 2014, we incurred base management fees of \$70.6 million and \$46.6 million, respectively, and performance fees of \$284.4 million and \$121.5 million, respectively. In all of these periods, excluding \$67.8 million of the performance fee for the quarter ended June 30, 2015 and \$65.0 million of the performance fee for the quarter ended September 30, 2014, our Manager elected to reinvest these fees in additional shares.

**Depreciation**

Depreciation expense increased for the year ended December 31, 2015 compared with the year ended December 31, 2014 primarily as a result of fixed assets acquired in conjunction with the IMTT Acquisition and the depreciation associated with businesses acquired during the years ended December 31, 2015 and 2014.

Atlantic Aviation's depreciation expense increased during the year ended December 31, 2015 due to the reassessment of the useful lives of its leasehold and land improvements related to leases at certain airports to generally match these useful lives with the remaining lease terms plus extensions under Atlantic Aviation's control. As a result of this reassessment, the business recorded a non-cash impairment of \$2.8 million during the quarter ended March 31, 2015. The change in useful life also resulted in increased depreciation expense of \$4.3 million for the year ended December 31, 2015.

In addition, during the first quarter of 2015, a non-cash impairment charge of \$4.2 million was recorded due to a change in the lease terms at one base.

### **Amortization of Intangibles**

Amortization of intangibles increased for the year ended December 31, 2015 compared with the year ended December 31, 2014 primarily at Atlantic Aviation and from the intangible assets acquired in conjunction with the IMTT Acquisition.

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

The increase in amortization expense at Atlantic Aviation is attributable to the reassessment of the useful lives of its contractual arrangements related to leases at certain airports to generally match these useful lives with the remaining lease terms plus extensions under Atlantic Aviation's control. As a result of this reassessment, the business recorded a non-cash impairment of \$13.5 million for the quarter ended March 31, 2015. The change in useful life also resulted in increased amortization expense of \$18.6 million for the year ended December 31, 2015.

In addition, during the first quarter of 2015, a non-cash impairment charge of \$17.8 million was recorded due to a change in the lease terms at one base.

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

Interest expense includes losses on derivative instruments of \$28.5 million and \$19.5 million for the years ended December 31, 2015 and 2014, respectively. For the year ended December 31, 2014, losses on derivatives also included the reclassification of amounts from accumulated other comprehensive loss into earnings. For the year ended December 31, 2015, interest expense also included the non-cash write-off of deferred financing costs at IMTT related to the May 2015 refinancing. Excluding the derivative adjustments and deferred financing cost write-offs, interest expense for the year ended December 31, 2015 compared with the year ended December 31, 2014 increased primarily due to (i) the consolidation of IMTT debt; (ii) incremental debt from the acquisitions of BEC and one of the 2014 wind facilities, partially offset by the absence of debt related to district energy business; (iii) interest expense associated with the convertible senior notes that were issued in July 2014; and (iv) borrowings on the MIC revolving credit facility. Cash interest expense was \$112.4 million and \$70.8 million for the years ended December 31, 2015 and 2014, respectively.

### **Equity in Earnings and Amortization Charges of Investee**

The decrease in equity in earnings for the year ended December 31, 2015 compared with the year ended December 31, 2014 is due to the consolidation of IMTT's results from July 16, 2014 and thereafter compared with the equity method of accounting for IMTT's results prior to the acquisition date.

### **Gain from Acquisition/Divestiture of Businesses**

On August 21, 2014, we completed the sale of our 50.01% controlling interest in the district energy business, within CP, 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% interest in IMTT that we did not 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, 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 the years ended December 31, 2015 and 2014, we reported a current federal taxable loss and did not pay a Federal Alternative Minimum Tax.

### Valuation allowance:

There is no valuation allowance for federal NOL carryforwards. In calculating our consolidated state income tax provision, we provided a valuation allowance for certain state income tax NOL carryforwards, the utilization of which is not assured beyond a reasonable doubt. We increased the valuation allowance by \$2.3 million and \$1.8 million for the years ended December 31, 2015 and 2014, respectively, for certain state NOL carryforwards.

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## Results of Operations: Consolidated (continued)

### 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, Adjusted Free Cash Flow and certain proportionately combined financial metrics. Proportionately combined financial metrics, including Adjusted Free Cash Flow, reflect MIC Corporate and our ownership interest in each of our businesses.

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 some of our businesses, principally in the CP segment, 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 ownership interest in our businesses. We note that the proportionately combined metrics used may be calculated in a different manner by other companies and may limit their usefulness as a comparative measure. Therefore, proportionately combined metrics should be used as a supplemental measure to help understand our financial performance and not in lieu of our financial results reported under GAAP.

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

We use Free Cash Flow as a measure of our ability to provide investors with an attractive risk-adjusted 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 and gains (losses) on disposal of assets, and (vi) pension expense.

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.

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

return.

In this Annual Report on Form 10-K, we have disclosed Free Cash Flow on a consolidated basis and for each of our operating segments and MIC Corporate. We believe that both Free Cash Flow and EBITDA excluding non-cash items 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.

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

Free Cash Flow do not take into consideration required payments on indebtedness and other fixed obligations or the 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 to help understand our financial performance 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 flow. We consider a number of factors in determining whether a specific capital expenditure will be classified as maintenance or growth.

In some cases, specific capital expenditures contain characteristics of both maintenance and growth capital expenditures. We do not bifurcate specific capital expenditures into growth and maintenance 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 (loss) 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.

	Year Ended December 31,			Change (From 2015 to 2016)		Change (From 2014 to 2015)	
	2016	2015	2014	Favorable/(Unfavorable)		Favorable/(Unfavorable)	
	\$	\$	\$		%		%
(\$ In Thousands) (Unaudited)							
Net income (loss)	\$154,869	\$(113,807)	\$1,039,283				
Interest expense, net <sup>(1)</sup>	116,801	123,024	73,084				
Provision (benefit) for income taxes	71,257	(65,161 )	(24,374 )				
Depreciation <sup>(2)</sup>	226,492	215,243	98,442				
Depreciation cost of services <sup>(2)</sup>			4,374				
Amortization of intangibles <sup>(3)</sup>	65,425	101,435	42,695				
Gain from acquisition/divestiture of businesses			(1,027,181)				
Equity in earnings and amortization charges of investee			(26,391 )				
Equity distributions from investee <sup>(4)</sup>			25,330				
Fees to Manager-related party <sup>(5)</sup>	68,486	354,959	168,182				
Pension expense <sup>(6)</sup>	8,601	7,300	4,148				
Other non-cash (income) expense, net <sup>(7)</sup>	(16,343 )	792	7,952				
EBITDA excluding non-cash items	\$695,588	\$623,785	\$385,544	71,803	11.5	238,241	61.8
EBITDA excluding non-cash items	\$695,588	\$623,785	\$385,544				
Interest expense, net <sup>(1)</sup>	(116,801)	(123,024)	(73,084 )				
Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>	(13,177 )	1,509	(3,108 )				
Amortization of debt financing costs <sup>(1)</sup>	21,041	9,075	5,376				
Amortization of debt discount <sup>(1)</sup>	1,007						
	(17,770 )	(50,556 )					

Interest rate swap breakage fees								
Interest rate cap premium	(8,629 )							
Equipment lease receivable, net			2,805					
Provision/benefit for income taxes, net of changes in deferred taxes <sup>(8)</sup>	(7,310 )	6,427	(3,568 )					
Pension contribution	(3,500 )		(26,960 )					
Changes in working capital <sup>(5)</sup>	9,871	(86,060 )	(35,390 )					
Cash provided by operating activities	560,320	381,156	251,615					
Changes in working capital <sup>(5)</sup>	(9,871 )	86,060	35,390					
Maintenance capital expenditures	(58,203 )	(68,596 )	(25,520 )					
Free cash flow	\$492,246	\$398,620	\$261,485	93,626	23.5	137,135	52.4	

(1) Interest expense, net, includes adjustment to derivative instruments, non-cash amortization of deferred financing fees and non-cash amortization of debt discount related to convertible senior notes issued in October 2016. Interest expense also included a non-cash write-off of deferred financing fees related to the February 2016 refinancing at Hawaii Gas, the October 2016 refinancing at Atlantic Aviation and the May 2015 refinancing at IMTT.

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

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

(2) Depreciation and Depreciation cost of services does not include acquisition-related step-up depreciation expense of \$4.2 million for the year ended December 31, 2014 in connection with our previous 50% investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated statements of operations.

(3) Amortization of intangibles does not include acquisition-related step-up amortization expense of \$185,000 for the year ended December 31, 2014 in connection with our previous 50% investment in IMTT, which is reported in equity in earnings and amortization charges of investee in our consolidated statements of operations.