

Macquarie Infrastructure CO LLC  
Form 10-Q  
May 04, 2011

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

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended March 31, 2011**

**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 COMPANY LLC

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

43-2052503  
(IRS Employer  
Identification No.)

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

(Address of Principal Executive Offices) (Zip Code)

**(212) 231-1000**

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

Large Accelerated Filer  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

There were 45,851,527 limited liability company interests without par value outstanding at May 3, 2011.



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



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**PART I**

**FINANCIAL INFORMATION**

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

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

We own, operate and invest in a diversified group of infrastructure businesses that provide basic services, such as chilled water for building cooling and gas utility services to businesses and individuals primarily in the U.S. The businesses we own and operate are energy-related businesses consisting of: a 50% interest in International Matex Tank Terminals, or IMTT, The Gas Company, and our controlling interest in District Energy; and an aviation-related business, Atlantic Aviation.

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

**Distributions**

We believe we achieved prudent levels of cash reserves at both our holding company and operating companies. In addition, our results of operations and balance sheet have improved sufficiently, along with improved capital market conditions, to give us confidence in our ability to refinance our debt on or before maturity. As a result, on May 2, 2011, the board of directors declared a distribution of \$0.20 per share for the quarter ended March 31, 2011, which will be paid on or about May 18, 2011 to holders of record on May 11, 2011.

The precise timing and amount of any future distribution will be based on the continued stable performance of the Company's businesses and the economic conditions prevailing at the time of any authorization. Management believes that any distribution would be characterized as a dividend for tax purposes rather than as a return of capital.

**Arbitration Proceeding Between MIC and Co-investor in IMTT**

MIC has been unable to resolve the previously-disclosed dispute with the co-owner of IMTT regarding distributions, despite efforts to do so in accordance with the Shareholders' Agreement. Accordingly, on April 18, 2011, MIC initiated formal arbitration proceedings with the Voting Trust of IMTT Holdings Inc. and IMTT Holdings Inc. under the auspices of the American Arbitration Association, as provided under the Shareholders' Agreement. IMTT is named as a respondent because under the Shareholders' Agreement it is responsible for any monetary damages resulting from a breach of the Shareholders' Agreement by the Voting Trust. MIC is seeking payment of distributions due for the quarter ended December 31, 2010 and future periods and other non-monetary relief. We anticipate that the process may take up to 12 months to be completed.

In determining the amount of the distribution described above for the quarter ended March 31, 2011, we were unable to include certain anticipated funds from the cash flow of IMTT due to the ongoing dispute. Contingent upon the favorable outcome of the arbitration, and the continued stable performance of our businesses, and subject to prevailing economic conditions, we believe our board of directors expects to increase the quarterly dividend.

## **Continuing Operations**

Our energy-related businesses were largely resistant to the recent economic downturn, primarily due to the contracted or utility-like nature of their revenues combined with the essential services they provide and the contractual or regulatory ability to pass through most cost increases to customers. We believe these businesses are generally able to generate consistent cash flows throughout the business cycle.

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The general improvement in the U.S. economy has translated into an increase in general aviation activity levels and consequent improvement in the operating performance of Atlantic Aviation. Notwithstanding adverse weather conditions in late January and early February of 2011, Atlantic Aviation's results continued to improve. We will continue to apply excess cash flow generated by Atlantic Aviation to the reduction of that business' term loan principal, in accordance with the terms of its debt facility. Those repayments are expected to enhance the terms on which we may be able to refinance this debt when it matures in 2014.

### **Discontinued Operations**

On June 2, 2010, we concluded the sale in bankruptcy of an airport parking business ( Parking Company of America Airports or PCAA ), resulting in a pre-tax gain of \$130.3 million, of which \$76.5 million related to the forgiveness of debt, and the elimination of \$201.0 million of current debt from liabilities from our consolidated condensed balance sheet. The results of operations from this business are separately reported as discontinued operations in the Company's consolidated condensed financial statements. This business is no longer a reportable segment. As a part of the bankruptcy sale process, substantially all of the cash proceeds were used to pay the creditors of this business and were not paid to us. See Note 4, Discontinued Operations , in our consolidated condensed financial statements in Part I of this Form 10-Q for financial information and further discussions.

### **Income Taxes**

We file a consolidated federal income tax return that includes the taxable income of The Gas Company and Atlantic Aviation. IMTT and District Energy file separate federal income tax returns. Distributions from IMTT and District Energy may be characterized as non-taxable returns of capital, and reduce our tax basis in these companies, or as a taxable dividend. We will include in our taxable income the taxable portion of any distributions from IMTT and District Energy characterized as a dividend. Those dividends are eligible for the 80% dividend received deduction.

As a result of having federal net operating loss, or NOL, carryforwards, we do not expect to have consolidated regular federal taxable income or regular federal tax payments at least through the 2012 tax year. However, we expect to pay an Alternative Minimum Tax of approximately \$655,000 for 2011. The cash state and local taxes paid by our individual businesses are discussed in the sections entitled Income Taxes for each of our individual businesses.

### **Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010**

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Act ) was signed. The Act provides for 100% bonus depreciation for certain fixed assets placed in service after September 8, 2010 and before January 1, 2012, and 50% bonus depreciation for certain fixed assets placed in service during 2012 for federal income tax purposes. Importantly, Illinois and Louisiana, two states in which we have significant operations, do permit the use of bonus depreciation in calculating state taxable income. Generally, states do not allow this bonus depreciation deduction in determining state taxable income. The Company will take into consideration the benefits of these accelerated depreciation provisions of the Act when evaluating our capital expenditure plans for 2011 and 2012.

In January 2011, Illinois enacted the Taxpayer Accountability and Budget Stabilization Act. The legislation increases the corporate income tax rate to 7.0% from 4.8% for taxable years beginning on or after January 1, 2011 and prior to January 1, 2015; 5.25% for taxable years beginning on or after January 1, 2015 and prior to January 1, 2025; and 4.8% for taxable years beginning on or after January 1, 2025. The legislation also provides that no NOL carryforwards deduction will be allowed for any taxable year ending after December 31, 2010 and prior to December 31, 2014. For



purposes of determining the taxable years to which a net loss may be carried, no taxable year for which a deduction is disallowed under this provision will be counted. As discussed below in District Energy's Results of Operations, the income tax expense for the quarter ended March 31, 2011, reflects a change in the deferred tax liability of this business to reflect the change in Illinois law.

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strong performance in our energy-related businesses reflecting:  
 increase in average storage rates at IMTT; and  
 increase in utility volumes sold at The Gas Company; partially offset by  
 decrease in revenue and gross profit from IMTT spill response activity.  
 improved contribution from Atlantic Aviation reflecting:  
 higher general aviation fuel volumes and margins; and  
 lower cash interest payment.

Our consolidated results of operations are as follows:

|  | Quarter Ended March           |            | Change                  |         |
|--|-------------------------------|------------|-------------------------|---------|
|  | 31,                           | 2010       | Favorable/(Unfavorable) |         |
|  | 2011                          |            | \$                      | %       |
|  | (\$ In Thousands) (Unaudited) |            |                         |         |
| Revenue  |                               |            |                         |         |
| Revenue from product sales                                       | \$153,064                     | \$120,018  | 33,046                  | 27.5    |
| Revenue from product sales utility                               | 34,273                        | 26,835     | 7,438                   | 27.7    |
| Service revenue  | 51,247                        | 53,206     | (1,959 )                | (3.7 )  |
| Financing and equipment lease income                             | 1,287                         | 1,245      | 42                      | 3.4     |
| Total revenue  | 239,871                       | 201,304    | 38,567                  | 19.2    |
| Costs and expenses   |                               |            |                         |         |
| Cost of product sales  | 105,325                       | 77,054     | (28,271 )               | (36.7 ) |
| Cost of product sales utility                                    | 26,865                        | 21,313     | (5,552 )                | (26.0 ) |
| Cost of services   | 12,154                        | 11,145     | (1,009 )                | (9.1 )  |
| Gross profit   | 95,527                        | 91,792     | 3,735                   | 4.1     |
| Selling, general and administrative                              | 51,670                        | 50,734     | (936 )                  | (1.8 )  |
| Fees to manager-related party                                    | 3,632                         | 2,189      | (1,443 )                | (65.9 ) |
| Depreciation   | 7,210                         | 7,722      | 512                     | 6.6     |
| Amortization of intangibles                                      | 8,719                         | 8,671      | (48 )                   | (0.6 )  |
| Total operating expenses   | 71,231                        | 69,316     | (1,915 )                | (2.8 )  |
| Operating income   | 24,296                        | 22,476     | 1,820                   | 8.1     |
| Other income (expense)   |                               |            |                         |         |
| Interest income  | 4                             | 16         | (12 )                   | (75.0 ) |
| Interest expense <sup>(1)</sup>                                  | (14,469 )                     | (34,687 )  | 20,218                  | 58.3    |
| Equity in earnings and amortization charges of investees         | 8,362                         | 5,593      | 2,769                   | 49.5    |
| Other (expense) income, net                                      | (349 )                        | 48         | (397 )                  | NM      |
| Net income (loss) from continuing operations before income taxes | 17,844                        | (6,554 )   | 24,398                  | NM      |
| (Provision) benefit for income taxes                             | (6,986 )                      | 1,089      | (8,075 )                | NM      |
| Net income (loss) from continuing operations                     | \$10,858                      | \$(5,465 ) | 16,323                  | NM      |

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|   |          |            |        |         |
|---|----------|------------|--------|---------|
| Net loss from discontinued operations, net of taxes     |          | (4,013 )   | 4,013  | NM      |
| Net income (loss)                                       | \$10,858 | \$(9,478 ) | 20,336 | NM      |
| Less: net loss attributable to noncontrolling interests | (307 )   | (1,113 )   | (806 ) | (72.4 ) |
| Net income (loss) attributable to MIC LLC               | \$11,165 | \$(8,365 ) | 19,530 | NM      |

NM Not meaningful

(1) Interest expense includes non-cash gains on derivative instruments of \$5.5 million and non-cash losses on derivative instruments of \$11.1 million for the quarters ended March 31, 2011 and 2010, respectively.

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

**Gross Profit**

Consolidated gross profit increased reflecting improved results for fuel-related services at Atlantic Aviation and The Gas Company.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the first quarter of 2011 increased at all of our consolidated businesses.

**Fees to Manager**

Base management fees to our Manager increased in line with our increased market capitalization. Our Manager elected to reinvest its first quarter 2011 base management fee of \$3.6 million in additional LLC interests. The LLC interests for the first quarter of 2011 will be issued to our Manager during the second quarter of 2011. Our Manager elected to reinvest its first quarter 2010 base management fees of \$2.2 million in additional LLC interests, which were issued during the second quarter of 2010.

**Depreciation**

The decrease in depreciation reflects the reduction in asset retirement obligation expense and the impact of assets held for sale in the fourth quarter of 2010 at Atlantic Aviation, offset by capital expenditures.

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

Interest expense includes non-cash gains on derivative instruments of \$5.5 million and non-cash losses on derivative instruments of \$11.1 million for the quarters ended March 31, 2011 and 2010, respectively. The change in the non-cash gains (losses) on derivatives recorded in interest expense is attributable to the change in fair value of interest rate swaps, interest rate swap break fees related to the pay down of debt at Atlantic Aviation and includes the reclassification of amounts from accumulated other comprehensive loss into earnings. Excluding the portion related to non-cash gains (losses) on derivatives, interest expense decreased due to lower principal balance.

**Equity in Earnings and Amortization Charges of Investees**

The increase in equity in the earnings of IMTT reflects our share of the improved operating results of the business and non-cash derivative gains for the quarter ended March 31, 2011 compared to non-cash derivative losses for the quarter ended March 31, 2010.

**Income Taxes**

For 2011, we expect to report consolidated taxable income and a federal income tax liability that we expect will be fully offset by our NOL carryforwards. For 2011, we expect to pay a federal Alternative Minimum Tax of approximately \$655,000.

As we own less than 80% of IMTT and District Energy, these businesses are not included in our consolidated federal tax return. These businesses file separate consolidated income tax returns, and we include the dividends received from IMTT and District Energy in our consolidated income tax return. Further, we expect that any dividends from IMTT and District Energy in 2011 will be treated as taxable dividends, which qualify for the 80% Dividends Received Deduction (DRD).

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

The following table reconciles our net income from continuing operations before income taxes and noncontrolling interests to our federal taxable income for the quarter ended March 31, 2011 (\$ in thousands):

|  |           |
|--|-----------|
| Net income from continuing operations before income taxes and noncontrolling interests | \$ 17,844 |
| Adjustments for less than 80% owned businesses   | (165 )    |
| State income taxes   | (1,337 )  |
| Other adjustments  | (202 )    |
| Federal taxable income for the quarter ended March 31, 2011                            | \$ 16,140 |
| Accordingly, our tax expense for the quarter ended March 31, 2011 is as follows:       |           |
| Federal tax at 35% of the taxable income   | \$ 5,649  |
| State income tax expense   | 1,337     |
| Total tax provision  | \$ 6,986  |

In determining the effective tax rate for the quarter ended March 31, 2010, we excluded the write-down to fair value of certain assets from ordinary income. Further, approximately \$13.5 million of the write-down was attributable to goodwill and was a permanent book-tax difference, for which no tax benefit was recognized.

**Valuation allowance:**

As discussed in Note 17, *Income Taxes* in our consolidated financial statements, in Part II, Item 8 of our Form 10-K for 2010, from the date of sale of the noncontrolling interest in District Energy and onwards, we evaluate the need for a valuation allowance against our deferred tax assets without taking into consideration the deferred tax liabilities of District Energy. As of December 31, 2010, our valuation allowance was approximately \$9.2 million. In calculating our consolidated income tax provision for the quarter ended March 31, 2011, we did not provide for an increase in the valuation allowance.

During the quarter ended March 31, 2010, we reduced the valuation allowance by approximately \$2.6 million. This decrease was recorded as part of benefit for income taxes included in continuing operations on the consolidated condensed statements of operations.

**Discontinued Operations**

On June 2, 2010, we concluded the sale in bankruptcy of PCAA, resulting in a pre-tax gain of \$130.3 million, of which \$76.5 million related to the forgiveness of debt. The results of operations from this business are separately reported as discontinued operations in our consolidated condensed financial statements. See Note 4, *Discontinued Operations*, in our consolidated condensed financial statements in Part I of this Form 10-Q for financial information and further discussions.

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

In accordance with GAAP, we have disclosed EBITDA excluding non-cash items for our Company and each of our operating segments in Note 11, *Reportable Segments* in our consolidated condensed financial statements, as a key performance metric relied on by management in evaluating our performance. EBITDA excluding non-cash items is

defined as earnings before interest, taxes, depreciation and amortization and noncash items, which includes impairments, derivative gains and losses and adjustments for other non-cash items reflected in the statements of operations. We believe EBITDA excluding non-cash items provides additional insight into the performance of our operating businesses relative to each other and similar businesses without regard to their capital structure, and their ability to service or reduce debt, fund capital expenditures and/or support distributions to the holding company.

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

We also disclose Free Cash Flow, as defined by us, as a means of assessing the amount of cash generated by our businesses and supplementing other information provided in accordance with GAAP. We define Free Cash Flow as cash from operating activities, less maintenance capital expenditures and changes in working capital. Working capital movements are excluded on the basis that these are largely timing differences in payables and receivables, and are therefore not reflective of our ability to generate cash.

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

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

A reconciliation of net income (loss) attributable to MIC LLC from continuing operations to free cash flow from continuing operations, on a consolidated basis, is provided below:

|   | Quarter Ended                 |            | Change                        |        |
|---|-------------------------------|------------|-------------------------------|--------|
|   | March 31,<br>2011             | 2010       | Favorable/(Unfavorable)<br>\$ | %      |
|   | (\$ In Thousands) (Unaudited) |            |                               |        |
| Net income (loss) attributable to MIC LLC from continuing operations <sup>(1)</sup> | \$11,165                      | \$(4,518 ) |                               |        |
| Interest expense, net <sup>(2)</sup>  | 14,465                        | 34,671     |                               |        |
| Provision (benefit) for income taxes  | 6,986                         | (1,089 )   |                               |        |
| Depreciation <sup>(3)</sup>   | 7,210                         | 7,722      |                               |        |
| Depreciation cost of service <sup>(3)</sup>   | 1,647                         | 1,635      |                               |        |
| Amortization of intangibles <sup>(4)</sup>  | 8,719                         | 8,671      |                               |        |
| Equity in earnings and amortization charges of investees <sup>(5)</sup>             | (8,362 )                      | (593 )     |                               |        |
| Base management fees settled/to be settled in LLC interests                         | 3,632                         | 2,189      |                               |        |
| Other non-cash expense (income), net  | 446                           | (172 )     |                               |        |
| EBITDA excluding non-cash items from continuing operations                          | \$45,908                      | \$48,516   | (2,608 )                      | (5.4 ) |
| EBITDA excluding non-cash items from continuing operations                          | \$45,908                      | \$48,516   |                               |        |
| Interest expense, net <sup>(2)</sup>  | (14,465)                      | (34,671)   |                               |        |
| Interest rate swap breakage fees <sup>(2)</sup>                                     | (1,105 )                      | (2,510 )   |                               |        |
|   | (4,405 )                      | 13,636     |                               |        |



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|  |          |          |          |        |
|--|----------|----------|----------|--------|
| Non-cash derivative (gains) losses recorded in interest expense <sup>(2)</sup> |          |          |          |        |
| Amortization of debt financing costs <sup>(2)</sup>                            | 1,030    | 2,914    |          |        |
| Equipment lease receivables, net   | 740      | 712      |          |        |
| Provision for income taxes, net of changes in deferred taxes                   | (932 )   | (878 )   |          |        |
| Changes in working capital   | (5,229 ) | 3,087    |          |        |
| Cash provided by operating activities  | 21,542   | 30,806   |          |        |
| Changes in working capital   | 5,229    | (3,087 ) |          |        |
| Maintenance capital expenditures   | (3,162 ) | (1,747 ) |          |        |
| Free cash flow from continuing operations                                      | \$23,609 | \$25,972 | (2,363 ) | (9.1 ) |

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

- (1) Net income (loss) attributable to MIC LLC from continuing operations excludes net loss attributable to noncontrolling interests of \$307,000 and \$947,000 for the quarters ended March 31, 2011 and 2010, respectively.
- (2) Interest expense, net, includes non-cash gains (losses) on derivative instruments, non-cash amortization of deferred financing fees and interest rate swap breakage fees.  
Depreciation-cost of services includes depreciation expense for District Energy, which is reported in cost of services in our consolidated condensed statements of operations. Depreciation and Depreciation-cost of services
- (3) does not include acquisition-related step-up depreciation expense of \$1.7 million for each quarter in connection with our investment in IMTT, which is reported in equity in earnings and amortization charges of investees in our consolidated condensed statements of operations.  
Amortization of intangibles does not include acquisition-related step-up amortization expense of \$283,000 for each
- (4) quarter related to intangible assets in connection with our investment in IMTT, which is reported in equity in earnings and amortization charges of investees in our consolidated condensed statements of operations.
- (5) Equity in earnings and amortization charges of investees in the above table includes our 50% share of IMTT's earnings, offset by distributions we received only up to our share of the earnings recorded.

**Energy-Related Businesses**

**IMTT**

We account for our 50% interest in IMTT under the equity method. We recognized income of \$8.4 million in our consolidated results for the quarter ended March 31, 2011. This includes our 50% share of IMTT's net income, equal to \$9.5 million for the period, offset by \$1.1 million of acquisition-related step-up depreciation and amortization expense (net of taxes). For the quarter ended March 31, 2010, we recognized income of \$5.6 million in our consolidated results. This included our 50% share of IMTT's net income, equal to \$6.6 million for the period, offset by \$1.0 million of acquisition-related step-up depreciation and amortization expense (net of taxes).

To enable meaningful analysis of IMTT's performance across periods, IMTT's overall performance is discussed below, rather than IMTT's contribution to our consolidated results.

**Key Factors Affecting Operating Results:**

terminal revenue and gross profit increased principally due to increases in average tank rental rates; partially offset by environmental response service revenue and gross profit decreased principally due to a lower level of spill response activity.

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|  | Quarter Ended March 31,       |           |                         |         |
|--|-------------------------------|-----------|-------------------------|---------|
|  | 2011                          | 2010      | Change                  |         |
|  |                               |           | Favorable/(Unfavorable) |         |
|  | \$                            | \$        | \$                      | %       |
|  | (\$ In Thousands) (Unaudited) |           |                         |         |
| Revenue  |                               |           |                         |         |
| Terminal revenue   | 106,015                       | 95,554    | 10,461                  | 10.9    |
| Environmental response revenue   | 4,816                         | 11,484    | (6,668 )                | (58.1 ) |
| Total revenue  | 110,831                       | 107,038   | 3,793                   | 3.5     |
| Costs and expenses   |                               |           |                         |         |
| Terminal operating costs   | 46,049                        | 42,612    | (3,437 )                | (8.1 )  |
| Environmental response operating costs   | 4,731                         | 8,200     | 3,469                   | 42.3    |
| Total operating costs  | 50,780                        | 50,812    | 32                      | 0.1     |
| Terminal gross profit  | 59,966                        | 52,942    | 7,024                   | 13.3    |
| Environmental response gross profit  | 85                            | 3,284     | (3,199 )                | (97.4 ) |
| Gross profit   | 60,051                        | 56,226    | 3,825                   | 6.8     |
| General and administrative expenses  | 7,863                         | 7,266     | (597 )                  | (8.2 )  |
| Depreciation and amortization  | 15,675                        | 14,618    | (1,057 )                | (7.2 )  |
| Operating income   | 36,513                        | 34,342    | 2,171                   | 6.3     |
| Interest expense, net <sup>(1)</sup>   | (4,683 )                      | (12,125 ) | 7,442                   | 61.4    |
| Other income   | 779                           | 781       | (2 )                    | (0.3 )  |
| Provision for income taxes   | (13,544 )                     | (9,606 )  | (3,938 )                | (41.0 ) |
| Noncontrolling interest  | 25                            | (149 )    | 174                     | 116.8   |
| Net income   | 19,090                        | 13,243    | 5,847                   | 44.2    |
| Reconciliation of net income to EBITDA excluding non-cash items:               |                               |           |                         |         |
| Net income   | 19,090                        | 13,243    |                         |         |
| Interest expense, net <sup>(1)</sup>   | 4,683                         | 12,125    |                         |         |
| Provision for income taxes   | 13,544                        | 9,606     |                         |         |
| Depreciation and amortization  | 15,675                        | 14,618    |                         |         |
| Other non-cash (income) expenses   | (8 )                          | 233       |                         |         |
| EBITDA excluding non-cash items  | 52,984                        | 49,825    | 3,159                   | 6.3     |
| EBITDA excluding non-cash items  | 52,984                        | 49,825    |                         |         |
| Interest expense, net <sup>(1)</sup>   | (4,683 )                      | (12,125 ) |                         |         |
| Non-cash derivative (gains) losses recorded in interest expense <sup>(1)</sup> | (4,332 )                      | 4,673     |                         |         |
| Amortization of debt financing costs <sup>(1)</sup>                            | 811                           | 172       |                         |         |
| Provision for income taxes, net of changes in deferred taxes                   | (7,888 )                      | (1,267 )  |                         |         |
| Changes in working capital   | 1,632                         | (3,234 )  |                         |         |
| Cash provided by operating activities  | 38,524                        | 38,044    |                         |         |
| Changes in working capital   | (1,632 )                      | 3,234     |                         |         |
| Maintenance capital expenditures   | (8,514 )                      | (7,795 )  |                         |         |
| Free cash flow   | 28,378                        | 33,483    | (5,105 )                | (15.2 ) |

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

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**Energy-Related Business: IMTT (continued)**

**Revenue and Gross Profit**

The increase in terminal revenue primarily reflects growth in storage revenue. Storage revenue grew due to an increase in average rental rates of 13.3% during the first quarter of 2011 as compared to the first quarter of 2010.

IMTT expects full year average rental rates to rise by approximately 11.0%.

Capacity utilization decreased to 93.8% from 96.0% during the first quarter of 2011 compared to the first quarter of 2010. Utilization rates were lower in the first quarter of 2011, primarily due to tank modifications for certain customers as well as tanks being taken out of service for inspection and repairs and maintenance. IMTT still expects utilization rates to be approximately 93.0% to 94.0% throughout 2011.

Terminal operating costs increased during the first quarter of 2011 as a result of an increase in salaries and wages and higher repairs and maintenance.

Revenue and gross profit from environmental response services decreased during the first quarter of 2011 compared to the first quarter of 2010 primarily due to a lower level of spill response activity.

**General and Administrative Expenses**

General and administrative expenses for the quarter increased primarily due to higher banking fees related to the amendment of the business revolving credit facility.

**Depreciation and Amortization**

Depreciation and amortization expense increased as IMTT completed several major expansion projects, resulting in higher asset balances.

**Interest Expense, Net**

Interest expense, net, includes non-cash gains on derivative instruments of \$4.3 million in the first quarter of 2011 and non-cash losses on derivative instruments of \$4.7 million in the first quarter of 2010. Excluding the non-cash gains (losses) on derivative instruments, interest expense is higher due to increased rates on the amended revolving credit facility and letter of credit fees associated with the additional issuance of Gulf Opportunity Zone Bonds.

Cash interest paid was \$8.6 million and \$7.4 million for quarters ended March 31, 2011 and 2010, respectively.

**Income Taxes**

For the quarter ended March 31, 2011, IMTT recorded \$5.8 million of current federal income tax expense and \$2.1 million of current state income tax expense. As assets are placed in service for the remainder of 2011, IMTT expects federal taxable income and to a lesser degree state taxable income to decrease due to tax depreciation applicable to these assets. As a result, IMTT expects full year 2011 federal tax expense to be \$1.5 million and full year 2011 state tax expense to be \$5.5 million.

For the year ended December 31, 2010, IMTT recorded \$5.5 million of current federal income tax expense and \$7.0 million of current state income tax expense. At December 31, 2009, IMTT had a federal NOL of \$50.5 million, of which \$5.8 million was carried back to and used in year 2008 and \$44.7 million was carried forward to and was fully utilized in 2010.

A significant difference between IMTT's book and federal taxable income relates to depreciation of terminalling fixed assets. For book purposes, these fixed assets are depreciated primarily over 15 to 30 years using the straight-line method of depreciation. For federal income tax purposes, these fixed assets are depreciated primarily over 5 to 15 years using accelerated methods. Most terminalling fixed assets placed in service in 2010 and 2011 qualify for the federal 50% or 100% bonus depreciation, except assets placed in service in Louisiana financed with GO Zone Bonds.

A significant portion of Louisiana terminalling fixed assets constructed since Hurricane Katrina are or will be financed with GO Zone Bonds. GO Zone Bond financed assets are depreciated primarily over 9 to 20 years using the straight-line depreciation method. Most of the states in which the business operates do not allow the use of the federal bonus depreciation calculation methods.

TABLE OF CONTENTS**Energy-Related Business: *The Gas Company*****Key Factors Affecting Operating Results:**

utility contribution margin impacted by timing of fuel adjustment charges; and lower non-utility volumes resulting from conservation efforts related to an interruption in supply.

|  | Quarter Ended March 31,       |          |          |          |
|--|-------------------------------|----------|----------|----------|
|  | 2011                          | 2010     | Change   |          |
|  | \$                            | \$       | \$       | %        |
|  | Favorable/(Unfavorable)       |          |          |          |
|  | (\$ In Thousands) (Unaudited) |          |          |          |
| Contribution margin  |                               |          |          |          |
| Revenue utility  | 34,273                        | 26,835   | 7,438    | 27.7     |
| Cost of revenue utility  | 24,005                        | 17,872   | (6,133 ) | (34.3 )  |
| Contribution margin utility  | 10,268                        | 8,963    | 1,305    | 14.6     |
| Revenue non-utility  | 27,351                        | 25,310   | 2,041    | 8.1      |
| Cost of revenue non-utility  | 16,057                        | 13,756   | (2,301 ) | (16.7 )  |
| Contribution margin non-utility  | 11,294                        | 11,554   | (260 )   | (2.3 )   |
| Total contribution margin  | 21,562                        | 20,517   | 1,045    | 5.1      |
| Production   | 1,676                         | 1,680    | 4        | 0.2      |
| Transmission and distribution  | 4,398                         | 4,861    | 463      | 9.5      |
| Gross profit   | 15,488                        | 13,976   | 1,512    | 10.8     |
| Selling, general and administrative expenses                                   | 4,217                         | 3,761    | (456 )   | (12.1 )  |
| Depreciation and amortization  | 1,773                         | 1,718    | (55 )    | (3.2 )   |
| Operating income   | 9,498                         | 8,497    | 1,001    | 11.8     |
| Interest expense, net <sup>(1)</sup>   | (2,014 )                      | (4,807 ) | 2,793    | 58.1     |
| Other (expense) income   | (152 )                        | 15       | (167 )   | NM       |
| Provision for income taxes   | (2,902 )                      | (1,451 ) | (1,451 ) | (100.0 ) |
| Net income <sup>(2)</sup>  | 4,430                         | 2,254    | 2,176    | 96.5     |
| Reconciliation of net income to EBITDA excluding non-cash items:               |                               |          |          |          |
| Net income <sup>(2)</sup>  | 4,430                         | 2,254    |          |          |
| Interest expense, net <sup>(1)</sup>   | 2,014                         | 4,807    |          |          |
| Provision for income taxes   | 2,902                         | 1,451    |          |          |
| Depreciation and amortization  | 1,773                         | 1,718    |          |          |
| Other non-cash expenses  | 670                           | 534      |          |          |
| EBITDA excluding non-cash items  | 11,789                        | 10,764   | 1,025    | 9.5      |
| EBITDA excluding non-cash items  | 11,789                        | 10,764   |          |          |
| Interest expense, net <sup>(1)</sup>   | (2,014 )                      | (4,807 ) |          |          |
| Non-cash derivative (gains) losses recorded in interest expense <sup>(1)</sup> | (276 )                        | 2,591    |          |          |
| Amortization of debt financing costs <sup>(1)</sup>                            | 119                           | 120      |          |          |
| Provision for income taxes, net of changes in deferred taxes                   | (2,285 )                      | (1,484 ) |          |          |
| Changes in working capital   | (4,415 )                      | 399      |          |          |

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|                                       |          |        |          |         |
|---------------------------------------|----------|--------|----------|---------|
| Cash provided by operating activities | 2,918    | 7,583  |          |         |
| Changes in working capital            | 4,415    | (399 ) |          |         |
| Maintenance capital expenditures      | (2,260 ) | (556 ) |          |         |
| Free cash flow                        | 5,073    | 6,628  | (1,555 ) | (23.5 ) |

NM Not meaningful

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**Energy-Related Business: *The Gas Company* (continued)**

- (1) Interest expense, net, includes non-cash gains (losses) on derivative instruments and non-cash amortization of deferred financing fees.
- (2) Intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation at the MIC Inc. level.

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

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

**Contribution Margin and Operating Income**

Utility contribution margin was higher primarily due to a correction made in the first quarter of 2010 in the calculation of pass-through of changes in feedstock costs (fuel adjustment charges) related to the rate increase effective mid-2009.

Non-utility contribution margin per thermal unit was flat with the prior comparable period. Non-utility contribution margin in total was lower primarily due to a 1.6% decrease in volume of gas products sold. The decrease was the result of conservation efforts related to an interruption in supply.

Production, transmission and distribution and selling, general and administrative expenses are primarily composed of labor-related expenses and professional fees. On a combined basis, these costs were relatively flat compared with the prior period.

**Interest Expense, Net**

Interest expense, net, includes non-cash gains on derivative instruments of \$276,000 and non-cash losses on derivative instruments of \$2.6 million for the quarters ended March 31, 2011 and 2010, respectively. Excluding the non-cash gains and losses on derivative instruments, interest expense was slightly higher due to the expiration of an interest rate basis swap agreement. Cash interest paid was \$2.2 million and \$2.1 million for the quarters ended March 31, 2011 and 2010, respectively.

**Income Taxes**

Income from The Gas Company is included in our consolidated federal income tax return, and is subject to Hawaii state income taxes. The tax expense in the table above includes both state taxes and the portion of the consolidated federal tax liability attributable to the business. For the year ending December 31, 2011, the business expects to pay cash state income taxes of approximately \$1.5 million, of which \$384,000 was recorded during the first quarter ended March 31, 2011. Any federal income tax liability is expected to be offset in consolidation from the application of

NOL s.

## **District Energy**

Customers of District Energy pay two charges to receive chilled water services: a fixed charge based on contracted capacity and a variable charge based on the consumption of chilled water. Capacity charges are typically adjusted annually at a fixed rate or are indexed to the Consumer Price Index (CPI). The terms of the business customer contracts provide for the pass through of increases or decreases in electricity costs, the largest component of the business direct expenses.

The financial results discussed below reflect 100% of District Energy s performance during the quarter.

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TABLE OF CONTENTS**Energy-Related Business: *District Energy* (continued)****Key Factors Affecting Operating Results**

increased other direct expenses due to the timing of preseason maintenance expense for system reliability and higher real estate taxes; offset by  
an increase in capacity revenue from annual inflation-linked increases in contract capacity rates.

|  | Quarter Ended March 31,       |         |                         |         |
|--|-------------------------------|---------|-------------------------|---------|
|  | 2011                          | 2010    | Change                  |         |
|  |                               |         | Favorable/(Unfavorable) |         |
|  | \$                            | \$      | \$                      | %       |
|  | (\$ In Thousands) (Unaudited) |         |                         |         |
| Cooling capacity revenue   | 5,331                         | 5,238   | 93                      | 1.8     |
| Cooling consumption revenue  | 2,430                         | 1,763   | 667                     | 37.8    |
| Other revenue  | 690                           | 864     | (174 )                  | (20.1 ) |
| Finance lease revenue  | 1,287                         | 1,245   | 42                      | 3.4     |
| Total revenue  | 9,738                         | 9,110   | 628                     | 6.9     |
| Direct expenses electricity  | 1,946                         | 1,323   | (623 )                  | (47.1 ) |
| Direct expenses other <sup>1)</sup>  | 4,959                         | 4,871   | (88 )                   | (1.8 )  |
| Direct expenses total  | 6,905                         | 6,194   | (711 )                  | (11.5 ) |
| Gross profit   | 2,833                         | 2,916   | (83 )                   | (2.8 )  |
| Selling, general and administrative expenses                                   | 923                           | 758     | (165 )                  | (21.8 ) |
| Amortization of intangibles  | 337                           | 337     |                         |         |
| Operating income   | 1,573                         | 1,821   | (248 )                  | (13.6 ) |
| Interest expense, net <sup>(2)</sup>   | (2,259)                       | (6,028) | 3,769                   | 62.5    |
| Other income   | 56                            | 50      | 6                       | 12.0    |
| Benefit for income taxes   | 347                           | 1,720   | (1,373 )                | (79.8 ) |
| Noncontrolling interest  | (213 )                        | (194 )  | (19 )                   | (9.8 )  |
| Net loss   | (496 )                        | (2,631) | 2,135                   | 81.1    |
| Reconciliation of net loss to EBITDA excluding non-cash items:                 |                               |         |                         |         |
| Net loss   | (496 )                        | (2,631) |                         |         |
| Interest expense, net <sup>(2)</sup>   | 2,259                         | 6,028   |                         |         |
| Benefit for income taxes   | (347 )                        | (1,720) |                         |         |
| Depreciation <sup>(1)</sup>  | 1,647                         | 1,635   |                         |         |
| Amortization of intangibles  | 337                           | 337     |                         |         |
| Other non-cash expenses  | 38                            | 155     |                         |         |
| EBITDA excluding non-cash items  | 3,438                         | 3,804   | (366 )                  | (9.6 )  |
| EBITDA excluding non-cash items  | 3,438                         | 3,804   |                         |         |
| Interest expense, net <sup>(2)</sup>   | (2,259)                       | (6,028) |                         |         |
| Non-cash derivative (gains) losses recorded in interest expense <sup>(2)</sup> | (361 )                        | 3,498   |                         |         |
| Amortization of debt financing costs <sup>(2)</sup>                            | 170                           | 170     |                         |         |
| Equipment lease receivable, net  | 740                           | 712     |                         |         |
| Provision for income taxes, net of changes in deferred taxes                   | (45 )                         |         |                         |         |

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|                                       |         |        |        |         |
|---------------------------------------|---------|--------|--------|---------|
| Changes in working capital            | 1,323   | (770 ) |        |         |
| Cash provided by operating activities | 3,006   | 1,386  |        |         |
| Changes in working capital            | (1,323) | 770    |        |         |
| Maintenance capital expenditures      | (66 )   | (164 ) |        |         |
| Free cash flow                        | 1,617   | 1,992  | (375 ) | (18.8 ) |

(1) Includes depreciation expense of \$1.6 million for each of the quarters ended March 31, 2011 and 2010.

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

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**Energy-Related Business: *District Energy* (continued)**

**Gross Profit**

Gross profit decreased slightly primarily due to the timing of preseason maintenance expense for system reliability and higher real estate taxes. A higher percentage of the business preseason maintenance was conducted in the first quarter of 2011 as compared to first quarter of 2010. This is partially offset by an increase in cooling capacity revenue primarily due to annual inflation-related increases of contract capacity rates in accordance with customer contract terms and increases in consumption revenue net of electricity costs.

**Selling, General and Administrative Expenses**

Underlying selling, general and administrative expenses were relatively flat compared to first quarter of 2010. The first quarter of 2010 included a reversal of accrued incentives that did not recur in the first quarter of 2011.

Professional fees in the first quarter of 2011 increased due to the timing of these expenses.

**Interest Expense, Net**

Interest expense, net, includes non-cash gains on derivative instruments of \$361,000 and non-cash losses on derivative instruments of \$3.5 million for the quarters ended March 31, 2011 and 2010, respectively. Excluding the non-cash gains and losses on derivative instruments, interest expense was slightly higher due to the expiration of an interest rate basis swap agreement. Cash interest paid was \$2.5 million and \$2.3 million for the quarters ended March 31, 2011 and 2010, respectively.

**Income Taxes**

For periods prior to the sale of 49.99% noncontrolling interest in the business in December 2009, the income from District Energy was included in our consolidated federal income tax return and District Energy filed a separate Illinois state income tax return. For the year ending December 31, 2011, District Energy expects to pay a federal Alternative Minimum Tax of approximately \$83,000 and state income taxes of approximately \$437,000.

For periods after December 2009, District Energy will file a separate federal income tax return and will continue to file a separate Illinois state income tax return. As of December 31, 2010, the business has approximately \$18.5 million in federal and \$18.0 million in state NOL carryforwards available to offset positive taxable income. The business expects to have federal taxable income in 2011 and 2012, which will be wholly offset by NOL carryforwards.

In 2011, Illinois enacted the Taxpayer Accountability and Budget Stabilization Act, which increases the state corporate income tax rate to 7.0% from 4.8% through 2014 and suspended the use of NOL carryforwards through 2014. For the quarter ended March 31, 2011, District Energy recorded approximately \$147,000 of deferred state income tax expense due to the increase in Illinois corporate income tax rates enacted in 2011.

**Aviation-Related Business**

**Atlantic Aviation**

**Key Factors Affecting Operating Results:**

higher general aviation ( GA ) fuel volumes and higher weighted average GA fuel margins; lower cash interest paid driven by lower interest rate swap breakage fees and reduced debt levels; partially offset by higher selling, general and administrative expenses due to increased payroll taxes, weather-related expenses and higher motor fuel cost.

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TABLE OF CONTENTS**Aviation-Related Business: Atlantic Aviation (continued)**

|  | Quarter Ended March 31,       |                     |                         |         |
|--|-------------------------------|---------------------|-------------------------|---------|
|  | 2011                          | 2010 <sup>(1)</sup> | Change                  |         |
|  |                               |                     | Favorable/(Unfavorable) |         |
|  | \$                            | \$                  | \$                      | %       |
|  | (\$ In Thousands) (Unaudited) |                     |                         |         |
| Revenue  |                               |                     |                         |         |
| Fuel revenue   | 125,713                       | 94,708              | 31,005                  | 32.7    |
| Non-fuel revenue   | 42,796                        | 45,341              | (2,545 )                | (5.6 )  |
| Total revenue  | 168,509                       | 140,049             | 28,460                  | 20.3    |
| Cost of revenue  |                               |                     |                         |         |
| Cost of revenue fuel   | 86,054                        | 60,198              | (25,856 )               | (43.0 ) |
| Cost of revenue non-fuel   | 5,248                         | 4,952               | (296 )                  | (6.0 )  |
| Total cost of revenue  | 91,302                        | 65,150              | (26,152 )               | (40.1 ) |
| Fuel gross profit  | 39,659                        | 34,510              | 5,149                   | 14.9    |
| Non-fuel gross profit  | 37,548                        | 40,389              | (2,841 )                | (7.0 )  |
| Gross profit   | 77,207                        | 74,899              | 2,308                   | 3.1     |
| Selling, general and administrative expenses                                   | 45,051                        | 44,235              | (816 )                  | (1.8 )  |
| Depreciation and amortization  | 13,819                        | 14,338              | 519                     | 3.6     |
| Operating income   | 18,337                        | 16,326              | 2,011                   | 12.3    |
| Interest expense, net <sup>(2)</sup>   | (10,193 )                     | (21,986 )           | 11,793                  | 53.6    |
| Other expense  | (227 )                        | (16 )               | (211 )                  | NM      |
| (Provision) benefit for income taxes   | (3,175 )                      | 2,287               | (5,462 )                | NM      |
| Net income (loss) <sup>(3)</sup>   | 4,742                         | (3,389 )            | 8,131                   | NM      |
| Reconciliation of net income (loss) to EBITDA excluding non-cash items:        |                               |                     |                         |         |
| Net income (loss) <sup>(3)</sup>   | 4,742                         | (3,389 )            |                         |         |
| Interest expense, net <sup>(2)</sup>   | 10,193                        | 21,986              |                         |         |
| Provision (benefit) for income taxes   | 3,175                         | (2,287 )            |                         |         |
| Depreciation and amortization  | 13,819                        | 14,338              |                         |         |
| Other non-cash expenses  | 146                           | 47                  |                         |         |
| EBITDA excluding non-cash items  | 32,075                        | 30,695              | 1,380                   | 4.5     |
| EBITDA excluding non-cash items  | 32,075                        | 30,695              |                         |         |
| Interest expense, net <sup>(2)</sup>   | (10,193 )                     | (21,986 )           |                         |         |
| Interest rate swap breakage fees <sup>(2)</sup>                                | (1,105 )                      | (2,510 )            |                         |         |
| Non-cash derivative (gains) losses recorded in interest expense <sup>(2)</sup> | (3,768 )                      | 7,540               |                         |         |
| Amortization of debt financing costs <sup>(2)</sup>                            | 741                           | 807                 |                         |         |
| Provision for income taxes, net of changes in deferred taxes                   | (495 )                        | (143 )              |                         |         |
| Changes in working capital   | 223                           | 7,386               |                         |         |
| Cash provided by operating activities  | 17,478                        | 21,789              |                         |         |
| Changes in working capital   | (223 )                        | (7,386 )            |                         |         |
| Maintenance capital expenditures   | (836 )                        | (1,027 )            |                         |         |
| Free cash flow   | 16,419                        | 13,376              | 3,043                   | 22.7    |

NM Not meaningful

(1) Reclassified to conform to current period presentation.

(2) Interest expense, net, includes non-cash gains (losses) on derivative instruments, non-cash amortization of deferred financing fees and interest rate swap breakage fees.

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

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**Aviation-Related Business: *Atlantic Aviation* (continued)**

**Revenue and Gross Profit**

The majority of the revenue and gross profit in Atlantic Aviation is generated through fueling GA aircraft at 66 airports and one heliport in the U.S. Revenue is categorized according to who owns the fuel used to service these aircrafts. If our business owns the fuel, it records the cost to purchase that fuel as cost of revenue-fuel. The business corresponding fuel revenue is its cost to purchase that fuel plus a margin. The business generally pursues a strategy of maintaining, and where appropriate increasing, dollar-based margins, thereby passing any increase in fuel prices to the customer.

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

The business fuel-related revenue and gross profit are driven by fuel volume and dollar-based margin per gallon. This applies to both fuel and into-plane revenue. Customers will sometimes move from one category to the other.

The business believes discussing total fuel-related revenue and gross profit, including both fuel sales and into-plane arrangements (as recorded in the non-fuel revenue line) and related key metrics on an aggregate basis, provides a more meaningful analysis of Atlantic Aviation's gross profit than a discussion of each item. In the first quarter of 2011, the business derived 62.8% of total gross profit from fuel and fuel-related services compared to 61.7% in the first quarter of 2010.

Gross profit for the first quarter of 2011 increased 3.1% compared to the prior year comparable period as a result of an increase in aggregate fuel-related gross profit. The increase in aggregate fuel-related gross profit resulted from a 1.7% increase in GA fuel volume, driven by increased business jet traffic. Weighted average fuel margin increased by 3.8% for the first quarter of 2011 compared with the first quarter of 2010.

General aviation traffic and fuel volumes were adversely impacted by weather conditions in the first quarter of 2011, resulting in 22 FBOs being closed an average of 3.5 days each. Based upon an analysis of those closures, the business estimates the lost volume from this traffic disruption reduced gross profit by approximately \$1.1 million.

Gross profit from other services for the quarter ended March 31, 2011 was flat compared with the first quarter in 2010.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased 1.8% due to higher payroll taxes, weather-related expense and motor fuel cost. Atlantic Aviation still expects selling, general and administrative expense to be less than \$175.0 million for 2011.

**Depreciation and Amortization**

The decrease in depreciation reflects the reduction in asset retirement obligation expense and the impact of assets held for sale in the fourth quarter of 2010 at Atlantic Aviation, partially offset by the impact of capital expenditures completed since the end of the first quarter of 2010. Amortization expense remained flat.



TABLE OF CONTENTS**Aviation-Related Business: *Atlantic Aviation* (continued)****Interest Expense, Net**

Interest expense, net, primarily includes interest incurred on the business debt, amortization of deferred financing costs and non-cash gains (losses) on derivatives instruments. These items are summarized in the table below.

|   | Quarter Ended March           |        | Change                  |          |
|---|-------------------------------|--------|-------------------------|----------|
|   | 31,                           |        | Favorable/(Unfavorable) |          |
|   | 2011                          | 2010   |                         |          |
|   | \$                            | \$     | \$                      | %        |
|   | (\$ In Thousands) (Unaudited) |        |                         |          |
| Interest income                                   | (2 )                          | (14 )  | (12 )                   | (85.7 )  |
| Interest paid on debt facility                    | 13,212                        | 13,750 | 538                     | 3.9      |
| Amortization of deferred financing costs          | 741                           | 807    | 66                      | 8.2      |
| Non-cash (gains) losses on derivative instruments | (3,768 )                      | 7,540  | 11,308                  | 150.0    |
| Capitalized interest                              | 10                            | (97 )  | (107 )                  | (110.3 ) |
| Total interest expense, net                       | 10,193                        | 21,986 | 11,793                  | 53.6     |

**Income Taxes**

Income generated by Atlantic Aviation is included in our consolidated federal income tax return. The business files state income tax returns in more than 30 states in which it operates. The tax expense in the table above includes both state taxes and the portion of the consolidated federal tax liability attributable to the business.

The business has approximately \$59.0 million of state NOL carryforwards. State NOL carryforwards are specific to the state in which the NOL was generated and various states impose limitations on the utilization of NOL carryforwards. Therefore, the business may incur state income tax liabilities in the near future, even if its consolidated state taxable income is less than \$59.0 million.

Atlantic Aviation as a whole expects to generate a current year federal and state taxable income in 2011. Atlantic Aviation's separate company NOL carryforwards will fully offset the current year federal taxable income. For the year ended December 31, 2011, the business expects to pay state income taxes of approximately \$2.2 million.

**Liquidity and Capital Resources****Consolidated**

Our primary cash requirements include normal operating expenses, debt service, debt principal payments, payments of dividends and capital expenditures. Our primary source of cash is operating activities, although we may borrow against existing credit facilities for growth capital expenditures, issue additional LLC interests or sell assets to generate cash.

We believe we achieved prudent levels of cash reserves at both our holding company and operating companies. In addition, our results of operations and balance sheet have improved sufficiently, along with improved capital market conditions, to give us confidence in our ability to refinance our debt on or before maturity. As a result, on May 2,

2011, the board of directors declared a distribution of \$0.20 per share for the quarter ended March 31, 2011, which will be paid on or about May 18, 2011 to holders of record on May 11, 2011.

The precise timing and amount of any future distribution will be based on the continued stable performance of the Company's businesses and the economic conditions prevailing at the time of any authorization. Management believes that any distribution would be characterized as a dividend for tax purposes rather than as a return of capital.

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

We believe that our operating businesses will have sufficient liquidity and capital resources to meet future requirements, including servicing long-term debt obligations and making distribution payments. We base our assessment of the sufficiency of our liquidity and capital resources on the following assumptions:

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

We have capitalized our businesses, in part, using project-finance style debt. Project-finance style debt is limited-recourse, floating rate, non-amortizing debt with a medium term maturity of between five and seven years, although the principal balance on the term loan debt at Atlantic Aviation is being prepaid using the excess cash generated by the business. At March 31, 2011, the average remaining maturity of the drawn balances of the primary debt facilities across all of our businesses, including our proportional interest in the revolving credit facility of IMTT, was approximately 3.3 years. In light of the improvement in the functioning of the credit markets generally, and the leverage and interest coverage ratios, we expect each of these businesses to successfully refinance their long-term debt on economically reasonable terms on or before maturity.

We have no holding company debt facilities.

The section below discusses the sources and uses of cash on a consolidated basis and for each of our businesses and investments. All inter-company activities such as corporate allocations, capital contributions to our businesses and distributions from our businesses have been excluded from the tables as these transactions are eliminated in consolidation.

**Analysis of Consolidated Historical Cash Flows from Continuing Operations**

|                                       | Quarter Ended March |           | Change                  |         |
|---------------------------------------|---------------------|-----------|-------------------------|---------|
|                                       | 2011                | 2010      | Favorable/(Unfavorable) |         |
| (\$ In Thousands)                     | \$                  | \$        | \$                      | %       |
| Cash provided by operating activities | 21,542              | 30,806    | (9,264 )                | (30.1 ) |
| Cash used in investing activities     | (7,176 )            | (6,407 )  | (769 )                  | (12.0 ) |
| Cash used in financing activities     | (14,065 )           | (22,575 ) | 8,510                   | 37.7    |

**Operating Activities**

Consolidated cash provided by operating activities comprises primarily the cash from operations of the businesses we own, as described in each of the business discussions below. The cash flow from our consolidated business operations is partially offset by expenses paid at the holding company, including base management fees paid in cash, professional fees and interest incurred in the prior periods on any amounts drawn on our revolving credit facility.

The decrease in consolidated cash provided by operating activities was primarily due to:

higher working capital requirements due to increased fuel costs to be recovered from customers at Atlantic Aviation and The Gas Company; and

absence of distribution from IMTT in the first quarter of 2011; partially offset by improved operating performance and lower interest paid on the reduced term loan balance for Atlantic Aviation.

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**Liquidity and Capital Resources: Consolidated (continued)**

Distributions from IMTT are reflected in our consolidated cash provided by operating activities only up to our 50% share of IMTT's positive earnings. Amounts in excess of this, and any distributions when IMTT records a net loss, are reflected in our consolidated cash from investing activities as a return of investment in unconsolidated business. For the first quarter of 2010, \$5.0 million in distributions were included in cash from operating activities.

**Investing Activities**

The increase in consolidated cash used in investing activities was primarily due to:

increase in capital expenditures at The Gas Company due to timing of projects; and increase in capital expenditures at Atlantic Aviation due to ongoing construction costs of a new FBO; partially offset by

absence of an investment in capital leased asset at District Energy.

**Financing Activities**

The decrease in cash used in financing activities was primarily due to lower net debt repayments in the first quarter of 2011 as compared to the first quarter of 2010 at Atlantic Aviation offset by \$2.5 million in distributions paid to noncontrolling interests at District Energy.

Our businesses are capitalized with a mix of equity and project-finance style debt. We believe we can prudently maintain relatively high levels of leverage due to the generally sustainable and stable long-term cash flows our businesses have provided in the past and which we expect to continue in the future as discussed above. Our project-finance debt is non-amortizing and we expect to be able to refinance the outstanding balances of the term loan on or before maturity, except at Atlantic Aviation, where all excess cash flow from the business is being used to prepay the outstanding principal balance of the term loan. Similarly, excess cash flow generated at District Energy must be applied toward the principal balance of the term loan during the last two years before maturity. The majority of our businesses also maintain revolving capital expenditure and/or working capital facilities.

See below for further description of the cash flows related to our businesses.

**Energy-Related Businesses**

**IMTT**

The following analysis represents 100% of the cash flows of IMTT, rather than just the composition of cash flows that are included in our consolidated cash flows. We believe this is the most appropriate and meaningful approach to discussing the historical cash flow trends of IMTT. We account for our 50% ownership of this business using the equity method. Distributions from IMTT when IMTT records a net loss, or pays distributions in excess of our share of its earnings, are reflected in investing activities in our consolidated cash flow.

| Quarter Ended March |      | Change<br>Favorable/(Unfavorable) |
|---------------------|------|-----------------------------------|
| 31,<br>2011         | 2010 |                                   |

| (\$ In Thousands)                     | \$        | \$        | \$     | %    |
|---------------------------------------|-----------|-----------|--------|------|
| Cash provided by operating activities | 38,524    | 38,044    | 480    | 1.3  |
| Cash used in investing activities     | (8,364 )  | (19,430 ) | 11,066 | 57.0 |
| Cash used in financing activities     | (10,742 ) | (15,915 ) | 5,173  | 32.5 |

### Operating Activities

Cash provided by operating activities at IMTT is generated primarily from storage rentals and ancillary services that are billed monthly and paid on various terms. Cash used in operating activities is mainly for payroll and benefits costs, maintenance and repair of fixed assets, utilities and professional services, interest payments and payments to tax jurisdictions. Cash provided by operating activities increased primarily due to improved operating results, partially offset by increased cash interest expense and higher working capital requirements.



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**Energy-Related Business: *IMTT* (continued)**

**Investing Activities**

The decrease in cash used in investing activities was primarily due to the release of a tax-exempt bond escrow, partially offset by higher capital expenditures in the first quarter of 2011 as compared with the first quarter of 2010. Total capital expenditures increased from \$19.4 million in the first quarter of 2010 to \$33.3 million in the first quarter of 2011 primarily reflecting an increase in growth capital expenditures.

**Maintenance Capital Expenditure**

IMTT incurs maintenance capital expenditures to prolong the useful lives and increase the service capacity of existing revenue-producing assets. Maintenance capital expenditures include the refurbishment of storage tanks, piping, dock facilities and environmental capital expenditures, principally in relation to improvements in containment measures and remediation.

IMTT incurred \$8.5 million and \$7.8 million in the first quarter of 2011 and the first quarter of 2010, respectively, on maintenance capital expenditures, including (i) \$8.1 million and \$6.8 million, respectively, principally in relation to refurbishments of tanks, docks and other infrastructure and (ii) \$410,000 and \$975,000, respectively, on environmental capital expenditures, principally in relation to improvements in containment measures and remediation.

For the full-year 2011, IMTT expects to spend approximately \$55.0 million on maintenance capital expenditures. IMTT anticipates that maintenance capital expenditures will remain at elevated levels through 2014.

**Growth Capital Expenditure**

During the first quarter of 2011, IMTT incurred growth capital expenditures of \$19.6 million. This compares to growth capital expenditures incurred of \$6.8 million for the first quarter of 2010. At March 31, 2011, IMTT is in the process of constructing or refurbishing 2.9 million barrels of storage. These projects are expected to cost \$124.5 million in total and contribute \$21.4 million to gross profit and EBITDA on an annualized basis. The projects are expected to be commissioned during 2011 and early 2012. At March 31, 2011, \$32.2 million of the \$124.5 million had been spent or committed.

In addition, IMTT is engaged in the construction or upgrade of storage related infrastructure. These projects are expected to cost \$41.4 million. During the first quarter of 2011, IMTT spent \$5.9 million on infrastructure projects. At March 31, 2011, \$31.5 million of the \$41.4 million had been spent or committed.

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Act) was signed. The Act provides for 100% bonus depreciation for certain fixed assets placed in service after September 8, 2010 and before January 1, 2012, and 50% bonus depreciation for certain fixed assets placed in service during 2012 for federal income tax purposes. Generally, states do not allow this bonus depreciation deduction in determining state taxable income. Importantly, Louisiana, in which IMTT has significant operations, does permit the use of bonus depreciation in calculating state taxable income. IMTT will take into consideration the benefits of these accelerated depreciation provisions of the Act when evaluating its capital expenditure plans for 2011 and 2012.

## Financing Activities

Cash flows used in financing activities decreased primarily due to a distribution of \$5.0 million to each shareholder on January 4, 2010 as compared to no distributions paid during the first quarter of 2011. This was partially offset by higher net debt repayments in the first quarter of 2011 as compared with the first quarter of 2010.

At March 31, 2011, the outstanding balance on IMTT's debt facilities, excluding capitalized leases, consisted of \$88.1 million in revolving credit facilities, \$336.3 million in letter of credit backed tax exempt bonds, \$190.0 million in bank owned tax exempt bonds and \$30.6 million in shareholder loans. The weighted average interest rate of the outstanding debt facilities, including any interest rate swaps and fees associated with outstanding letters of credit is 4.88%. Cash interest paid was \$8.6 million and \$7.4 million for the first quarter of 2011 and the first quarter of 2010, respectively.

TABLE OF CONTENTS**Energy-Related Business: IMTT (continued)**

For a description of the material terms of IMTT's credit facilities, see "Liquidity and Capital Resources" in Part II, Item 7 of our Annual Report of Form 10-K for the fiscal year ended December 31, 2010. IMTT has not had any material changes to these credit facilities since February 23, 2011, our 10-K filing date.

**The Gas Company**

| (\$ In Thousands)                               | Quarter Ended March |          | Change                  |         |
|---|---------------------|----------|-------------------------|---------|
|   | 31,<br>2011         | 2010     | Favorable/(Unfavorable) |         |
|   | \$                  | \$       | \$                      | %       |
| Cash provided by operating activities           | 2,918               | 7,583    | (4,665 )                | (61.5 ) |
| Cash used in investing activities               | (4,162 )            | (2,325 ) | (1,837 )                | (79.0 ) |
| Cash (used in) provided by financing activities |                     |          |                         |         |

**Operating Activities**

The main driver of cash provided by operating activities is customer receipts. The business incurs payments for fuel, materials, pipeline repairs, vendor services and supplies, payroll and benefit costs, revenue-based taxes and payment of administrative costs. Customers are generally billed monthly and make payments on account. Vendors and suppliers generally bill the business when services are rendered or when products are shipped. The decrease from the first quarter of 2010 to the first quarter of 2011 was primarily driven by higher working capital requirements due to increased fuel costs to be recovered from customers.

**Investing Activities**

Cash used in investing activities is comprised primarily of capital expenditures. Capital expenditures for the non-utility business are funded by cash from operating activities and capital expenditures for the utility business are funded by drawing on credit facilities as well as cash from operating activities.

**Maintenance Capital Expenditure**

Maintenance capital expenditures include replacement of pipeline sections, improvements to the business transmission system and SNG plant, improvements to buildings and other property and the purchase of equipment.

**Growth Capital Expenditure**

Growth capital expenditures include the purchase of meters, regulators and propane tanks for new customers, the cost of installing pipelines for new residential and commercial construction and the renewable feedstock pilot program.

The following table sets forth information about capital expenditures in The Gas Company:

|                              |                |                |
|------------------------------|----------------|----------------|
| Quarter ended March 31, 2010 | Maintenance    | Growth         |
|                              | \$ 1.3 million | \$ 1.0 million |

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|                               |                |                |
|-------------------------------|----------------|----------------|
| Quarter ended March 31, 2011  | \$ 3.3 million | \$ 0.8 million |
| 2011 full year projected      | \$ 7.6 million | \$ 6.0 million |
| Commitments at March 31, 2011 | \$ 0.6 million | \$ 0.2 million |

The business expects to fund its total 2011 capital expenditures primarily from cash from operating activities and available debt facilities. Capital expenditures for 2011 are expected to be higher than in 2010 due to completion of the renewable feedstock project, pipeline maintenance and inspection projects related to the integrity management program due to be completed by 2012 and expansion of storage facilities. These are reflected in the increase in maintenance capital expenditure for the quarter ended March 31, 2011 and committed at March 31, 2011.

TABLE OF CONTENTS**Energy-Related Business: *The Gas Company* (continued)****Financing Activities**

The main drivers for cash from financing activities are debt financings for capital expenditures and the repayment of outstanding credit facilities. At March 31, 2011, the outstanding balance on the business debt facilities consisted of \$160.0 million in term loan facility borrowings. In 2010, the business repaid \$19.0 million of its capital expenditure facility borrowings and no amount was outstanding at March 31, 2011.

The Gas Company has interest rate swaps hedging 100% of the interest rate exposure under the two \$80.0 million floating rate term loan facilities that effectively fix the interest rate. The weighted average interest rate of the outstanding debt facilities, including any interest rate swaps at March 31, 2011, was 5.34%. The business paid \$2.2 million and \$2.1 million in interest expense related to its debt facilities for the quarters ended March 31, 2011 and 2010, respectively. Cash interest expense was slightly higher in the first quarter of 2011 due to the expiration of an interest rate basis swap agreement in March 2010.

The Gas Company also has an uncommitted unsecured short-term borrowing facility of \$7.5 million that was renewed during the second quarter of 2010. This credit line bears interest at the lending bank's quoted rate or prime rate. The facility is available for working capital needs. No amount was outstanding for this facility at March 31, 2011.

The financial covenants triggering distribution lock-up or default under the business credit facility are as follows:

12 mo. look-forward and 12 mo. look-backward adjusted EBITDA/interest <3.5x (distribution lock-up) and <2.5x (default). The look-backward ratio and look-forward ratios at March 31, 2011 were 6.22x and 5.49x, respectively. Additionally, the HPUC requires the consolidated debt to total capital for HGC Holdings not to exceed 65% and \$20.0 million to be readily available in cash resources at The Gas Company, HGC Holdings or MIC. At March 31, 2011, the debt to total capital ratio was 57.0% and \$20.0 million in cash resources was readily available.

For a description of the material terms of The Gas Company's credit facilities, see Liquidity and Capital Resources in Part II, Item 7 of our Annual Report of Form 10-K for the fiscal year ended December 31, 2010. We have not had any material changes to these credit facilities since February 23, 2011, our 10-K filing date.

**District Energy**

The following analysis represents 100% of the cash flows of District Energy.

|                                       | Quarter Ended March |          | Change                  |       |
|---------------------------------------|---------------------|----------|-------------------------|-------|
|                                       | 31,<br>2011         | 2010     | Favorable/(Unfavorable) |       |
| (\$ In Thousands)                     | \$                  | \$       | \$                      | %     |
| Cash provided by operating activities | 3,006               | 1,386    | 1,620                   | 116.9 |
| Cash used in investing activities     | (564 )              | (2,746 ) | 2,182                   | 79.5  |
| Cash used in financing activities     | (2,495 )            | (42 )    | (2,453 )                | NM    |

NM Not meaningful

## **Operating Activities**

Cash provided by operating activities is primarily driven by customer receipts for services provided and leased equipment payments received (including non-revenue lease principal). Cash used in operating activities is driven by the timing of payments for electricity, vendor services or supplies and the payment of payroll and benefit costs. Cash from operating activities increased as a result of the earlier receipt of certain equipment lease payments in the first quarter of 2011 compared with the first quarter of 2010 and the expiration of a requirement that the business prepay a portion of its electricity supply.

TABLE OF CONTENTS**Energy-Related Business: *District Energy* (continued)****Investing Activities**

Cash used in investing activities mainly comprises capital expenditures, which are generally funded by drawing on available facilities. Cash used in investing activities in the first quarter of 2011 and the first quarter of 2010 primarily funded growth capital expenditures for new customer connections and plant expansion.

**Maintenance Capital Expenditure**

The business expects to spend approximately \$1.0 million per year on capital expenditures relating to the replacement of parts, system reliability, customer service improvements and minor system modifications. Maintenance capital expenditures will be funded from available facilities and cash from operating activities. These expenditures were higher in the first quarter of 2011 due to the timing of spend on ordinary course maintenance projects.

**Growth Capital Expenditure**

District Energy signed contracts with four additional customers and committed to spend \$1.8 million on interconnection, of which it had spent \$510,000 as of March 31, 2011. Of the net \$1.3 million remaining to be spent, the business anticipates it will receive reimbursements from customers of approximately \$1.1 million. These additional customers are expected to contribute \$485,000 to gross profit and EBITDA on an annualized basis.

The business continues to actively market to new potential customers. New customers will typically reimburse the business for a substantial portion of expenditures related to connecting them to the business system, thereby reducing the impact of this element of capital expenditure.

The following table sets forth information about District Energy's capital expenditures:

|                               | Maintenance    | Growth  |
|-------------------------------|----------------|---|
| Quarter ended March 31, 2010  | \$ 312,000     | \$ 34,000   |
| Quarter ended March 31, 2011  | \$ 407,000     | \$ 157,000  |
| 2011 full year projected      | \$ 1.0 million | \$ 1.3 million (\$1.1 million expected to be reimbursed by customers) |
| Commitments at March 31, 2011 | \$ 73,000      | \$ 523,000  |

Growth capital expenditures were higher in the first quarter of 2011 due to the timing of payments related to connecting new customers to the business district cooling system.

In early 2009, District Energy's Las Vegas operation began providing service to a new customer building. This service required a \$3.0 million system expansion of the Las Vegas facility, of which \$300,000 was funded through a capital contribution from the noncontrolling interest shareholder of District Energy's Las Vegas operation during the first quarter of 2010 (see Financing Activities below).

**Financing Activities**

At March 31, 2011, the outstanding balance on the business debt facilities consisted of \$170.0 million in term loan facilities. The weighted average interest rate of the outstanding debt facilities, including any interest rate swaps and

fees associated with outstanding letters of credit at March 31, 2011, was 5.51%. Cash interest paid was \$2.5 million and \$2.3 million for the quarters ended March 31, 2011 and 2010, respectively. Cash interest expense was slightly higher in the first quarter of 2011 due to the expiration of an interest rate basis swap agreement in March 2010.

The increase in cash used in financing activities was primarily due to increased distributions paid to the noncontrolling interest shareholders. In the first quarter of 2010, these distributions were offset by a \$300,000 capital contribution from the noncontrolling interest shareholder of District Energy's Las Vegas operations (as discussed above in Investing Activities).



TABLE OF CONTENTS**Energy-Related Business: *District Energy* (continued)**

The financial covenants triggering distribution lock-up or default under the business credit facility are as follows:

Backward Interest Coverage Ratio <1.5x (distribution lock-up) and <1.2x (default). The ratio at March 31, 2011 was 2.4x.

Leverage Ratio (funds from operations less interest expense to net debt) for the previous 12 months less than 6.0% (distribution lock-up) and 4.0% (default). The ratio at March 31, 2011 was 9.3%.

For a description of the material terms of District Energy's credit facilities, see Liquidity and Capital Resources in Part II, Item 7 of our Annual Report of Form 10-K for the fiscal year ended December 31, 2010. We have not had any material changes to these credit facilities since February 23, 2011, our 10-K filing date.

**Aviation-Related Business****Atlantic Aviation**

|                                       | Quarter Ended March |           | Change                  |         |
|---------------------------------------|---------------------|-----------|-------------------------|---------|
|                                       | 31,<br>2011         | 2010      | Favorable/(Unfavorable) |         |
| (\$ In Thousands)                     | \$                  | \$        | \$                      | %       |
| Cash provided by operating activities | 17,478              | 21,789    | (4,311 )                | (19.8 ) |
| Cash used in investing activities     | (2,450 )            | (1,336 )  | (1,114 )                | (83.4 ) |
| Cash used in financing activities     | (11,570 )           | (22,533 ) | 10,963                  | 48.7    |

**Operating Activities**

Operating cash at Atlantic Aviation is generated from sales transactions primarily paid by credit cards. Some customers have extended payment terms and are billed accordingly. Cash is used in operating activities mainly for payments to vendors of fuel, aircraft services and professional services, as well as payroll costs and payments to tax jurisdictions. Cash provided by operating activities decreased from the first quarter of 2010 to the first quarter of 2011 mainly due to:

the timing of payments of fuel purchases;  
higher value of inventory and accounts receivable due to increased fuel costs to be recovered from customers;  
partially offset by

improved operating results; and  
lower cash interest paid driven by lower interest rate swap breakage fees and reduced debt levels.

**Investing Activities**

Cash used in investing activities relates primarily to capital expenditures. Cash used in investing activities increased from the first quarter of 2010 to the first quarter of 2011 as a result of higher capital expenditures. Maintenance expenditures are generally funded by cash from operating activities and growth capital expenditures are generally funded with draws on capital expenditure facilities.

### **Maintenance Capital Expenditure**

Maintenance capital expenditures encompass repainting, replacing equipment as necessary and any ongoing environmental or required regulatory expenditure, such as installing safety equipment. These expenditures are generally funded from cash flow from operating activities.

### **Growth Capital Expenditure**

Growth capital expenditures are incurred primarily where the business expects to receive an appropriate return relative to its cost of capital. Historically these expenditures have included development of hangars, terminal buildings and ramp upgrades.

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TABLE OF CONTENTS**Aviation-Related Business: *Atlantic Aviation* (continued)**

The following table sets forth information about capital expenditures in Atlantic Aviation:

|                               | Maintenance     | Growth         |
|-------------------------------|-----------------|----------------|
| Quarter ended March 31, 2010  | \$ 931,000      | \$ 405,000     |
| Quarter ended March 31, 2011  | \$ 873,000      | 1.6 million    |
| 2011 full year projected      | \$ 12.1 million | \$ 7.6 million |
| Commitments at March 31, 2011 | \$ 160,000      | \$ 771,000     |

Growth capital expenditures incurred in the first quarter of 2011 primarily reflects the ongoing construction costs of a new FBO at Will Rogers Airport in Oklahoma City. Growth capital expenditures in 2011 includes the completion of the FBO at Oklahoma City, construction of a hangar at Atlanta Peachtree and the construction of a new fuel farm at El Paso.

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Act) was signed. The Act provides for 100% bonus depreciation for certain fixed assets placed in service after September 8, 2010 and before January 1, 2012, and 50% bonus depreciation for certain fixed assets placed in service during 2012 for federal income tax purposes. Generally, states do not allow this bonus depreciation deduction in determining state taxable income. The business will take into consideration the benefits of these accelerated depreciation provisions of the Act when evaluating its capital expenditure plans for 2011 and 2012.

### Financing Activities

At March 31, 2011, the outstanding balance on Atlantic Aviation's debt facilities consisted of \$748.9 million in term loan facility borrowings, which is 100% hedged with interest rate swaps, and \$47.4 million in capital expenditure facility borrowings. The weighted average interest rate on the term loan was 6.79%. The interest rate applicable on the capital expenditure facility is the three-month U.S. Libor plus a margin of 1.60%. In the first quarters in 2011 and 2010, the business paid approximately \$13.2 million and \$13.8 million, respectively, in interest expense, excluding interest rate swap breakage fees, related to its debt facilities.

In addition to the debt facilities described above, Atlantic Aviation raised a \$3.5 million stand-alone debt facility to partially fund the construction of a new FBO at Oklahoma City Will Rogers Airport. At March 31, 2011, the outstanding balance on the stand-alone facility was \$1.1 million.

The decrease in cash used in financing activities is primarily due to a larger debt prepayment of the outstanding principal balance of the term loan debt in the first quarter of 2010 of \$24.7 million compared to \$14.5 million in the first quarter of 2011.

The maximum permitted debt-to-EBITDA ratio dropped to 7.50x on March 31, 2011. The business expects to remain in compliance with the maximum leverage covenant through the maturity of its debt facilities if the performance of the business remains at current levels.

The financial covenant requirements under Atlantic Aviation's credit facility, and the calculation of these measures at March 31, 2011, were as follows:

Debt Service Coverage Ratio > 1.2x (default threshold). The ratio at March 31, 2011 was 1.98x.

Leverage Ratio debt to EBITDA for the trailing twelve months < 7.50x (default threshold). The ratio at March 31, 2011 was 6.71x.

In cooperation with the business lenders, the terms of Atlantic Aviation's loan agreement were amended on February 25, 2009. The amendments require that the business apply all excess cash flow to prepay additional debt principal whenever the leverage ratio (debt to adjusted EBITDA) is equal to or greater than 6.0x to 1.0 for the trailing twelve months and to use 50% of excess cash flow to prepay debt whenever the leverage ratio is equal to or greater than 5.5x to 1.0 and below 6.0x to 1.0.

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**Aviation-Related Business: *Atlantic Aviation* (continued)**

For a description of the material terms of Atlantic Aviation's credit facilities, see *Liquidity and Capital Resources* in Part II, Item 7 of our Annual Report of Form 10-K for the fiscal year ended December 31, 2010. We have not had any material changes to these credit facilities since February 23, 2011, our 10-K filing date.

**Commitments and Contingencies**

At March 31, 2011 there were no material changes in our future commitments and contingencies from December 31, 2010, except for the mandatory prepayment we expect to make under the cash sweep terms of Atlantic Aviation's credit facility from long-term debt to current portion of long-term debt in our consolidated condensed balance sheet.

Under the amended terms of Atlantic Aviation's credit facility, the business will apply all excess cash flow from the business to prepay the debt principal for the foreseeable future. For the quarter ended March 31, 2011, Atlantic Aviation used \$15.6 million of excess cash flow to prepay \$14.5 million of the outstanding principal balance of the term loan debt under the facility and \$1.1 million in interest rate swap breakage fees. Actual prepayment amounts in the periods beginning March 31, 2012 through the maturity of the facility will depend on the performance of the business.

See Note 7, *Long-Term Debt*, to our consolidated condensed financial statements in Part I of this Form 10-Q for further discussion. At March 31, 2011, we did not have any outstanding material purchase obligations. For a discussion of our other future obligations, due by period, under the various contractual obligations, off-balance sheet arrangements and commitments, please see *Liquidity and Capital Resources* *Commitments and Contingencies* in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 23, 2011. We have not had any material changes to our commitments except as discussed above.

In addition, at March 31, 2011, we did not have any material reserves for contingencies. We have other contingencies, including pending threatened legal and administrative proceedings that are not reflected at this time as they are not ascertainable.

Our sources of cash to meet these obligations are as follows:

cash generated from our operations (see *Operating Activities* in *Liquidity and Capital Resources*);  
refinancing our current credit facilities on or before maturity (see *Financing Activities* in *Liquidity and Capital Resources*); and

cash available from our undrawn credit facilities (see *Financing Activities* in *Liquidity and Capital Resources*).

**Critical Accounting Policies and Estimates**

For critical accounting policies and estimates, see *Critical Accounting Policies and Estimates* in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Our critical accounting policies and estimates have not changed materially from the description contained in that Annual Report.

**Goodwill, Intangible Assets and Property, Plant and Equipment**

Significant assets acquired in connection with our acquisition of The Gas Company, District Energy and Atlantic Aviation include contract rights, customer relationships, non-compete agreements, trademarks, property and

equipment and goodwill.

Trademarks are generally considered to be indefinite life intangibles. Trademarks and goodwill are not amortized in most circumstances. It may be appropriate to amortize some trademarks. However, for unamortized intangible assets, we are required to perform annual impairment reviews and more frequently in certain circumstances.

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The goodwill impairment test is a two-step process, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on a discounted cash flow model using revenue and profit forecasts and comparing those estimated fair values with the carrying values, which included the allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The determination of a reporting unit's implied fair value of goodwill requires the allocation of the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill, which is compared to its corresponding carrying value. The Gas Company, District Energy and Atlantic Aviation are separate reporting units for purposes of this analysis. The impairment test for trademarks, which are not amortized, requires the determination of the fair value of such assets. If the fair value of the trademarks are less than their carrying value, an impairment loss is recognized in an amount equal to the difference. We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and/or intangible assets. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, or material negative change in relationship with significant customers.

Property and equipment is initially stated at cost. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the property and equipment after consideration of historical results and anticipated results based on our current plans. Our estimated useful lives represent the period the asset remains in service assuming normal routine maintenance. We review the estimated useful lives assigned to property and equipment when our business experience suggests that they do not properly reflect the consumption of economic benefits embodied in the property and equipment nor result in the appropriate matching of cost against revenue. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

Significant intangibles, including contract rights, customer relationships, non-compete agreements and technology are amortized using the straight-line method over the estimated useful lives of the intangible asset after consideration of historical results and anticipated results based on our current plans. With respect to contract rights in our Atlantic Aviation business, we take into consideration the history of contract right renewals in determining our assessment of useful life and the corresponding amortization period.

We perform impairment reviews of property and equipment and intangibles subject to amortization, when events or circumstances indicate that assets are less than their carrying amount and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. In this circumstance, the impairment charge is determined based upon the amount by which the net book value of the assets exceeds their fair market value. Any impairment is measured by comparing the fair value of the asset to its carrying value.

The implied fair value of reporting units and fair value of property and equipment and intangible assets is determined by our management and is generally based upon future cash flow projections for the acquired assets, discounted to present value. We use outside valuation experts when management considers that it is appropriate to do so.

## **Other Matters**

The discussion of the financial condition and results of operations of the Company should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties and are made under the safe harbor

provisions of the Private Securities Litigation Reform Act of 1995. Words such as anticipates, expects, intends, plan, believes, seeks, estimates, and similar expressions identify such forward-looking statements. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Unless required by law, we can undertake no



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obligation to update forward-looking statements. Readers should also carefully review the risk factors set forth in other reports and documents filed from time to time with the SEC.

Except as otherwise specified, Macquarie Infrastructure Company, MIC, we, us, and our refer to the Company and its subsidiaries together from June 25, 2007 and, prior to that date, to the Trust, the Company and its subsidiaries. Macquarie Infrastructure Management (USA) Inc., which we refer to as our Manager, is part of the Macquarie Group, comprised of Macquarie Group Limited and its subsidiaries and affiliates worldwide.

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

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Our exposure to market risk has not changed materially since February 23, 2011, our 10-K filing date.

## **Item 4. Controls and Procedures**

Under the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011. There has been no change in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## CONSOLIDATED CONDENSED BALANCE SHEETS

### (\$ In Thousands, Except Share Data)

|  | March 31,<br>2011 | December<br>31,<br>2010 <sup>(1)</sup> |
|--|-------------------|--|
|  | (Unaudited)       |  |
| <b>ASSETS</b>  |                   |  |
| Current assets:  |                   |  |
| Cash and cash equivalents  | \$24,864          | \$24,563                               |
| Accounts receivable, less allowance for doubtful accounts of \$501 and \$613, respectively | 54,425            | 47,845                                 |
| Inventories  | 17,805            | 17,063                                 |
| Prepaid expenses   | 6,973             | 6,321                                  |
| Deferred income taxes  | 19,770            | 19,030                                 |
| Other  | 12,752            | 10,605                                 |
| Total current assets   | 136,589           | 125,427                                |
| Property, equipment, land and leasehold improvements, net                                  | 559,676           | 563,451                                |
| Equipment lease receivables  | 34,849            | 35,663                                 |
| Investment in unconsolidated business  | 223,727           | 223,792                                |
| Goodwill   | 514,253           | 514,253                                |
| Intangible assets, net   | 696,725           | 705,862                                |
| Other  | 27,373            | 28,294                                 |
| Total assets   | \$2,193,192       | \$2,196,742                            |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>   |                   |  |
| Current liabilities:   |                   |  |
| Due to manager related party   | \$3,687           | \$3,282                                |
| Accounts payable   | 41,008            | 36,036                                 |
| Accrued expenses   | 21,106            | 23,047                                 |
| Current portion of long-term debt  | 52,848            | 49,325                                 |
| Fair value of derivative instruments   | 45,380            | 43,496                                 |
| Other  | 16,475            | 16,100                                 |
| Total current liabilities  | 180,504           | 171,286                                |
| Long-term debt, net of current portion   | 1,074,514         | 1,089,559                              |
| Deferred income taxes  | 162,676           | 156,328                                |
| Fair value of derivative instruments   | 38,069            | 51,729                                 |
| Other  | 40,871            | 41,145                                 |
| Total liabilities  | 1,496,634         | 1,510,047                              |
| Commitments and contingencies  |                   |  |
| Members equity:  |                   |  |
| LLC interests, no par value; 500,000,000 authorized; 45,851,527 LLC                        | 967,644           | 964,430                                |

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interests issued and outstanding at March 31, 2011 and 45,715,448 LLC  
interests issued and outstanding at December 31, 2010

|                                      |             |             |
|--------------------------------------|-------------|-------------|
| Additional paid in capital           | 21,956      | 21,956      |
| Accumulated other comprehensive loss | (27,871 )   | (25,812 )   |
| Accumulated deficit                  | (258,260 )  | (269,425 )  |
| Total members' equity                | 703,469     | 691,149     |
| Noncontrolling interests             | (6,911 )    | (4,454 )    |
| Total equity                         | 696,558     | 686,695     |
| Total liabilities and equity         | \$2,193,192 | \$2,196,742 |

(1) Reclassified to conform to current period presentation.

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

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****CONSOLIDATED CONDENSED STATEMENTS OF  
OPERATIONS  
(Unaudited)****(\$ In Thousands, Except Share and Per Share Data)**

|   | Quarter Ended<br>March 31,<br>2011 | Quarter Ended<br>March 31,<br>2010 |
|---|------------------------------------|------------------------------------|
| Revenue   |                                    |                                    |
| Revenue from product sales  | \$ 153,064                         | \$ 120,018                         |
| Revenue from product sales utility  | 34,273                             | 26,835                             |
| Service revenue   | 51,247                             | 53,206                             |
| Financing and equipment lease income  | 1,287                              | 1,245                              |
| Total revenue   | 239,871                            | 201,304                            |
| Costs and expenses  |                                    |                                    |
| Cost of product sales   | 105,325                            | 77,054                             |
| Cost of product sales utility   | 26,865                             | 21,313                             |
| Cost of services  | 12,154                             | 11,145                             |
| Selling, general and administrative   | 51,670                             | 50,734                             |
| Fees to manager related party   | 3,632                              | 2,189                              |
| Depreciation  | 7,210                              | 7,722                              |
| Amortization of intangibles   | 8,719                              | 8,671                              |
| Total operating expenses  | 215,575                            | 178,828                            |
| Operating income  | 24,296                             | 22,476                             |
| Other income (expense)  |                                    |                                    |
| Interest income   | 4                                  | 16                                 |
| Interest expense <sup>(1)</sup>   | (14,469)                           | (34,687)                           |
| Equity in earnings and amortization charges of investee   | 8,362                              | 5,593                              |
| Other (expense) income, net   | (349)                              | 48                                 |
| Net income (loss) from continuing operations before income taxes                                  | 17,844                             | (6,554)                            |
| (Provision) benefit for income taxes  | (6,986)                            | 1,089                              |
| Net income (loss) from continuing operations  | \$ 10,858                          | \$ (5,465)                         |
| Net loss from discontinued operations, net of taxes   |                                    | (4,013)                            |
| Net income (loss)   | \$ 10,858                          | \$ (9,478)                         |
| Less: net loss attributable to noncontrolling interests   | (307)                              | (1,113)                            |
| Net income (loss) attributable to MIC LLC   | \$ 11,165                          | \$ (8,365)                         |
| Basic income (loss) per share from continuing operations attributable to MIC LLC interest holders | \$ 0.24                            | \$ (0.10)                          |
| Basic loss per share from discontinued operations attributable to MIC LLC interest holders        |                                    | (0.08)                             |

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|   |            |            |
|---|------------|------------|
| Basic income (loss) per share attributable to MIC LLC interest holders                              | \$0.24     | \$(0.18 )  |
| Weighted average number of shares outstanding: basic  | 45,730,568 | 45,294,457 |
| Diluted income (loss) per share from continuing operations attributable to MIC LLC interest holders | \$0.24     | \$(0.10 )  |
| Diluted loss per share from discontinued operations attributable to MIC LLC interest holders        |            | (0.08 )    |
| Diluted income (loss) per share attributable to MIC LLC interest holders                            | \$0.24     | \$(0.18 )  |
| Weighted average number of shares outstanding: diluted  | 45,762,557 | 45,294,457 |
| Cash distributions declared per share   | \$0.20     | \$         |

(1) Interest expense includes non-cash gains on derivative instruments of \$5.5 million and non-cash losses on derivative instruments of \$11.1 million for the quarters ended March 31, 2011 and 2010, respectively.

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

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**CONSOLIDATED CONDENSED STATEMENTS OF  
CASH FLOWS  
(Unaudited)  
(\$ In Thousands)**

|   | Quarter<br>Ended<br>March 31,<br>2011 | Quarter<br>Ended<br>March 31,<br>2010 |
|---|---------------------------------------|---------------------------------------|
| Operating activities  |                                       |                                       |
| Net income (loss)   | \$ 10,858                             | \$ (9,478 )                           |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities from continuing operations: |                                       |                                       |
| Net loss from discontinued operations before noncontrolling interests   |                                       | 4,013                                 |
| Depreciation and amortization of property and equipment   | 8,857                                 | 9,357                                 |
| Amortization of intangible assets   | 8,719                                 | 8,671                                 |
| Equity in earnings and amortization charges of investees  | (8,362 )                              | (5,593 )                              |
| Equity distributions from investees   |                                       | 5,000                                 |
| Amortization of debt financing costs  | 1,030                                 | 2,914                                 |
| Non-cash derivative (gains) losses  | (5,510 )                              | 11,126                                |
| Base management fees settled in LLC interests   | 3,632                                 | 2,189                                 |
| Equipment lease receivable, net   | 740                                   | 712                                   |
| Deferred rent   | 90                                    | 72                                    |
| Deferred taxes  | 6,054                                 | (1,967 )                              |
| Other non-cash expenses, net  | 663                                   | 703                                   |
| Changes in other assets and liabilities:  |                                       |                                       |
| Accounts receivable   | (6,746 )                              | 504                                   |
| Inventories   | (845 )                                | (776 )                                |
| Prepaid expenses and other current assets   | (2,320 )                              | 1,927                                 |
| Due to manager-related party  | (13 )                                 | 7                                     |
| Accounts payable and accrued expenses   | 4,479                                 | 1,759                                 |
| Income taxes payable  | 594                                   | 11                                    |
| Other, net  | (378 )                                | (345 )                                |
| Net cash provided by operating activities from continuing operations  | 21,542                                | 30,806                                |
| Investing activities  |                                       |                                       |
| Purchases of property and equipment   | (7,162 )                              | (4,013 )                              |
| Investment in capital leased assets   |                                       | (2,400 )                              |
| Other   | (14 )                                 | 6                                     |
| Net cash used in investing activities from continuing operations  | (7,176 )                              | (6,407 )                              |
| Financing activities  |                                       |                                       |

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|  |           |           |
|--|-----------|-----------|
| Proceeds from long-term debt                                       | 970       |           |
| Net proceeds on line of credit facilities                          | 2,000     |           |
| Contributions received from noncontrolling interests               |           | 300       |
| Distributions paid to noncontrolling interests                     | (2,495 )  | (342 )    |
| Payment of long-term debt  | (14,500 ) | (24,736 ) |
| Change in restricted cash  |           | 2,236     |
| Payment of notes and capital lease obligations                     | (40 )     | (33 )     |
| Net cash used in financing activities from continuing operations   | (14,065 ) | (22,575 ) |
| Net change in cash and cash equivalents from continuing operations | 301       | 1,824     |

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

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**CONSOLIDATED CONDENSED STATEMENTS OF**

**CASH FLOWS (continued)**

**(Unaudited)**

**(\$ In Thousands)**

|  | Quarter<br>Ended<br>March 31,<br>2011 | Quarter<br>Ended<br>March 31,<br>2010 |
|--|---------------------------------------|---------------------------------------|
| Cash flows provided by (used in) discontinued operations:                    |                                       |                                       |
| Net cash provided by operating activities                                    |                                       | 3,343                                 |
| Net cash used in investing activities  |                                       | (106 )                                |
| Net cash used in financing activities  |                                       | (151 )                                |
| Cash provided by discontinued operations <sup>(1)</sup>                      |                                       | 3,086                                 |
| Change in cash of discontinued operations held for sale <sup>(1)</sup>       |                                       | (3,088 )                              |
| Net change in cash and cash equivalent                                       | 301                                   | 1,822                                 |
| Cash and cash equivalents, beginning of period                               | 24,563                                | 27,455                                |
| Cash and cash equivalents, end of period continuing operations               | \$ 24,864                             | \$ 29,277                             |
| Supplemental disclosures of cash flow information for continuing operations: |                                       |                                       |
| Non-cash investing and financing activities:                                 |                                       |                                       |
| Accrued purchases of property and equipment                                  | \$ 1,789                              | \$ 1,172                              |
| Issuance of LLC interests to manager for base management fees                | \$ 3,214                              | \$ 1,894                              |
| Taxes paid   | \$ 309                                | \$ 808                                |
| Interest paid  | \$ 18,959                             | \$ 20,628                             |

(1) Cash of discontinued operations held for sale is reported in assets of discontinued operations held for sale in the accompanying consolidated condensed balance sheets. The cash used in discontinued operations is different than the change in cash of discontinued operations held for sale due to intercompany transactions that are eliminated in consolidation.

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



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# MACQUARIE INFRASTRUCTURE COMPANY LLC

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

## 1. Organization and Description of Business

Macquarie Infrastructure Company LLC, a Delaware limited liability company, was formed on April 13, 2004.

Macquarie Infrastructure Company LLC, both on an individual entity basis and together with its consolidated subsidiaries, is referred to in these financial statements as the Company or MIC. The Company owns, operates and invests in a diversified group of infrastructure businesses in the United States. Macquarie Infrastructure Management (USA) Inc. is the Company's manager and is referred to in these financial statements as the Manager. The Manager is a wholly-owned subsidiary within the Macquarie Group of companies, which is comprised of Macquarie Group Limited and its subsidiaries and affiliates worldwide. Macquarie Group Limited is headquartered in Australia and is listed on the Australian Stock Exchange.

MIC LLC is a holding company with no operations. MIC LLC is an operating entity with Board of Directors and other corporate governance responsibilities generally consistent with those of a Delaware corporation. MIC LLC has made an election to be treated as a corporation for tax purposes.

The Company owns its businesses through its wholly-owned subsidiary, Macquarie Infrastructure Company Inc., or MIC Inc. The Company's businesses operate predominantly in the United States and consist of the following:

### **The Energy-Related Businesses:**

a 50% interest in a bulk liquid storage terminal business ( International Matex Tank Terminals or IMTT ), which provides bulk liquid storage and handling services at ten marine terminals in the United States and two in Canada and is one of the largest participants in this industry in the U.S., based on storage capacity;

a gas production and distribution business ( The Gas Company ), which is a full-service gas energy company, making gas products and services available in Hawaii; and

a 50.01% controlling interest in a district energy business ( District Energy ), which operates the largest district cooling system in the U.S., serving various customers in Chicago, Illinois and Las Vegas, Nevada.

*Atlantic Aviation* an airport services business providing products and services, including fuel and aircraft hangaring/parking, to owners and operators of general aviation aircraft at 66 airports and one heliport in the U.S.

## 2. Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the

opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The preparation of consolidated condensed financial statements in conformity with GAAP requires estimates and assumptions. Management evaluates these estimates and assumptions on an ongoing basis. Actual results may differ from the estimates and assumptions used in the financial statements and notes. Operating results for the quarter ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The consolidated balance sheet at December 31, 2010 has been derived from audited financial statements but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. Certain reclassifications were made to the financial statements for the prior period to conform to current period presentation.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)**

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

The interim financial information contained herein should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010 included in the Company's Annual Report on Form 10-K, as filed with the SEC on February 23, 2011.

**3. Income (Loss) Per Share**

Following is a reconciliation of the basic and diluted number of shares used in computing income (loss) per share:

|   | Quarter Ended March 31, |            |
|---|-------------------------|------------|
|   | 2011                    | 2010       |
| Weighted average number of shares outstanding:  |                         |            |
| basic   | 45,730,568              | 45,294,457 |
| Dilutive effect of restricted stock unit grants | 31,989                  |            |
| Weighted average number of shares outstanding:  |                         |            |
| diluted   | 45,762,557              | 45,294,457 |

The effect of potentially dilutive shares for the quarter ended March 31, 2011 is calculated assuming that the 31,989 restricted stock unit grants provided to the independent directors on June 3, 2010 had been fully converted to shares on that grant date. However, the restricted stock unit grants were anti-dilutive for the quarter ended March 31, 2010, due to the Company's net loss for that period.

**4. Discontinued Operations**

On June 2, 2010, the Company concluded the sale in bankruptcy of an airport parking business ( Parking Company of America Airports or PCAA ) resulting in a pre-tax gain of \$130.3 million, of which \$76.5 million related to the forgiveness of debt, and the elimination of \$201.0 million of current debt from liabilities from the Company's consolidated condensed balance sheet. As a part of the bankruptcy sale process, substantially all of the cash proceeds were used to pay the creditors of this business and were not paid to the Company. The Company received \$602,000 from the PCAA bankruptcy estate for expenses paid on behalf of PCAA during its operations.

As a result of the approval of the sale of PCAA's assets in bankruptcy and the dissolution of PCAA during 2010, the Company reduced its valuation allowance in 2010 on the realization of a portion of the deferred tax assets attributable to its basis in PCAA and its consolidated federal net operating loss, or NOL. The change in the valuation allowance recorded in discontinued operations was \$9.6 million for the year ended December 31, 2010.

The results of operations from this business, for the quarter ended March 31, 2010, are separately reported as discontinued operations in the Company's consolidated condensed financial statements. This business is no longer a reportable segment.

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****4. Discontinued Operations (continued)**

Summarized financial information for discontinued operations related to PCAA for the quarter ended March 31, 2010 is as follows (\$ in thousands, except share and per share data):

|  | For the Quarter<br>Ended<br>March 31, 2010 |
|--|--|
| Service revenue  | \$ 16,507                                  |
| Net loss from discontinued operations before income taxes and noncontrolling interest        | \$ (3,017 )                                |
| Provision for income taxes   | (996 )                                     |
| Net loss from discontinued operations  | (4,013 )                                   |
| Less: net loss attributable to noncontrolling interests                                      | (166 )                                     |
| Net loss from discontinued operations attributable to MIC LLC                                | \$ (3,847 )                                |
| Basic loss per share from discontinued operations attributable to MIC LLC interest holders   | \$ (0.08 )                                 |
| Weighted average number of shares outstanding at the Company level: basic                    | 45,294,457                                 |
| Diluted loss per share from discontinued operations attributable to MIC LLC interest holders | \$ (0.08 )                                 |
| Weighted average number of shares outstanding at the Company level: diluted                  | 45,294,457                                 |

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

Property, equipment, land and leasehold improvements at March 31, 2011 and December 31, 2010 consist of the following (\$ in thousands):

|                                 | March 31,<br>2011 | December<br>31,<br>2010 |
|---------------------------------|-------------------|-------------------------|
| Land                            | \$ 4,618          | \$ 4,618                |
| Easements                       | 5,624             | 5,624                   |
| Buildings                       | 24,916            | 24,796                  |
| Leasehold and land improvements | 321,707           | 320,170                 |
| Machinery and equipment         | 339,743           | 337,595                 |

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|  |            |            |
|--|------------|------------|
| Furniture and fixtures   | 9,344      | 9,240      |
| Construction in progress   | 17,927     | 17,070     |
| Property held for future use   | 1,573      | 1,573      |
|  | 725,452    | 720,686    |
| Less: accumulated depreciation   | (165,776)  | (157,235)  |
| Property, equipment, land and leasehold improvements, net <sup>(1)</sup> | \$ 559,676 | \$ 563,451 |

(1) Includes \$136,000 of capitalized interest for the year ended December 31, 2010.

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(Unaudited)****6. Intangible Assets**

Intangible assets at March 31, 2011 and December 31, 2010 consist of the following (\$ in thousands):

|                                | Weighted<br>Average<br>Life<br>(Years) | March 31,<br>2011 | December<br>31,<br>2010 |
|--------------------------------|--|-------------------|-------------------------|
| Contractual arrangements       | 30.8                                   | \$ 762,254        | \$ 762,595              |
| Non-compete agreements         | 2.5                                    | 9,515             | 9,515                   |
| Customer relationships         | 10.6                                   | 77,765            | 77,842                  |
| Leasehold rights               | 12.5                                   | 3,330             | 3,330                   |
| Trade names                    | Indefinite                             | 15,401            | 15,401                  |
| Technology                     | 5.0                                    | 460               | 460                     |
|                                |  | 868,725           | 869,143                 |
| Less: accumulated amortization |  | (172,000)         | (163,281)               |
| Intangible assets, net         |  | \$ 696,725        | \$ 705,862              |

The goodwill balance as of March 31, 2011 and December 31, 2010 is comprised of the following (\$ in thousands):

|  |            |
|--|------------|
| Goodwill acquired in business combinations, net of disposals | \$ 639,382 |
| Less: accumulated impairment charges                         | (123,200)  |
| Less: write off of goodwill with disposal of assets          | (1,929)    |
| Balance at March 31, 2011 and December 31, 2010              | \$ 514,253 |

The Company tests for goodwill impairment at the reporting unit level on an annual basis and between annual tests if a triggering event indicates impairment. Annual goodwill impairment testing conducted routinely on October 1 of each year.

**7. Long-Term Debt**

At March 31, 2011 and December 31, 2010, the Company's consolidated long-term debt consisted of the following (\$ in thousands):

| March 31,<br>2011 | December<br>31, 2010 |
|-------------------|----------------------|
|-------------------|----------------------|

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|                       |              |              |
|-----------------------|--------------|--------------|
| The Gas Company       | \$ 160,000   | \$ 160,000   |
| District Energy       | 170,000      | 170,000      |
| Atlantic Aviation     | 797,362      | 808,884      |
| Total                 | 1,127,362    | 1,138,884    |
| Less: current portion | (52,848 )    | (49,325 )    |
| Long-term portion     | \$ 1,074,514 | \$ 1,089,559 |

Until March 31, 2010, MIC Inc. had a revolving credit facility with various financial institutions. The facility was repaid in full in December 2009 and no amounts were outstanding under the revolving credit facility as of December 31, 2009 or at the facility's maturity on March 31, 2010.

On February 25, 2009, Atlantic Aviation amended its credit facility to provide the business additional financial flexibility over the near and medium term. Under the amended terms, the business must apply all excess cash flow from the business to prepay additional debt whenever the leverage ratio (debt to adjusted EBITDA) is equal to or greater than 6.0x to 1.0 for the trailing twelve months and must use 50% of excess cash flow to prepay debt whenever the leverage ratio is equal to or greater than 5.5x to 1.0 and below 6.0x to 1.0. For the quarter ended March 31, 2011, Atlantic Aviation used \$15.6 million of excess cash flow to prepay



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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

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

\$14.5 million of the outstanding principal balance of the term loan debt under the facility and \$1.1 million in interest rate swap breakage fees. The Company has classified \$52.8 million relating to Atlantic Aviation's debt in current portion of long-term debt in the consolidated condensed balance sheet at March 31, 2011, as it expects to repay this amount within one year.

**8. Derivative Instruments and Hedging Activities**

The Company and its businesses have in place variable-rate debt. Management believes that it is prudent to limit the variability of a portion of the business' interest payments. To meet this objective, the Company enters into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk on a majority of its debt with a variable-rate component.

At March 31, 2011, the Company had \$1.1 billion of current and long-term debt, \$1.1 billion of which was economically hedged with interest rate swaps and \$68.5 million of which was unhedged.

As discussed in Note 7, Long-Term Debt, Atlantic Aviation applies its excess cash flow to prepay debt. As a result, \$1.5 million of accumulated other comprehensive loss in the consolidated condensed balance sheet related to Atlantic Aviation's derivative instruments was reclassified to interest expense in the consolidated condensed statement of operations for the quarter ended March 31, 2010. Atlantic Aviation will record additional reclassifications from accumulated other comprehensive loss to interest expense as the business continues to pay down its debt more quickly than anticipated.

In March 2009, Atlantic Aviation, The Gas Company and District Energy entered into interest rate basis swap contracts that expired on March 31, 2010. These contracts effectively changed the interest rate index on each business existing swap contracts from the 90-day LIBOR rate to the 30-day LIBOR rate plus a margin of 19.50 basis points for Atlantic Aviation and 24.75 basis points for The Gas Company and District Energy. This transaction, adjusted for the prepayments of outstanding principal on the term loan debt at Atlantic Aviation, resulted in \$580,000 lower interest expense for these businesses for the quarter ended March 31, 2010.

Effective February 25, 2009 for Atlantic Aviation and effective April 1, 2009 for the Company's other businesses, the Company elected to discontinue hedge accounting. In prior periods, when the Company applied hedge accounting, changes in the fair value of derivatives that effectively offset the variability of cash flows on the Company's debt interest obligations were recorded in other comprehensive income or loss. From the dates that hedge accounting was discontinued, all movements in the fair value of the interest rate swaps are recorded directly through earnings. As interest payments are made, a portion of the other comprehensive loss recorded under hedge accounting is also

reclassified into earnings. The Company will reclassify into earnings \$29.8 million of net derivative losses, included in accumulated other comprehensive loss as of March 31, 2011 over the remaining life of the existing interest rate swaps, of which approximately \$18.5 million will be reclassified over the next 12 months.

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

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****8. Derivative Instruments and Hedging Activities (continued)**

The Company's fair value measurements of its derivative instruments and the related location of the liabilities associated with the hedging instruments within the consolidated condensed balance sheets at March 31, 2011 and December 31, 2010 were as follows (\$ in thousands):

| Balance Sheet Location   | Liabilities at Fair Value <sup>(1)</sup> |                   |
|--|--|-------------------|
|  | March 31, 2011                           | December 31, 2010 |
| Fair value of derivative instruments - current liabilities     | \$ (45,380 )                             | \$ (43,496 )      |
| Fair value of derivative instruments - non-current liabilities | (38,069 )                                | (51,729 )         |
| Total interest rate swap derivative contracts                  | \$ (83,449 )                             | \$ (95,225 )      |

(1) Fair value measurements at reporting date were made using significant other observable inputs ( level 2 ). The Company's hedging activities for the quarters ended March 31, 2011 and 2010 and the related location within the consolidated condensed financial statements were as follows (\$ in thousands):

| Financial Statement Account | Derivatives Not Designated as Hedging Instruments <sup>(1)</sup> |                     |
|-----------------------------|--|---------------------|
|                             | 2011 <sup>(2)</sup>  | 2010 <sup>(3)</sup> |
| Interest expense            | \$ (9,835 )  | \$ (27,134 )        |
| Total                       | \$ (9,835 )  | \$ (27,134 )        |

(1) All derivatives are interest rate swap contracts.

(2) Net loss recognized in interest expense for the quarter ended March 31, 2011 includes \$14.2 million in interest rate swap payments offset by \$4.4 million in unrealized derivative gains arising from:  
the change in fair value of interest rate swaps from the discontinuation of hedge accounting; and

interest rate swap break fees related to the pay down of debt at Atlantic Aviation.

(3) Loss recognized in interest expense for the quarter ended March 31, 2010 includes \$13.6 millions in unrealized derivative losses and \$13.5 million in interest rate swap payments.

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

## 9. Comprehensive Income (Loss)

Other comprehensive income (loss) includes primarily the change in fair value of derivative instruments which qualified for hedge accounting until the dates that hedge accounting was discontinued, as discussed in Note 8,

Derivative Instruments and Hedging Activities .

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****9. Comprehensive Income (Loss) (continued)**

The difference between net income (loss) and comprehensive income (loss) for the quarters ended March 31, 2011 and 2010 was as follows (\$ in thousands):

|   | Quarter Ended March<br>31, |             |
|---|----------------------------|-------------|
|   | 2011                       | 2010        |
| Net income (loss) attributable to MIC LLC                                   | \$11,165                   | \$ (8,365 ) |
| Reclassification of net realized (gains) losses into earnings, net of taxes | (2,059 )                   | 5,348       |
| Comprehensive income (loss)   | \$9,106                    | \$ (3,017 ) |

For further discussion on derivative instruments and hedging activities, see Note 8, Derivative Instruments and Hedging Activities .

**10. Members Equity**

The Company is authorized to issue 500,000,000 LLC interests. Each outstanding LLC interest of the Company is entitled to one vote on any matter with respect to which holders of LLC interests are entitled to vote.

**11. Reportable Segments**

The Company's operations are broadly classified into the energy-related businesses and an aviation-related business, Atlantic Aviation. The energy-related businesses consist of two reportable segments: The Gas Company and District Energy. The energy-related businesses also include a 50% investment in IMTT, which is accounted for under the equity method. Financial information for IMTT's business as a whole is presented below (\$ in thousands) (unaudited):

|                               | As of, and for the Quarter<br>Ended, March 31, |            |
|-------------------------------|--|------------|
|                               | 2011   | 2010       |
| Revenue                       | \$ 110,831                                     | \$ 107,038 |
| Net income                    | \$ 19,090                                      | \$ 13,243  |
| Interest expense, net         | 4,683  | 12,125     |
| Provision for income taxes    | 13,544   | 9,606      |
| Depreciation and amortization | 15,675   | 14,618     |

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|   |           |   |           |
|---|-----------|---|-----------|
| Other non-cash (income) expenses                          | (8        | ) | 233       |
| EBITDA excluding non-cash items <sup>(1)</sup>            | \$ 52,984 |   | \$ 49,825 |
| Capital expenditures paid                                 | \$ 33,297 |   | \$ 19,430 |
| Property, equipment, land and leasehold improvements, net | 1,054,560 |   | 987,800   |
| Total assets balance                                      | 1,210,259 |   | 1,067,019 |

(1) EBITDA consists of earnings before interest, taxes, depreciation and amortization. Non-cash items that are excluded consist of impairments, derivative gains and losses and all other non-cash income and expense items. All of the business segments are managed separately and management has chosen to organize the Company around the distinct products and services offered.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**11. Reportable Segments (continued)**

**Energy-Related Businesses**

IMTT provides bulk liquid storage and handling services in North America through ten terminals located on the East, West and Gulf Coasts, the Great Lakes region of the United States and partially owned terminals in Quebec and Newfoundland, Canada. IMTT derives the majority of its revenue from storage and handling of petroleum products, various chemicals, renewable fuels, and vegetable and animal oils. Based on storage capacity, IMTT operates one of the largest third-party bulk liquid storage terminal businesses in the United States.

The revenue from The Gas Company segment is included in revenue from product sales. Revenue is generated from the distribution and sales of synthetic natural gas, or SNG, and liquefied petroleum gas, or LPG. Revenue is primarily a function of the volume of SNG and LPG consumed by customers and the price per thermal unit or gallon charged to customers. Because both SNG and LPG are derived from petroleum, revenue levels, without organic growth, will generally track global oil prices. The utility revenue of The Gas Company reflects fuel adjustment charges, or FACs, through which changes in fuel costs are passed through to customers.

The revenue from the District Energy segment is included in service revenue and financing and equipment lease income. Included in service revenue is capacity revenue, which relates to monthly fixed contract charges, and consumption revenue, which relates to contractual rates applied to actual usage. Financing and equipment lease income relates to direct financing lease transactions and equipment leases to the business various customers. Finance lease revenue, recorded on the consolidated condensed statement of operations, is comprised of the interest portion of lease payments received from equipment leases with various customers. The principal cash receipts on these equipment leases are recorded in the operating activities of the consolidated condensed statement of cash flows. District Energy provides its services to buildings primarily in the downtown Chicago, Illinois area and to a casino and a shopping mall located in Las Vegas, Nevada.

**Atlantic Aviation**

The Atlantic Aviation segment derives the majority of its revenues from fuel sales and from other airport services, including de-icing, aircraft hangarage and other aviation services. All of the revenue of Atlantic Aviation is generated in the United States at 66 airports and one heliport.

Selected information by segment is presented in the following tables. The tables do not include financial data for the Company's equity investment in IMTT.





TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****11. Reportable Segments (continued)**

Revenue from external customers for the Company's consolidated reportable segments was as follows (\$ in thousands) (unaudited):

|                               | Quarter Ended March 31, 2011 |                 |                   | Total Reportable Segments |
|-------------------------------|------------------------------|-----------------|-------------------|---------------------------|
|                               | The Gas Company              | District Energy | Atlantic Aviation |                           |
| Revenue from Product Sales    |                              |                 |                   |                           |
| Product sales                 | \$ 27,351                    | \$              | \$ 125,713        | \$ 153,064                |
| Product sales - utility       | 34,273                       |                 |                   | 34,273                    |
|                               | 61,624                       |                 | 125,713           | 187,337                   |
| Service Revenue               |                              |                 |                   |                           |
| Other services                |                              | 690             | 42,796            | 43,486                    |
| Cooling capacity revenue      |                              | 5,331           |                   | 5,331                     |
| Cooling consumption revenue   |                              | 2,430           |                   | 2,430                     |
|                               |                              | 8,451           | 42,796            | 51,247                    |
| Financing and Lease Income    |                              |                 |                   |                           |
| Financing and equipment lease |                              | 1,287           |                   | 1,287                     |
|                               |                              | 1,287           |                   | 1,287                     |
| Total Revenue                 | \$ 61,624                    | \$ 9,738        | \$ 168,509        | \$ 239,871                |

  

|                            | Quarter Ended March 31, 2010 |                 |                   | Total Reportable Segments |
|----------------------------|------------------------------|-----------------|-------------------|---------------------------|
|                            | The Gas Company              | District Energy | Atlantic Aviation |                           |
| Revenue from Product Sales |                              |                 |                   |                           |
| Product sales              | \$ 25,310                    | \$              | \$ 94,708         | \$ 120,018                |
| Product sales - utility    | 26,835                       |                 |                   | 26,835                    |
|                            | 52,145                       |                 | 94,708            | 146,853                   |
| Service Revenue            |                              |                 |                   |                           |
| Other services             |                              | 864             | 45,341            | 46,205                    |
| Cooling capacity revenue   |                              | 5,238           |                   | 5,238                     |

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|                               |           |          |            |
|-------------------------------|-----------|----------|------------|
| Cooling consumption revenue   | 1,763     |          | 1,763      |
|                               | 7,865     | 45,341   | 53,206     |
| Financing and Lease Income    |           |          |            |
| Financing and equipment lease | 1,245     |          | 1,245      |
|                               | 1,245     |          | 1,245      |
| Total Revenue                 | \$ 52,145 | \$ 9,110 | \$ 140,049 |
|                               |           |          | \$ 201,304 |

In accordance with FASB ASC 280 *Segment Reporting*, the Company has disclosed earnings before interest, taxes, depreciation and amortization (EBITDA) excluding non-cash items as a key performance metric relied on by management in the evaluation of the Company's performance. Non-cash items include impairments, derivative gains and losses and adjustments for other non-cash items reflected in the statements of operations. The Company believes EBITDA excluding non-cash items provides additional insight into the performance of the operating businesses relative to each other and similar businesses without regard to their capital structure, and their ability to service or reduce debt, fund capital expenditures and/or support distributions to the holding company. EBITDA excluding non-cash items is reconciled to net income or loss.

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE COMPANY LLC****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Unaudited)****11. Reportable Segments (continued)**

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

|                                      | Quarter Ended March 31, 2011 |                    |                      | Total<br>Reportable<br>Segments |
|--------------------------------------|------------------------------|--------------------|----------------------|---------------------------------|
|                                      | Energy-related<br>Businesses |                    |                      |                                 |
|                                      | The Gas<br>Company           | District<br>Energy | Atlantic<br>Aviation |                                 |
| Net income (loss)                    | \$ 4,430                     | \$ (496 )          | \$ 4,742             | \$ 8,676                        |
| Interest expense, net                | 2,014                        | 2,259              | 10,193               | 14,466                          |
| Provision (benefit) for income taxes | 2,902                        | (347 )             | 3,175                | 5,730                           |
| Depreciation                         | 1,567                        | 1,647              | 5,643                | 8,857                           |
| Amortization of intangibles          | 206                          | 337                | 8,176                | 8,719                           |
| Other non-cash expense               | 670                          | 38                 | 146                  | 854                             |
| EBITDA excluding non-cash items      | \$ 11,789                    | \$ 3,438           | \$ 32,075            | \$ 47,302                       |

|                                      | Quarter Ended March 31, 2010 |                    |                      | Total<br>Reportable<br>Segments |
|--------------------------------------|------------------------------|--------------------|----------------------|---------------------------------|
|                                      | Energy-related<br>Businesses |                    |                      |                                 |
|                                      | The Gas<br>Company           | District<br>Energy | Atlantic<br>Aviation |                                 |
| Net income (loss)                    | \$ 2,254                     | \$ (2,631 )        | \$ (3,389 )          | \$ (3,766 )                     |
| Interest expense, net                | 4,807                        | 6,028              | 21,986               | 32,821                          |
| Provision (benefit) for income taxes | 1,451                        | (1,720 )           | (2,287 )             | (2,556 )                        |
| Depreciation                         | 1,512                        | 1,635              | 6,210                | 9,357                           |
| Amortization of intangibles          | 206                          | 337                | 8,128                | 8,671                           |
| Other non-cash expense               | 534                          | 155                | 47                   | 736                             |
| EBITDA excluding non-cash items      | \$ 10,764                    | \$ 3,804           | \$ 30,695            | \$ 45,263                       |

Reconciliations of consolidated reportable segments' EBITDA excluding non-cash items to consolidated net income (loss) from continuing operations before income taxes are as follows (\$ in thousands) (unaudited):

|   | Quarter Ended March |            |
|---|---------------------|------------|
|   | 31,                 |            |
|   | 2011                | 2010       |
| Total reportable segments EBITDA excluding non-cash items                           | \$47,302            | \$45,263   |
| Interest income   | 4                   | 16         |
| Interest expense  | (14,469)            | (34,687 )  |
| Depreciation <sup>(1)</sup>   | (8,857 )            | (9,357 )   |
| Amortization of intangibles   | (8,719 )            | (8,671 )   |
| Selling, general and administrative corporate                                       | (1,479 )            | (1,980 )   |
| Fees to manager   | (3,632 )            | (2,189 )   |
| Equity in earnings and amortization charges of investees                            | 8,362               | 5,593      |
| Other expense, net  | (668 )              | (542 )     |
| Total consolidated net income (loss) from continuing operations before income taxes | \$17,844            | \$(6,554 ) |

(1) Depreciation includes depreciation expense for District Energy, which is reported in cost of services in the consolidated condensed statement of operations.

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(Unaudited)****11. Reportable Segments (continued)**

Capital expenditures for the Company's reportable segments were as follows (\$ in thousands) (unaudited):

|                   | Quarter Ended March 31, |          |
|-------------------|-------------------------|----------|
|                   | 2011                    | 2010     |
| The Gas Company   | \$ 4,147                | \$ 2,331 |
| District Energy   | 564                     | 346      |
| Atlantic Aviation | 2,451                   | 1,336    |
| Total             | \$ 7,162                | \$ 4,013 |

Property, equipment, land and leasehold improvements, goodwill and total assets for the Company's reportable segments as of March 31 were as follows (\$ in thousands) (unaudited):

|                   | Property, Equipment,<br>Land<br>and Leasehold<br>Improvements |            | Goodwill   |            | Total Assets |              |
|-------------------|---|------------|------------|------------|--------------|--------------|
|                   | 2011  | 2010       | 2011       | 2010       | 2011         | 2010         |
|                   | The Gas Company   | \$ 150,960 | \$ 143,784 | \$ 120,193 | \$ 120,193   | \$ 357,290   |
| District Energy   | 145,251   | 150,170    | 18,647     | 18,647     | 223,957      | 230,329      |
| Atlantic Aviation | 263,465   | 280,930    | 375,413    | 377,342    | 1,403,924    | 1,464,161    |
| Total             | \$ 559,676  | \$ 574,884 | \$ 514,253 | \$ 516,182 | \$ 1,985,171 | \$ 2,046,193 |

Reconciliation of reportable segments' total assets to consolidated total assets (\$ in thousands) (unaudited):

|   | As of March 31, |              |
|---|-----------------|--------------|
|   | 2011            | 2010         |
| Total assets of reportable segments             | \$ 1,985,171    | \$ 2,046,193 |
| Investment in IMTT                              | 223,727         | 208,084      |
| Assets of discontinued operations held for sale |                 | 88,788       |
| Corporate and other                             | (15,706 )       | (20,811 )    |
| Total consolidated assets                       | \$ 2,193,192    | \$ 2,322,254 |

## **12. Related Party Transactions**

### **Management Services Agreement with Macquarie Infrastructure Management (USA) Inc. (the Manager)**

As of March 31, 2011, the Manager held 3,933,636 LLC interests of the Company, which were acquired concurrently with the closing of the initial public offering in December 2004 and by reinvesting base management and performance fees in the Company. In addition, the Macquarie Group held LLC interests acquired in open market purchases.

The Company entered into a management services agreement, or Management Agreement, with the Manager pursuant to which the Manager manages the Company's day-to-day operations and oversees the management teams of the Company's operating businesses. In addition, the Manager has the right to appoint the Chairman of the Board of the Company, and an alternate, subject to minimum equity ownership, and to assign, or second, to the Company, on a permanent and wholly-dedicated basis, employees to assume the role of Chief Executive Officer and Chief Financial Officer and second or make other personnel available as required.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

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

In accordance with the Management Agreement, the Manager is entitled to a quarterly base management fee based primarily on the Company's market capitalization, and a performance fee, based on the performance of the Company's stock relative to a U.S. utilities index. For the quarters ended March 31, 2011 and 2010, the Manager did not earn a performance fee.

For quarters ended March 31, 2011 and 2010, the Company incurred base management fees of \$3.6 million and \$2.2 million, respectively. The unpaid portion of the fees at the end of each reporting period is included in due to manager-related party in the consolidated condensed balance sheets. The Manager elected to reinvest the base management fee of \$3.2 million for the fourth quarter of 2010 in additional LLC interests and the Company issued 136,079 LLC interests to the Manager during the first quarter of 2011. The Manager elected to reinvest the base management fee of \$2.2 million for the first quarter of 2010 in additional LLC interests and the Company issued 155,375 LLC interests to the Manager during the second quarter of 2010. The base management fee for the first quarter of 2011 will be reinvested in additional LLC interests during the second quarter of 2011.

The Manager is not entitled to any other compensation and all costs incurred by the Manager, including compensation of seconded staff, are paid by the Manager out of its base management fee. However, the Company is responsible for other direct costs including, but not limited to, expenses incurred in the administration or management of the Company and its subsidiaries and investments, income taxes, audit and legal fees, acquisitions and dispositions and its compliance with applicable laws and regulations. During the quarters ended March 31, 2011 and 2010, the Manager charged the Company \$62,000 and \$90,000, respectively, for reimbursement of out-of-pocket expenses. The unpaid portion of the out-of-pocket expenses at the end of the reporting period is included in due to manager-related party in the consolidated condensed balance sheet.

**Advisory and Other Services from the Macquarie Group**

The Macquarie Group, and wholly-owned subsidiaries within the Macquarie Group, including Macquarie Bank Limited, or MBL, and Macquarie Capital (USA) Inc., or MCUSA, have provided various advisory and other services and incurred expenses in connection with the Company's equity raising activities, acquisitions and debt structuring for the Company and its businesses. Underwriting fees are recorded in members' equity as a direct cost of equity offerings.

Advisory fees and out-of-pocket expenses relating to acquisitions are expensed as incurred. Debt arranging fees are deferred and amortized over the term of the credit facility. No amounts were incurred during the quarter ended March 31, 2011.

## **Long-Term Debt**

Until March 31, 2010, the Company had a revolving credit facility provided by various financial institutions, including entities within the Macquarie Group. The facility was repaid in full during 2009 and no amounts were outstanding under the revolving credit facility at the facility's maturity on March 31, 2010.

## **Derivative Instruments and Hedging Activities**

The Company has derivative instruments in place to fix the interest rate on certain outstanding variable-rate term loan facilities. MBL has provided interest rate swaps for The Gas Company. At March 31, 2011, The Gas Company had \$160.0 million of its term loans hedged, of which MBL was providing the interest rate swaps for a notional amount of \$48.0 million. The remainder of the swaps are from an unrelated third party. During the quarter ended March 31, 2011, The Gas Company made payments to MBL of \$544,000 in relation to these swaps.

## **Other Transactions**

In September 2010, The Gas Company purchased casualty insurance coverage from insurance underwriters who pay commission to Macquarie Insurance Facility, or MIF, an indirect subsidiary of Macquarie Group Limited. The Gas Company does not make any payments directly to MIF.



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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

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

During 2010, Atlantic Aviation entered into a copiers lease agreement with Macquarie Equipment Finance, or MEF, an indirect subsidiary of Macquarie Group Limited. For the quarter ended March 31, 2011, Atlantic Aviation incurred \$6,000 in lease expense on these copiers. As of March 31, 2011, Atlantic Aviation had prepaid the April 2011 monthly payment to MEF for \$2,000, which is included in prepaid expenses in the consolidated condensed balance sheet.

On March 30, 2009, The Gas Company entered into licensing agreements with Utility Service Partners, Inc. and America's Water Heater Rentals, LLC, both indirect subsidiaries of Macquarie Group Limited, to enable these entities to offer products and services to The Gas Company's customer base. No payments were made under these arrangements during the quarter ended March 31, 2011.

On August 29, 2008, Macquarie Global Opportunities Partners, or MGOP, a private equity fund managed by the Macquarie Group, completed the acquisition of the jet membership, retail charter and fuel management business units previously owned by Sentient Jet Holdings, LLC. The new company is called Sentient Flight Group (referred to hereafter as Sentient). Sentient was an existing customer of Atlantic Aviation. For the quarter ended March 31, 2011, Atlantic Aviation recorded \$5.0 million in revenue from Sentient. As of March 31, 2011, Atlantic Aviation had \$249,000 in receivables from Sentient, which is included in accounts receivable in the consolidated condensed balance sheets.

In addition, the Company and several of its subsidiaries have entered into a licensing agreement with the Macquarie Group related to the use of the Macquarie name and trademark. The Macquarie Group does not charge the Company any fees for this license.

**13. Income Taxes**

The Company expects to incur federal consolidated taxable income for the year ending December 31, 2011, which will be fully offset by the Company's federal NOL carryforwards. The Company believes that it will be able to utilize the federal and certain state consolidated prior year NOLs. Accordingly, the Company has not provided a valuation allowance against any deferred tax assets generated in 2011. Two of the Company's businesses, IMTT and District Energy, are less than 80% owned by the Company, and those businesses file separate federal consolidated income tax returns.

In the first quarter of 2010, the Company reduced the valuation allowance against its deferred tax assets by approximately \$2.6 million. This decrease was recorded as a benefit in the tax provision for the quarter ended March 31, 2010.

The Company and its subsidiaries file separate and combined state income tax returns. In January 2011, Illinois enacted the Taxpayer Accountability and Budget Stabilization Act. The legislation increases the corporate income tax rate to 7.0% from 4.8% for taxable years beginning on or after January 1, 2011 and prior to January 1, 2015; 5.25% for taxable years beginning on or after January 1, 2015 and prior to January 1, 2025; and 4.8% for taxable years beginning on or after January 1, 2025. The income tax expense for the quarter ended March 31, 2011 includes a deferred income tax expense of approximately \$147,000 to reflect the effects of the rate increase.

### **Uncertain Tax Positions**

At December 31, 2010, the Company and its subsidiaries had a reserve of approximately \$368,000 for benefits taken during 2010 and prior tax periods attributable to tax positions for which the probability of recognition is considered to be less than more likely than not. There was no material change in that reserve as of March 31, 2011 and no material change is expected for the year ended December 31, 2011.

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**MACQUARIE INFRASTRUCTURE COMPANY LLC**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**14. Legal Proceedings and Contingencies**

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

**Arbitration Proceedings between MIC and Co-investor in IMTT**

The Company has been unable to resolve the previously-disclosed dispute with the co-owner of IMTT regarding distributions, despite efforts to do so in accordance with the Shareholders' Agreement. Accordingly, on April 18, 2011, the Company initiated formal arbitration proceedings with the Voting Trust of IMTT Holdings Inc. and IMTT Holdings Inc. under the auspices of the American Arbitration Association, as provided under the Shareholders' Agreement. IMTT is named as a respondent because under the Shareholders' Agreement it is responsible for any monetary damages resulting from a breach of the Shareholders' Agreement by the Voting Trust. The Company is seeking payment of distributions due for the quarter ended December 31, 2010 and future periods and other non-monetary relief. The Company anticipates that the process may take up to 12 months to be completed.

Except noted above, there are no material legal proceedings other than as disclosed in Part I, Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 23, 2011.

**15. Subsequent Event**

**Distribution**

On May 2, 2011, the board of directors declared a distribution of \$0.20 per share for the quarter ended March 31, 2011, which will be paid on or about May 18, 2011 to holders of record on May 11, 2011.

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**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

Except as described below, there are no material legal proceedings, other than as previously disclosed in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 23, 2011.

The Company has been unable to resolve the previously-disclosed dispute with the co-owner of IMTT regarding distributions, despite efforts to do so in accordance with the Shareholders Agreement. Accordingly, on April 18, 2011, the Company initiated formal arbitration proceedings with the Voting Trust of IMTT Holdings Inc. and IMTT Holdings Inc. under the auspices of the American Arbitration Association, as provided under the Shareholders Agreement. IMTT is named as a respondent because under the Shareholders Agreement it is responsible for any monetary damages resulting from a breach of the Shareholders Agreement by the Voting Trust. The Company is seeking payment of distributions due for the quarter ended December 31, 2010 and future periods and other non-monetary relief. The Company anticipates that the process may take up to 12 months to be completed.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors set forth under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 23, 2011.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. [Removed and Reserved]**

**Item 5. Other Information**

None.

## **Item 6. Exhibits**

An exhibit index has been filed as part of this Report on page E-1.

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## **SIGNATURES**

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

**MACQUARIE INFRASTRUCTURE COMPANY  
LLC**

By:

Dated: May 4, 2011

/s/ James Hooke

Name: James Hooke

Title: Chief Executive Officer

By:

Dated: May 4, 2011

/s/ Todd Weintraub

Name: Todd Weintraub

Title: Chief Financial Officer

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**EXHIBIT INDEX**

| Exhibit Number | Description   |
|----------------|---|
| 3.1            | Third Amended and Restated Operating Agreement of Macquarie Infrastructure Company LLC (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on June 22, 2007)                    |
| 3.2            | Amended and Restated Certificate of Formation of Macquarie Infrastructure Assets LLC (incorporated by reference to Exhibit 3.8 of Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-116244)) |
| 31.1*          | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer   |
| 31.2*          | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer   |
| 32.1*          | Section 1350 Certification of Chief Executive Officer   |
| 32.2*          | Section 1350 Certification of Chief Financial Officer   |

\*

Filed herewith.

E-1

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