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)

x **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

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

For the Transition Period from ____________ to ____________

Commission File Number: 001-32384

MACQUARIE INFRASTRUCTURE COMPANY LLC

(Exact Name of Registrant as Specified in Its Charter)

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

125 West 55th Street
New York, New York 10019

(Address of Principal Executive Offices) (Zip Code)

(212) 231-1000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

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

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

(212) 231-1000

MACQUARIE INFRASTRUCTURE COMPANY LLC

TABLE OF CONTENTS

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.

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

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

The following discussion of the financial condition and results of operations of 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.

1

TABLE OF CONTENTS

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.

2

TABLE OF CONTENTS

Results of Operations

Consolidated

Key Factors Affecting Operating Results:

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 31,		Change Favorable/(Unfavorable)	
	2011	2010	$	%
	($ 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[(1)]	(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

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.

3

TABLE OF CONTENTS

Results of Operations: *Consolidated (continued)*