Macquarie Infrastructure CO LLC
Form 10-K
February 25, 2010

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

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2009

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 (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)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Exchange on Which Registered:
Limited Liability Company Interests of Macquarie Infrastructure Company LLC (LLC Interests)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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.

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

The aggregate market value of the outstanding shares of stock held by non-affiliates of Macquarie Infrastructure Company LLC at June 30, 2009 was $170,868,634 based on the closing price on the New York Stock Exchange on that date. This calculation does not reflect a determination that persons are affiliates for any other purposes.

There were 45,292,913 shares of stock without par value outstanding at February 25, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to Macquarie Infrastructure Company LLC s Annual Meeting of Shareholders for fiscal year ended December 31, 2009, to be held June 3, 2010, is incorporated by reference in Part III to the extent described therein.

MACQUARIE INFRASTRUCTURE COMPANY LLC

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FORWARD-LOOKING STATEMENTS

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

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

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

changes in general economic, business or demographic conditions or trends in the United States or changes in the political environment, level of travel or construction or transportation costs where we operate, including changes in interest rates and price levels;
changes in patterns of commercial or general aviation air travel, including variations in customer demand for our businesses;
our Manager s affiliation with the Macquarie Group, which may affect the market price of our LLC interests;
our limited ability to remove our Manager for underperformance and our Manager s right to resign;
our holding company structure, which may limit our ability to pay or increase a dividend;
our ability to service, comply with the terms of and refinance at maturity our substantial indebtedness;
our ability to make, finance and integrate acquisitions;
our ability to implement our operating and internal growth strategies;
the regulatory environment in which our businesses and the businesses in which we hold investments operate and our ability to estimate compliance costs, comply with any changes thereto, rates implemented by regulators of our businesses and the businesses in which we hold investments, and our relationships and rights under and contracts with governmental agencies and authorities;
changes in electricity or other energy costs;
the competitive environment for attractive acquisition opportunities facing our businesses and the businesses in which we hold investments;
environmental risks pertaining to our businesses and the businesses in which we hold investments;
work interruptions or other labor stoppages at our businesses or the businesses in which we hold investments;
changes in the current treatment of qualified dividend income and long-term capital gains under current U.S. federal income tax law and the qualification of our income and gains for such treatment;

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disruptions or other extraordinary or force majeure events affecting the facilities or operations of our businesses and the businesses in which we hold investments and our ability to insure against any losses resulting from such events or disruptions;

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

our ability to make alternate arrangements to account for any disruptions or shutdowns that may affect the facilities of the suppliers or the operation of the barges upon which our gas production and distribution business is dependent; and

changes in U.S. domestic demand for chemical, petroleum and vegetable and animal oil products, the relative availability of tank storage capacity and the extent to which such products are imported.

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

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

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

ITEM 1. BUSINESS

Except as otherwise specified, Macquarie Infrastructure Company , MIC, the Company , we, us, and our re Macquarie Infrastructure Company LLC, a Delaware limited liability company, and its subsidiaries together. References to our shareholders herein means holders of LLC interests. The holders of LLC interests are also the members of our company. Macquarie Infrastructure Management (USA) Inc., the company that we refer to as our Manager, is part of the Macquarie Group of companies. References to the Macquarie Group means Macquarie Group Limited and its respective subsidiaries and affiliates worldwide.

General

We own, operate and invest in a diversified group of infrastructure businesses in the United States. We believe our infrastructure businesses, which provide basic services, have a sustainable and stable cash flow profile and offer the potential for capital growth. We offer investors an opportunity to participate directly in the ownership of infrastructure businesses, which traditionally have been owned by governments or private investors, or have formed part of vertically integrated companies. Our businesses also constitute our operating segments and consist of the following:

The Energy-Related Businesses:

(i) 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 capacity;

(ii) 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

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

The Aviation-Related Business: an airport services business (Atlantic Aviation), which comprises a network of 72 fixed base operations, or FBOs, providing products and services including fuel and aircraft hangaring/parking to owners and operators of private jets at 68 airports and one heliport in the U.S.

On January 28, 2010, our airport parking business (Parking Company of America Airports or PCAA) entered into an asset purchase agreement and filed for protection under Chapter 11 of the Bankruptcy Code. We expect to complete the sale of the assets in the first half of 2010. This business is now a discontinued operation and is therefore separately reported in our consolidated financial statements and is no longer a reportable segment of the Company.

In 2007, we made an election to treat MIC as a corporation for federal income tax purposes. As a result, all investor tax reporting with respect to distributions made after December 31, 2006, and in all subsequent years, is based on our being a corporation for U.S. federal tax purposes and such reporting will be provided on Form 1099.

Our Manager

Our Manager is a member of the Macquarie Group, a diversified international provider of financial, advisory and investment services. The Macquarie Group is headquartered in Sydney, Australia and is a global leader in advising on the acquisition, disposition and financing of infrastructure assets and the management of infrastructure investment vehicles on behalf of third-party investors.

We have entered into a management services agreement with our Manager. Our Manager is responsible for our day-to-day operations and affairs and oversees the management teams of our operating businesses. The Company neither has, nor will have, any employees. Our Manager has assigned, or seconded, to the Company, on a permanent and wholly dedicated basis, two of its employees to assume the offices of chief executive

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officer and chief financial officer and seconds or makes other personnel available as required. The services performed for the Company are provided at our Manager s expense, and includes the compensation of our seconded personnel.

We pay our Manager a quarterly management fee based primarily on our market capitalization. Our Manager can also earn a performance fee if the quarterly total return to shareholders (capital appreciation plus dividends) exceeds the quarterly total return of a weighted average of two benchmark indices, a U.S. utilities index and a European utilities index, weighted in proportion to our U.S. and non-U.S. equity investments. We currently do not have any non-U.S. equity investments. The performance fee is equal to 20% of the difference between the benchmark return and the return for our shareholders. To be eligible for the performance fee, our Manager must deliver quarterly total returns that are positive and in excess of any prior underperformance. Please see the management services agreement filed as an exhibit to this Annual Report on Form 10-K for the full terms of this agreement.

We believe that Macquarie Group s demonstrated expertise and experience in the management, acquisition and funding of infrastructure businesses will provide us with a significant advantage in pursuing our strategy. Our Manager is part of Macquarie Group s Capital Funds division. The Macquarie Capital Funds division manages a global portfolio of 110 businesses including toll roads, airports and airport-related infrastructure, ports, communications, media, electricity and gas distribution networks, water utilities, aged care, rail and ferry assets across 22 countries.

Industry

Infrastructure businesses tend to generate sustainable and growing long-term cash flows resulting from relatively inelastic customer demand and strong competitive positions of the businesses. Characteristics of infrastructure businesses include:

ownership of long-lived, high-value physical assets that are difficult to replicate or substitute around;
predictable maintenance capital expenditure requirements;
consistent, relatively inelastic demand for their services, such as at our energy-related businesses;
strong competitive positions, largely due to high barriers to entry, including:
high initial development and construction costs, such as at our energy-related businesses;
difficulty in obtaining suitable land, such as the waterfront land owned by IMTT;
long-term, exclusive concessions or leases and customer contracts, such as those held by Atlantic Aviation and District Energy; and
lack of cost-effective alternatives to customers in the foreseeable future, such as the cooling services provided by District Energy;
scalability, such that relatively small amounts of growth can generate significant increases in earnings before interest, taxes, depreciation and amortization, or EBITDA; and
the provision of basic, often essential services.

In addition to the benefits related to these characteristics, the revenues generated by our infrastructure businesses generally can be expected to keep pace with inflation. The price escalators built into the agreements with customers of contracted businesses, and the inflation and cost pass-through adjustments typically a part of pricing terms in user pays businesses or provided for by the regulatory process to regulated businesses, serve to insulate infrastructure businesses to a significant degree from the negative effects of inflation and commodity price risk. We also employ interest rate swaps in connection with our businesses floating rate debt to effectively fix our cash flows for the interest costs and hedge variability from interest rate changes.

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We focus on the ownership and operation of infrastructure businesses in the following categories:

- contracted, such as IMTT, the revenues of which are derived from per-use or rental charges in medium-term contracts, and District Energy, a majority of the revenues of which are derived from long-term contracts with businesses and governments;
- regulated, such as the utility operations of The Gas Company; and
- user pays, such as Atlantic Aviation.

Strategy

The challenges posed by the economic conditions of the past 18 to 24 months have caused us to adopt a near-term strategy focused on reducing debt, improving operational performance and effectively deploying available growth capital. We believe that our focus on these elements is appropriate to ensuring that our businesses are well positioned to survive and grow regardless of the broader economic backdrop. This strategy included our decisions to sell a non-controlling interest in District Energy, repay our holding company level debt and reduce indebtedness at Atlantic Aviation.

Over the medium term, subject to having access to external sources of capital at a reasonable cost, we may resume growth through acquisition of additional infrastructure businesses. Such acquisitions may be bolt-ons to existing business platforms.

Debt Reduction

We have reduced long-term debt balances through the application of accumulated cash generated by our businesses (which was historically distributed to shareholders) and proceeds from the sale of the non-controlling stake in District Energy. We have eliminated all debt at the MIC holding company level and reduced the balance outstanding on the primary facility at Atlantic Aviation. We expect to continue to reduce the debt of Atlantic Aviation through the application of cash generated by that business. This component of our strategy has strengthened our balance sheet and is expected to reduce the risk of violating financial covenants on the debt at Atlantic Aviation, where financial results have been negatively affected by declines in overall economic activity. Lowering debt levels may also reduce the risks associated with refinancing our debt facilities in the event that credit markets tighten again.

Operational Improvement

We intend to continue to seek opportunities to reduce expenses through rationalization of staffing and business process improvements. In addition, we are actively seeking opportunities to improve the marketing and organic growth of our businesses. We are prudently managing reinvestment in our businesses in the form of maintenance capital expenditures without compromising service levels or operational capabilities of these businesses. Executing this component of our strategy is expected to improve the generation of free cash flow by our businesses.

Growth Capital Expenditures

We have reinvested substantially all of the cash flows generated at IMTT in economically attractive growth opportunities, primarily additional storage capacity. We will continue to reinvest cash flow generated by this business in additional growth projects that we expect will also generate appropriate returns.

We have also reinvested a portion of the cash generated by each of District Energy and The Gas Company into projects that support customer acquisition. We will continue to reinvest in such opportunities in the future.

We intend to meet our contractual obligations with respect to the deployment of growth capital, such as our leasehold improvement obligations at Atlantic Aviation. We have sufficient committed financing to meet these expenditures. We expect that these projects will increase the amount of free cash flow generated by this business.

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Our Businesses and Investments

We provide below information about our businesses and investments, including key financial information for each business. In previous filings, we disclosed operating income for each of our businesses as a measure of business segment profit or loss calculated in accordance with GAAP. Effective this reporting period, we are disclosing earnings before interest, taxes, depreciation and amortization (EBITDA) excluding non-cash items as defined by us. 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. Additionally, EBITDA excluding non-cash items is a key performance metric relied on by management in evaluating the performance of the Company and our operating segments. Therefore, this Annual Report on Form 10-K discloses EBITDA excluding non-cash items in addition to the other financial information provided in accordance with GAAP.

Energy-Related Businesses

IMTT

Business Overview

We own 50% of International-Matex Tank Terminals, or IMTT. The 50% we do not own is owned by members of the founding family. IMTT stores and handles petroleum products, various chemicals, renewable fuels and vegetable and animal oils. IMTT is one of the largest providers of bulk liquid storage terminal services in the U.S., based on capacity.

For the year ended December 31, 2009, IMTT generated approximately 43% of its terminal revenue and approximately 42% of its terminal gross profit at its Bayonne, New Jersey facility in New York Harbor. Approximately 41% of IMTT s total terminal revenue and approximately 48% of its terminal gross profit was generated by its St. Rose, Gretna, Avondale and Geismar facilities, which together service the lower Mississippi River region (with St. Rose as the largest contributor).

IMTT also owns Oil Mop, an environmental response and spill clean-up business. Oil Mop has a network of facilities along the U.S. Gulf Coast between Houston and New Orleans. These facilities service predominantly the Gulf region, but also respond to spill events as needed throughout the United States and internationally.

The table below summarizes the proportion of the terminal revenue generated from the commodities stored at IMTT s U.S. terminals for the year ended December 31, 2009:

Proportion of Terminal Revenue from Major Commodities Stored			
Petroleum/Asphalt	Chemical	Renewables/Vegetable & Animal Oil	Other
58%	29%	9%	4%

Financial information for 100% of this business is as follows ($ in millions):

	As of, and for the Year Ended, December 31,		
	2009	2008	2007
Revenue	$ 346.2	$ 352.6	$ 275.2
EBITDA excluding non-cash items	147.7	136.6	89.0
Total assets	1,064.8	1,006.3	862.5

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Energy-Related Business: IMTT (continued)

Industry Overview

Bulk liquid storage terminals provide an essential link in the supply chain for major commodities such as crude oil, refined petroleum products and basic and specialized chemicals. In addition to renting storage tanks, bulk liquid storage terminals generate revenues by offering ancillary services including product transfer (throughput), heating and blending. Pricing for storage and other services typically reflects local supply and demand as well as the specific attributes of each terminal including access to deepwater berths and connections to land-based infrastructure such as roads, pipelines and rail.

Both domestic and international factors influence demand for bulk liquid storage in the United States. Demand for storage rises and falls according to local and regional consumption, which largely reflects the underlying economic activity over the medium term. In addition to these domestic forces, import and export activity also accounts for a material portion of the business. Shippers require storage for the staging, aggregation and/or distribution of products before and after shipment. The extent of import/export activity depends on macroeconomic trends such as currency fluctuations as well as industry-specific conditions, such as supply and demand balances in different geographic regions. The medium-term length of storage contracts tends to offset short-term fluctuations in demand for storage in both the domestic and import/export markets.

Potential entrants into the bulk liquid storage terminal business face several substantial barriers. Strict environmental regulations, limited availability of waterfront land with the necessary access to land-based infrastructure, local community resistance to new fuel/chemical sites, and high initial investment costs impede the construction of new bulk liquid storage facilities. These deterrents are most formidable around New York Harbor and other waterways near major urban centers. As a consequence, new supply is generally created by the addition of tankage to existing terminals where existing infrastructure can be leveraged, resulting in higher returns on invested capital. However, restrictions on land use, difficulties in securing environmental permits, and the potential for operational bottlenecks due to infrastructure constraints may limit the ability of existing terminals to expand the storage capacity of their facilities.

Strategy

The key components of IMTT s strategy are to drive growth in revenue and cash flows by attracting and retaining customers who place a premium on flexibility, speed and efficiency in bulk liquid storage and to invest in additional storage capacity. IMTT believes that the successful execution of this strategy will be aided by its size, technology and service capability.