Macquarie Infrastructure CO LLC
Form 10-K
February 23, 2011

# 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, 2010**
**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** | **43-2052503** |
|---|---|
| (Jurisdiction of Incorporation or Organization) | (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 [ ] 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 [ ] 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 [ ]

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. [ ]

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

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

Large Accelerated Filer [ ] Accelerated Filer [X] 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 [X]

The aggregate market value of the outstanding shares of stock held by non-affiliates of Macquarie Infrastructure Company LLC at June 30, 2010 was $531,493,528 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 45,715,448 shares of stock without par value outstanding at February 23, 2011.

**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, 2010, to be held June 2, 2011, 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, pote words that 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 business;

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, including U.S. energy policy, 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;

technological innovations leading to a change in energy consumption patterns;

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, including the impact of climate change and weather conditions, 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;

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**

Macquarie Infrastructure Company, LLC, a Delaware limited liability company, was formed on April 13, 2004. Except as otherwise specified, Macquarie Infrastructure Company , MIC, the Company , we, us, and our refer to Macquarie Infrastructure Company LLC and its subsidia 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.

The Company s four operating segments are classified into either energy-related businesses or aviation-related business, Atlantic Aviation. The energy-related businesses consist of three operating segments: The Gas Company, District Energy and an investment in IMTT, which is accounted for under the equity method. All of the business segments are managed separately and management has chosen to organize the Company around the distinct products and services offered.

***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 private jets at 66 airports and one heliport in the U.S.

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 balance sheet. The results of operations from this business and the gain from the bankruptcy sale are separately reported as a discontinued operations in the Company s consolidated 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. We received $602,000 from the PCAA bankruptcy estate for expenses paid on behalf of PCAA during its operations. See Note 4, Discontinued Operations , in our consolidated financial statements in Financial Statements and Supplementary Data in Part II, Item 8, of this Form 10-K for financial information and further discussions.

We have elected to treat MIC as a corporation for federal tax purposes. As a result, all investor tax reporting with respect to distributions made is based on our being a corporation for U.S. federal tax purposes and such reporting will be provided on Form 1099.

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**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 management of infrastructure investment vehicles on behalf of third-party investors and advising on the acquisition, disposition and financing of infrastructure assets.

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 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 base 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 U.S. utilities index. 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 the Macquarie Funds Group, the asset management division of Macquarie globally. Macquarie-managed entities own, operate and/or invest in a global portfolio of approximately 100 businesses including toll roads, airports and airport-related infrastructure, ports, communications, media, electricity and gas distribution networks, water utilities, renewable energy generation, aged care, rail and ferry assets across 24 countries.

**Industry**

Infrastructure businesses, in general, tend to generate sustainable and growing 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 those provided by our energy-related businesses;
- strong competitive positions, largely due to high barriers to entry, including:
  - high initial development and construction costs;

- difficulty in obtaining suitable land;
- long-term, exclusive concessions or leases and customer contracts; and
- lack of cost-effective alternatives to customers in the foreseeable future;

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 customer contracts, 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 interest expense and hedge variability from interest rate change.

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, the revenues of which are based on patronage.

**Strategy**

There are three components to our strategy:

programs to improve the operating performance of each of our businesses;

a sustainable balance between distributions to our shareholders of available cash and investment in the growth of new or existing businesses; and

continued debt reduction at Atlantic Aviation to levels at which it is again prudent to distribute cash from the business to MIC.

**Our Businesses and Investments**

We provide below information about our businesses and investments, including key financial information for each business. 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. See Management s Discussion and Analysis of Financial Conditions and Results of Operations Results of Operations in Part II, Item 7 for a reconciliation of net income (loss) to

EBITDA excluding non-cash items for the Company and its operating segments.

## 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 independent providers of bulk liquid storage terminal services in the U.S., based on capacity.

For the year ended December 31, 2010, IMTT generated approximately 42% of its terminal revenue and approximately 40% of its terminal gross profit at its Bayonne, New Jersey facility in New York Harbor.





Approximately 42% of IMTT s total terminal revenue and approximately 50% 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, 2010:

**Proportion of Terminal Revenue from Major Commodities Stored**

| Petroleum/Asphalt | Chemical | Renewable/Vegetable & Animal Oil | Other |
|---|---|---|---|
| 60% | 27% | 9% | 4% |

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

| | As of, and for the Year Ended, December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Revenue | $ 557.2 | $ 346.2 | $ 352.6 |
| EBITDA excluding non-cash items | 236.8 | 147.7 | 136.6 |
| Total assets | 1,221.9 | 1,064.8 | 1,006.3 |

***Industry Overview***

Bulk liquid storage terminals provide an essential link in the supply chain for liquid 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.



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

***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, where prudent, in additional storage capacity. IMTT believes that the successful execution of this strategy will be aided by its size, technology and service capability.

*Flexibility:* Operational flexibility is essential to making IMTT an attractive supplier of bulk liquid storage services in its key markets. Its facilities operate 24/7 providing shippers, refiners, manufacturers, traders and distributors with prompt access to a wide range of storage services. In each of its two key markets, IMTT s scale ensures availability of sophisticated product handling and storage capabilities along with ancillary services such as heating and blending. IMTT continues to improve its facilities speed and flexibility of operations by investing in upgrades of its docks, pipelines and pumping infrastructure and facility management systems.

*Investment in Growth:* IMTT seeks to increase its available storage capacity, especially in New York Harbor and the lower Mississippi River, by building new tankage at existing facilities when supported by customer demand.

***Locations***

The following table summarizes the location of each IMTT facility and the corresponding millions of barrels of storage capacity in service and ship and barge docks available for product transfer. This information is as of December 31, 2010 and does not include tanks used in packaging, recovery tanks, and/or other storage capacity not typically available for rent.

| Facility | Land | Aggregate Capacity of Storage Tanks in Service | Number of Ship & Barge Berths in Service |
|---|---|---|---|
| | | (Millions of Barrels) | |
| **Facilities in the United States:** | | | |
| Bayonne, NJ | Owned | 16.0 | 20 |
| St. Rose, LA* | Owned | 14.7 | 16 |
| Gretna, LA* | Owned | 2.0 | 5 |
| Avondale, LA* | Owned | 1.1 | 4 |

| Facility | Land | Aggregate Capacity of Storage Tanks in Service | Number of Ship & Barge Berths in Service |
|---|---|---|---|
| Geismar, LA* | Owned | 0.9 | 3 |
| Lemont, IL | Owned/Leased | 1.0 | 1 |
| Joliet, IL | Owned | 0.9 | 3 |
| Richmond, CA | Owned | 0.7 | 2 |
| Chesapeake, VA | Owned | 1.0 | 1 |
| Richmond, VA | Owned | 0.4 | 1 |
| **Facilities in Canada:** | | | |
| Quebec City, Quebec[(1)] | Leased | 2.0 | 2 |
| Placentia Bay, Newfoundland[(2)] | Leased | 3.0 | 2 |
| Total | | 43.7 | 60 |

* Collectively the Louisiana facilities.

(1) Indirectly 66.7% owned and managed by IMTT.

(2) Indirectly 20.1% owned and managed by IMTT.



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

All facilities have marine access, road access and, except for Richmond, Virginia and Placentia Bay, Newfoundland, all sites have rail access.

*Bayonne, New Jersey*

The 16.0 million barrel storage terminal at Bayonne, New Jersey has the most storage capacity of any IMTT site. Located on the Kill Van Kull between New Jersey and Staten Island, the terminal occupies a strategically advantageous position in New York Harbor, or NYH. As the largest independent bulk liquid storage facility in NYH, IMTT-Bayonne has substantial market share for third-party storage of refined petroleum products and chemicals.

NYH serves as the main petroleum trading hub in the northeast United States and the physical delivery point for the gasoline and heating oil futures contracts traded on New York Mercantile Exchange (NYMEX). In addition to waterborne shipments, products reach NYH through petroleum product pipelines from the U.S. Gulf region and elsewhere. NYH also serves as the starting point for refined product pipelines linked to inland markets and as a key port for refined petroleum product imports. IMTT-Bayonne has connections to the Colonial, Buckeye and Harbor refined petroleum product pipelines as well as rail and road connections. As a result, IMTT-Bayonne provides its customers with substantial logistical flexibility.

IMTT-Bayonne has the capability to quickly load and unload the largest bulk liquid transport ships entering NYH. The U.S. Army Corp of Engineers (USACE) has dredged the Kill Van Kull channel passing the IMTT-Bayonne docks to 45 feet (IMTT has dredged some but not all of its docks to that depth). Most competitors in NYH have facilities located on the southern portion of the Arthur Kill (water depth of approximately 35 feet) and force large ships to transfer product through lightering (transferring cargo to barges at anchorage) before docking. This technique substantially increases the cost of loading and unloading vessels. This competitive advantage for Bayonne may improve as the USACE is in the process of dredging the Kill Van Kull to 50 feet (with no planned increase in the depth of the southern portion of the Arthur Kill). Demand for third-party bulk liquid storage in NYH has remained strong during the past several years.

*St. Rose/Gretna/Avondale/Geismar*

On the lower Mississippi River, IMTT currently operates four terminals (St. Rose, Gretna, Avondale and Geismar). With combined storage capacity of 18.7 million barrels, the four sites give IMTT substantial market share in storage for black oil, bulk liquid chemicals, and vegetable oils on the lower Mississippi River.

The Louisiana facilities give IMTT a substantial presence in a key domestic transport hub. The lower Mississippi River serves as a major transshipment point between the central United States and the rest of the world for exported agricultural products (such as vegetable oils) and imported commodity chemicals (such as methanol). The region also has substantial domestic traffic related to the petroleum industry. Gulf Coast refiners send their products to other regions of the U.S. and overseas and require storage capacity and ancillary services to facilitate distribution. IMTT s Louisiana facilities, with their deep water ship and barge docks as well as access to rail, road and pipeline infrastructure, are highly capable of performing these functions. Demand for third-party bulk liquid storage on the lower Mississippi River has remained strong during the past several years.

***Competition***

The competitive environment in which IMTT operates varies by terminal location. The principal competition for each of IMTT s facilities comes from other bulk liquid storage facilities located in the same regional market. Kinder Morgan, which owns three bulk liquid storage facilities in New Jersey and Staten Island, New York, represents IMTT s major competitor in the NYH market. Kinder Morgan also owns facilities along the lower Mississippi River near New Orleans. In both the NYH and lower Mississippi River markets, IMTT operates the largest terminal by capacity which, combined with the capabilities of IMTT s facilities, provides IMTT with a strong competitive position in both of these key bulk liquid storage markets.



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

IMTT s minor facilities in Illinois, California and Virginia represent only a small proportion of available bulk liquid storage capacity in their respective markets and have numerous competitors with facilities of similar or larger size and with similar capabilities.

Secondary competition for IMTT s facilities comes from bulk liquid storage facilities located in the same broad geographic region as IMTT s terminals. For example, bulk liquid storage facilities located on the Houston Ship Channel provide indirect competition for IMTT s Louisiana facilities.

***Customers***

IMTT provides bulk liquid storage services principally to vertically integrated petroleum product producers and refiners, chemical manufacturers, food processors and traders of bulk liquid petroleum, chemical and agricultural products. BP represented more than 10% of IMTT s consolidated revenues and accounts receivable for the year ended and at December 31, 2010, primarily due to the non-recurring oil spill response activity in the Gulf of Mexico.

***Customer Contracts***

IMTT generally rents storage tanks to customers under contracts with terms of three to five years. Pursuant to these contracts, customers generally pay for the tank storage whether they use it or not. The contracts generally have no early termination provisions. Customers generally pay rental charges monthly at rates stated in terms of cents per barrel of storage capacity per month. Tank rental rates vary by commodity stored and by location. IMTT s standard form of customer contract generally permits a certain number of free product movements into and out of the storage tank with charges for throughput exceeding the prescribed levels. In cases where stored liquids require heating to keep viscosity at acceptable levels, IMTT generally charges the customer for the heating with such charges essentially reflecting a pass-through of IMTT s cost. Heating charges principally cover the cost of fuel used to produce steam. Pursuant to IMTT s standard form of customer contract, tank rental rates, throughput rates and the rates for other services generally increase based on annual inflation indices. Customers retain title to products stored in the tanks and have responsibility for securing insurance against loss. As a result, IMTT has no commodity price risk related to the liquids stored in its tanks and has limited liability from product loss. IMTT is responsible for ensuring appropriate care of products stored at its facilities and maintains adequate insurance with respect to its exposure.

***Regulation***

The rates that IMTT charges for its services are not subject to regulation. However, a number of regulatory bodies oversee IMTT s operations. IMTT must comply with numerous federal, state and local environmental, occupational health and safety, security, tax and planning statutes and regulations. These regulations require IMTT to obtain and maintain permits to operate its facilities and impose standards that govern the way IMTT operates its business. If IMTT does not comply with the relevant regulations, it could lose its operating permits and/or incur fines and increased liability. As a result, IMTT has developed environmental and health and safety compliance functions which are overseen by the terminal managers at the terminal level, IMTT s Director of Environmental, Health and Safety, Chief Operating Officer and Chief Executive Officer. While changes in environmental, health and safety regulations pose a risk to IMTT s operations, such changes are generally phased in over time to manage the impact on industry.

The Bayonne terminal was acquired and expanded over a 27 year period. It has significant remediation requirements that were partially assumed at the time of purchase from the various former owners. One former owner retained environmental remediation responsibilities for a purchased site as well as sharing other remediation costs. Remediation efforts entail removal of the free product, groundwater control and treatment, soil treatment, repair/replacement of sewer systems, and the implementation of containment and monitoring systems. These remediation activities are expected to continue for ten to twenty years.



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

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

See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in Part II, Item 7 for discussion of the expected future capitalized cost of environmental remediation.

***Management***

The day-to-day operations of IMTT s terminals are overseen by individual terminal managers who are responsible for all aspects of the operations at their respective sites. IMTT s terminal managers have on average 28 years experience in the bulk liquid storage industry and 17 years of service with IMTT.

The IMTT head office in New Orleans provides the business with central management, performs support functions such as accounting, tax, finance, human resources, insurance, information technology and legal services and provides support for functions that have been partially de-centralized to the terminal level such as engineering and environmental and occupational health and safety regulatory compliance. IMTT s senior management team, other than the terminal managers, have on average 36 years experience in the bulk liquid storage industry and 29 years service with IMTT.

The Board of IMTT Holdings consists of six members with three appointees each from Macquarie Terminal Holdings, LLC, our wholly owned subsidiary, and our co-investor. All decisions of the Board require majority approval, including the approval of at least one member appointed by Macquarie Terminal Holdings, LLC and one member appointed by our co-investor. The Shareholders Agreement to which we became a party at the time of our investment in IMTT contains a customary list of items that must be referred to the Board for approval. The Shareholders Agreement is included as an exhibit to this Annual Report on Form 10-K.

Distribution of funds to the Company from IMTT is governed by the Shareholders Agreement between the Company and the co-investor that owns the remaining 50% stake. The co-investor has refused to vote in favor of distributing these funds, and the Company believes that such a refusal violates the Shareholders Agreement.

As a result, the Company has formally initiated the dispute resolution process in the Shareholders Agreement, and intends to proceed to arbitration with the co-investor if a satisfactory resolution cannot be reached within the timeframe prescribed in the Shareholders Agreement.

***Employees***

As of December 31, 2010, IMTT (excluding non-consolidated sites) had a total of 1,024 employees, including 135 employed by Oil Mop. At the Bayonne terminal, 138 employees are unionized, 52 of the employees are unionized at the Lemont and Joliet terminals and 35 employees are unionized at the Quebec terminal. We believe employee relations at IMTT are good.

**The Gas Company**

***Business Overview***

The Gas Company is Hawaii s only government franchised full-service gas company, manufacturing and distributing gas products and services in Hawaii. The market includes Hawaii s approximately 1.4 million residents and approximately 7.0 million visitors in 2010. The Gas Company manufactures synthetic natural gas, or SNG, for its utility customers on Oahu, and distributes Liquefied Petroleum Gas, or LPG, to utility and non-utility customers throughout the state s six primary islands.



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The Gas Company has two primary businesses, utility (or regulated) and non-utility (or unregulated):

The utility business serves approximately 35,300 customers through localized pipeline distribution systems located on the islands of Oahu, Hawaii, Maui, Kauai, Molokai and Lanai. The utility business includes the manufacture, distribution and sale of SNG on the island of Oahu and distribution and sale of LPG. Utility revenue consists principally of sales of SNG and LPG. The operating costs for the utility business include the cost of locally purchased feedstock, the cost of manufacturing SNG from the feedstock, LPG purchase costs and the cost of distributing SNG and LPG to customers. Utility sales comprised approximately 43% of The Gas Company s total contribution margin in 2010.

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