

InfraREIT, Inc.
Form 10-Q
May 03, 2018

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, 2018

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: 001-36822

InfraREIT, Inc.

(Exact name of Registrant as specified in its charter)

Maryland	75-2952822
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification Number)

1900 North Akard Street

Dallas, Texas 75201	75201
(Address of Principal Executive Offices)	(Zip Code)

(214) 855-6700

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 30, 2018, 43,960,884 shares of common stock were issued and outstanding.

InfraREIT, Inc.

INDEX

	Page
<u>Glossary of Terms</u>	3
<u>Forward-Looking Statements</u>	4
PART I. <u>Financial Information</u>	5
Item 1. <u>Consolidated Financial Statements (Unaudited)</u>	5
<u>Consolidated Balance Sheets</u>	5
<u>Consolidated Statements of Operations</u>	6
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to the Unaudited Consolidated Financial Statements</u>	8
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27
PART II. <u>Other Information</u>	27
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	27
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
Item 3. <u>Defaults Upon Senior Securities</u>	27
Item 4. <u>Mine Safety Disclosures</u>	28
Item 5. <u>Other Information</u>	28
Item 6. <u>Exhibits</u>	28
<u>Signatures</u>	29

GLOSSARY OF TERMS

This glossary highlights some of the industry terms that we use in this Quarterly Report on Form 10-Q and is not a complete list of all defined terms used herein.

Abbreviation	Term
AFUDC	allowance for funds used during construction
CREZ	competitive renewable energy zones, as defined by a 2005 Texas law establishing the Texas renewable energy program
CWIP	construction work in progress
distribution	that portion of a power delivery network consisting of an interconnected group of electric distribution lines, towers, poles, substations, transformers and associated assets over which electric power is distributed from points within the transmission network to end use consumers
distribution service territory	a designated area in which a utility is required or has the right to supply electric service to ultimate customers under a regulated utility structure
Footprint Projects	transmission or, if applicable, distribution projects that (1) are primarily situated within our current or previous distribution service territory, as applicable; (2) physically hang from our existing transmission assets, such as the addition of another circuit to our existing transmission lines, or that are physically located within one of our substations; or (3) connect or are otherwise added to transmission lines or other property that comprise a part of the transmission assets acquired in the Asset Exchange Transaction (as defined below). Footprint Projects do not include the addition of a new substation on our existing transmission lines or generation interconnects to our existing transmission lines, unless the addition or interconnection occurred within our current or prior distribution service territories
PUCT	Public Utility Commission of Texas
rate base	calculated as our gross electric plant in service under U.S. GAAP (as defined below), which is the aggregate amount of our total cash expenditures used to construct such assets plus AFUDC, less accumulated depreciation and adjusted for accumulated deferred income taxes, regulatory liabilities and regulatory assets
regulated assets	rate-regulated electric transmission and distribution assets, as applicable, such as power lines, substations, transmission towers, distribution poles, transformers and related property and assets
transmission	that portion of a power delivery network consisting of an interconnected group of electric transmission lines, towers, poles, switchyards, substations, transformers and associated assets over which electric power is transmitted between points of supply or generation and distribution
U.S. GAAP	accounting principles generally accepted in the United States of America

FORWARD-LOOKING STATEMENTS

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements.

Forward-looking statements give InfraREIT, Inc.'s (we or Company) current expectations and include projections of results of operations or financial condition or forecasts of future events. Words such as "could," "will," "may," "assume," "forecast," "position," "predict," "strategy," "expect," "intend," "plan," "estimate," "anticipate," "believe," "project," "budget," "continue" and similar expressions are used to identify forward-looking statements. Without limiting the generality of the foregoing, forward-looking statements contained in this document include our expectations regarding our strategies, objectives, growth and anticipated financial and operational performance, including guidance regarding our capital expenditures, infrastructure programs and estimated distributions to our stockholders and statements regarding a potential De-REIT alternative (as defined below).

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, the assumptions and estimates underlying the forward-looking statements included in this document are inherently uncertain and are subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those contained in this document. Accordingly, when considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this document, and you are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors, and you should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- decisions by regulators or changes in governmental policies or regulations with respect to our organizational structure, lease arrangements, capitalization, acquisitions and dispositions of assets, recovery of investments, authorized rate of return and other regulatory parameters;
- the impact of any termination of our real estate investment trust (REIT) status;
- the implications of our relationships with Hunt Consolidated, Inc. (HCI) and its affiliates (collectively, Hunt) on any transaction or arrangement that may be proposed with respect to our business or structure;
- our current reliance on our tenant for all our lease revenues and, as a result, our dependency on our tenant's solvency and financial and operating performance;
- the amount of available investment to grow our rate base;
- our ability to negotiate future rent payments or renew leases with our tenant;
- insufficient cash available to meet distribution requirements;
- cyber breaches and weather conditions or other natural phenomena;
- the price and availability of debt and equity financing;
- our level of indebtedness or debt service obligations;
- the effects of existing and future tax and other laws and governmental regulations;
- the termination of our management agreement or the loss of the services of Hunt Utility Services, LLC or other qualified personnel;
- adverse economic developments in the electric power industry or in business conditions generally; and
- certain other factors discussed elsewhere in this Quarterly Report on Form 10-Q.

For the above reasons, there can be no assurance that any forward-looking statements included herein will prove to be indicative of our future performance or that actual results will not differ materially from those presented. In no event should the inclusion of forward-looking information in this document be regarded as a representation by any person that the results contained in such forward-looking information will be achieved.

Forward-looking statements speak only as of the date on which they are made. While we may update these statements from time to time, we are not required to do so other than pursuant to applicable laws. For a further discussion of these

and other factors that could impact our future results and performance, see Part I, Item 1A., Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission (SEC) on March 5, 2018 (2017 Form 10-K).

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
InfraREIT, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,624	\$ 2,867
Restricted cash	1,683	1,683
Due from affiliates	32,605	35,172
Inventory	6,891	6,759
Prepays and other current assets	1,401	2,460
Total current assets	44,204	48,941
Electric Plant, net	1,782,965	1,772,229
Goodwill	138,384	138,384
Other Assets	33,251	34,314
Total Assets	\$ 1,998,804	\$ 1,993,868
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 26,947	\$ 21,230
Short-term borrowings	35,500	41,000
Current portion of long-term debt	67,847	68,305
Dividends and distributions payable	15,176	15,169
Accrued taxes	5,919	5,633
Total current liabilities	151,389	151,337
Long-Term Debt, Less Deferred Financing Costs	839,649	841,215
Regulatory Liabilities	104,180	100,458
Total liabilities	1,095,218	1,093,010
Commitments and Contingencies		
Equity		
Common stock, \$0.01 par value; 450,000,000 shares authorized; 43,960,884 and		
43,796,915 issued and outstanding as of March 31, 2018 and December 31, 2017,		
respectively	440	438
Additional paid-in capital	709,461	706,357
Accumulated deficit	(47,854)	(49,728)
Total InfraREIT, Inc. equity	662,047	657,067
Noncontrolling interest	241,539	243,791
Total equity	903,586	900,858

Total Liabilities and Equity	\$ 1,998,804	\$ 1,993,868
------------------------------	--------------	--------------

See accompanying notes to the unaudited consolidated financial statements.

InfraREIT, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Lease revenue	\$45,656	\$39,624
Operating costs and expenses		
General and administrative expense	6,088	5,981
Depreciation	11,577	12,687
Total operating costs and expenses	17,665	18,668
Income from operations	27,991	20,956
Other (expense) income		
Interest expense, net	(10,674)	(9,698)
Other income, net	733	3
Total other expense	(9,941)	(9,695)
Income before income taxes	18,050	11,261
Income tax expense	286	244
Net income	17,764	11,017
Less: Net income attributable to noncontrolling interest	4,900	3,068
Net income attributable to InfraREIT, Inc.	\$12,864	\$7,949
Net income attributable to InfraREIT, Inc. common		
stockholders per share:		
Basic	\$0.29	\$0.18
Diluted	\$0.29	\$0.18
Cash dividends declared per common share	\$0.25	\$0.25

See accompanying notes to the unaudited consolidated financial statements.

InfraREIT, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities		
Net income	\$ 17,764	\$ 11,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,577	12,687
Amortization of deferred financing costs	1,071	1,004
Allowance for funds used during construction - other funds	(730)	—
Equity based compensation	140	140
Changes in assets and liabilities:		
Due from affiliates	2,567	5,496
Inventory	(132)	47
Prepays and other current assets	(573)	(721)
Accounts payable and accrued liabilities	3,153	140
Net cash provided by operating activities	34,837	29,810
Cash flows from investing activities		
Additions to electric plant	(15,011)	(52,223)
Proceeds from asset exchange transaction	1,632	—
Net cash used in investing activities	(13,379)	(52,223)

Edgar Filing: InfraREIT, Inc. - Form 10-Q

Cash flows from financing activities		
Proceeds from short-term borrowings	12,000	34,000
Repayments of short-term borrowings	(17,500)	(9,500)
Repayments of long-term debt	(2,032)	(1,921)
Dividends and distributions paid	(15,169)	(15,161)
Net cash (used in) provided by financing activities	(22,701)	7,418
Net decrease in cash, cash equivalents and restricted cash	(1,243)	(14,995)
Cash, cash equivalents and restricted cash at beginning of period	4,550	19,294
Cash, cash equivalents and restricted cash at end of period	\$ 3,307	\$ 4,299

See accompanying notes to the unaudited consolidated financial statements.

InfraREIT, Inc.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Presentation of Financial Statements

Basis of Presentation

InfraREIT, Inc. is a Maryland corporation, which may be referred to in these financial statements as the “Company,” “we,” “us” and “our.” These unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the U.S. Securities and Exchange Commission (SEC) on March 5, 2018 (2017 Form 10-K).

We held 72.4% of the outstanding partnership units (OP Units) in InfraREIT Partners, LP (Operating Partnership or InfraREIT LP) as of March 31, 2018 and are its general partner. We include the accounts of the Operating Partnership and its subsidiaries in our consolidated financial statements. Hunt Consolidated, Inc. affiliates, current or former employees and members of our board of directors held the other 27.6% of the outstanding OP Units as of March 31, 2018.

Use of Estimates

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Guidance

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the expected consideration for these goods and services. As part of this guidance, lease transactions have been excluded from the requirements of this standard. We adopted this guidance on January 1, 2018. As this guidance only applies to us if certain lease criteria are present and under limited circumstances, the new guidance currently has a minimal impact on our financial position, results of operations and cash flows. We will continue to monitor our transactions and apply the new guidance as circumstances require.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments. The objective of ASU 2016-15 is to eliminate the diversity in practice related to the

classification of certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. The new standard should be applied retrospectively to all periods presented, unless deemed impracticable, in which case prospective application is permitted. We adopted the new guidance on January 1, 2018 and the new guidance did not impact our Consolidated Statement of Cash Flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 203): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force). ASU 2016-18 adds to or clarifies current guidance on the classification and presentation of restricted cash in the statement of cash flows. The new guidance requires entities to include in their cash and cash equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. We adopted the guidance on January 1, 2018 and have adjusted all periods presented for the change in presentation of restricted cash on our Consolidated Statement of Cash Flows.

Recent Accounting Guidance Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 amended the existing accounting standard for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for periods beginning after December 15, 2018, with early adoption permitted. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We believe the new guidance will have a minimal impact on our financial position, results of operations and cash flows due to the limited changes around lessor transactions.

2. Asset Exchange Transaction

In July 2017, our regulated subsidiary, Sharyland Distribution & Transmission Services, L.L.C. (SDTS), and our sole tenant, Sharyland Utilities, L.P. (Sharyland), signed a definitive agreement (Definitive Agreement) with Oncor Electric Delivery Company LLC (Oncor) to exchange SDTS's retail distribution assets and certain transmission assets for a group of Oncor's transmission assets located in Northwest and Central Texas (Asset Exchange Transaction). The Asset Exchange Transaction closed in November 2017 and, among other things, resulted in SDTS exchanging \$403 million of net assets for \$383 million of transmission assets owned by Oncor, \$18 million of net cash and a \$2 million receivable from Oncor as of December 31, 2017. The transaction resulted in a gain of \$0.3 million for SDTS. The receivable from Oncor was included in prepaids and other current assets in the Consolidated Balance Sheets at December 31, 2017. The receivable from Oncor was collected during the first quarter of 2018. These transactions were structured to qualify, in part, as a simultaneous tax deferred like-kind exchange of assets to the extent that the assets are of "like kind" (within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended).

3. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash within the Consolidated Balance Sheets that sum to the total of the same such amounts shown on the Consolidated Statements of Cash Flows:

(In thousands)	March 31,	
	2018	2017
Cash	\$1,624	\$2,617
Restricted cash	1,683	1,682
Total cash, cash equivalents and restricted cash shown on the Statement of Cash Flows	\$3,307	\$4,299

Amounts included in restricted cash represent the principal and interest payable for two consecutive periods associated with the \$25.0 million senior secured notes of the Operating Partnership's wholly-owned subsidiary, Transmission and Distribution Company, L.L.C. (TDC), as described in Note 9, Long-Term Debt.

4. Related Party Transactions

We lease, through SDTS, all our regulated assets to Sharyland through several lease agreements. Under the leases, we have agreed to fund capital expenditures for footprint projects. Our leases define “footprint projects” to be transmission or, if applicable, distribution projects that (1) are primarily situated within our current or previous distribution service territory, as applicable; (2) physically hang from our existing transmission assets, such as the addition of another circuit to our existing transmission lines, or that are physically located within one of our substations or (3) connect or are otherwise added to transmission lines or other properties that comprise a part of the transmission assets acquired in the Asset Exchange Transaction.

We earned lease revenues from Sharyland under these agreements of \$45.7 million and \$39.6 million during the three months ended March 31, 2018 and 2017, respectively. In connection with our leases with Sharyland, we had a deferred rent liability of \$14.6 million and \$14.7 million as of March 31, 2018 and December 31, 2017, respectively, which is included in accounts payable and accrued liabilities on the Consolidated Balance Sheets.

In addition to rent payments that Sharyland makes to us, we and Sharyland also make payments to each other under the leases that primarily consist of payments to reimburse Sharyland for the costs of gross plant and equipment added to our regulated assets. For the three months ended March 31, 2018 and 2017, the net amount of payments we made to Sharyland was \$15.0 million and \$52.2 million, respectively.

In connection with the Definitive Agreement, in July 2017, SDTS and Sharyland entered into a letter agreement (Side Letter) in which they agreed to certain terms and conditions to address the actual or potential conflicts of interest arising between SDTS and Sharyland in connection with the Asset Exchange Transaction. Specifically, the Side Letter includes, among other things, certain representations and warranties from Sharyland that correspond to representations and warranties of SDTS under the Definitive Agreement relating to certain matters for which SDTS relies, in whole or in part, upon Sharyland under the leases and as operator of the assets and an allocation of expenses incurred in connection with the transactions. For information related to Asset Exchange Transaction, see Note 2, Asset Exchange Transaction.

As part of the Asset Exchange Transaction, we incurred \$0.2 million in legal fees related to us obtaining the lenders' consents to complete the Asset Exchange Transaction. These costs are eligible to be recovered through rates collected from customers during a 24-month period starting January 2018 through December 2019. We sold the recoverable costs to Sharyland in exchange for 24 equal monthly payments beginning January 2018 through December 2019. The equal monthly payments from Sharyland will be received through the CREZ lease. As of March 31, 2018, Sharyland had made three monthly payments related to the recoverable legal fees. As of December 31, 2017, there were no payments due from Sharyland related to the legal fees and no payments had been received. These fees are included in due from affiliates on the Consolidated Balance Sheets.

As of March 31, 2018 and December 31, 2017, accounts payable and accrued liabilities on the Consolidated Balance Sheets included \$4.9 million and \$2.1 million, respectively, related to amounts owed to Sharyland for construction costs incurred and property taxes paid on our behalf. As of March 31, 2018 and December 31, 2017, amounts due from affiliates on the Consolidated Balance Sheets included \$32.6 million and \$35.2 million, respectively, related to amounts owed by Sharyland primarily associated with our leases.

The management fee paid to Hunt Utility Services, LLC (Hunt Manager) for the three months ended March 31, 2018 and 2017 was \$3.5 million and \$7.0 million, respectively. There were no prepaid or accrued amounts associated with the management fees on the Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017. As of December 31, 2016, there was \$3.5 million accrued associated with management fees on the Consolidated Balance Sheets. Additionally, during each of the three months ended March 31, 2018 and 2017, we paid Hunt Manager less than \$0.1 million for reimbursement of annual software license and maintenance fees and other expenses in accordance with our management agreement.

Our management agreement with Hunt Manager provides for an annual base fee, or management fee. The base fee for each twelve month period beginning each April 1 will equal 1.50% of our total equity as of December 31 of the immediately preceding year, subject to a \$30.0 million cap. The term of the management agreement expires December 31, 2019 and will automatically renew for successive five year terms unless a majority of our independent directors decides to terminate the agreement.

The annual base fees through March 31, 2019 are as follows:

(In millions)	Base Fee
April 1, 2016 - March 31, 2017	\$14.0
April 1, 2017 - March 31, 2018	14.2
April 1, 2018 - March 31, 2019	13.5

5. Electric Plant and Depreciation

The major classes of electric plant are as follows:

(In thousands)	March 31, 2018	December 31, 2017
Electric plant:		
Transmission plant	\$1,744,737	\$1,685,466
Distribution plant	149,888	143,865
General plant	3,023	3,023
Total plant in service	1,897,648	1,832,354
Construction work in progress	66,988	113,643
Total electric plant	1,964,636	1,945,997
Accumulated depreciation	(181,671)	(173,768)
Electric plant, net	\$1,782,965	\$1,772,229

General plant consists primarily of a warehouse, buildings and associated assets. Construction work in progress (CWIP) relates to various projects underway related to our regulated assets. The capitalized amounts of CWIP consist primarily of route development expenditures, labor and materials expenditures, right of way acquisitions, engineering services and legal fees. Electric plant, net includes plant acquisition adjustments of \$29.1 million and \$29.4 million as of March 31, 2018 and December 31, 2017, respectively.

6. Goodwill

Goodwill represents the excess of costs of an acquired business over the fair value of the assets acquired, less liabilities assumed. We conduct an impairment test of goodwill at least annually. As of March 31, 2018 and December 31, 2017, \$138.4 million was recorded as goodwill on the Consolidated Balance Sheets.

7. Other Assets

Other assets are as follows:

	March 31, 2018		Net	December 31, 2017		Net
	Gross			Gross		
	Carrying	Accumulated	Carrying	Carrying	Accumulated	Carrying
(In thousands)	Amount	Amortization	Amount	Amount	Amortization	Amount
Deferred financing costs on undrawn revolver	\$967	\$ (639)	\$ 328	\$967	\$ (591)	\$ 376
Other regulatory assets:						
Deferred financing costs	28,570	(21,959)	6,611	28,570	(20,944)	7,626
Deferred costs recoverable in future years	23,793	—	23,793	23,793	—	23,793
Other regulatory assets	52,363	(21,959)	30,404	52,363	(20,944)	31,419
Investments	2,519	—	2,519	2,519	—	2,519
Other assets	\$55,849	\$ (22,598)	\$ 33,251	\$55,849	\$ (21,535)	\$ 34,314

Deferred financing costs on undrawn revolver consist of costs incurred in connection with the establishment of the InfraREIT LP revolving credit facility. See Note 8, Borrowings Under Credit Facilities.

Other regulatory assets consist of deferred financing costs within our regulated subsidiary, SDTS. The deferred financing costs primarily consist of debt issuance costs incurred in connection with the construction of SDTS's regulated assets or the refinancing of related debt. See Note 8, Borrowings Under Credit Facilities and Note 9, Long-Term Debt. These assets are classified as regulatory assets and amortized over the length of the related loan. These costs are recovered through rates established in rate cases.

Deferred costs recoverable in future years of \$23.8 million as of March 31, 2018 and December 31, 2017 represent operating costs incurred from the inception of Sharyland through 2007. We have determined that these costs are probable of recovery through future rates based on orders of the PUCT in Sharyland's prior rate cases and regulatory precedent.

In connection with the acquisition of Cap Rock Holding Corporation, we received a participation in the National Rural Utilities Cooperative Finance Corporation. We account for this investment under the cost method of accounting. We believe that the investment is not impaired as of March 31, 2018 and December 31, 2017.

8. Borrowings Under Credit Facilities

InfraREIT LP Revolving Credit Facility

In 2014, InfraREIT LP entered into a \$75.0 million revolving credit facility, led by Bank of America, N.A., as administrative agent, with up to \$15.0 million available for issuance of letters of credit and a maturity date of December 10, 2019. The revolving credit facility is secured by certain assets of InfraREIT LP, including accounts and other personal property, and is guaranteed by us and TDC, with the TDC guarantee secured by the assets of, and InfraREIT LP's equity interests in, TDC on materially the same basis as TDC's senior secured notes described below in Note 9, Long-Term Debt.

Borrowings and other extensions of credit under the revolving credit facility bear interest, at InfraREIT LP's election, at a rate equal to (1) the one, two, three or six month London Interbank Offered Rate (LIBOR) plus 2.5%, or (2) a base rate (equal to the highest of (a) the Federal Funds Rate plus ½ of 1%, (b) the administrative agent's prime rate and (c) LIBOR plus 1%) plus 1.5%. Letters of credit are subject to a letter of credit fee equal to the daily amount available to be drawn times 2.5%. InfraREIT LP is also required to pay a commitment fee and other customary fees under the revolving credit facility. InfraREIT LP may prepay amounts outstanding under the revolving credit facility in whole or in part without premium or penalty.

As of March 31, 2018 and December 31, 2017, there were no borrowings or letters of credit outstanding and there was \$75.0 million of borrowing capacity available under the revolving credit facility. As of March 31, 2018 and December 31, 2017, InfraREIT LP was in compliance with all debt covenants under the credit agreement.

SDTS Revolving Credit Facility

In 2014, SDTS entered into the third amended and restated credit agreement led by Royal Bank of Canada, as administrative agent, with a maturity date of December 10, 2019. The credit agreement contains a revolving credit facility with a borrowing capacity up to \$250.0 million with up to \$25.0 million of the revolving credit facility available for issuance of letters of credit and up to \$5.0 million of the revolving credit facility available for swingline loans. The revolving credit facility is secured by certain of SDTS's regulated assets, the leases, certain accounts and TDC's equity interests in SDTS on the same basis as SDTS's various senior secured note obligations described below in Note 9, Long-Term Debt.

The interest rate for the revolving credit facility is based, at SDTS's option, at a rate equal to either (1) a base rate, determined as the greatest of (a) the administrative agent's prime rate, (b) the federal funds effective rate plus ½ of 1% and (c) LIBOR plus 1.00% per annum, plus a margin of either 0.75% or 1.00% per annum, depending on the total debt to capitalization ratio of SDTS on a consolidated basis or (2) LIBOR plus a margin of either 1.75% or 2.00% per annum, depending on the total debt to capitalization ratio of SDTS on a consolidated basis. SDTS is also required to pay a commitment fee and other customary fees under its revolving credit facility. SDTS is entitled to prepay amounts outstanding under the revolving credit facility with no prepayment penalty.

As of March 31, 2018, SDTS had \$35.5 million of borrowings outstanding at an interest rate of 3.63%, no letters of credit outstanding and \$214.5 million of borrowing capacity available under this revolving credit facility. As of December 31, 2017, SDTS had \$41.0 million of borrowings outstanding at a weighted average interest rate of 3.12% with no letters of credit outstanding and \$209.0 million of borrowing capacity available under this revolving credit facility. As of March 31, 2018 and December 31, 2017, SDTS was in compliance with all debt covenants under the credit agreement.

The credit agreements require InfraREIT LP and SDTS to comply with customary covenants for facilities of this type, including: debt to capitalization ratios, debt service coverage ratios, limitations on additional debt, liens, investments, mergers, acquisitions, dispositions or entry into any line of business other than the business of the transmission and distribution of electric power and the provision of ancillary services and certain restrictions on the payment of dividends. The debt to capitalization ratio on the SDTS credit facility is calculated on a combined basis with Sharyland. The credit agreements also contain restrictions on the amount of Sharyland's indebtedness and other restrictions on, and covenants applicable to, Sharyland.

The revolving credit facilities of InfraREIT LP and SDTS are subject to customary events of default. If an event of default occurs under either facility and is continuing, the lenders may accelerate amounts due under such revolving credit facility.

9. Long-Term Debt

Long-term debt consisted of the following:

(Dollar amounts in thousands)	Maturity Date	March 31, 2018		December 31, 2017		
		Amount	Interest Rate	Amount	Interest Rate	
TDC						
Senior secured notes - \$25.0 million	December 30, 2020	\$ 15,938	8.50%	\$ 16,250	8.50%	
SDTS						
Senior secured notes - \$60.0 million	June 20, 2018	60,000	5.04%	60,000	5.04%	
Senior secured term loan - \$200.0 million	June 5, 2020	200,000	3.04%	200,000	2.71%	
Senior secured notes - \$400.0 million	December 3, 2025	400,000	3.86%	400,000	3.86%	
Senior secured notes - \$100.0 million	January 14, 2026	100,000	3.86%	100,000	3.86%	
Senior secured notes - \$53.5 million	December 30, 2029	40,009	7.25%	40,546	7.25%	
Senior secured notes - \$110.0 million	September 30, 2030	91,638	6.47%	92,821	6.47%	
Total SDTS debt		891,647		893,367		
Total long-term debt		907,585		909,617		
Less unamortized deferred financing costs		(89)		(97)		
Total long-term debt, less deferred financing costs		907,496		909,520		
Less current portion of long-term debt		(67,847)		(68,305)		
Debt classified as long-term debt, less deferred financing costs		\$ 839,649		\$ 841,215		

In 2010, TDC issued \$25.0 million aggregate principal amount of 8.50% per annum senior secured notes to The Prudential Insurance Company of America and affiliates (TDC Notes). Principal and interest on the TDC Notes are payable quarterly, and the TDC Notes are secured by the assets of, and InfraREIT LP's equity interest in, TDC on materially the same basis as with lenders under InfraREIT LP's revolving credit facility described above in Note 7, Borrowings Under Credit Facilities. In connection with the issuance of the TDC Notes, TDC incurred deferred financing costs which are shown as a reduction of the senior secured notes balance. The amount of unamortized deferred financing costs associated with the TDC Notes was \$0.1 million as of March 31, 2018 and December 31, 2017.

SDTS has \$60.0 million aggregate principal amount of 5.04% per annum senior secured notes issued to The Prudential Insurance Company of America and affiliates in 2011 (2011 Notes). Interest is payable quarterly while no principal payments are due until maturity.

In June 2017, SDTS entered into a \$200.0 million senior secured term loan credit facility (2017 Term Loan) with Canadian Imperial Bank of Commerce, New York Branch (CIBC) and Mizuho Bank, Ltd., as lenders, and CIBC as administrative agent. The interest rate for the 2017 Term Loan is based, at SDTS's option, at a rate equal to either (1) a base rate, determined as the greatest of (a) the administrative agent's prime rate, (b) the federal funds effective rate plus 0.5% and (c) LIBOR plus 1.00% per annum, plus a margin of 0.25% per annum or (2) LIBOR plus a margin of 1.25%

per annum. The LIBOR interest period may be one, two, three or six months, but interest is payable no less frequently than quarterly.

In 2015, SDTS issued \$400.0 million in 10 year senior secured notes, series A (Series A Notes), and in 2016 issued an additional \$100.0 million in 10 year senior secured notes, series B (Series B Notes). These senior secured notes bear interest at a rate of 3.86% per annum, payable semi-annually. The Series A Notes are due at maturity with outstanding accrued interest payable each June and December. The Series B Notes are due at maturity with outstanding accrued interest payable each January and July.

In 2009, SDTS issued \$53.5 million aggregate principal amount of 7.25% per annum senior secured notes to The Prudential Insurance Company of America and affiliates (2009 Notes). Principal and interest on the 2009 Notes are payable quarterly.

In 2010, SDTS issued \$110.0 million aggregate principal amount of 6.47% per annum senior secured notes to The Prudential Insurance Company of America (2010 Notes). Principal and interest on the 2010 Notes are payable quarterly.

SDTS and TDC are entitled to prepay amounts outstanding under their senior secured notes, subject to a prepayment penalty equal to the excess of the discounted value of the remaining scheduled payments with respect to such notes over the amount of the prepaid notes. SDTS is entitled to prepay amounts outstanding under the 2017 Term Loan with no prepayment penalty. The 2017 Term Loan is also subject to required prepayments upon the occurrence of certain events.

The agreements governing the senior secured notes and 2017 Term Loan contain customary covenants, such as debt to capitalization ratios, debt service coverage ratios, limitations on liens, dispositions, mergers, entry into other lines of business, investments and the incurrence of additional indebtedness. The debt to capitalization ratios are calculated on a combined basis with Sharyland. SDTS's Series A Notes and Series B Notes are not required to maintain a debt service coverage ratio. As of March 31, 2018 and December 31, 2017, SDTS and TDC were in compliance with all debt covenants under the applicable agreements.

SDTS's Series A Notes, Series B Notes, 2009 Notes, 2010 Notes, 2011 Notes and 2017 Term Loan are secured by certain of SDTS's regulated assets, the leases, certain accounts and TDC's equity interests in SDTS on the same basis as SDTS's revolving credit facility described above in Note 8, Borrowings Under Credit Facilities.

The senior secured notes of TDC and SDTS and 2017 Term Loan are subject to customary events of default. If an event of default occurs with respect to the notes and is continuing, the lenders may accelerate the applicable amounts due.

10. Fair Value of Financial Instruments

The carrying amounts of our cash and cash equivalents, restricted cash, due from affiliates and accounts payable approximate fair value due to the short-term nature of these assets and liabilities.

We had fixed interest rate borrowings totaling \$707.6 million and \$709.6 million under our senior secured notes with a weighted average interest rate of 4.6% per annum as of March 31, 2018 and December 31, 2017, respectively. The fair value of these borrowings is estimated using discounted cash flow analysis based on current market rates.

As of March 31, 2018 and December 31, 2017, we had \$200.0 million of borrowings under our 2017 Term Loan that accrues interest under a floating interest rate structure, which is typically repriced every month or three months. Accordingly, the carrying value of such indebtedness approximated its fair value for the amounts outstanding.

Financial instruments, measured at fair value, by level within the fair value hierarchy were as follows:

(In thousands)	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
March 31, 2018				
Long-term debt	\$907,585	\$—	\$932,011	\$—
December 31, 2017				
Long-term debt	\$909,617	\$—	\$950,522	\$—

11. Regulatory Matters

Regulatory Liability

Regulatory liabilities are as follows:

	March	December
(In thousands)	31, 2018	31, 2017
Cost of removal	\$48,401	\$44,679
Excess ADFIT	55,779	55,779
Regulatory liabilities	\$104,180	\$100,458

Our regulatory liability related to cost of removal is established through depreciation rates and represents amounts that we expect to incur in the future. The regulatory liability is recorded as a long-term liability net of actual removal costs incurred.

As an owner of regulated utility assets, we established an accumulated deferred federal income tax (ADFIT) balance for regulatory purposes primarily associated with the difference between U.S. GAAP and federal income tax depreciation on our assets. This ADFIT was calculated based on a 35% corporate federal income tax rate but was not recorded on our consolidated balance sheets or income statements due to the expectation that we would not pay corporate federal income taxes as a result of our REIT structure. With the passage of the Tax Cuts and Jobs Act (TCJA), the corporate federal income tax rate was reduced to 21% effective for tax years beginning on or after January 1, 2018. Regulatory accounting rules require utilities to revalue their ADFIT balances based on a change in corporate federal income tax rates, to remove the difference from ADFIT and to create a regulatory liability for the reduction in ADFIT. Therefore, we reduced the ADFIT by \$55.8 million and created a regulatory liability for regulatory purposes. Additionally, in accordance with ASC Topic 980, Regulated Operations, Section 405, Liabilities, we recorded the \$55.8 million regulatory liability on our Consolidated Balance Sheet with a corresponding reduction to our revenue as deferred tax liabilities have not been previously recorded on our Consolidated Balance Sheets. The regulatory liability will be amortized as an increase to revenue over a future period to be determined in a future rate proceeding. The amount and expected amortization of the regulatory liability could be adjusted in the future due to new laws, regulations or regulatory actions.

Rate Case Filing

In January 2014, the PUCT approved a rate case (2013 Rate Case) filed by Sharyland applicable to our regulated assets providing for a capital structure consisting of 55% debt and 45% equity; a cost of debt of 6.73%; a return on equity of 9.70%; and a return on invested capital of 8.06% in calculating rates. The new rates became effective May 1, 2014. Under the order approving the 2013 Rate Case, Sharyland was required to file its next rate case in 2016 (2016 Rate Case). In November 2017, the 2016 Rate Case was dismissed, which resulted in the 2013 Rate Case regulatory parameters remaining in place. As part of the PUCT order approving the Asset Exchange Transaction, the PUCT also granted SDTS a CCN to continue to own and lease its assets to Sharyland. SDTS and Sharyland are required to file a new rate case by July 1, 2020 with a test year ending December 31, 2019.

12. Commitments and Contingencies

From time to time, we are a party to various legal proceedings arising in the ordinary course of business. Although we cannot predict the outcome of any such legal proceedings, we do not believe the resolution of these proceedings, individually or in the aggregate, will have a material impact on our business, financial condition or results of operations, liquidity and cash flows.

13. Equity

We and the Operating Partnership declared cash dividends on common stock and distributions on OP Units of \$0.25 per share or unit, as applicable, during each of the three months ended March 31, 2018 and 2017. We paid a total of \$15.2 million in dividends and distributions during each of the three months ended March 31, 2018 and 2017.

14. Noncontrolling Interest

We present as a noncontrolling interest the portion of any equity in entities that we control and consolidate but do not own. Generally, OP Units of our Operating Partnership participate in net income allocations and distributions and entitle their holder to the right, subject to the terms set forth in the partnership agreement, to require the Operating Partnership to redeem all or a portion of the OP Units held by such limited partner. At our option, we may satisfy this redemption with cash or by exchanging shares of InfraREIT, Inc. common stock on a one-for-one basis. As of March 31, 2018 and December 31, 2017, there were a total of 16.7 million and 16.9 million OP Units, respectively, held by the limited partners of the Operating Partnership.

During the three months ended March 31, 2018 and 2017, an aggregate of 28,952 and 31,633 long-term incentive units (LTIP Units), respectively, were issued by the Operating Partnership to members of our board of directors. For additional information, refer to Note 17, Share-Based Compensation.

We follow the guidance issued by the FASB regarding the classification and measurement of redeemable securities. Accordingly, we have determined that the OP Units meet the requirements to be classified as permanent equity. During the three months ended March 31, 2018, we redeemed 163,969 OP Units with the issuance of 163,969 shares of common stock. We redeemed 3,100 OP Units with the issuance of 3,100 shares of common stock during the three months ended March 31, 2017.

15. Earnings Per Share

Basic earnings per share is calculated by dividing net earnings after noncontrolling interest by the weighted average shares outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed redemption of OP Units for shares of our common stock, if such redemption were dilutive. The redemption of OP Units would have been anti-dilutive during the three months ended March 31, 2018 and 2017.

Earnings per share are calculated as follows:

(In thousands, except per share data)	Three Months Ended March 31,	
	2018	2017
Basic net income per share:		
Net income attributable to InfraREIT, Inc.	\$12,864	\$7,949
Weighted average common shares outstanding	43,832	43,775
Basic net income per share	\$0.29	\$0.18
Diluted net income per share:		
Net income attributable to InfraREIT, Inc.	\$12,864	\$7,949
Weighted average common shares outstanding	43,832	43,775
Redemption of Operating Partnership units	—	—
Weighted average dilutive shares outstanding	43,832	43,775
Diluted net income per share	\$0.29	\$0.18
Due to the anti-dilutive effect, the computation of diluted earnings per share does not reflect the following adjustments:		
Net income attributable to noncontrolling interest	\$4,900	\$3,068
Redemption of Operating Partnership units	16,872	16,900

16. Leases

The following table shows the composition of our lease revenue:

(In thousands)	Three Months Ended March 31,	
	2018	2017
Base rent (straight-line)	\$45,656	\$39,624
Percentage rent	—	—
Total lease revenue	\$45,656	\$39,624

SDTS has entered into various leases with Sharyland for all our placed in service regulated assets. The master lease agreements, as amended, expire at various dates from December 31, 2019 through December 31, 2022. Our leases primarily consist of base rent, but certain lease supplements contain percentage rent as well. The lease supplements governing the Stanton Transmission Loop, Permian Basin assets and assets acquired in the Asset Exchange

Transaction, which are part of the CREZ assets, only provide for base rent. Rent for the assets in McAllen and the CREZ assets not acquired in the Asset Exchange Transaction is comprised primarily of base rent but also includes percentage rent. Prior to its termination on December 31, 2017, the lease that previously covered the Permian Basis assets as well as the assets in Brady and Celeste, Texas that were transferred to Oncor in the Asset Exchange Transaction also included a percentage rent component. Percentage rent under our leases is based on a percentage of Sharyland's annual gross revenue, as defined in the applicable lease, in excess of annual specified breakpoints, which are at least equal to the base rent under each lease.

The rate used for percentage rent for the reported time periods varies by lease and ranges from a high of 31% to a low of 23%. Because an annual specified breakpoint must be met under our leases before we can recognize any percentage rent, we anticipate that little to no percentage rent will be recognized in the first and second quarters of each year, with the largest amounts of percentage rent recognized during the third and fourth quarters of each year.

17. Share-Based Compensation

We currently utilize the InfraREIT, Inc. 2015 Equity Incentive Plan primarily to compensate the non-executive directors for their service on our board of directors. The following table shows the aggregate LTIP Units issued to members of our board of directors during the three months ended March 31, 2018 and 2017:

Grant Date	LTIP Units	Grant Date	Fair Value	Aggregate Fair Value	Vesting Date
			per LTIP Unit (in thousands)		
January 2017	31,633	January 2018	\$ 18.02	\$ 570	January 2018
January 2018	28,952	January 2019	18.61	539	January 2019

As part of our board of directors' quarterly compensation, each non-executive director can, subject to certain exceptions, elect to receive part of their compensation in our common stock instead of cash with full vesting upon issuance. During 2017 and 2018, all directors received their quarterly compensation in cash. The compensation expense, which represents the fair value of the stock or LTIP Unit measured at market price at the date of grant, is recognized on a straight-line basis over the vesting period. For each of the three months ended March 31, 2018 and 2017, \$0.1 million was recognized as compensation expense related to these grants and is included in general and administrative expense on the Consolidated Statements of Operations. The unamortized compensation expense related to these grants was \$0.4 million as of March 31, 2018 and 2017.

18. Supplemental Cash Flow Information

Supplemental cash flow information and non-cash investing and financing activities are as follows:

(In thousands)	Three Months Ended March 31,	
	2018	2017
Supplemental cash flow information		
Cash paid during the period for interest	\$7,469	\$6,418
Non-cash investing and financing activities		
Change in accrued additions to electric plant	(2,902)	8,876
Allowance for funds used during construction - debt	820	815
Redemption of operating partnership units for common stock	3,106	55
Dividends and distributions payable	15,176	15,169

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This item contains a discussion of our business, including a general overview of our properties, results of operations, liquidity and capital resources and quantitative and qualitative disclosures about market risk.

The following discussion should be read in conjunction with Part II, Item 7., Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 5, 2018 (2017 Form 10-K) and the unaudited consolidated financial statements and related notes beginning on page 5. This Item 2 contains "forward-looking" statements that involve risks and uncertainties. See Forward-Looking Statements at the beginning of this Quarterly Report on Form 10-Q.

Overview

We are engaged in owning and leasing rate-regulated assets in Texas. We are structured as a REIT and lease all our regulated assets to Sharyland Utilities, L.P. (Sharyland), a Texas-based regulated electric utility. Currently, our assets are located in the Texas Panhandle; near Wichita Falls, Abilene and Brownwood; in the Permian Basin; and in South Texas. We have grown rapidly since our formation, with our rate base increasing from approximately \$60 million as of December 31, 2009 to \$1.5 billion as of March 31, 2018.

We are externally managed by Hunt Utility Services, LLC (Hunt Manager). All our officers are employees of Hunt Manager. We expect to benefit from the experience, skill, resources, relationships and contacts of the executive officers and key personnel of Hunt Manager. Pursuant to our management agreement, Hunt Manager provides for our day-to-day management, subject to the oversight of our board of directors. In exchange for these management services, we pay a management fee to Hunt Manager.

For a description of our business model and other significant components of our results of operations, see Part II, Item 7., Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2017 Form 10-K.

Recent Events

The Tax Cuts and Jobs Act (TCJA), enacted in December 2017, reduced the corporate federal income tax rate from 35% to 21%. Sharyland's rates have historically incorporated an income tax allowance at a 35% corporate federal income tax rate, and our lease supplements with Sharyland reflect this assumption. However, due to the enactment of the TCJA and at the request of the PUCT, Sharyland agreed to reduce its wholesale transmission service rate (WTS rate) to reflect an income tax allowance at the new 21% corporate federal income tax rate during the first quarter of 2018. As a result, we expect our annual percentage rent revenues, which are calculated based on a percentage of Sharyland's gross revenue, to be lower as Sharyland begins to implement the lower WTS rate. Additionally, when we and Sharyland enter into new lease supplements for future assets placed in service or upon the renewal of our leases, those agreements will reflect the new 21% corporate federal income tax rate and other impacts of the TCJA.

In addition, in light of the TCJA, our board of directors completed its initial review of our REIT status and has directed management to pursue an alternative structure that would involve, among other things, terminating our REIT status and opting for a traditional C-corporation structure (a De-REIT alternative). Any De-REIT alternative could involve one or more of the following: combining Sharyland with SDTS; terminating the leases between SDTS and Sharyland; terminating the existence of our subsidiary, InfraREIT Partners, LP (Operating Partnership); and/or other negotiations with Hunt, including terminating or renegotiating our management agreement and development agreement, and engaging in related negotiations. Any termination of our REIT status would result, among other things, in us recognizing an accumulated deferred federal income tax liability, beginning to incur income tax expense in our Consolidated Statements of Operations and potentially experiencing other impacts to our financial position, many of which we cannot predict at this time. For additional information, see the caption TCJA Impacts and Company

Structure Review under Factors Expected to Affect Our Operating Results and Financial Condition included in Part II, Item 7., Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Form 10-K.

We intend to explore various De-REIT options and have not yet determined to pursue a specific form of De-REIT alternative. Our board of directors has not set a specific timeline for completing the evaluation of a De-REIT alternative and there can be no assurance that any De-REIT alternative will be executed. We expect to continue operating as a REIT until the execution of a De-REIT alternative, if any. In tandem with our board of directors' evaluation of a De-REIT alternative, the Conflicts Committee will continue to monitor HCI's Schedule 13D filings regarding their intentions with respect to us. The Conflicts Committee intends to consider any proposal from HCI, if any such proposal is received.

Results of Operations

(In thousands)	Three Months Ended March 31,	
	2018	2017
Lease revenue		
Base rent	\$45,656	\$39,624
Percentage rent	—	—
Total lease revenue	45,656	39,624
Operating costs and expenses		
General and administrative expense	6,088	5,981
Depreciation	11,577	12,687
Total operating costs and expenses	17,665	18,668
Income from operations	27,991	20,956
Other (expense) income		
Interest expense, net	(10,674)	(9,698)
Other income, net	733	3
Total other expense	(9,941)	(9,695)
Income before income taxes	18,050	11,261
Income tax expense	286	244
Net income	17,764	11,017
Less: Net income attributable to noncontrolling interest	4,900	3,068
Net income attributable to InfraREIT, Inc.	\$12,864	\$7,949

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Lease revenue — Lease revenue, consisting of only base rent, was \$45.7 million and \$39.6 million for the three months ended March 31, 2018 and 2017, respectively, representing an increase of \$6.1 million, or 15.4%. The increase in base rent was driven by fixed rent comprising a larger percentage of expected total rent under our leases for 2018 and additional assets under lease. There was no percentage rent recognized during the three months ended March 31, 2018 and 2017 as Sharyland's year-to-date adjusted gross revenue did not exceed the annual specified breakpoints under our leases. See Note 16, Leases in the Notes to the Unaudited Consolidated Financial Statements for additional information. Because an annual specified breakpoint must be met under our leases before we can recognize any percentage rent, we anticipate that little to no percentage rent will be recognized in the first and second quarters of each year, with the largest amounts of percentage rent recognized during the third and fourth quarters of each year.

General and administrative expense — General and administrative expense was \$6.1 million and \$6.0 million for the three months ended March 31, 2018 and 2017, respectively, representing an increase of \$0.1 million, or 1.7%. Within general and administrative expense there were \$0.4 million of professional service fees incurred during the first quarter of 2018 related to the asset exchange transaction completed during the fourth quarter of 2017 (Asset Exchange Transaction); evaluation of the impacts of the TCJA; and review of our REIT election and existing lessor-lessee relationship with Sharyland. These expenses were not incurred during the first quarter of 2017. During the first quarter of 2017, we incurred \$0.3 million of regulatory expenses which were not incurred during the first quarter of 2018.

Depreciation — Depreciation expense was \$11.6 million and \$12.7 million for the three months ended March 31, 2018 and 2017, respectively, representing a decrease of \$1.1 million, or 8.7%. The decrease in depreciation expense was

due to our asset mix changing from approximately 70% transmission and 30% distribution to 90% transmission and 10% distribution after the Asset Exchange Transaction.

Interest expense, net — Interest expense, net was \$10.7 million and \$9.7 million during the three months ended March 31, 2018 and 2017, respectively, representing an increase of \$1.0 million, or 10.3%. The increase in interest expense, net was due to higher average debt balances and interest rates during 2018 as compared to 2017. Interest expense was partially offset by \$0.8 million of AFUDC on debt in both 2018 and 2017. See Note 8, Borrowings Under Credit Facilities and Note 9, Long-Term Debt in the Notes to the Unaudited Consolidated Financial Statements for additional information.

Other income, net — Other income, net was \$0.7 million and less than \$0.1 million during the three months ended March 31, 2018 and 2017, respectively. The increase in other income, net was primarily driven by \$0.7 million of AFUDC on other funds being recognized in 2018 compared to no AFUDC on other funds recognized in 2017. AFUDC on other funds was not recognized during 2017 as the short-term borrowings were in excess of the CWIP balance; therefore, CWIP was financed completely with debt.

Net income — Net income was \$17.8 million and \$11.0 million during the three months ended March 31, 2018 and 2017, respectively, representing an increase of \$6.8 million. The increase in net income between the two periods was attributable to a \$6.1 million increase in lease revenue, \$1.1 million decrease in depreciation expense and \$0.7 million increase in other income, net partially offset by a \$1.0 million increase in interest expense, net.

Liquidity and Capital Resources

As of March 31, 2018, we had \$1.6 million of unrestricted cash and cash equivalents, \$1.7 million of restricted cash and \$289.5 million of unused capacity under our revolving credit facilities.

We use our cash on hand, cash flows from operations and borrowings under our credit facilities to fund current obligations, working capital requirements, operating expenses, maturities of long-term debt, budgeted capital spending and dividend payments. We expect that we will be able to fund estimated capital expenditures associated with Footprint Projects through the end of 2020 without raising proceeds from additional equity offerings. However, if (1) we acquire additional regulated assets, (2) debt capital is unavailable on favorable terms, or at all, at a time when we would choose to access debt capital markets, (3) the capital expenditure requirements of our business are different than our expectations, (4) our credit metrics are weaker than our targeted levels, (5) the cash flows from operations do not meet our current estimates or (6) any other unexpected factors, such as changes imposed by the PUCT, were to impact our liquidity and cash position, we may seek to raise proceeds from the equity markets at an earlier time.

Management expects that future operating cash flows, along with access to financial markets, will be sufficient to meet any future operating requirements and forecasted capital investment opportunities. As part of our financing strategy, we will periodically issue long-term debt or enter into term loan arrangements and use the proceeds to reduce borrowings under our revolving credit facilities or refinance other debt. If our ability to access the capital markets is restricted or if debt or equity capital were unavailable on favorable terms, or at all, at a time when we would like, or need, to access those markets, our ability to fund capital expenditures under our leases or to comply with the REIT distribution rules could be adversely affected.

Capital Expenditures

We fund Footprint Projects related to our regulated assets as we and Sharyland determine such Footprint Projects are required pursuant to the terms of our leases. Our total capital expenditures, cash for additions to electric plant on the Consolidated Statements of Cash Flows, for the three months ended March 31, 2018 and 2017 were \$15.0 million and \$52.2 million, respectively.

On an accrual basis, capital expenditures for the three months ended March 31, 2018 and 2017 were \$17.1 million and \$42.5 million, respectively. Capital expenditures on an accrual basis differ from our total capital expenditures due in part to differences in construction costs incurred during the period versus cash paid during the period.

Under the terms of our leases, Sharyland provides a capital expenditure forecast on a rolling three year basis that sets forth anticipated capital expenditures related to our regulated assets. We expect estimated Footprint Projects capital expenditures for the calendar years 2018 through 2020 in the range of \$70 million to \$180 million as set forth in the table below. We intend to fund these capital expenditures with a mix of debt and cash flows from operations.

(In millions)	Years Ending		
	December 31,		
	2018	2019	2020

Total estimated Footprint Projects capital expenditures \$50-80 \$10-50 \$10-50

In recent years, we made significant capital investments in our former Stanton/Brady/Celeste, Texas distribution service territory to reinforce and upgrade our existing assets and to support load growth. Additionally, we expanded the capacity of our Panhandle assets to transmit additional electricity from wind farms. As a result of the Asset Exchange Transaction and with many of these projects coming to a conclusion during 2017 and 2018, our capital expenditures forecast for 2019 and 2020 is primarily driven by expectations regarding maintenance capital expenditures requirements and new assets that either relieve congestion or expand our footprint to connect new generation supply in the Texas Panhandle and West Texas.

Although we believe the assumptions and estimates underlying our forecast to be reasonable as of the date of this report, they are inherently uncertain and subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause the amount and timing of our capital expenditures to differ materially from our current expectations. See Forward-Looking Statements at the beginning of this Quarterly Report on Form 10-Q.

Dividends and Distributions

As a REIT, we must make current distributions of at least 90% of our annual taxable income, excluding capital gains and other adjustments; and as such, we expect to distribute at least 100% of our taxable income.

We paid a total of \$15.2 million in dividends and distributions during each of the three months ended March 31, 2018 and 2017.

On February 27, 2018, our board of directors approved a cash distribution by our Operating Partnership to all unit holders of record on March 29, 2018 of \$0.25 per unit, or \$1.00 per unit on an annualized basis, for a total distribution of \$15.2 million (\$11.0 million to InfraREIT, Inc.). On February 27, 2018, our board of directors also declared a cash dividend to stockholders of record of InfraREIT, Inc. on March 29, 2018 of \$0.25 per share of common stock, or \$1.00 per share on an annualized basis, for a total of \$11.0 million. The cash distribution and cash dividend were paid on April 19, 2018.

Credit Arrangements

We have two revolving credit facilities, a senior secured term loan and senior secured notes. Our assets are collateral under our various debt arrangements. See Note 8, Borrowings Under Credit Facilities and Note 9, Long-Term Debt in the Notes to the Unaudited Consolidated Financial Statements for additional information.

Operating Partnership Revolving Credit Facility

Our Operating Partnership is party to a \$75.0 million revolving credit facility with up to \$15.0 million available for issuance of letters of credit and a maturity date of December 10, 2019.

As of March 31, 2018 and December 31, 2017, there were no outstanding borrowings or letters of credit, and there was \$75.0 million of borrowing capacity available under the revolving credit facility. As of March 31, 2018 and December 31, 2017, our Operating Partnership was in compliance with all debt covenants under the credit agreement.

SDTS Revolving Credit Facility

SDTS has a \$250.0 million revolving credit facility, with up to \$25.0 million of the revolving credit facility available for issuance of letters of credit and up to \$5.0 million of the revolving credit facility available for swingline loans. The revolving credit facility matures on December 10, 2019.

As of March 31, 2018, SDTS had \$35.5 million of borrowings outstanding at an interest rate of 3.63%, no letters of credit outstanding and \$214.5 million of borrowing capacity available under this revolving credit facility. As of December 31, 2017, SDTS had \$41.0 million of borrowings outstanding at a weighted average interest rate of 3.12% with no letters of credit outstanding and \$209.0 million of borrowing capacity available under this revolving credit facility. As of March 31, 2018 and December 31, 2017, SDTS was in compliance with all debt covenants under the credit agreement.

Senior Secured Debt

Our subsidiary, Transmission and Distribution Company, L.L.C. (TDC) issued \$25.0 million aggregate principal amount of 8.50% per annum senior secured notes to The Prudential Insurance Company of America and affiliates (TDC Notes) with a maturity date of December 30, 2020. Principal and interest on the TDC Notes are payable quarterly. As of March 31, 2018, \$15.9 million of principal was outstanding under the TDC Notes.

SDTS has 5.04% per annum senior secured notes issued to The Prudential Insurance Company of America and affiliates (2011 Notes) with a principal balance of \$60.0 million, which is due in full on June 20, 2018. Interest is payable quarterly with no principal payments until maturity. The carrying amount of the 2011 Notes was \$60.0 million as of March 31, 2018. We plan to use borrowings under the SDTS revolving credit facility to repay the principal balance on the 2011 Notes at maturity.

In June 2017, SDTS entered into a \$200.0 million senior secured term loan credit facility (2017 Term Loan) with a maturity date of June 5, 2020. Interest is payable at least quarterly at the option of SDTS with the full principal amount due at maturity. As of March 31, 2018, \$200.0 million was outstanding at an interest rate of 3.04% under the 2017 Term Loan.

SDTS has \$400.0 million in 10 year senior secured notes, series A (Series A Notes), due December 3, 2025 and \$100.0 million in 10 year senior secured notes, series B (Series B Notes), due January 14, 2026. These senior secured notes bear interest at a rate of 3.86% per annum, payable semi-annually. The Series A Notes are due at maturity with outstanding accrued interest payable each June and December. The Series B Notes are due at maturity with outstanding accrued interest payable each January and July. As of March 31, 2018, \$400.0 million and \$100.0 million were outstanding under the Series A Notes and Series B Notes, respectively.

SDTS issued \$53.5 million aggregate principal amount of 7.25% per annum senior secured notes to The Prudential Insurance Company of America and affiliates (2009 Notes) with a maturity date of December 30, 2029. Principal and interest on the 2009 Notes are payable quarterly. As of March 31, 2018, \$40.0 million of principal was outstanding under the 2009 Notes. Additionally, SDTS issued \$110.0 million aggregate principal amount of 6.47% per annum senior secured notes to The Prudential Insurance Company of America (2010 Notes) with a maturity date of September 30, 2030. Principal and interest on the 2010 Notes are payable quarterly. As of March 31, 2018, \$91.6 million of principal was outstanding under the 2010 Notes.

As of March 31, 2018 and December 31, 2017, SDTS and TDC were in compliance with all debt covenants under the applicable agreements governing the senior secured notes and 2017 Term Loan.

Cash Flows

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Cash flows from operating activities — Net cash provided by operating activities was \$34.8 million and \$29.8 million during the three months ended March 31, 2018 and 2017, respectively. The increase in net cash provided by operating activities related primarily to higher lease revenue during the three months ended March 31, 2018 compared to the same period of 2017.

Cash flows from investing activities — Net cash used in investing activities was \$13.4 million and \$52.2 million during the three months ended March 31, 2018 and 2017, respectively. Capital expenditures related to the construction of our regulated assets were \$15.0 million and \$52.2 million during the three months ended March 31, 2018 and 2017, respectively. Additionally, \$1.6 million was received for the repayment of the receivable during 2018 related to the Asset Exchange Transaction.

Cash flows from financing activities — Net cash used in financing activities was \$22.7 million during the three months ended March 31, 2018 compared to net cash provided by financing activities of \$7.4 million during the three months ended March 31, 2017. The higher use of cash related primarily to \$22.0 million lower proceeds from the issuance of short-term and long-term debt during 2018 compared to 2017 coupled with the additional \$8.1 million repayment of short-term and long-term borrowings in 2018 compared to 2017. The payment of dividends and distributions were consistent between 2018 and 2017.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2018 and December 31, 2017.

Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles

We use certain financial measures that are not recognized under U.S. GAAP. The non-GAAP financial measures used in this report include non-GAAP earnings per share (Non-GAAP EPS); funds from operations (FFO) and FFO adjusted in the manner described below (AFFO). We are no longer including cash available for distribution (CAD);

earnings before interest, taxes, depreciation and amortization (EBITDA); and Adjusted EBITDA.

We derive our non-GAAP measures as follows to show our core operational performance:

- We define non-GAAP net income as net income adjusted in a manner we believe is appropriate to show our core operational performance, which includes:
 - an adjustment for the difference between the amount of base rent payments that we receive with respect to the applicable period and the amount of straight-line base rent recognized under U.S. GAAP;
 - adding back the Tax Cuts and Jobs Act regulatory adjustment related to the establishment of the regulatory liability related to the excess ADFIT as a result of the enactment of the TCJA reducing the corporate federal income tax rate from 35% to 21% (see the caption Tax Cuts and Jobs Act Regulatory Adjustment under Significant Components of Our Results of Operations included in Part II, Item 7., Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Form 10-K);

22

adding back the transaction costs related to the Asset Exchange Transaction as these costs are exclusive of our routine business operations or typical rate case costs; and

removing the effect of the gain associated with the inventory that was sold in the Asset Exchange Transaction.

We define Non-GAAP EPS as non-GAAP net income divided by the weighted average shares outstanding calculated in the manner described in the footnotes in the Non-GAAP EPS reconciliation tables below.

The National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income (loss) (computed in accordance with U.S. GAAP), excluding gains and losses from sales of property, net and impairments of depreciated real estate, plus real estate depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. Applying the NAREIT definition to our consolidated financial statements results in FFO representing net income (loss) before depreciation, impairment of assets and gain (loss) on sale of assets. FFO does not represent cash generated from operations as defined by U.S. GAAP and it is not indicative of cash available to fund all cash needs, including distributions.

AFFO is FFO adjusted in a manner we believe is appropriate to show our core operational performance, including:

- an adjustment for the difference between the amount of base rent payments that we receive with respect to the applicable period and the amount of straight-line base rent recognized under U.S. GAAP;
- adding back the Tax Cuts and Jobs Act regulatory adjustment related to the establishment of the regulatory liability related to the excess ADFIT as a result of the enactment of the TCJA reducing the corporate federal income tax rate from 35% to 21% (see the caption Tax Cuts and Jobs Act Regulatory Adjustment under Significant Components of Our Results of Operations included in Part II, Item 7., Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Form 10-K);
- adding back the transaction costs related to the Asset Exchange Transaction as these costs are exclusive of our routine business operations or typical rate case costs;
- removing the effect of the gain associated with the inventory that was sold in the Asset Exchange Transaction; and
- adjusting for other income (expense), net.

Our management uses Non-GAAP EPS, FFO and AFFO as important supplemental measures of our operating performance. We also present non-GAAP performance measures because we believe they help investors understand our business, performance and ability to earn and distribute cash to our stockholders by providing perspectives not immediately apparent from net income. Including reporting on these measures in our public disclosures also ensures that this information is available to all our investors. The presentation of Non-GAAP EPS, FFO and AFFO are not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP.

We offer these measures to assist the users of our financial statements in assessing our operating performance under U.S. GAAP, but these measures are non-GAAP measures and should not be considered measures of liquidity, alternatives to net income or indicators of any other performance measure determined in accordance with U.S. GAAP, nor are they indicative of funds available to fund our cash needs, including capital expenditures, make payments on our indebtedness or make distributions. Our method of calculating these measures may be different from methods used by other companies and, accordingly, may not be comparable to similar measures as calculated by other companies. Investors should not rely on these measures as a substitute for any U.S. GAAP measure, including net income, cash flows from operating activities or revenues.

Below we provide the tabular calculations of Non-GAAP EPS, FFO and AFFO for the three months ended March 31, 2018 and 2017. To provide more analysis around these metrics, the following narratives are provided comparing the three months end March 31, 2018 to the three months ended March 31, 2017.

Non-GAAP EPS was \$0.29 per share for the three months ended March 31, 2018 compared to \$0.20 per share for the three months ended March 31, 2017, representing an increase of 45%. Non-GAAP EPS during the three months ended March 31, 2018 and 2017 was based on 60.7 million weighted average shares outstanding. Non-GAAP EPS reflected a \$5.8 million increase in Non-GAAP net income from \$12.0 million during the three months ended March 31, 2017

to \$17.8 million for the three months ended March 31, 2018, resulting from an increase in lease revenues of \$6.1 million and a \$1.1 million decrease in depreciation expense reduced by an increase of \$1.0 million in interest expense, net. Additionally, other income, net increased by \$0.7 million as a result of an increase in our AFUDC on other funds.

Edgar Filing: InfraREIT, Inc. - Form 10-Q

For the three months ended March 31, 2018, FFO increased \$5.6 million, or 23.6%, to \$29.3 million as compared to \$23.7 million for the three months ended March 31, 2017. For the three months ended March 31, 2018, AFFO was \$28.6 million compared to \$24.7 million in the same period in 2017, representing an increase of \$3.9 million, or 15.8%.

Non-GAAP EPS

The following sets forth a reconciliation of net income attributable to InfraREIT, Inc. per diluted share to Non-GAAP EPS:

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Amount	Per Share (1)	Amount	Per Share (1)
(In thousands, except per share amounts, unaudited)				
Net income attributable to InfraREIT, Inc.	\$12,864	\$0.29	\$7,949	\$0.18
Net income attributable to noncontrolling interest	4,900	0.29	3,068	0.18
Net income	17,764	0.29	11,017	0.18
Base rent adjustment	(120)	—	957	0.02
Transaction costs	151	—	—	—
Non-GAAP net income	\$17,795	\$0.29	\$11,974	\$0.20

(1) The weighted average common shares outstanding of 43.8 million was used to calculate net income attributable to InfraREIT, Inc. per diluted share. The weighted average redeemable partnership units outstanding of 16.9 million was used to calculate the net income attributable to noncontrolling interest per share. The combination of the weighted average common shares and redeemable partnership units outstanding of 60.7 million was used for the remainder of the per share calculations.

FFO and AFFO

The following sets forth a reconciliation of net income to FFO and AFFO:

	Three Months Ended March 31,	
	2018	2017
(In thousands, unaudited)		
Net income	\$17,764	\$11,017
Depreciation	11,577	12,687
FFO	29,341	23,704
Base rent adjustment	(120)	957
Other income, net ⁽¹⁾	(733)	(3)
Transaction costs	151	—
AFFO	\$28,639	\$24,658

(1) Includes AFUDC on other funds of \$0.7 million for the three months ended March 31, 2018. There was no AFUDC on other funds recorded during the three months ended March 31, 2017.

Financial Information Related to Our Tenant

We have legal title to our regulated assets; however, Sharyland maintains operational control of those assets through the leases and through its managing member interest in SDTS and is responsible for construction and maintenance of our regulated assets. These rights and obligations constitute continuing involvement, which results in failed sale-leaseback financing accounting with respect to the lease of our regulated assets in Sharyland's financial statements. Under failed sale-leaseback financing accounting, Sharyland is treated as the owner of the assets under all lease agreements, including regulated assets currently under construction. Consequently, our regulated assets, including any regulated assets currently under construction, are reflected as assets, and an estimate of Sharyland's lease obligations to us are reflected as liabilities, on Sharyland's balance sheet.

In addition to Sharyland's financial information in accordance with U.S. GAAP, we are presenting Sharyland's non-GAAP financial information below, which removes the effect of the failed sale-leaseback accounting. This non-GAAP financial information is reviewed by our management and board of directors in evaluating Sharyland's results of operations and financial condition. Although our management considers Sharyland's U.S. GAAP financial information as well, we believe this non-GAAP financial information provides important supplemental evidence regarding Sharyland's ability to meet its rent obligations to us, and we believe it is helpful to our investors in understanding our tenant's financial condition without the additional implications of the failed sale-leaseback accounting.

We present the following below:

Sharyland's net income (loss), calculated in accordance with U.S. GAAP.

Sharyland's non-GAAP net income (loss), which is calculated by adding the amount of depreciation and interest expense that Sharyland incurs as a result of failed sale-leaseback financing accounting to Sharyland's U.S. GAAP net income and subtracting Sharyland's non-GAAP rent expense. Sharyland's non-GAAP rent expense differs from our lease revenue because Sharyland's non-GAAP rent expense is calculated on a cash basis rather than a U.S. GAAP basis.

Sharyland's non-GAAP net income (loss) before interest, taxes, depreciation, amortization and rent (EBITDAR), which is calculated by adding Sharyland's non-GAAP interest, taxes, depreciation, amortization and rent expense to Sharyland's non-GAAP net income (loss).

A coverage ratio illustrating how EBITDAR relates to Sharyland's non-GAAP rent expense.

Sharyland's non-GAAP balance sheet, which is derived by removing the impacts of the required U.S. GAAP failed sale-leaseback financing accounting treatment.

(In thousands)	Three Months Ended March 31,	
	2018	2017
Net income	\$1,872	\$4,607
Failed sale-leaseback adjustments:		
Add: Failed sale-leaseback depreciation expense	7,590	8,628
Add: Failed sale-leaseback interest expense	37,535	35,702
Deduct: Rent expense	47,319	46,709
Sharyland's management reported net (loss) income	(322)	2,228
Adjustments:		
Add: Interest expense, net	1,648	1,491
Add: Income tax expense	348	426
Add: Depreciation and amortization	3,866	2,604
Add: Rent expense	47,319	46,709
EBITDAR	\$52,859	\$53,458
Ratio of EBITDAR to rent expense	1.12x	1.14x

Edgar Filing: InfraREIT, Inc. - Form 10-Q

(In thousands)	March 31, 2018		
	U.S.		
	GAAP	Failed Sale- Leaseback	Non-GAAP
	Balance	Adjustments	Balance
	Sheet	Sheet	Sheet
Assets			
Current assets	\$67,337	\$—	\$ 67,337
Property, plant and equipment, net	1,953,381	(1,683,233)	270,148
Goodwill	1,100	—	1,100
Deferred charges - regulatory assets, net	47,578	(23,793)	23,785
Total Assets	\$2,069,396	\$(1,707,026)	\$ 362,370
Partners' Capital and Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	\$24,981	\$—	\$ 24,981
Current portion of financing obligation	31,843	(31,843)	—
Current portion of long-term debt	3,493	—	3,493
Due to affiliates	29,139	—	29,139
Current state margin tax payable	2,296	—	2,296
Total current liabilities	91,752	(31,843)	59,909
Long-term financing obligations	1,676,718	(1,676,718)	—
Long-term debt	154,469	—	154,469
Regulatory liabilities	14,346	—	14,346
Other post-employment benefits (OPEB) and other long-term liabilities	1,889	—	1,889
Total liabilities	1,939,174	(1,708,561)	230,613
Commitments and contingencies			
Partners' capital	130,222	1,535	131,757
Total Partners' Capital and Liabilities	\$2,069,396	\$(1,707,026)	\$ 362,370

(In thousands)	December 31, 2017		
	U.S.		
	GAAP	Failed Sale- Leaseback	Non-GAAP
	Balance	Adjustments	Balance
	Sheet	Sheet	Sheet
Assets			
Current assets	\$93,649	\$—	\$ 93,649
Property, plant and equipment, net	1,942,393	(1,672,882)	269,511
Goodwill	1,100	—	1,100
Deferred charges - regulatory assets, net	44,055	(23,793)	20,262
Total Assets	\$2,081,197	\$(1,696,675)	\$ 384,522
Partners' Capital and Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	\$46,515	\$—	\$ 46,515

Edgar Filing: InfraREIT, Inc. - Form 10-Q

Current portion of financing obligation	29,611	(29,611)	—
Current portion of long-term debt	3,493	—	3,493
Due to affiliates	31,615	—	31,615
Current state margin tax payable	1,915	—	1,915
Total current liabilities	113,149	(29,611)	83,538
Long-term financing obligations	1,668,904	(1,668,904)	—
Long-term debt	155,342	—	155,342
Regulatory liabilities	13,563	—	13,563
OPEB and other long-term liabilities	1,889	—	1,889
Total liabilities	1,952,847	(1,698,515)	254,332
Commitments and contingencies			
Partners' capital	128,350	1,840	130,190
Total Partners' Capital and Liabilities	\$2,081,197	\$(1,696,675)	\$ 384,522

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have floating rate debt under our 2017 Term Loan and revolving credit facilities and are exposed to changes in interest rates on these debt instruments. In recent years, the credit markets have experienced historical lows in interest rates. If interest rates rise, the rates on our floating rate debt and future debt offerings could be higher than current levels, causing our financing costs to increase accordingly.

As of March 31, 2018, the outstanding balance under our revolving credit facilities and 2017 Term Loan were \$35.5 million and \$200.0 million, respectively. A hypothetical increase or decrease in interest rates by 1.00% would have changed our interest expense by \$0.6 million for the three months ended March 31, 2018.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15 (e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating these disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We review our disclosure controls and procedures, which may include internal controls over financial reporting, on an ongoing basis. From time to time, management makes changes to enhance the effectiveness of these controls and ensure that they continue to meet the needs of our business activities over time.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are party to various other legal proceedings arising in the ordinary course of business. Although we cannot predict the outcomes of any such legal proceedings, we do not believe the resolution of these proceedings, individually or in the aggregate, will have a material impact on our business, financial condition or results of operations, liquidity and cash flows.

Item 1A. Risk Factors

There have been no material changes in our risk factors during the three months ended March 31, 2018 from those previously disclosed in Part I, Item 1A., Risk Factors of our 2017 Form 10-K. You should carefully consider the risk factors discussed in our 2017 Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or future results.

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

None.

Item 3. Defaults Upon Senior Securities

None.

27

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

Number

Description

- 3.1 ~~—Articles of Restatement of the Registrant (filed as exhibit 3.3 to the Company’s Current Report on Form 8-K dated March 9, 2015 and filed March 10, 2015 and incorporated herein by reference).~~
- 3.2 ~~—Amended and Restated Bylaws of the Registrant (filed as exhibit 3.5 to Amendment No. 1 to the Company’s Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).~~
- 10.1 ~~—Fifteenth Amended and Restated Rent Supplement (McAllen Lease), dated February 28, 2018, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.10 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 and filed on March 5, 2018 and incorporated herein by reference).~~
- 10.2 ~~—Ninth Amended and Restated Rent Supplement (ERCOT Transmission Lease), dated February 28, 2018, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.16 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 and filed on March 5, 2018 and incorporated herein by reference).~~
- 10.3 ~~—Thirteenth Amended and Restated Rent Supplement (CREZ Lease), dated February 28, 2018, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.18 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 and filed on March 5, 2018 and incorporated herein by reference).~~
- 10.4 ~~—First Amended and Restated Rent Supplement (Permian Lease), dated February 28, 2018, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.20 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 and filed on March 5, 2018 and incorporated herein by reference).~~
- 10.5 ~~—First Amendment to Registration Rights Agreement, dated as of February 28, 2018, among the Registrant, Hunt Transmission Services, L.L.C. and Electricity Participant Partnership, LLC (filed as exhibit 10.48 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 and filed on March 5, 2018 and incorporated herein by reference).~~
- 31.1* ~~—Rule 13A-14(a)/15d-14(a) Certification of Chief Executive Officer~~
- 31.2* ~~—Rule 13A-14(a)/15d-14(a) Certification of Chief Financial Officer~~
- 32.1* ~~—Section 1350 Certification of Chief Executive Officer~~

- 32.2* —Section 1350 Certification of Chief Financial Officer
 - 99.1* —Consolidated Financial Statements of Sharyland Utilities, L.P.
 - 101.INS* —XBRL Instance Document
 - 101.SCH* —XBRL Taxonomy Extension Schema Document
 - 101.CAL* —XBRL Taxonomy Extension Calculation Linkbase Document
 - 101.DEF* —XBRL Taxonomy Extension Definition Linkbase Document
 - 101.LAB* —XBRL Taxonomy Extension Labels Linkbase Document
 - 101.PRE* —XBRL Taxonomy Extension Presentation Linkbase Document
- *Filed or furnished herewith.

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.

InfraREIT, Inc.
(Registrant)

/s/ David A. Campbell
Date: May 3, 2018 David A. Campbell
President, Chief Executive Officer and Director

/s/ Brant Meleski
Date: May 3, 2018 Brant Meleski
Senior Vice President and Chief Financial Officer