

TRAVELCENTERS OF AMERICA LLC

Form 10-Q

September 30, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

Commission File Number 001-33274

TRAVELCENTERS OF AMERICA LLC

(Exact name of registrant as specified in its charter)

Delaware

20-5701514

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(State or Other Jurisdiction of Incorporation or
Organization)

(I.R.S. Employer Identification No.)

24601 Center Ridge Road, Suite 200, Westlake, OH 44145-5639

(Address of Principal Executive Offices)

(440) 808-9100

(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Number of Common Shares outstanding at September 26, 2014: 37,667,636 common shares.

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TRAVELCENTERS OF AMERICA LLC

FORM 10-Q

June 30, 2014

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As used herein the terms we , us , our and TA include TravelCenters of America LLC and its consolidated subsidiaries unless otherwise expressly stated or the context otherwise requires.

[Table of Contents](#)**Part I. Financial Information****Item 1. Financial Statements****TravelCenters of America LLC****Condensed Consolidated Balance Sheets (Unaudited)**

(in thousands, except share data)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 105,394	\$ 85,657
Accounts receivable (less allowance for doubtful accounts of \$1,533 as of June 30, 2014, and \$1,304 as of December 31, 2013)	167,308	105,932
Inventories	187,414	199,201
Other current assets	72,555	79,604
Total current assets	532,671	470,394
Property and equipment, net	717,751	704,866
Goodwill and intangible assets, net	48,066	48,772
Other noncurrent assets	34,408	33,250
Total assets	\$ 1,332,896	\$ 1,257,282
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 196,346	\$ 149,645
Current HPT Leases liabilities	30,817	29,935
Other current liabilities	137,884	124,033
Total current liabilities	365,047	303,613
Noncurrent HPT Leases liabilities	338,126	343,926
Senior Notes due 2028	110,000	110,000
Other noncurrent liabilities	50,010	45,866
Total liabilities	863,183	803,405
Commitments and contingencies		
Shareholders' equity:		
Common shares, no par value, 39,158,666 shares authorized at June 30, 2014, and December 31, 2013, and 37,669,546 and 37,625,366 shares issued and outstanding at June 30, 2014, and December 31, 2013, respectively	676,378	674,391
Accumulated other comprehensive income	852	834
Accumulated deficit	(207,517)	(221,348)
Total shareholders' equity	469,713	453,877

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Total liabilities and shareholders' equity	\$	1,332,896	\$	1,257,282
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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TravelCenters of America LLC

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,	
	2014	2013
Revenues:		
Fuel	\$ 1,658,172	\$ 1,635,400
Nonfuel	414,854	380,041
Rent and royalties	3,083	3,313
Total revenues	2,076,109	2,018,754
Cost of goods sold (excluding depreciation):		
Fuel	1,559,049	1,545,588
Nonfuel	191,967	171,938
Total cost of goods sold (excluding depreciation)	1,751,016	1,717,526
Operating expenses:		
Site level operating	203,526	190,646
Selling, general & administrative	25,100	24,482
Real estate rent	53,731	52,104
Depreciation and amortization	15,797	14,025
Total operating expenses	298,154	281,257
Income from operations	26,939	19,971
Acquisition costs	(149)	(205)
Interest income	45	307
Interest expense	(4,213)	(4,430)
Income before income taxes and income from equity investees	22,622	15,643
Provision for income taxes	9,673	382
Income from equity investees	685	723
Net income	\$ 13,634	\$ 15,984
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment, net of taxes of \$83 and \$(85), respectively	170	(199)
Equity interest in investee's unrealized gain (loss) on investments	21	(73)
Other comprehensive income (loss)	191	(272)
Comprehensive income	\$ 13,825	\$ 15,712
Net income per share:		
Basic and diluted	\$ 0.36	\$ 0.54

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TravelCenters of America LLC

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

(in thousands, except per share data)

	Six Months Ended June 30,	
	2014	2013
Revenues:		
Fuel	\$ 3,247,818	\$ 3,260,507
Nonfuel	789,520	709,235
Rent and royalties	6,080	6,363
Total revenues	4,043,418	3,976,105
Cost of goods sold (excluding depreciation):		
Fuel	3,056,378	3,093,767
Nonfuel	360,383	317,303
Total cost of goods sold (excluding depreciation)	3,416,761	3,411,070
Operating expenses:		
Site level operating	403,097	374,579
Selling, general & administrative	51,896	47,709
Real estate rent	107,935	103,988
Depreciation and amortization	31,925	27,248
Total operating expenses	594,853	553,524
Income from operations	31,804	11,511
Acquisition costs	(759)	(320)
Interest income	84	542
Interest expense	(8,288)	(8,495)
Income before income taxes and income from equity investees	22,841	3,238
Provision for income taxes	9,949	552
Income from equity investees	939	1,159
Net income	\$ 13,831	\$ 3,845
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment, net of taxes of \$(8) and \$(138), respectively	(22)	(325)
Equity interest in investee's unrealized gain (loss) on investments	40	(81)
Other comprehensive income (loss)	18	(406)
Comprehensive income	\$ 13,849	\$ 3,439
Net income per share:		
Basic and diluted	\$ 0.37	\$ 0.13

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TravelCenters of America LLC

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 13,831	\$ 3,845
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash rent expense	(4,565)	(4,400)
Depreciation and amortization expense	31,925	27,248
Deferred income tax provision	4,032	180
Changes in assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	(61,732)	(73,102)
Inventories	11,987	(476)
Other current assets	2,006	6,079
Accounts payable and other current liabilities	64,628	101,063
Other, net	1,447	2,584
Net cash provided by operating activities	63,559	63,021
Cash flows from investing activities:		
Proceeds from sales of property and equipment	21,707	43,733
Investment in equity investee	(825)	
Acquisitions of businesses, net of cash acquired	(3,202)	(27,887)
Capital expenditures	(60,608)	(84,703)
Net cash used in investing activities	(42,928)	(68,857)
Cash flows from financing activities:		
Proceeds from sale-leaseback transactions with HPT	301	1,535
Fees paid related to the issuance of common shares	(14)	
Proceeds from Senior Notes issuance		110,000
Sale-leaseback financing obligation payments	(1,183)	(1,022)
Payment of deferred financing fees		(4,749)
Net cash (used in) provided by financing activities	(896)	105,764
Effect of exchange rate changes on cash	2	(26)
Net increase in cash	19,737	99,902
Cash and cash equivalents at the beginning of the period	85,657	35,189
Cash and cash equivalents at the end of the period	\$ 105,394	\$ 135,091
Supplemental disclosure of cash flow information:		
Interest paid (including rent classified as interest and net of capitalized interest)	\$ 7,841	\$ 6,240
Income taxes paid (net of refunds)	\$ 630	\$ 685

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TravelCenters of America LLC

Notes to Condensed Consolidated Financial Statements (Unaudited)

(in thousands, except share and per share amounts)

1. Basis of Presentation, Business Description and Organization

TravelCenters of America LLC, which we refer to as the Company or we, us and our, operates and franchises travel centers under the TravelCenters of America, TA and related brand names, or the TA brand, and the Petro Stopping Centers and Petro brand names, or the Petro brand, primarily along the U.S. interstate highway system. Our travel center customers include trucking fleets and their drivers, independent truck drivers and motorists. We also operate convenience stores with retail gasoline stations, primarily under the Minit Mart brand name, that generally serve motorists. Our travel centers include, on average, over 25 acres of land and typically offer customers diesel fuel and gasoline as well as nonfuel products and services such as truck repair and maintenance services, full service restaurants, quick service restaurants, or QSRs, travel and convenience stores and various other driver amenities. Our convenience stores have, on average, ten fueling positions and approximately 5,000 square feet of interior space offering merchandise and QSRs. We also collect rents, royalties and other fees from our franchisees.

At June 30, 2014, our geographically diverse business included 248 travel centers in 43 U.S. states and in Canada, including 173 travel centers operated under the TA brand, and 75 travel centers operated under the Petro brand. As of June 30, 2014, we operated 218 of these travel centers, which we refer to as Company operated sites, and our franchisees operated 30 of these travel centers. Of our 248 travel centers at June 30, 2014, we owned 34, we leased or managed 189, including 184 that we leased from Hospitality Properties Trust, or HPT, and franchisees owned or leased 25 from third parties. We sublease to franchisees five of the travel centers we lease from HPT.

As of June 30, 2014, we operated 34 convenience stores in four states, primarily Kentucky. Of our 34 convenience stores at June 30, 2014, we owned 27, and we leased or managed seven, including one that we leased from HPT.

We manage our business as one operating segment and, therefore, have one reportable segment. Our locations sell similar products and services, use similar processes to sell products and services, and sell products and services to similar customers. We sometimes make specific disclosures concerning fuel and nonfuel products and services because it facilitates our discussion of trends and operational initiatives within our business and industry. We have only a single travel center located in a foreign country, Canada, and we do not consider the revenues and assets related to our operations in Canada to be material to us.

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, applicable for interim financial statements. The disclosures do not include all the information necessary for complete financial statements in accordance with GAAP. These unaudited interim financial statements should be read in conjunction with the consolidated financial statements and notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, or our Annual Report. In the opinion of our management, all adjustments, which include normal recurring adjustments, considered necessary for a fair presentation have been included. All intercompany transactions and balances have been eliminated. While our revenues are modestly seasonal, the quarterly variations in our operating results may reflect greater seasonal differences because our rent and certain other costs do not vary seasonally. For this and other reasons, our operating results for interim periods are not necessarily

indicative of the results that may be expected for a full year.

Certain prior year amounts have been reclassified in the Condensed Consolidated Statements of Cash Flows to be consistent with the current year presentation.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard under GAAP for virtually all industries. The new standard will apply for annual periods beginning after December 15, 2016, including interim periods therein. Early adoption is prohibited. We have not yet determined the effects, if any, adoption of this update may have on our consolidated financial statements.

Table of Contents**TravelCenters of America LLC****Notes to Condensed Consolidated Financial Statements (Unaudited)****(in thousands, except share and per share amounts)****2. Earnings Per Share**

Unvested shares issued under our share award plan are deemed participating securities because they participate equally in earnings with all of our other common shares. The following table presents a reconciliation from net income to the net income available to common shareholders and the related earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income, as reported	\$ 13,634	\$ 15,984	\$ 13,831	\$ 3,845
Less: net income attributable to participating securities	666	992	677	239
Net income available to common shareholders	\$ 12,968	\$ 14,992	\$ 13,154	\$ 3,606
Weighted average common shares(1)	35,791,850	27,716,024	35,787,657	27,707,211
Basic and diluted net income per share	\$ 0.36	\$ 0.54	\$ 0.37	\$ 0.13

(1) Excludes unvested shares granted under our share award plan, which shares are considered participating securities because they participate equally in earnings and losses with all of our other common shareholders. The weighted average number of unvested shares outstanding for the three months ended June 30, 2014 and 2013, was 1,839,413 and 1,834,847, respectively. The weighted average number of unvested shares outstanding for the six months ended June 30, 2014 and 2013, was 1,840,674 and 1,836,368, respectively.

3. Inventories

Inventories consisted of the following:

	June 30,	December 31,
	2014	2013
Nonfuel products	\$ 142,321	\$ 150,600
Fuel products	45,093	48,601
Total inventories	\$ 187,414	\$ 199,201

4. Acquisitions

During the six months ended June 30, 2014, we acquired a travel center for \$3,242, and we accounted for this transaction using the acquisition method of accounting, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their respective fair values as of the acquisition date. The following table summarizes the amounts assigned, based on their fair values, to the assets we acquired and liabilities we assumed in the business combination described above.

Cash	\$	40
Inventories		201
Property and equipment		3,074
Other assets		17
Other liabilities		(90)
Total purchase price	\$	3,242

We have included the results of this travel center in our consolidated financial statements from its date of acquisition. The pro forma impact of including the results of operations of this acquisition from the beginning of the period is not material to our condensed consolidated financial statements.

As of June 30, 2014, we had entered agreements to acquire two travel center properties for approximately \$21,500 plus saleable inventory at cost. We completed these acquisitions during July and September 2014.

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TravelCenters of America LLC

Notes to Condensed Consolidated Financial Statements (Unaudited)

(in thousands, except share and per share amounts)

During the three months ended June 30, 2014 and 2013, and the six months ended June 30, 2014 and 2013, we incurred and charged to expense \$149, \$205, \$759 and \$320, respectively, of acquisition costs for the legal, due diligence and related activities associated with our consideration and completion of possible and actual acquisitions.

5. Debt

Senior Notes

On January 15, 2013, we issued at par \$110,000 aggregate principal amount of our 8.25% Senior Notes, or the Senior Notes, in an underwritten public offering. The Senior Notes are our senior unsecured obligations. The indenture governing our Senior Notes does not limit the amount of indebtedness we may incur. We may issue additional debt from time to time. The indenture also requires that we file our reports under the Securities and Exchange Act of 1934, as amended, or the Exchange Act, with the indenture trustee within a prescribed time period. We did not maintain compliance with this covenant for the quarter ended June 30, 2014, but the filing of this Quarterly Report on Form 10-Q, or this Quarterly Report, cures this non-compliance.

We estimate the fair value of our Senior Notes was \$113,432 based on the trading price (a Level 1 input) of our Senior Notes on June 30, 2014.

Revolving Credit Facility

Our \$200,000 credit facility requires that we furnish our consolidated financial statements to our lenders within certain prescribed time periods. We received a waiver, until September 30, 2014, from these lenders of the requirement to deliver our financial statements for the period ended June 30, 2014.

6. Accumulated Other Comprehensive Income

Accumulated other comprehensive income at June 30, 2014, consisted of the following:

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	Foreign currency translation adjustment	Equity interest in investee s unrealized gain (loss) on investments	Accumulated other comprehensive income
Balance at December 31, 2013	\$ 785	\$ 49	\$ 834
Foreign currency translation adjustment, net of tax of \$(8)	(22)		(22)
Equity interest in investee s unrealized loss on investments		40	40
Other comprehensive income (loss), net of tax	(22)	40	18
Balance at June 30, 2014	\$ 763	\$ 89	