TRAVELCENTERS OF AMERICA LLC
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

Commission File Number 001-33274

TRAVELCENTERS OF AMERICA LLC
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-5701514
(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 x   No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	Emerging growth company o

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. o

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

Number of Common Shares outstanding at August 7, 2017: 39,556,062 common shares.

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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.

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Part I. Financial Information

Item 1. Financial Statements

TravelCenters of America LLC
Consolidated Balance Sheets (Unaudited)
(in thousands)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$76,625	$61,312
Accounts receivable (less allowance for doubtful accounts of $733 and $744 as of June 30, 2017 and December 31, 2016, respectively)	115,417	107,246
Inventory	197,131	204,145
Other current assets	26,292	29,358
Total current assets	415,465	402,061
Property and equipment, net	1,023,032	1,082,022
Goodwill	89,698	88,542
Other intangible assets, net	35,510	37,738
Other noncurrent assets	60,988	49,478
Total assets	$1,624,693	$1,659,841
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$154,010	$157,964
Current HPT Leases liabilities	40,432	39,720
Other current liabilities	148,515	132,648
Total current liabilities	342,957	330,332
Long term debt, net	319,183	318,739
Noncurrent HPT Leases liabilities	375,792	381,854
Other noncurrent liabilities	63,447	75,837
Total liabilities	1,101,379	1,106,762
Shareholders' equity:		
Common shares, no par value, 41,369 shares authorized as of June 30, 2017 and December 31, 2016, and 39,556 and 39,523 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	688,774	686,348
Accumulated other comprehensive income	270	11
Accumulated deficit	(167,115)	(134,678)
Total TA shareholders' equity	521,929	551,681
Noncontrolling interests	1,385	1,398
Total shareholders' equity	523,314	553,079
Total liabilities and shareholders' equity	$1,624,693	$1,659,841

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

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TravelCenters of America LLC
Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30, 2017	2016
Revenues:		
Fuel	$990,265	$931,211
Nonfuel	504,096	494,467
Rent and royalties from franchisees	4,307	4,330
Total revenues	1,498,668	1,430,008
Cost of goods sold (excluding depreciation):		
Fuel	884,455	829,218
Nonfuel	223,967	222,292
Total cost of goods sold	1,108,422	1,051,510
Operating expenses:		
Site level operating	252,946	244,120
Selling, general and administrative	37,877	36,009
Real estate rent	69,144	64,736
Depreciation and amortization	28,649	21,322
Total operating expenses	388,616	366,187
Income from operations	1,630	12,311
Acquisition costs	63	1,092
Interest expense, net	7,838	6,740
Income from equity investees	925	1,091
(Loss) income before income taxes	(5,346)	5,570
Benefit (provision) for income taxes	2,380	(1,985)
Net (loss) income	(2,966)	3,585
Less: net income for noncontrolling interests	47	64
Net (loss) income attributable to common shareholders	$(3,013)	$3,521
Other comprehensive income, net of tax:		
Foreign currency income, net of taxes of $48 and $11, respectively	$53	$17
Equity interest in investee's unrealized gain on investments	58	43
Other comprehensive income attributable to common shareholders	111	60
Comprehensive (loss) income attributable to common shareholders	$(2,902)	$3,581
Net (loss) income per common share attributable to common shareholders:		
Basic and diluted	$(0.08)	$0.09

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

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TravelCenters of America LLC
Consolidated Statements of Operations and Comprehensive Loss (Unaudited)
(in thousands, except per share amounts)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenues:		
Fuel	$1,925,561	$1,640,739
Nonfuel	955,470	930,485
Rent and royalties from franchisees	8,403	8,606
Total revenues	2,889,434	2,579,830
Cost of goods sold (excluding depreciation):		
Fuel	1,734,166	1,447,045
Nonfuel	419,966	413,995
Total cost of goods sold	2,154,132	1,861,040
Operating expenses:		
Site level operating	498,861	478,170
Selling, general and administrative	78,689	66,975
Real estate rent	137,143	128,265
Depreciation and amortization	60,449	41,847
Total operating expenses	775,142	715,257
(Loss) income from operations	(39,840)	3,533
Acquisition costs	203	2,061
Interest expense, net	15,222	13,561
Income from equity investees	1,203	2,038
Loss before income taxes	(54,062)	(10,051)
Benefit for income taxes	21,695	3,692
Net loss	(32,367)	(6,359)
Less: net income for noncontrolling interests	70	64
Net loss attributable to common shareholders	$(32,437)	$(6,423)
Other comprehensive income, net of tax:		
Foreign currency income, net of taxes of $66 and $132, respectively	$79	$211
Equity interest in investee's unrealized gain on investments	180	95
Other comprehensive income attributable to common shareholders	259	306
Comprehensive loss attributable to common shareholders	$(32,178)	$(6,117)
Net loss per common share attributable to common shareholders:		
Basic and diluted	$(0.82)	$(0.17)

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

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TravelCenters of America LLC
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Six Months Ended June 30, 2017			2016		
Cash flows from operating activities:						
Net loss	$	(32,367	)	$	(6,359	)
Adjustments to reconcile net loss to net cash provided by operating activities:						
Noncash rent expense	(7,153		)	(6,768		)
Depreciation and amortization expense	60,449			41,847		
Deferred income taxes	(23,244		)	(2,627		)
Changes in operating assets and liabilities, net of effects of business acquisitions:						
Accounts receivable	(8,177		)	(33,270		)
Inventory	7,111			(4,833		)
Other assets	3,098			6,598		
Accounts payable and other liabilities	13,427			60,728		
Other, net	1,992			980		
Net cash provided by operating activities	15,136			56,296		
Cash flows from investing activities:						
Proceeds from asset sales	76,048			120,961		
Capital expenditures	(68,346		)	(143,374		)
Acquisitions of businesses, net of cash acquired	(6,110		)	(72,001		)
Other	(3,000		)	—		
Net cash used in investing activities	(1,408		)	(94,414		)
Cash flows from financing activities:						
	1,957			148		

Proceeds from sale leaseback transactions with HPT		
Sale leaseback financing obligation payments	(358)	(280)
Other, net	(121)	(74)
Net cash provided by (used in) financing activities	1,478	(206)
Effect of exchange rate changes on cash	107	36
Net increase (decrease) in cash and cash equivalents	15,313	(38,288)
Cash and cash equivalents at the beginning of the period	61,312	172,087
Cash and cash equivalents at the end of the period	$ 76,625	$ 133,799
Supplemental disclosure of cash flow information:		
Interest paid (including rent classified as interest and net of capitalized interest)	$ 14,583	$ 13,533
Income taxes paid (refunded)	565	(231)

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

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TravelCenters of America LLC
Notes to Consolidated Financial Statements (Unaudited)
(dollars and shares in thousands, except per share amounts)

1. Business Description and Basis of Presentation

TravelCenters of America LLC, which we refer to as the Company or we, us and our, is a Delaware limited liability company. As of June 30, 2017, we operated and franchised 539 travel centers, standalone convenience stores, and standalone restaurants. Our customers include trucking fleets and their drivers, independent truck drivers, highway and local motorists and casual diners. We also collect rents, royalties and other fees from our tenants and franchisees. We manage our business on the basis of two separately reportable segments, travel centers and convenience stores. See Note 12 for more information about our reportable segments. We have a single travel center located in a foreign country, Canada, that we do not consider material to our operations.

As of June 30, 2017, our business included 256 travel centers in 43 states in the U.S., primarily along the U.S. interstate highway system, and the province of Ontario, Canada. Our travel centers included 178 locations operated under the "TravelCenters of America" and "TA" brand names, or the TA brand, and 78 locations operated under the "Petro Stopping Centers" and "Petro" brand names, or the Petro brand. Of our 256 travel centers at June 30, 2017, we owned 29, we leased 200, we operated two for a joint venture in which we own a noncontrolling interest and 25 were owned or leased from others by our franchisees. We operated 227 of our travel centers and franchisees operated 29 travel centers, including four we leased to franchisees. Our travel centers offer a broad range of products and services, including 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, and various customer amenities. We report this portion of our business as our travel center segment.

As of June 30, 2017, our business included 233 convenience stores in 11 states in the U.S. We operate our convenience stores under the "Minit Mart" brand name, or the Minit Mart brand. Of these 233 convenience stores at June 30, 2017, we owned 198, we leased 32 and we operated three for a joint venture in which we own a noncontrolling interest. Our convenience stores offer gasoline as well as a variety of nonfuel products and services, including coffee, groceries, some fresh foods, and, in many stores, a QSR and/or car wash. We report this portion of our business as our convenience store segment.

As of June 30, 2017, our business included 50 standalone restaurants in 14 states in the U.S. operated primarily under the "Quaker Steak & Lube" brand name, or the QSL brand. Of our 50 standalone restaurants at June 30, 2017, we owned seven, we leased nine, we operated one for a joint venture in which we own a noncontrolling interest and 33 were owned or leased from others by our franchisees. We report this portion of our business within corporate and other in our segment information.

The accompanying 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 presented 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, 2016, or our Annual Report. In the opinion of our management, the accompanying consolidated financial statements include all adjustments, including normal recurring adjustments, considered necessary for a fair presentation. 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 expense 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 to conform to the current year presentation.

Fair Value Measurement

Senior Notes

We collectively refer to our $110,000 of 8.25% Senior Notes due 2028, our $120,000 of 8.00% Senior Notes due 2029 and our $100,000 of 8.00% Senior Notes due 2030 as our Senior Notes, which are our senior unsecured obligations. We estimate that, based on their trading prices (a Level 1 input), the aggregate fair value of our Senior Notes on June 30, 2017, was $313,820.

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TravelCenters of America LLC
Notes to Consolidated Financial Statements (Unaudited)
(dollars and shares in thousands, except per share amounts)

Recently Issued Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, or ASU 2014-09, which establishes a comprehensive revenue recognition standard under GAAP for almost all industries. This new standard will apply for annual periods beginning after December 15, 2017, including interim periods therein. To address implementation of ASU 2014-09 and evaluate its impact on our consolidated financial statements, we have developed a project plan in which we are utilizing a bottom up approach to evaluate our revenue streams and related internal controls. Since much of our revenue is initiated at the point of sale, we do not believe the implementation of this standard will have a material impact on our consolidated financial statements. We expect to complete our assessment, including selecting a transition method for adoption of this standard, during 2017.
In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases, which establishes a comprehensive lease standard under GAAP for virtually all industries. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. A lessee is also required to record a right of use asset and a lease liability on the consolidated balance sheet for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales type leases, direct financing leases and operating leases. The new standard will apply for annual periods beginning after December 15, 2018, including interim periods therein, and requires modified retrospective application. Early adoption is permitted. We are in the process of evaluating the effects the adoption of this update may have on our consolidated financial statements. We believe the adoption of this update will have a material impact on our consolidated balance sheets due to the recognition of the lease rights and obligations as assets and liabilities. While the adoption of this standard will have no effect on the cash we pay under our lease agreements, we expect amounts within our statements of operations and comprehensive (loss) income will change materially.

2. Earnings Per Share
The following table presents a reconciliation of net (loss) income attributable to common shareholders to net (loss) income available to common shareholders and the related earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net (loss) income attributable to common shareholders, as reported	$(3,013)	$3,521	$(32,437)	$(6,423)
Less: net (loss) income attributable to participating securities	(159)	174	(1,717)	(315)
Net (loss) income available to common shareholders	$(2,854)	$3,347	$(30,720)	$(6,108)
Weighted average common shares(1)	37,450	36,921	37,438	36,907
Basic and diluted net (loss) income per common share	$(0.08)	$0.09	$(0.82)	$(0.17)

(1) Excludes unvested shares awarded 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 shares. The weighted average number of unvested shares outstanding for the three months ended June 30, 2017 and 2016, was 2,090 and 1,903, respectively. The weighted average number of unvested shares outstanding for the six months ended June 30, 2017 and 2016, was 2,092 and 1,905, respectively.

TravelCenters of America LLC
Notes to Consolidated Financial Statements (Unaudited)
(dollars and shares in thousands, except per share amounts)

3. Acquisitions
During the six months ended June 30, 2017, we acquired six standalone restaurants from one of our franchisees for an aggregate purchase price of $6,110, and accounted for this transaction as a business combination, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their respective fair values as of the date of acquisition. We have included the results of this acquired business in our consolidated financial statements from the date of acquisition. The pro forma impact of this acquisition, including the results of operations of the acquired standalone restaurants from the beginning of the periods presented, is not material to our consolidated financial statements.
Since June 30, 2017, we completed the acquisition of a travel center from one of our franchisees for a purchase price of $13,050, excluding acquisition costs and working capital adjustments.
Acquisition costs, such as legal fees, due diligence costs and closing costs, are not included as a component of consideration transferred in business combinations but instead are expensed as incurred.

4. Goodwill
Goodwill consisted of the following:

	June 30, 2017	December 31, 2016
Travel center segment	$17,252	$ 17,252
Convenience store segment	69,400	69,400
Corporate and other	3,046	1,890
Total goodwill	$89,698	$ 88,542

During the six months ended June 30, 2017, goodwill increased by $1,156 in connection with the acquisition of six standalone restaurants. See Note 3 for more information about our acquisitions.

5. Income Taxes
We historically have calculated the provision for income taxes during interim reporting periods by applying an estimated annual effective tax rate for the full fiscal year to net income (loss) before income taxes for the reporting period. Since we determined that relatively small changes in estimated annual income (loss) before income taxes could result in significant changes in the estimated annual effective tax rate, we have calculated our income tax provision (benefit) using a discrete rate based on the actual loss before income taxes for the six months ended June 30, 2017.

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TravelCenters of America LLC
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(dollars and shares in thousands, except per share amounts)

6. Equity Investments

Our investments in equity affiliates, which are presented in our consolidated balance sheets in other noncurrent assets, and our proportional share of our investees' net income (loss) recognized in our consolidated statements of operations and comprehensive (loss) income were as follows:

	PTP	Other[1]	Total
Investment balance:			
As of June 30, 2017	$23,358	$23,779	$47,137
As of December 31, 2016	21,657	24,097	45,754
Income (loss) from equity investments:			
Three months ended June 30, 2017	$1,154	$(229)	$925
Three months ended June 30, 2016	1,074	17	1,091
Six months ended June 30, 2017	1,701	(498)	1,203
Six months ended June 30, 2016	1,944	94	2,038

(1) Includes equity investments that are not individually material to our consolidated financial statements, including our investment in Affiliates Insurance Company, or AIC. See Note 9 for more information about our investment in AIC.

Petro Travel Plaza Holdings LLC

Petro Travel Plaza Holdings LLC, or PTP, is a joint venture between us and Tejon Development Corporation that owns two travel centers, three convenience stores and one standalone restaurant in California. We own a 40% interest in PTP and we receive a management fee from PTP to operate the two travel centers, three convenience stores and one standalone restaurant.

The following table sets forth summarized financial information of PTP. PTP's operating results are not consolidated with ours as we account for our PTP investment under the equity method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total revenues	$30,991	$29,168	$57,232	$52,972
Cost of goods sold (excluding depreciation)	21,780	20,952	40,915	37,328
Operating income	3,138	3,082	4,747	5,489
Net income and comprehensive income	3,021	2,838	4,523	5,129

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TravelCenters of America LLC
Notes to Consolidated Financial Statements (Unaudited)
(dollars and shares in thousands, except per share amounts)

7. HPT Leases

As of June 30, 2017, we leased from Hospitality Properties Trust, or HPT, a total of 199 properties under five leases, four of which we refer to as the TA Leases and one of which we refer to as the Petro Lease, and which collectively we refer to as the HPT Leases. We recognized rent expense under the HPT Leases of $65,908 and $61,684 for the three months ended June 30, 2017 and 2016, respectively, and $130,859 and $122,513 for the six months ended June 30, 2017 and 2016, respectively.

Our minimum annual rent as of June 30, 2017, was $278,626. In addition to the payment of minimum annual rent, the HPT Leases provide for payment to HPT of percentage rent based on increases in total nonfuel revenues over base year levels. The total amount of percentage rent that we incurred was $346 and $283 for the three months ended June 30, 2017 and 2016, respectively, and $1,001 and $529 for the six months ended June 30, 2017 and 2016, respectively. HPT waived $61 and $372, respectively, of percentage rent under the Petro Lease for the three and six months ended June 30, 2016; as of June 30, 2016, HPT had cumulatively waived all of the $2,500 of percentage rent it previously agreed to waive and no further waivers are contractually required.

During the six months ended June 30, 2017 and 2016, we sold to HPT $50,403 and $55,059, respectively, of improvements we previously made to properties leased from HPT. As a result, pursuant to the terms of our HPT Leases, our minimum annual rent payable to HPT increased by $4,284 and $4,680, respectively. At June 30, 2017, our property and equipment balance included $21,016 of improvements of the type that we typically request that HPT purchase for an increase in minimum annual rent; however, HPT is not obligated to purchase these improvements.

The following table summarizes the various amounts related to the HPT Leases that are included in our consolidated balance sheets.

	June 30, 2017	December 31, 2016
Current HPT Leases liabilities:		
Accrued rent	$23,402	$ 22,868
Sale leaseback financing obligation	673	484
Straight line rent accrual	2,458	2,458
Deferred gain	10,129	10,140
Deferred tenant improvements allowance	3,770	3,770
Total current HPT Leases liabilities	$40,432	$ 39,720
Noncurrent HPT Leases liabilities:		
Deferred rent obligation	$150,000	$ 150,000
Sale leaseback financing obligation	22,627	21,165
Straight line rent accrual	47,346	47,771
Deferred gain	116,117	121,331
Deferred tenant improvements allowance	39,702	41,587
Total noncurrent HPT Leases liabilities	$375,792	$ 381,854

On May 3, 2017, pursuant to the terms of our June 2015 transaction agreement with HPT, as amended, we sold to, and leased back from, HPT the fourth and final development property that is subject to that agreement. We received proceeds of $27,602, this property was added to the HPT Leases and our minimum annual rent under the HPT Leases increased by $2,346 as a result.

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TravelCenters of America LLC
Notes to Consolidated Financial Statements (Unaudited)
(dollars and shares in thousands, except per share amounts)