

TRAVELCENTERS OF AMERICA LLC
Form 10-K
March 02, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

**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
(State or other jurisdiction of
incorporation or organization)

20-5701514
(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Shares

Name of each exchange on which registered
NYSE Alternext US

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

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

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

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

Indicate by check mark whether the registrant 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 Smaller reporting company
(Do not check if a
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

The aggregate market value of the voting shares of the registrant held by non-affiliates was \$32.1 million based on the closing price per common share of \$2.27 on the American Stock Exchange (now the NYSE Alternext US) on June 30, 2008. For purposes of this calculation, the aggregate of 339,524 common shares that were held by the directors and officers of the registrant as of June 30, 2008 have been included in the number of common shares held by affiliates.

Number of the registrant's common shares outstanding as of February 27, 2009: 16,631,545.

References in this Annual Report on Form 10-K, to "TA", "TravelCenters", the "Company", "we", "us" and "our" include TravelCenters of America LLC and our consolidated subsidiaries unless otherwise expressly stated or the context indicates otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference to our definitive Proxy Statement for our 2009 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A, or our definitive Proxy Statement.

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WARNING CONCERNING FORWARD LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K CONTAINS STATEMENTS THAT CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. ALSO, WHENEVER WE USE WORDS SUCH AS "BELIEVE", "EXPECT", "ANTICIPATE", "INTEND", "PLAN", "ESTIMATE" OR SIMILAR EXPRESSIONS, WE ARE MAKING FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON OUR PRESENT INTENT, BELIEFS OR EXPECTATIONS, BUT FORWARD LOOKING STATEMENTS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN OR IMPLIED BY OUR FORWARD LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS. AMONG OTHERS, THE FORWARD LOOKING STATEMENTS WHICH APPEAR IN THIS ANNUAL REPORT ON FORM 10-K THAT MAY NOT OCCUR INCLUDE:

OUR DESCRIPTION OF OUR RENT DEFERRAL AGREEMENT WITH HOSPITALITY PROPERTIES TRUST MAY IMPLY THAT THE RENT DEFERRAL AMOUNTS TOGETHER WITH OUR OTHER CASH PROVIDED BY OUR OPERATING ACTIVITIES WILL BE SUFFICIENT TO ALLOW US TO GENERATE POSITIVE CASH FLOW FROM OPERATIONS AND TO MEET OUR OBLIGATIONS DURING THE RENT DEFERRAL PERIOD. IN FACT, WE MAY NOT BE ABLE TO GENERATE POSITIVE CASH FLOW FROM OPERATIONS OR MEET OUR OBLIGATIONS;

CERTAIN STATEMENTS MAY IMPLY THAT OUR STAFF REDUCTIONS, EXPENSE CONTROLS AND OTHER INITIATIVES MAY CAUSE IMPROVED FINANCIAL RESULTS. IN FACT, CURRENT ECONOMIC CONDITIONS IN THE UNITED STATES MAY NOT IMPROVE AND MAY DECLINE FURTHER, FUTURE MARKET CONDITIONS IN THE TRUCKING INDUSTRY OR OTHERWISE MAY BE WORSE THAN WE NOW EXPECT AND OUR INITIATIVES MAY NOT BE SUCCESSFULLY IMPLEMENTED OR SUSTAINED, WHICH COULD RESULT IN OUR FINANCIAL RESULTS NOT IMPROVING OR OUR EXPERIENCING MATERIAL AND CONTINUING LOSSES;

THE SUCCESS OF OUR COST CONTROL INITIATIVES DEPENDS IN LARGE PART UPON OUR MANAGEMENT'S ABILITY TO MANAGE HOURLY EMPLOYMENT COSTS TO MATCH OUR CHANGING LEVELS OF BUSINESS, BUT WE MAY BE UNABLE TO REDUCE STAFFING OR OTHER COSTS BELOW CERTAIN LEVELS AT OUR TRAVEL CENTERS, WHICH GENERALLY OPERATE 24 HOURS PER DAY, 365 DAYS PER YEAR;

THIS ANNUAL REPORT ON FORM 10-K STATES THAT OUR PLANNED CAPITAL PROJECTS FOR 2009 MAY COST APPROXIMATELY \$60 MILLION TO COMPLETE. HOWEVER, THE AMOUNT AND TIMING OF CAPITAL PROJECT EXPENDITURES ARE OFTEN DIFFICULT TO PROJECT. SOME CAPITAL PROJECTS COST MORE THAN ANTICIPATED AND WE MAY SPEND MORE THAN \$60 MILLION TO COMPLETE OUR CAPITAL PROJECTS. CURRENTLY UNANTICIPATED PROJECTS THAT ARE REQUIRED TO BE COMPLETED MAY ARISE AND CAUSE US TO SPEND MORE THAN CURRENTLY ANTICIPATED. SOME CAPITAL PROJECTS TAKE MORE TIME THAN ANTICIPATED AND WE MAY NOT COMPLETE THESE CAPITAL PROJECTS IN 2009. AS A RESULT OF MARKET CONDITIONS, WE MAY DEFER CERTAIN CAPITAL PROJECTS AND SUCH DEFERRAL MAY HARM OUR BUSINESS OR REQUIRE US TO MAKE LARGER AMOUNTS OF CAPITAL EXPENDITURES IN

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THE FUTURE. THE CAPITAL PROJECTS COMPLETED MAY NOT INCREASE OUR SALES OR MARGINS;

OUR ENVIRONMENTAL LIABILITY MAY BE GREATER THAN WE CURRENTLY ANTICIPATE;

WE MAY BE UNABLE TO SETTLE OR PREVAIL IN OUR PENDING LITIGATION MATTERS AND ANY SETTLEMENT OR ADVERSE RULING MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS. FURTHER, THE LEGAL AND OTHER EXPENSES WE MAY INCUR IN CONNECTION WITH LITIGATION MATTERS WILL DEPEND, IN PART, UPON ACTIONS TAKEN BY OTHER PARTIES, WHICH ACTIONS ARE NOT WITHIN OUR CONTROL AND THESE COSTS MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS;

THE STATEMENT IN THIS ANNUAL REPORT ON FORM 10-K THAT WE HAD \$145.5 MILLION OF CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2008 AND THAT A PORTION OF OUR BANK CREDIT FACILITY IS UNUSED MAY IMPLY THAT WE HAVE ABUNDANT WORKING CAPITAL AND CASH LIQUIDITY. IN FACT, OUR REGULAR OPERATIONS REQUIRE LARGE AMOUNTS OF WORKING CASH AND OUR BANK CREDIT FACILITY IS SUBSTANTIALLY USED TO SECURE LETTERS OF CREDIT FOR OUR SUPPLIERS. ACCORDINGLY, WE MAY NOT HAVE SUFFICIENT WORKING CAPITAL OR CASH LIQUIDITY;

OUR EXPECTATION THAT WE WILL BENEFIT FINANCIALLY BY PARTICIPATING IN THE INSURANCE COMPANY BEING FORMED AND LICENSED IN THE STATE OF INDIANA WITH REIT MANAGEMENT & RESEARCH LLC, OR REIT MANAGEMENT, AND COMPANIES TO WHICH REIT MANAGEMENT PROVIDES MANAGEMENT SERVICES; AND

PARTICIPATION IN AN INSURANCE BUSINESS INVOLVES POTENTIAL FINANCIAL RISKS AND REWARDS TYPICAL OF ANY START UP BUSINESS VENTURE AS WELL AS OTHER FINANCIAL RISKS AND REWARDS SPECIFIC TO INSURANCE COMPANIES. AMONG THE RISKS THAT ARE SPECIFIC TO INSURANCE COMPANIES IS THE RISK THAT THE INSURANCE COMPANY MAY NOT BE ABLE TO ADEQUATELY FINANCE CLAIMS WHICH COULD LEAVE US UNDERINSURED AND INCREASE OUR FUNDING EXPOSURE FOR CLAIMS THAT MIGHT OTHERWISE HAVE BEEN FUNDED IF INSURANCE WAS PROCURED WITH OTHER MORE ESTABLISHED INSURERS. ACCORDINGLY, OUR EXPECTED FINANCIAL BENEFITS FROM OUR INITIAL OR FUTURE INVESTMENTS IN AN INSURANCE COMPANY MAY BE DELAYED OR MAY NOT OCCUR AND THE INSURANCE COMPANY MAY REQUIRE MORE FUNDS THAN WE EXPECT.

THESE UNEXPECTED RESULTS OF OUR FORWARD LOOKING STATEMENTS MAY BE CAUSED BY VARIOUS FACTORS, SOME OF WHICH ARE BEYOND OUR CONTROL:

FUEL PRICE INCREASES, FUEL PRICE VOLATILITY OR OTHER FACTORS MAY CAUSE US TO NEED MORE WORKING CAPITAL TO MAINTAIN OUR INVENTORIES AND CARRY OUR ACCOUNTS RECEIVABLE THAN WE NOW EXPECT;

IN THE PAST, INCREASES IN DIESEL PRICES HAVE REDUCED THE DEMAND FOR THE PRODUCTS AND SERVICES THAT WE SELL BECAUSE SUCH FUEL PRICES MAY HAVE ENCOURAGED FUEL CONSERVATION, DIRECTED FREIGHT BUSINESS AWAY FROM TRUCKING OR OTHERWISE ADVERSELY AFFECTED THE BUSINESS OF OUR CUSTOMERS. FUTURE INCREASES IN DIESEL PRICES MAY HAVE SIMILAR AND OTHER ADVERSE EFFECTS ON OUR BUSINESS;

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OUR SUPPLIERS MAY BE UNWILLING OR UNABLE TO MAINTAIN OR INCREASE THEIR LIMITS FOR OUR PURCHASES ON CREDIT. IF WE ARE UNABLE TO PURCHASE GOODS ON REASONABLE CREDIT TERMS, OUR REQUIRED WORKING CAPITAL MAY INCREASE AND WE MAY INCUR MATERIAL LOSSES. FURTHER, THE GLOBAL CREDIT MARKETS HAVE BEEN EXPERIENCING SUBSTANTIAL DISRUPTION AND, AS A RESULT, CREDIT HAS BECOME MORE EXPENSIVE AND DIFFICULT TO OBTAIN. FAILURE TO OBTAIN ANY NECESSARY FINANCING ON REASONABLE TERMS WOULD ADVERSELY AFFECT OUR ABILITY TO FUND OUR BUSINESS AND OPERATIONS;

IF THE U.S. RECESSION CONTINUES TO WORSEN OR LASTS FOR AN EXTENDED PERIOD, OUR CUSTOMERS MAY PURCHASE LESS OF OUR GOODS AND SERVICES AND WE MAY SUFFER LOSSES; AND

WE ARE CURRENTLY INVOLVED IN SEVERAL LITIGATION MATTERS. DISCOVERY AND COURT DECISIONS DURING LITIGATION OFTEN RESULT IN UNANTICIPATED RESULTS. LITIGATION IS USUALLY EXPENSIVE AND DISTRACTING TO MANAGEMENT. WE CAN PROVIDE NO ASSURANCE AS TO THE OUTCOME OF ANY OF THE LITIGATION MATTERS IN WHICH WE ARE INVOLVED.

WE HAVE PRODUCED PROFITABLE OPERATIONS IN ONLY TWO QUARTERLY REPORTING PERIODS SINCE WE BECAME A PUBLICLY OWNED COMPANY ON JANUARY 31, 2007. ALTHOUGH OUR PLANS ARE INTENDED TO CREATE PROFITABLE OPERATIONS, THERE CAN BE NO ASSURANCE THAT THESE PLANS WILL SUCCEED.

RESULTS THAT DIFFER FROM THOSE STATED OR IMPLIED BY OUR FORWARD LOOKING STATEMENTS MAY ALSO BE CAUSED BY VARIOUS CHANGES IN OUR BUSINESS OR MARKET CONDITIONS AS DESCRIBED MORE FULLY ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-K INCLUDING UNDER "ITEM 1A. RISK FACTORS."

YOU SHOULD NOT PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS.

EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO UPDATE OR REVISE ANY FORWARD LOOKING STATEMENT AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

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**TRAVELCENTERS OF AMERICA LLC
2008 FORM 10-K ANNUAL REPORT**

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PART I

Item 1. Business

General

We are a limited liability company formed under Delaware law on October 10, 2006, as a wholly owned subsidiary of Hospitality Properties Trust, or Hospitality Trust. Our initial capitalization in a nominal amount was provided by Hospitality Trust on our formation date. From that time through January 31, 2007, we conducted no business activities. On January 31, 2007, Hospitality Trust acquired TravelCenters of America, Inc., our predecessor, restructured this acquired business and distributed all of our then outstanding common shares to the shareholders of Hospitality Trust. In this Annual Report on Form 10-K we sometimes refer to these transactions as the HPT Transaction and refer to Hospitality Trust and the subsidiaries of Hospitality Trust from which we lease certain properties collectively as Hospitality Trust.

Business Overview

We operate and franchise travel centers primarily along the U.S. interstate highway system. Our customers include long haul trucking fleets and their drivers, independent truck drivers and motorists. As of December 31, 2008, our business included 233 travel centers located in 41 states in the U.S. and the province of Ontario, Canada. Our travel centers include 166 that are operated under the "TravelCenters of America" or "TA" brand names, including 143 that we operate and 23 that franchisees operate, and 67 that are operated under the "Petro" brand name, including 45 that we operate and 22 that franchisees operate.

Many of our travel centers were originally developed years ago when prime real estate locations along the interstate highway system were more readily available than they are today, which we believe would make it difficult to replicate our business. We believe that our nationwide locations provide an advantage to long haul trucking fleets by enabling them to reduce the number of their suppliers by routing their trucks through our locations from coast to coast.

We offer a broad range of products and services, including diesel fuel and gasoline, truck repair and maintenance services, full service restaurants, more than 20 different brands of quick serve restaurants, or QSRs, travel and convenience stores and various driver amenities.

The U.S. travel center and truck stop industry in which we operate consists of travel centers, truck stops, diesel fuel outlets and similar properties. We believe that the travel center and truck stop industry is highly fragmented, with in excess of 6,000 travel centers and truck stops in the U.S.

History

Our Predecessor. Our predecessor was formed in December 1992 and acquired two travel center businesses in 1993 that had been operating since the 1970s. At the time of the HPT Transaction, our predecessor's business included 163 travel centers, of which 140 were operated by our predecessor, 10 were operated by franchisees on sites leased from our predecessor and 13 were operated by franchisees on sites they owned.

The HPT Transaction. We commenced business on January 31, 2007. In order to govern relations before and after the spin off, we entered into a transaction agreement with Hospitality Trust and Reit

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Management & Research LLC, or Reit Management. The material provisions of the HPT Transaction and the related transaction agreement that affected us are summarized as follows:

Simultaneously with Hospitality Trust's closing of its acquisition of our predecessor, the business of our predecessor was restructured. As a result of the restructuring:

the real property interests of 146 travel centers and certain other assets held by our predecessor were transferred to subsidiaries of Hospitality Trust that were not subsidiaries of ours;

we leased the 146 travel centers owned by Hospitality Trust;

we continued to own all of our predecessor's working capital assets (primarily consisting of cash, receivables and inventory) and continued to be obligated for our predecessor's liabilities (primarily consisting of trade payables and accrued liabilities); and

we owned one travel center in Ontario, Canada, and leased two travel centers from, and managed one travel center for, owners other than Hospitality Trust; we became the franchisor of 13 travel centers owned and operated by third parties; we owned certain other assets historically owned and used by our predecessor, including furniture, vehicles and substantially all other moveable equipment used at the travel centers that we operate, and buildings that are situated on land owned by Hospitality Trust for nine travel centers that we operate.

Hospitality Trust contributed cash to us so that the sum of our cash, receivables and inventory, net of trade payables and accrued liabilities, was about \$200 million at the time of our spin off.

On January 31, 2007, Hospitality Trust distributed all of our then outstanding shares to its shareholders.

We entered into a management and shared services agreement with Reit Management.

We provided Hospitality Trust a right of first refusal to purchase, lease, mortgage or otherwise finance any interest we own in a travel center before we sell, lease, mortgage or otherwise finance that travel center with another party.

We granted Hospitality Trust and other entities to which Reit Management provides management services a right of first refusal to acquire or finance any real estate of the types in which they invest before we do.

We agreed to not permit: the acquisition by any person or group of beneficial ownership of 9.8% or more of the voting shares or the power to direct the management and policies of us or any of our subsidiary tenants or guarantors under our leases with Hospitality Trust; the sale of a material part of our assets or any such tenant or guarantor; or the cessation of certain continuing directors constituting a majority of the board of directors of us or any such tenant or guarantor.

We and Hospitality Trust agreed to cooperate in filing tax returns and addressing other tax matters including appropriate allocations of taxable income, expenses and other tax attributes associated with the HPT Transaction.

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We agreed to indemnify Hospitality Trust for liabilities relating to our business and operations for periods before and after the spin off.

Hospitality Trust agreed to pay all of the costs and expenses of the spin off and the restructuring.

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Activities Since January 31, 2007. Since we began operations on January 31, 2007, we have completed or started a number of business initiatives that we believe may improve our future financial performance, including:

We conducted a strategic review of all our predecessor's contractual arrangements to determine those that should be discontinued, amended or expanded. As examples, we terminated a contract under which a third party marketed hedged sales contracts to trucking fleets that in turn purchased fuel at our TA locations in return for low pumping fee payments to us (see Item 3, "Legal Proceedings" for additional discussion of this matter); and we extended our agreement with Daimler Trucks North America, or Daimler, formerly Freightliner LLC, under which we provide certain authorized warranty services for Daimler truck owners, for an additional 10 years and we expanded the scope of this Daimler agreement to include travel centers operated under the Petro brand.

On May 30, 2007, we acquired Petro Stopping Centers, L.P., or Petro, which operated or franchised 69 travel centers along the U.S. interstate highways. We refer to this transaction as our Petro Acquisition. Simultaneously with our Petro Acquisition, Hospitality Trust acquired the real estate of 40 Petro centers and we leased these 40 locations from Hospitality Trust. In addition to the leasehold for these 40 locations, the Petro assets we acquired included:

two travel centers owned and operated by Petro;

two travel centers that Petro leased from parties other than Hospitality Trust;

a minority interest in a joint venture which owns a travel center managed by Petro;

contract rights as franchisor of 24 Petro travel centers;

four land parcels which may be suitable for development of new travel centers; and

various items of personal property, contract rights and working capital.

After the Petro Acquisition, we began the integration of Petro into our business. This integration involved renegotiating supply arrangements with suppliers and revising processes and procedures in order to implement best practices across all of our locations. While we maintain both the TA and Petro brands, we have consolidated corporate office and various marketing and operational functions.

In March 2008 we reduced the workforce at our headquarters and other locations. We recognized a severance charge of \$1.6 million during the 2008 first quarter as a result of this reduction in workforce. Reductions were also made to our hourly workforce.

In May 2008 we and Hospitality Trust amended the TA Lease. This lease amendment permits us to sell to Hospitality Trust qualified improvements that we have made or may make to the travel centers leased from Hospitality Trust under the TA Lease on an expedited basis. In the event that we elect to sell these capital improvements before the time contractually permitted by the original lease terms, Hospitality Trust's purchase commitment amount is discounted to reflect the accelerated receipt of funds by us according to a present value formula established in the amended lease.

In August 2008 we entered a rent deferral agreement with Hospitality Trust. Under the terms of the deferral agreement we have the option to defer our monthly rent payments to Hospitality Trust by up to \$5 million per month for periods beginning

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July 1, 2008 until December 31, 2010, and we are not obligated to pay cash interest on the deferred rent through December 31, 2009. Any deferred rent (and interest thereon) not paid is due to Hospitality Trust on July 1, 2011. Any deferred amounts (and related interest) may be prepaid at any time. For a more complete

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discussion of the deferral agreement, refer to Note 13 to our financial statements included elsewhere in this Annual Report on Form 10-K.

Our Growth Strategy

Deteriorating economic and industry conditions in late 2007 and throughout 2008 caused us to reevaluate our growth strategy. While we expect to limit our capital investments in the short term, as market conditions improve we may determine to grow our travel centers business. Capital investments we currently intend to pursue or consider include the following:

Acquisitions. In addition to the Petro Acquisition, we purchased three travel centers in 2007 for an aggregate of \$20.9 million.

Development. We completed construction of new travel centers in Livingston, California in March 2007 and in Laredo, Texas in July 2007. These sites were being developed when we acquired our predecessor. The total cost of these two developments, including site acquisition costs, was \$35.6 million. We have a minority interest in a joint venture that we expect will undertake construction of a new travel center in 2009. We invested approximately \$7.0 million in this joint venture during 2008 in connection with developing this new site. We own several additional sites which we believe may be suitable to develop as travel centers; we estimate our total cost to develop these sites to be substantial and, because of current industry conditions, we have deferred substantially all of our new site development activities at this time.

Franchising. Forty five of our travel centers are operated by our franchisees, 22 as Petro Stopping Centers® and 23 as TravelCenters of America®. Since January 31, 2007, we added one TravelCenters of America franchised location and two franchised locations are no longer operating under the Petro brand. We may expand our business by franchising.

Our Travel Center Locations

At December 31, 2008, our travel centers consisted of:

175 travel centers leased from Hospitality Trust and operated by us;

10 travel centers leased from Hospitality Trust and subleased to and operated by our franchisees;

nine travel centers we operate on sites we own;

three travel centers that we operate on sites owned by parties other than Hospitality Trust;

one travel center we operate for a joint venture in which we own a minority interest; and

35 travel centers that are operated by our franchisees on sites they own or lease.

Our travel centers include 166 that are operated under the TravelCenters of America or TA brand names and 67 that are operated under the Petro brand name. Our typical travel center includes:

over 23 acres of land with parking for 190 tractor trailers and 100 cars;

a full service restaurant and one or more QSRs that we operate as a franchisee under various brands;

a truck repair facility and parts store;

multiple diesel and gasoline fueling points; and

a travel and convenience store, game room, lounge and other amenities for professional truck drivers and motorists.

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Substantially all of our travel centers are full service sites located on or near an interstate highway and offer fuel and nonfuel products and services 24 hours per day, 365 days per year.

Properties. The physical layouts of our travel centers vary from site to site. The majority of the developed acreage at our travel centers consists of truck and car fuel islands, separate truck and car parking lots, a main building that contains a full service restaurant and one or more QSRs, a travel and convenience store, a truck maintenance and repair shop and other amenities. Most of our TA locations have one building with separate service areas and most of our Petro locations have several separate buildings.

Product and Service Offering. We offer many products and services to complement our diesel fuel business, including:

Gasoline. We sell branded and unbranded gasoline. Of our 233 travel centers as of December 31, 2008, we offer branded gasoline at 135 travel centers and unbranded gasoline at 74 travel centers. Gasoline is not sold at 24 of our travel centers.

Full Service Restaurants and QSRs. Most of our travel centers have both full service restaurants and QSRs that offer customers a wide variety of nationally recognized branded food choices. The substantial majority of our full service restaurants are operated under our "Iron Skillet®," "Country Pride®," "Buckhorn Family Restaurants®" and "Fork in the Road®" brands and offer menu table service and buffets. We also offer more than 20 different brands of QSRs, including Arby's®, Burger King®, Pizza Hut®, Popeye's Chicken & Biscuits®, Starbuck's Coffee®, Subway® and Taco Bell®. As of December 31, 2008, 210 of our travel centers included a full service restaurant, 158 of our travel centers offered at least one QSR, and there were a total of 287 QSRs in our 233 travel centers. We operate substantially all of these QSRs as a franchisee, and restaurants and QSRs in travel centers that we operate are generally staffed by our employees.

Truck Repair and Maintenance Shops. All but 13 of our travel centers have truck repair and maintenance shops. The typical repair and maintenance shop has between three and six service bays and a parts storage room and is staffed by our mechanics and service technicians. These shops generally operate 24 hours per day, 365 days per year, and offer extensive maintenance and emergency repair and road services, ranging from basic services such as oil changes and tire repair to specialty services such as diagnostics and repair of air conditioning, air brakes and electrical systems. Some of our repair and maintenance services are guaranteed by our warranties. Most of our TA truck repair and maintenance facilities provide some warranty work on Daimler brand trucks through our participation in the Freightliner ServicePoint® program, as described under the heading "Operations Daimler Agreement" below. The Freightliner ServicePoint® program and the Western Star ServicePoint® program are currently being expanded into our Petro sites; we expect a majority of our Petro sites to participate in these programs by the end of 2009.

Travel and Convenience Stores. Each of our travel centers has a travel and convenience store which offers merchandise to truck drivers, motorists, recreational vehicle operators and bus drivers and passengers. Our travel and convenience stores have a selection of over 4,000 items, including packaged food and snack items, beverages, non-prescription drug and beauty supplies, batteries, automobile accessories, and music and video products. Our stores also sell items specifically designed for the truck driver's on the road lifestyle, including laundry supplies, clothing and truck accessories. A majority of our stores also have a "to go" snack bar as an additional prepared food offering.

Additional Driver Services. We believe that trucking fleets can improve the retention and recruitment of truck drivers by directing them to visit high quality, full service travel centers. We provide a consistently high level of service and amenities to professional truck drivers at all of

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our travel centers, making our travel centers an attractive choice for trucking fleets. Most of our travel centers provide truck drivers with access to specialized business services, including an information center where drivers can send and receive faxes, overnight mail and other communications and a banking desk where drivers can cash checks and receive funds transfers from fleet operators. Our typical travel center also offers wi-fi internet access and has a video game room, a laundry area with washers and dryers, private showers and areas designated for truck drivers only, including a theater or big screen television room with a video player and comfortable seating. Some of our travel centers offer casino gaming.

Marketing. We offer truck drivers "loyal fueler" programs, called the RoadKing ClubSM and the Petro PassportSM, that are similar to the frequent flyer programs offered by airlines. Drivers receive a point for each gallon of diesel fuel purchased and each dollar spent on selected nonfuel products and services. These points can be redeemed for discounts on nonfuel products and services at our travel centers. We publish a magazine called Road KingSM which includes articles and advertising of interest to professional truck drivers.

Operations

Fuel. We purchase diesel fuel from various suppliers at rates that fluctuate with market prices and generally are reset daily, and we sell fuel to our customers at prices that we establish daily. By establishing supply relationships with several alternate suppliers for most locations, we believe we are able to effectively create competition for our purchases among various diesel fuel suppliers. We also believe that purchasing arrangements with multiple diesel fuel suppliers may help us avoid product outages during times of diesel fuel supply disruptions. At some locations, however, there are very few suppliers for diesel fuel in that market and we may have only one supplier. We have single sources of supply for gasoline at each of our travel centers that offer branded gasoline; we generally purchase gasoline from multiple sources for our travel centers that offer unbranded gasoline.

Generally our fuel purchases are delivered directly from suppliers' terminals to our travel centers. We do not contract to purchase substantial quantities of fuel to hold as inventory. We generally have less than three days of diesel fuel inventory at our travel centers. We are exposed to price increases and interruptions in supply. We believe our exposure to market price increases for diesel fuel is partially mitigated by the significant percentage of our total diesel fuel sales volume that is sold under pricing formulae that are indexed to market prices which reset daily. We do not engage in any fixed price fuel contracts with customers. We may engage, from time to time, in a minimal level of hedging of the price of our fuel purchases with futures and other derivative instruments.

Nonfuel products. We have many sources for the large variety of nonfuel products that we sell. We have developed strategic relationships with several suppliers of key nonfuel products, including Daimler for truck parts, Bridgestone/Firestone Tire Sales Company for truck tires and ExxonMobil Oil Corporation for lubricants and oils. We believe that our relationships with these and our other suppliers are satisfactory. We maintain a distribution center near Nashville, Tennessee, with 85,000 square feet of space. Our distribution center distributes certain nonfuel and nonperishable products to our travel centers using a combination of contract carriers and our fleet of trucks and trailers.

Daimler Agreement. We are party to an agreement with Daimler Trucks North America. Daimler is a leading manufacturer of heavy trucks in North America under the Freightliner, Western Star and Sterling brand names. All but one of our TA and Petro sites are or will be authorized providers of repair work and specified warranty repairs to Daimler's customers through the Freightliner ServicePoint® program and most of our Petro Sites are or will be authorized providers of similar services through the Western Star ServicePoint® program. Most of our TA truck maintenance and repair facilities are part of Freightliner's 24 hour customer assistance database for emergency and roadside repair referrals and we have access to Daimler's parts distribution, service and technical

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information systems. During 2008 this agreement was amended to include our Petro locations and the related training, signage, and equipment necessary for this program is currently being implemented at our Petro sites. We expect a majority of our Petro sites to participate in these programs by the end of 2009.

Our Leases With Hospitality Trust

We have two leases with Hospitality Trust, the TA Lease for 145 TA travel centers, which became effective on January 31, 2007, and the Petro Lease for 40 Petro travel centers, which became effective on May 30, 2007. Two of our subsidiaries are the tenants under the leases, and we, and in the case of our TA Lease certain of our subsidiaries, guarantee the tenants' obligations under the leases. The following are summaries of the material terms of these leases:

Term. The TA Lease expires on December 31, 2022. The Petro Lease expires on June 30, 2024, and may be extended by us for up to two additional periods of 15 years each.

Operating Costs. The leases are "triple net" leases, which require us to pay all costs incurred in the operation of the leased travel centers, including personnel, utilities, acquiring inventories, service to customers, insurance, real estate and personal property taxes, environmental related expenses and ground lease payments, if any.

Rent. Under these leases we are required to pay the following rent amounts: (i) minimum amounts of rent to Hospitality Trust as specified in the TA Lease and the Petro Lease, (ii) additional rent to Hospitality Trust in connection with certain sales to Hospitality Trust of qualifying improvements at sites leased from Hospitality Trust, and (iii) the underlying ground lease payments at those sites subleased to us by Hospitality Trust that we pay directly to the party from whom Hospitality Trust leases the site. For certain sites, Hospitality Trust has exercised purchase options or otherwise acquired the leased properties that had previously been subleased to us and we now pay the related ground lease rents to Hospitality Trust.

The TA Lease requires us to pay minimum rent to Hospitality Trust in increasing amounts starting at \$153.5 million for the first lease year and increasing to \$175.0 million for the sixth and subsequent lease years, plus, starting in 2012, additional rent calculated as follows: an amount equal to 3% of increases in nonfuel gross revenues and 0.3% of increases in gross fuel revenues at each leased travel center over the respective gross revenue amounts for the year 2011. The Petro Lease requires us to pay minimum annual rent to Hospitality Trust of \$62.2 million and additional rent calculated using the same formula as in the TA Lease, except that such payments start in 2013 and are calculated using the revenues of the 40 leased Petro travel centers in excess of revenues for the year 2012. Additional rent attributable to fuel revenues in each lease is subject to a maximum each year calculated by reference to changes in the consumer price index.

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The following table sets forth the amounts of minimum rent required under our leases with Hospitality Trust in each of the years shown.

	(in thousands)
2007 ⁽¹⁾⁽²⁾	\$ 179,037
2008	226,311
2009	231,878
2010	235,829
2011	240,789
2012	245,843
2013	246,126
2023 and thereafter	2,305,443

(1) The TA Lease amount shown is for the eleven months ended December 31, 2007.

(2) The Petro Lease amount shown is for the seven months ended December 31, 2007.

Rent Deferral Agreement. On August 11, 2008, we entered a rent deferral agreement with Hospitality Trust. Under the terms of the deferral agreement we may defer our rent payments to Hospitality Trust by up to \$5 million per month for each month in the period from July 1, 2008 until December 31, 2010, and we are not obligated to pay cash interest on the deferred rent through December 31, 2009. Also, pursuant to this agreement, we issued 1,540,000 of our common shares to Hospitality Trust (which represented approximately 9.6% of our shares then outstanding after this new issuance). In the event we do not defer our monthly payments for all the permitted amounts through December 31, 2009, we may repurchase a pro-rata amount of our shares issued to Hospitality Trust for nominal consideration. In the event that any rents which have been deferred remain unpaid or additional rent amounts are deferred after December 31, 2009, interest on all such amounts is payable to Hospitality Trust monthly at the rate of 12% per annum, beginning January 1, 2010. All deferred rent (and interest thereon) is due to Hospitality Trust on July 1, 2011, but may be prepaid at any time. The agreement prohibits share repurchases and dividends by us while any deferred rent remains unpaid and has change of control covenants so that amounts deferred will be immediately payable to Hospitality Trust in the event we experience a change of control (as defined in the agreement) while deferred rent is unpaid. Through December 31, 2008, we had deferred \$30 million of rent payable to Hospitality Trust.

Improvements. Under the TA Lease, we can sell to Hospitality Trust certain capital improvements we make to properties owned by Hospitality Trust with no increase in our rent payable to Hospitality Trust. These sales were originally limited to \$125 million with no more than \$25 million of sales permitted in any one year. On May 12, 2008, we and Hospitality Trust amended the TA Lease. This lease amendment permits us to sell to Hospitality Trust qualified improvements to the travel centers leased from Hospitality Trust under the TA Lease on an expedited basis. In the event that we elect to sell these capital improvements before the time contractually permitted by the original lease terms, Hospitality Trust's purchase commitment amount is discounted to reflect the accelerated receipt of funds by us according to a present value formula established in the amended lease. Through December 31, 2008, we have sold approximately \$108.2 million of improvements to Hospitality Trust, including accelerated amounts, for cash proceeds of \$102.4 million and approximately \$16.8 million of qualified improvements may be sold to Hospitality Trust without a rent increase.

Maintenance and Alterations. Except for Hospitality Trust's commitment to fund up to \$125 million as described above, we must maintain, at our expense, the leased travel centers, including maintenance of structural and non-structural components. The leases require us to submit an annual budget for capital expenditures at the leased travel centers to Hospitality Trust for approval. We may

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request that Hospitality Trust fund approved amounts for renovations, improvements and equipment at the leased travel centers, in addition to the \$125 million described above, in return for minimum annual rent increases according to the following formula: the minimum rent per year will be increased by an amount equal to the amount funded by Hospitality Trust times the greater of (i) 8.5% or (ii) a benchmark U.S. Treasury interest rate plus 3.5%. Through December 31, 2008, we have sold approximately \$1.4 million of improvements to Hospitality Trust pursuant to these agreements and our rents have increased by approximately \$0.1 million per year. At the end of each lease we must surrender the leased travel centers in substantially the same condition as existed at the commencement of the lease subject to any permitted alterations and reasonable wear and tear.

Assignment and Subletting. Hospitality Trust's consent is required for any direct or indirect assignment or sublease of any of the leased travel centers. We remain liable under the leases for subleased travel centers.

Environmental Matters. Generally, we have agreed to indemnify Hospitality Trust from liabilities that may arise from any violation of any environmental law or regulation.

Indemnification and Insurance. With limited exceptions, we indemnify Hospitality Trust from liabilities which arise during the terms of the leases from ownership or operation of the leased travel centers. We generally must maintain commercially reasonable insurance. Our insurance coverage includes:

property insurance in an amount equal to the full replacement cost of at risk improvements at our leased travel centers;

business interruption insurance;

general liability insurance, including bodily injury and property damage, in amounts as are generally maintained by companies operating travel centers;

flood insurance for any travel center located in whole or in part in a flood plain;

workers' compensation insurance if required by law; and

such additional insurance as may be generally maintained by companies operating travel centers, including certain environmental insurance.

The leases generally require that Hospitality Trust be named as an additional insured under our insurance policies.

Damage, Destruction or Condemnation. If any leased travel center is damaged by fire or other casualty or taken by eminent domain, we are generally obligated to rebuild. If the leased travel center cannot be restored, Hospitality Trust will generally receive all insurance or taking proceeds, we are liable to Hospitality Trust for any deductible or deficiency between the replacement cost and the amount of such proceeds, and the annual minimum rent will be reduced by (i) in the case of the TA Lease, at Hospitality Trust's option, either 8.5% of the net proceeds paid to Hospitality Trust or the fair market rental of the damaged, destroyed or condemned property, or portion thereof, as of the commencement date of the TA Lease; (ii) in the case of a casualty loss under the Petro Lease, 8.5% of the net proceeds paid to Hospitality Trust plus 8.5% of the fair market value of the land; and (iii) in the case of a taking under the Petro Lease, 8.5% of the amount of the net proceeds paid to Hospitality Trust.

Events of Default. Events of default under each lease include the following:

our failure to pay rent or any other sum when due;

our failure to maintain the insurance required under the lease;

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the occurrence of certain events with respect to our insolvency;

the institution of a proceeding for our bankruptcy or dissolution;

our failure to continuously operate any leased travel center without Hospitality Trust's consent;

the acquisition by any person or group of beneficial ownership of 9.8% or more of the voting shares or the power to direct the management and policies of us or any of our subsidiary tenants or guarantors; the sale of a material part of the assets of us or any such tenant or guarantor; or the cessation of certain continuing directors constituting a majority of the board of directors of us or any such tenant or guarantor; in each case without the consent of Hospitality Trust;

our default under any indebtedness of \$10 million or more for the TA Lease, or \$20 million or more for the Petro Lease, that gives the holder the right to accelerate the maturity of the indebtedness; and

our failure to perform certain other covenants or agreements of the lease and the continuance thereof for a specified period of time after written notice.

Remedies. Following the occurrence of any event of default, each lease provides that, among other things, Hospitality Trust may, to the extent legally permitted:

accelerate the rent;

terminate the lease; and/or

make any payment or perform any act required to be performed by us under the lease and receive from us, on demand, an amount equal to the amount so expended by Hospitality Trust plus interest.

We are also obligated to reimburse Hospitality Trust for all costs and expenses incurred in connection with any exercise of the foregoing remedies.

Lease Subordination. Each lease may be subordinated to any mortgages of the leased travel centers by Hospitality Trust, but Hospitality Trust is required to obtain nondisturbance agreements for our benefit.

Financing Limitations; Security. Without Hospitality Trust's prior written consent, our tenant subsidiaries may not incur debt secured by any of their assets used in the operation of the leased travel centers; provided, however, our tenant subsidiaries may incur purchase money debt to acquire assets used in these operations and we may encumber such assets to obtain a line of credit secured by our tenant subsidiaries' receivables, inventory or certain other assets used in these operations.

Lease Termination. When a lease terminates, any equipment, furniture, fixtures, inventory and supplies at the leased travel centers that we own may be purchased by Hospitality Trust at its then fair market value. Also at termination of the TA Lease, Hospitality Trust has the right to license any of our software used in the operation of the leased travel centers thereunder at its then fair market value and to offer employment to employees at the leased travel centers thereunder; and under both leases we have agreed to cooperate in the transfer of permits, agreements and the like necessary for the operation of the leased travel centers thereunder.

Territorial Restrictions. Under the terms of each lease, without the consent of Hospitality Trust, we generally cannot own, franchise, finance, operate, lease or manage any travel center or similar property within 75 miles in either direction along the primary interstate on which a travel center owned by Hospitality Trust is located.

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Non-Economic Properties. If during a lease term the continued operation of any leased travel center becomes non-economic as defined in the lease, we may offer that travel center for sale, including the sale of Hospitality Trust's interest in the property, free and clear of our leasehold interests. The net sale proceeds received will be paid to Hospitality Trust and the annual minimum rent payable shall be reduced. In the case of the TA Lease, this reduction will be, at Hospitality Trust's option, either the amount of such proceeds times 8.5% or the fair market rental for such property as of the commencement date of the lease; in the case of the Petro Lease, this reduction will be the amount of such proceeds times 8.5%. No more than a total of 15 properties subject to the TA Lease and no more than five properties subject to the Petro Lease may be offered for sale as non-economic properties during the applicable lease term. No sale of a travel center leased from Hospitality Trust may be completed without Hospitality Trust's consent; provided, however, if Hospitality Trust does not consent, that property will no longer be part of the lease and the minimum rent will be reduced as if the sale had been completed.

Relationships with Franchisees

We have lease and franchise agreements with lessees and owners of travel centers. We collect rent, franchise, royalty and other fees under these agreements. As of December 31, 2008, 45 of our travel centers were operated by our franchisees. Ten of these travel centers are leased by us from Hospitality Trust and subleased by us to a franchisee. Thirty-five of these travel centers are owned, or leased from others, by our franchisees. As of December 31, 2008, two franchisees operated four locations each, two operated three locations each, one operated two locations, and 29 operated one location each. During 2008 we terminated two franchise agreements due to the failure of the franchisees to pay amounts due under the agreements. Branding and ownership of our franchised locations by state as of December 31, 2008, are generally described in the chart below:

	Brand Affiliation of Sites			Ownership of Sites By:	
	TA	Petro	Total	Hospitality Trust	Franchisee or Others
Alabama	1	1	2	1	1
Florida	2		2	2	
Georgia	2	1	3	2	1
Illinois		2	2		2
Indiana	1	3	4	1	3
Iowa	1		1		1
Kansas	2	2	4		4
Maryland		1	1		1
Minnesota	1	1	2		2
Missouri	2	2	4		