TRAVELCENTERS OF AMERICA LLC
Form 10-Q
November 05, 2018
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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 September 30, 2018

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 every Interactive Data File required to be submitted 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 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 x

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 November 2, 2018: 39,768,115 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)

	September 30, 2018	December 31, 2017
Assets:		
Current assets:		
Cash and cash equivalents	$ 85,519	$ 35,526
Accounts receivable (less allowance for doubtful accounts of $1,044 and $809 as of September 30, 2018 and December 31, 2017, respectively)	168,990	125,501
Inventory	198,021	186,867
Other current assets	27,050	27,015
Current assets of discontinued operations	335,698	23,609
Total current assets	815,278	398,518
Property and equipment, net	606,219	613,196
Goodwill and intangible assets, net	48,681	50,351
Other noncurrent assets	121,761	89,955
Noncurrent assets of discontinued operations	—	466,112
Total assets	$ 1,591,939	$ 1,618,132
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	$ 204,178	$ 155,581
Current HPT Leases liabilities	42,122	41,389
Other current liabilities	173,353	128,017
Current liabilities of discontinued operations	11,636	2,311
Total current liabilities	431,289	327,298
Long term debt, net	320,303	319,634
Noncurrent HPT Leases liabilities	357,560	368,782
Other noncurrent liabilities	26,774	27,376
Noncurrent liabilities of discontinued operations	—	8,547
Total liabilities	1,135,926	1,051,637
Shareholders' equity:		
Common shares, no par value, 43,369 and 41,369 shares authorized as of September 30, 2018 and December 31, 2017, respectively, and 39,768 and 39,984 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	694,772	690,688
Accumulated other comprehensive income	598	580
Accumulated deficit	(240,824)	(126,220)
Total TA shareholders' equity	454,546	565,048
Noncontrolling interests	1,467	1,447

Total shareholders' equity	456,013	566,495
Total liabilities and shareholders' equity	$ 1,591,939	$ 1,618,132

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 September 30, 2018	2017
Revenues:		
Fuel	$1,172,913	$908,456
Nonfuel	482,621	465,232
Rent and royalties from franchisees	3,863	4,535
Total revenues	1,659,397	1,378,223
Cost of goods sold (excluding depreciation):		
Fuel	1,096,065	839,065
Nonfuel	192,951	185,127
Total cost of goods sold	1,289,016	1,024,192
Operating expenses:		
Site level operating	233,344	216,303
Selling, general and administrative	35,097	34,348
Real estate rent	71,116	69,032
Depreciation and amortization	20,407	19,990
Total operating expenses	359,964	339,673
Income from operations	10,417	14,358
Interest expense, net	7,518	7,507
Other (income) expense, net	(569)	(481)
Income before income taxes and discontinued operations	3,468	7,332
(Provision) benefit for income taxes	(1,879)	55,941
Income from continuing operations	1,589	63,273
Loss from discontinued operations, net of taxes	(72,069)	(966)
Net (loss) income	(70,480)	62,307
Less: net income for noncontrolling interests	34	30
Net (loss) income attributable to common shareholders	$(70,514)	$62,277
Other comprehensive income, net of taxes:		
Foreign currency income, net of taxes of $22 and $78, respectively	$31	$89
Equity interest in investee's unrealized gain on investments	173	116
Other comprehensive income attributable to common shareholders	204	205
Comprehensive (loss) income attributable to common shareholders	$(70,310)	$62,482
Net (loss) income per common share attributable to common shareholders		
Basic and diluted from continuing operations	$0.04	$1.60
Basic and diluted from discontinued operations	(1.81)	(0.02)

Basic and diluted	(1.77)	1.58

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)

	Nine Months Ended September 30,	
	2018	2017
Revenues:		
Fuel	$3,308,744	$2,582,699
Nonfuel	1,377,159	1,319,308
Rent and royalties from franchisees	12,022	13,829
Total revenues	4,697,925	3,915,836
Cost of goods sold (excluding depreciation):		
Fuel	3,074,621	2,373,919
Nonfuel	538,606	521,645
Total cost of goods sold	3,613,227	2,895,564
Operating expenses:		
Site level operating	685,217	660,730
Selling, general and administrative	98,292	108,996
Real estate rent	212,036	205,039
Depreciation and amortization	62,076	66,875
Total operating expenses	1,057,621	1,041,640
Income (loss) from operations	27,077	(21,368)
Interest expense, net	21,963	22,738
Other expense (income), net	1,627	(1,490)
Income (loss) before income taxes and discontinued operations	3,487	(42,616)
Benefit for income taxes	713	76,437
Income from continuing operations	4,200	33,821
Loss from discontinued operations, net of taxes	(118,682)	(3,828)
Net (loss) income	(114,482)	29,993
Less: net income for noncontrolling interests	122	100
Net (loss) income attributable to common shareholders	$(114,604)	$29,893
Other comprehensive income, net of taxes:		
Foreign currency (loss) income, net of taxes of $(42) and $144, respectively	$(72)	$168
Equity interest in investee's unrealized gain on investments	90	296
Other comprehensive income attributable to common shareholders	18	464
Comprehensive (loss) income attributable to common shareholders	$(114,586)	$30,357
Net (loss) income per common share attributable to common shareholders		
Basic and diluted from continuing operations	$0.10	$0.85
Basic and diluted from discontinued operations	(2.97)	(0.09)

Basic and diluted	(2.87)	0.76

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)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net (loss) income	$(114,482)	$29,993
Less: loss from discontinued operations, net of taxes	(118,682)	(3,828)
Income from continuing operations	4,200	33,821
Adjustments to reconcile income from continuing operations to net cash provided by operating activities for continuing operations:		
Noncash rent expense	(10,857)	(11,008)
Depreciation and amortization expense	62,076	66,875
Deferred income taxes	(15,285)	(79,188)
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	(44,154)	(33,369)
Inventory	(11,170)	(7,105)
Other assets	(66)	2,293
Accounts payable and other liabilities	107,887	43,544
Other, net	22,776	17,229
Net cash provided by operating activities for continuing operations	115,407	33,092
Net cash provided by operating activities for discontinued operations	7,423	13,335
Net cash provided by operating activities	122,830	46,427
Cash flows from investing activities:		
Proceeds from asset sales with HPT	44,162	88,129
Capital expenditures	(106,756)	(85,459)
Acquisitions of businesses, net of cash acquired	—	(19,854)
Investment in equity investee	(1,359)	(4,500)
Net cash used in investing activities for continuing operations	(63,953)	(21,684)
Net cash used in investing activities for discontinued operations	(7,429)	(13,321)
Net cash used in investing activities	(71,382)	(35,005)
Cash flows from financing activities:		
Proceeds from sale leaseback transactions with HPT	491	2,361
Sale leaseback financing obligation payments	(802)	(555)
Other, net	(1,071)	(121)
Net cash (used in) provided by financing activities	(1,382)	1,685
Effect of exchange rate changes on cash	(80)	233
Net increase in cash and cash equivalents	49,986	13,340
Cash and cash equivalents at the beginning of the period	36,082	61,312
Cash and cash equivalents at the end of the period	86,068	74,652
Less: cash of discontinued operations at the end of the period	549	555
Cash and cash equivalents of continuing operations at the end of the period	$85,519	$74,097

Supplemental disclosure of cash flow information:		
Interest paid (including rent classified as interest and net of capitalized interest)	$21,855	$21,817
Income taxes paid, net of refunds	166	424

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 September 30, 2018, we operated and franchised 302 travel centers 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.

As of September 30, 2018, our business included 259 travel centers in 43 states in the United States, primarily along the U.S. interstate highway system, and the province of Ontario, Canada, operated primarily under the "TravelCenters of America," "TA," "TA Express," "Petro Stopping Centers" and "Petro" brand names. Of our 259 travel centers at September 30, 2018, we owned 32, we leased 201, we operated two for a joint venture in which we own a noncontrolling interest and 24 were owned or leased from others by our franchisees. We operated 233 of our travel centers and franchisees operated 26 travel centers, including two 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 and various customer amenities.

As of September 30, 2018, our business included 43 standalone restaurants in 13 states in the United States operated primarily under the "Quaker Steak & Lube", or QSL, brand name. Of our 43 standalone restaurants at September 30, 2018, we operated 15 restaurants (six we owned, eight we leased and one we operated for a joint venture in which we own a noncontrolling interest) and 28 were owned or leased from others and operated by our franchisees.

We manage our business as one reportable segment. Our locations use similar processes to sell similar products and services. We 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 a single travel center located in a foreign country, Canada, that we do not consider material to our operations.

During the third quarter of 2018, we entered into an agreement to sell our convenience stores business. We expect to complete this sale in the fourth quarter of 2018. As a result of this agreement, the results of the convenience stores business are reported as held for sale and presented as discontinued operations for all periods presented in the consolidated statements of operations and comprehensive (loss) income. Additionally, the assets and liabilities of the convenience stores business have been presented as discontinued operations in our consolidated balance sheets. The sale of our convenience stores business eliminated the requirement to report information of our convenience stores segment. See Note 4 for more information about our discontinued operations.

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, 2017, 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.

Reclassifications. Certain prior year amounts have been reclassified to be consistent with the current year presentation within our consolidated financial statements.

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

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 September 30, 2018, was $326,188.
Goodwill Impairment
Goodwill is tested for impairment annually as of July 31, or more frequently if the circumstances warrant, at the reporting unit level. During the second quarter of 2018, prior to classifying our convenience stores business as held for sale and as a discontinued operation, we determined that the decline in site level gross margin in excess of site level operating expenses for our convenience stores business for the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017, in conjunction with the fact that the operating results for the convenience stores business, since acquisition, failed to meet our forecasted results was an indicator of impairment of the goodwill in our convenience stores business. Accordingly, we performed an impairment assessment of the goodwill in the convenience stores business as of May 31, 2018, using the same quantitative analysis approach that we historically followed for our goodwill impairment assessments. Based on this assessment, during the second quarter of 2018, we recorded an impairment charge of $51,500, which is presented in loss from discontinued operations, net of taxes in our consolidated statements of operations and comprehensive (loss) income.
As a result of our convenience stores business being classified as held for sale and presented as a discontinued operation, we recognized a goodwill impairment charge of $17,942 in the convenience stores reporting unit as of September 1, 2018. See Note 4 for more information about our discontinued operations.
As of July 31, 2018, we evaluated our travel centers and QSL reporting units for impairment using a qualitative analysis which included evaluating financial trends and industry and market conditions and assessing the reasonableness of the assumptions used in the most recent quantitative analysis, including comparing actual results to the projections used in the quantitative analysis. Based on our analyses, we concluded that as of July 31, 2018, our goodwill in those reporting units was not impaired.
Change in Accounting Principles
In May 2014, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update, or ASU, 2014-09, Revenue from Contracts with Customers, or ASU 2014-09, which established a comprehensive revenue recognition standard under GAAP for almost all industries. We adopted ASU 2014-09 on January 1, 2018, using the full retrospective method, which required that we restate our consolidated financial statements for prior year comparative periods. Although the majority of our revenue is initiated at the point of sale and was unaffected by this ASU, the implementation of this ASU affected the accounting for our loyalty programs, initial and renewal franchise fees and advertising fees received from franchisees. See Note 2 for more information about our revenues.
Loyalty programs. Prior to the adoption of ASU 2014-09, we recognized the estimated cost of loyalty awards as a discount against the nonfuel revenues from which the rewards were redeemed. Loyalty awards now are recognized against the revenue that generates the loyalty award, primarily fuel revenues. The adoption of the new standard resulted in a $19,814 and $46,282 reclassification between fuel revenue and nonfuel revenue for the three and nine months ended September 30, 2017, respectively.
Initial and renewal franchise fees. Prior to the adoption of ASU 2014-09, we recognized initial franchise fees as revenue at the time the franchisee opened for business, which is when we had fulfilled our initial obligations under the related agreement. Initial and renewal franchise fees now are recognized as revenue over the term of the related franchise agreement, which is the period the customer benefits from use of the franchise rights. The adoption of the new standard resulted in an increase in our accumulated deficit of $1,082, an increase in other current liabilities of $188 and an increase in other noncurrent liabilities of $894 as of December 31, 2017, as well as a decrease of $77 and

an increase of $9 in rent and royalties from franchisees revenue for the three and nine months ended September 30, 2017, respectively.

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

Advertising fees. Prior to the adoption of ASU 2014-09, we recognized advertising fees collected from franchisees as a reduction of the related advertising expenses incurred. We now recognize these advertising fees as revenue. The adoption of the new standard for these advertising fees resulted in an increase in each of selling, general and administrative expenses and rent and royalties from franchisees revenue of $418 and $1,331 for the three and nine months ended September 30, 2017, respectively.
Income taxes. As a result of the adjustments described above, a deferred tax asset was recognized, increasing other noncurrent assets and decreasing our accumulated deficit each by $278 as of December 31, 2017, and increasing our benefit for income taxes by $30 for the three months ended September 30, 2017, and decreasing our benefit for income taxes by $3 for the nine months ended September 30, 2017.
The following table presents the effect of the adoption of the new standard on our consolidated balance sheet as of December 31, 2017.

	As Reported	Discontinued Operations[1]	Adoption of ASU 2014-09	As Adjusted
Assets:				
Other noncurrent assets	$90,004	$ (327)	$ 278	$89,955
Liabilities and Shareholders' Equity:				
Other current liabilities	$130,140	$ (2,311)	$ 188	$128,017
Other noncurrent liabilities	35,029	(8,547)	894	27,376
Accumulated deficit	(125,416)	—	(804)	(126,220)

(1) See Note 4 for more information about our discontinued operations.
The following table presents the effect of the adoption of the new standard on our consolidated statement of operations and comprehensive income for the three months ended September 30, 2017.

	As Reported	Discontinued Operations[1]	Adoption of ASU 2014-09	As Adjusted
Revenues:				
Fuel	$1,055,593	$(127,323)	$(19,814)	$908,456
Nonfuel	516,555	(71,137)	19,814	465,232
Rent and royalties from franchisees	4,248	(54)	341	4,535
Total revenues	1,576,396	(198,514)	341	1,378,223
Selling, general and administrative expenses	36,587	(2,657)	418	34,348
Income before income taxes and discontinued operations	6,086	1,323	(77)	7,332
Benefit for income taxes	56,268	(357)	30	55,941
Income from continuing operations	62,354	966	(47)	63,273

(1) See Note 4 for more information about our discontinued operations.

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

The following table presents the effect of the adoption of the new standard on our consolidated statement of operations and comprehensive income for the nine months ended September 30, 2017.

	As Reported	Discontinued Operations[(1)]	Adoption of ASU 2014-09	As Adjusted
Revenues:				
Fuel	$2,981,154	$(352,173)	$(46,282)	$2,582,699
Nonfuel	1,473,023	(199,997)	46,282	1,319,308
Rent and royalties from franchisees	12,651	(162)	1,340	13,829
Total revenues	4,466,828	(552,332)	1,340	3,915,836
Selling, general and administrative expenses	115,276	(7,611)	1,331	108,996
Loss before income taxes and discontinued operations	(47,976)	5,351	9	(42,616)
Benefit for income taxes	77,963	(1,523)	(3)	76,437
Income from continuing operations	29,987	3,828	6	33,821

(1) See Note 4 for more information about our discontinued operations.

The following table presents the effect of the adoption of the new standard on our consolidated statement of cash flows for the nine months ended September 30, 2017.

	As Reported	Discontinued Operations[(1)]	Adoption of ASU 2014-09	As Adjusted
Cash flows from operating activities:				
Net income	$29,987	$ —	$ 6	$29,993
Deferred income taxes	(79,191)	—	3	(79,188)
Accounts receivable	(33,439)	—	70	(33,369)
Accounts payable and other liabilities	46,232	(2,609)	(79)	43,544
Net cash provided by operating activities	46,427	—	—	46,427

(1) See Note 4 for more information about our discontinued operations.

We recognized a net increase in our accumulated deficit at January 1, 2016, of $305 as a result of adopting ASU 2014-09.

In January 2017, the FASB issued Accounting Standards Update 2017-04, Intangibles - Goodwill and Other, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The new standard is required for annual or interim impairment tests beginning after December 15, 2019, and requires prospective application. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017, and we adopted this standard during the second quarter of 2018.

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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 February 2016, the FASB issued Accounting Standards Update 2016-02, Leases, or ASU 2016-02, which established 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 determines whether the lease expense is recognized based on the effective interest method or on a straight line basis over the term of the lease. A lessee is also required to recognize a right of use asset and a lease liability 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. To address implementation of ASU 2016-02 and evaluate its impact on our consolidated financial statements, we have developed a project plan and formed a team to evaluate our leases, lease classifications and related internal controls. While we are still finalizing our evaluation, including implementing a new lease accounting software we have elected the prospective transition method for adoption, which does not require us to restate prior year comparative periods, and will apply the package of practical expedients that will retain the lease classification and initial direct costs for any leases that existed prior to adoption. 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, primarily as they relate to our leases with Hospitality Properties Trust, or HPT. See Note 7 for more information about our lease agreements and transactions with HPT. Although we continue to evaluate the impact this standard will have on our consolidated financial statements, we do not expect amounts within our statements of operations and comprehensive (loss) income will change materially.
In June 2018, the FASB issued Accounting Standards Update 2018-07, Compensation - Stock Compensation, which aligns the accounting for share based payments to non-employees with the accounting for share based payments to employees. 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. The implementation of this update is not expected to cause a material change to our consolidated financial statements.

2. Revenue
We recognize revenue based on the consideration specified in the contract with the customer, excluding any sales incentives (such as loyalty programs and customer rebates) and amounts collected on behalf of third parties (such as sales and excise taxes). The majority of our revenue is generated at the point of sale in our retail locations.
Revenues consist of fuel revenues, nonfuel revenues and rent and royalties from franchisees.
Fuel revenues. We recognize fuel revenues and the related costs at the time of sale to customers at our company operated locations. We sell diesel fuel and gasoline to our customers at prices that we establish daily or are indexed to market prices and reset daily. We sell diesel fuel under pricing arrangements with certain customers. For the three and nine months ended September 30, 2018, approximately 83% of our diesel fuel volume was sold at discounts to posted prices under pricing arrangements with our customers, some of which include rebates payable to the customer after the end of the period.
Nonfuel revenues. We recognize nonfuel revenues and the related costs at the time of sale to customers at our company operated locations. We sell a variety of nonfuel products and services at stated retail prices in our travel centers and standalone restaurants, as well as through our RoadSquad®, RoadSquad OnSite® and TA Commercial Tire Network™ programs. Truck repair and maintenance goods or services may be sold at discounted pricing under pricing arrangements with certain customers, some of which include rebates payable to the customer after the end of the period.

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

Rent and royalties from franchisees. We recognize franchise royalties and advertising fees from franchisees as revenue monthly based on the franchisees' sales data reported to us. Royalty revenues are contractual as a percentage of the franchisees' revenues and advertising fees are contractual as either a percentage of the franchisees' revenues or as a fixed amount. When we enter into a new franchise agreement or a renewal term with an existing franchisee, the franchisee is required to pay an initial or renewal franchise fee. Initial and renewal franchise fees are recognized as revenue on a straight line basis over the term of the respective franchise agreements.

For those travel centers that we lease to a franchisee, we recognize rent revenue on a straight line basis based on the current contractual rent amount. These leases generally specify rent increases each year based on inflation rates for the respective periods or capital improvements we make at the travel centers. Because the rent increases related to these factors are contingent upon future events, we recognize the related rent revenue after such events have occurred.

Other. Sales incentives and other promotional activities that we recognize as a reduction to revenue include, but are not limited to, the following:

- Customer loyalty programs. We offer travel center trucking customers and casual restaurant diners the option to participate in our loyalty programs. Our loyalty programs provide customers with the right to earn loyalty awards on qualifying purchases that can be used for discounts on future purchases of goods or services. We apply a relative standalone selling price approach to our outstanding loyalty awards whereby a portion of each sale attributable to the loyalty awards earned is deferred and will be recognized as revenue in the category in which the loyalty awards are redeemed upon the redemption or expiration of the loyalty awards. Significant judgment is required to determine the standalone selling price for loyalty awards. Assumptions used in determining the standalone selling price include the historic redemption rate and the use of a weighted average selling price for fuel to calculate the revenue attributable to the loyalty awards.
- Customer discounts and rebates. We enter into agreements with certain customers in which we agree to provide discounts on fuel and/or truck service purchases, some of which are structured as rebates payable to the customer after the end of the period. We recognize the cost of discounts against, and in the same period as, the revenue that generated the discounts earned.
- Gift cards. We sell branded gift cards. Sales proceeds are recognized as a contract liability; the liability is reduced and revenue is recognized when the gift card subsequently is redeemed for goods or services. Unredeemed gift card balances are recognized as revenue when the possibility of redemption becomes remote.

Disaggregation of Revenue

We disaggregate our revenue based on the type of good or service provided to the customer, or by fuel revenues and nonfuel revenues, in our consolidated statements of operations and comprehensive (loss) income. Our locations use similar processes to sell similar products and services.

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Contract Liabilities

Our contract liabilities, which are presented in our consolidated balance sheets in other current and other noncurrent liabilities, primarily include deferred revenue related to our loyalty programs, gift cards, rebates payable to customers and other deferred revenues. The following table shows the changes in our contract liabilities between periods.

	Loyalty Programs	Other Contract Liabilities	Total
December 31, 2016	$ 13,686	$ 4,921	$ 18,607
Increases due to unsatisfied performance obligations arising during the period	72,424	11,335	83,759
Revenue recognized from satisfying performance obligations during the period	(65,854)	(10,007)	(75,861)
Other	(5,091)	(1,568)	(6,659)
December 31, 2017	15,165	4,681	19,846
Increases due to unsatisfied performance obligations arising during the period	62,125	7,246	69,371
Revenue recognized from satisfying performance obligations during the period	(56,743)	(6,910)	(63,653)
Other	(4,522)	(908)	(5,430)
September 30, 2018	$ 16,025	$ 4,109	$ 20,134

As of September 30, 2018, we expect the unsatisfied performance obligations relating to these loyalty programs will be satisfied within 12 months.

As of September 30, 2018, the deferred initial and renewal franchise fee revenue expected to be recognized in future periods ranges between $42 and $171 for each of the years 2018 through 2022.

3. Acquisitions

During the nine months ended September 30, 2018, we acquired a tire retread facility for $2,805 and certain assets at travel centers we owned from two of our franchisees for an aggregate purchase price of $5,202. These acquisitions were accounted for as asset acquisitions.

As of September 30, 2018, we had entered into an agreement to acquire a travel center from one of our franchisees for a purchase price of $10,050, which we expect to account for as a business combination. We expect to complete this acquisition in the fourth quarter of 2018, but this purchase is subject to conditions and may not occur, may be delayed or the terms may change.

Acquisition costs, such as legal fees, due diligence costs and closing costs, are included in other (income) expense, net in our consolidated statements of operations and comprehensive (loss) income.

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4. Discontinued Operations

On September 1, 2018, we entered into an agreement with EG Retail (America), LLC and EG Group Limited, or EG Group, to sell 225 convenience stores, one standalone restaurant and certain related assets, or the convenience stores business, for an estimated aggregate purchase price of $328,752. This sale price includes $23,752 of estimated net working capital items that are based on balances as of September 30, 2018, and are subject to adjustment based upon the values of these working capital items and certain other customary proration adjustments as of the closing date. The closing of the transaction is expected to occur during the fourth quarter of 2018, and is subject to the satisfaction or waiver of customary closing conditions for a transaction of this type. Upon the classification of the assets and related liabilities as held for sale, we determined that the carrying value of the convenience stores business exceeded the agreed purchase price less costs to sell, resulting in a loss on disposal of $78,681 that includes transaction costs of $8,982 as of September 30, 2018. We estimate we will recognize an additional $586 of transaction related costs during the fourth quarter of 2018.

The following table includes the carrying amounts of the major classes of assets and liabilities presented in discontinued operations in our consolidated balance sheets.

	September 30, 2018	December 31, 2017
Assets:		
Cash	$ 549	$ 556
Inventory	24,632	22,773
Other current assets	588	280
Property and equipment, net	376,365	387,894
Goodwill	—	68,702
Other intangible assets, net	7,952	9,189
Other noncurrent assets	—	327
Loss upon classification as held for sale	(74,388)	—
Total assets of discontinued operations	$ 335,698	$ 489,721
Liabilities:		
Other current liabilities	$ 11,636	$ 2,311
Other noncurrent liabilities	—	8,547
Total liabilities of discontinued operations	$ 11,636	$ 10,858

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The following table presents the results of operations for our discontinued operations for each of the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$219,730	$198,514	$606,574	$552,332
Cost of goods sold (excluding depreciation)	183,515	158,031	500,830	441,789
Site level operating expenses	27,595	27,858	81,566	82,292
Selling, general and administrative expenses	2,659	2,657	7,458	7,611
Real estate rent expense	571	567	1,720	1,703
Depreciation and amortization expense	4,533	10,724	20,330	24,288
Impairment of goodwill	17,942	—	69,442	—
Loss from discontinued operations before income taxes	(17,085)	(1,323)	(74,772)	(5,351)
Benefit for income taxes	3,755	357	14,829	1,523
Loss from discontinued operations, net of taxes	(13,330)	(966)	(59,943)	(3,828)
Loss upon classification as held for sale	(78,681)	—	(78,681)	—
Benefit for income taxes	19,942	—	19,942	—
Loss from discontinued operations	$(72,069)	$(966)	$(118,682)	$(3,828)

5. Earnings Per Share from Continuing Operations

The following table presents a reconciliation of income from continuing operations attributable to common shareholders to income from continuing operations available to common shareholders and the related earnings per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income from continuing operations	$1,589	$63,273	$4,200	$33,821
Less: net income for noncontrolling interests	34	30	122	100
Income from continuing operations attributable to common shareholders	1,555	63,243	4,078	33,721
Less: income from continuing operations attributable to participating securities	53	3,286	183	1,774
Income from continuing operations available to common shareholders	$1,502	$59,957	$3,895	$31,947
Weighted average common shares[(1)]	38,402	37,497	38,137	37,458
Basic and diluted income per common share from continuing operations attributable to common shareholders	$0.04	$1.60	$0.10	$0.85

(1)

Excludes unvested shares awarded under our share award plans, 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 September 30, 2018 and 2017, was 1,368 and 2,055, respectively. The weighted average number of unvested shares outstanding for the nine months ended September 30, 2018 and 2017, was 1,787 and 2,080, respectively.

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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), which is included in other (income) expense, net in our consolidated statements of operations and comprehensive (loss) income, were as follows:

	PTP	Other[(1)]	Total
Investment balance:			
As of September 30, 2018	$19,995	$19,136	$39,131
As of December 31, 2017	20,807	21,695	42,502
Income (loss) from equity investments:			
Three months ended September 30, 2018	$1,359	$(786)	$573
Three months ended September 30, 2017	1,253	(725)	528
Nine months ended September 30, 2018	2,388	(4,008)	(1,620)
Nine months ended September 30, 2017	2,954	(1,223)	1,731

(1) Includes other equity investments 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 travel centers and a standalone restaurant in California. We own a 40% interest in PTP and we receive a management fee from PTP to operate these locations. This investment is accounted for under the equity method. We recognized management fee income of $393 and $386 for the three months ended September 30, 2018 and 2017, respectively, and $1,172 and $1,156 for the nine months ended September 30, 2018 and 2017, respectively. In addition, we supply PTP with its fuel at our cost. We sold $20,133 and $15,963 of fuel to PTP during the three months ended September 30, 2018 and 2017, respectively, and $54,701 and $44,618 during the nine months ended September 30, 2018 and 2017, respectively.

The following table sets forth summarized financial information of PTP and does not represent the amounts we have included in our consolidated financial statements in connection with our investment in PTP.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017[(1)]	2018	2017[(1)]
Total revenues	$33,260	$28,380	$88,321	$79,213
Cost of goods sold (excluding depreciation)	23,508	19,191	63,917	53,707
Operating income	3,690	3,392	6,824	8,139
Net income and comprehensive income	3,531	3,267	6,375	7,790

(1) Total revenues and cost of goods sold (excluding depreciation) for the three and nine months ended September 30, 2017, have been adjusted for the adoption of ASU 2014-09. Motor fuel taxes are no longer included in fuel revenues or fuel cost of goods sold, resulting in a decrease from the originally reported amounts in each of fuel revenues and fuel cost of goods sold of $3,603 and $10,002 for the three and nine months ended September 30, 2017, respectively.

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7. HPT Leases

As of September 30, 2018, we leased from 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 $68,513 and $66,483 for the three months ended September 30, 2018 and 2017, respectively, and $204,224 and $197,340 for the nine months ended September 30, 2018 and 2017, respectively.

Our minimum annual rent under the HPT Leases as of September 30, 2018, was $286,063. 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. We incurred percentage rent under the HPT Leases of $1,002 and $434 for the three months ended September 30, 2018 and 2017, respectively, and $2,674 and $1,435 for the nine months ended September 30, 2018 and 2017, respectively.

During the nine months ended September 30, 2018 and 2017, we sold to HPT $44,653 and $62,888, respectively, of improvements we made to properties leased from HPT. As a result, pursuant to the terms of the HPT Leases, our minimum annual rent payable to HPT increased by $3,795 and $5,345, respectively. At September 30, 2018, our property and equipment balance included $17,303 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.

	September 30, 2018	December 31, 2017
Current HPT Leases liabilities:		
Accrued rent	$ 24,746	$ 24,170
Sale leaseback financing obligation	1,020	863
Straight line rent accrual	2,458	2,458
Deferred gain	10,128	10,128
Deferred tenant improvements allowance	3,770	3,770
Total current HPT Leases liabilities	$ 42,122	$ 41,389
Noncurrent HPT Leases liabilities:		
Deferred rent obligation	$ 150,000	$ 150,000
Sale leaseback financing obligation	22,597	22,987
Straight line rent accrual	46,528	46,937
Deferred gain	103,445	111,041
Deferred tenant improvements allowance	34,990	37,817
Total noncurrent HPT Leases liabilities	$ 357,560	$ 368,782

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8. Business and Property Management Agreements with RMR

The RMR Group LLC, or RMR, provides us certain services that we require to operate our business, and which relate to various aspects of our business. RMR provides these services pursuant to a business management agreement. Until July 31, 2017, we also had a property management agreement with RMR for building management services at our headquarters building. Pursuant to our business management agreement and property management agreement with RMR, we incurred aggregate fees payable to RMR of $3,969 and $3,782 for the three months ended September 30, 2018 and 2017, respectively, and $10,929 and $10,647 for the nine months ended September 30, 2018 and 2017, respectively. In addition, we are responsible for our share of RMR's costs for providing internal audit services to us. The amounts we recognized as expense for these internal audit costs were $60 and $67 for the three months ended September 30, 2018 and 2017, respectively, and $184 and $202 for the nine months ended September 30, 2018 and 2017, respectively. These amounts are included in selling, general and administrative expenses in our consolidated statements of operations and comprehensive (loss) income. For more information about our relationships with RMR please refer to Notes 11 and 12 in our Annual Report.

9. Related Party Transactions

We have relationships and historical and continuing transactions with HPT, RMR, AIC and others related to them, including other companies to which RMR or its subsidiaries provide management services and which have directors, trustees and officers who are also our Directors or officers.

Relationship with HPT

We are HPT's largest tenant and HPT is our principal landlord and largest shareholder. As of September 30, 2018, HPT owned 3,420 of our common shares, representing approximately 8.6% of our outstanding common shares. As of September 30, 2018, we leased from HPT a total of 199 properties under the HPT Leases. RMR provides management services to both us and HPT, and Adam D. Portnoy, one of our Managing Directors, also serves as a managing trustee of HPT. See Note 7 for more information about our lease agreements and transactions with HPT.

Relationship with RMR

We have an agreement with RMR to provide management services to us. Adam D. Portnoy, one of our Managing Directors, is the sole trustee, an officer and the controlling shareholder of ABP Trust, which is the controlling shareholder of The RMR Group Inc.; The RMR Group Inc. is the managing member of RMR LLC. See Note 8 for further information regarding our current and former management agreements with RMR. In addition, as further described below, as of October 10, 2018, RMR owned approximately 3.8% of our outstanding common shares.

Retirement of Our Former President, Chief Executive Officer and Managing Director

On November 29, 2017, we and RMR entered into a retirement agreement with Thomas M. O'Brien, who served as our President and Chief Executive Officer, or CEO, and as one of our Managing Directors until December 31, 2017, and remained our employee through June 30, 2018. Under Mr. O'Brien's retirement agreement, (i) consistent with past practice, we paid Mr. O'Brien his current annual base salary of $300 until June 30, 2018, and we paid him a cash bonus in respect of 2017 in the amount of $2,060 in December 2017, (ii) in lieu of any share grants for his 2017 service, we paid Mr. O'Brien an additional cash payment in the amount of $475 in December 2017, and (iii) following his retirement from the Company on June 30, 2018, we made an additional cash payment to Mr. O'Brien in July 2018 in the amount of $1,505 and, as of his retirement date, fully accelerated the vesting of 625 then unvested common shares of the Company previously awarded to him.

Pursuant to his retirement agreement, Mr. O'Brien granted to us, in the first instance, and RMR in the second instance, a right of first refusal to purchase our common shares he owns if he determined to sell any of those shares. In September 2018, Mr. O’Brien notified us of his intent to sell 1,493 of our common shares. We declined to exercise our purchase right, and on October 10, 2018, RMR purchased those shares, representing approximately 3.8% of our outstanding common shares.

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Relationship with AIC
We, HPT and five other companies to which RMR provides management services currently own AIC, an Indiana insurance company, in equal amounts. We and the other AIC shareholders participate in a combined property insurance program arranged and reinsured in part by AIC. We paid aggregate annual premiums, including taxes and fees, of approximately $2,502 in connection with the renewal of this insurance program for the policy year ending June 30, 2019, which amount may be adjusted from time to time as we acquire and dispose of properties that are included in this insurance program.
As of September 30, 2018 and December 31, 2017, our investment in AIC had a carrying value of $9,157 and $8,185, respectively. These amounts are included in other noncurrent assets on our consolidated balance sheets. We recognized income of $826 and $31 related to our investment in AIC for the three months ended September 30, 2018 and 2017, respectively, and $882 and $533 for the nine months ended September 30, 2018 and 2017, respectively, which amounts are included in other (income) expense, net in our consolidated statements of operations and comprehensive (loss) income. Our other comprehensive income includes our proportionate share of unrealized gains on securities, which are owned by AIC, related to our investment in AIC.
For further information about these and other such relationships and certain other related party transactions, refer to our Annual Report.

10. Contingencies
Environmental Contingencies
Extensive environmental laws regulate our operations and properties. These laws may require us to investigate and clean up hazardous substances, including petroleum or natural gas products, released at our owned and leased properties. Governmental entities or third parties may hold us liable for property damage and personal injuries, and for investigation, remediation and monitoring costs incurred in connection with any contamination and regulatory compliance at our locations. We use both underground storage tanks and above ground storage tanks to store petroleum products, natural gas and other hazardous substances at our locations. We must comply with environmental laws regarding tank construction, integrity testing, leak detection and monitoring, overfill and spill control, release reporting and financial assurance for corrective action in the event of a release. At some locations we must also comply with environmental laws relative to vapor recovery or discharges to water. Under the terms of the HPT Leases, we generally have agreed to indemnify HPT for any environmental liabilities related to properties that we lease from HPT and we are required to pay all environmental related expenses incurred in the operation of the leased properties. Under an agreement with Equilon Enterprises LLC doing business as Shell Oil Products U.S., or Shell, we have agreed to indemnify Shell and its affiliates from certain environmental liabilities incurred with respect to our travel centers where Shell has installed natural gas fueling lanes.
From time to time we have received, and in the future likely will receive, notices of alleged violations of environmental laws or otherwise have become or will become aware of the need to undertake corrective actions to comply with environmental laws at our locations. Investigatory and remedial actions were, and regularly are, undertaken with respect to releases of hazardous substances at our locat