TRAVELCENTERS OF AMERICA LLC
Form S-1
June 15, 2007

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As filed with the Securities and Exchange Commission on June 15, 2007

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM S-1

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

TravelCenters of America LLC

(Exact name of registrant as specified in its charter)

Delaware	**5531**	**20-5701514**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

**24601 Center Ridge Road
Westlake, Ohio 44145
(440) 808-9100**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**John R. Hoadley,
Chief Financial Officer
TravelCenters of America LLC
24601 Center Ridge Road
Westlake, Ohio 44145
(440) 808-9100**

(Name, address, including zip code, telephone number, including area code, of agent for service)

Copy to:

Alexander A. Notopoulos, Jr., Sullivan & Worcester LLP One Post Office Square Boston, Massachusetts 02109 (617) 338-2800	**Donald J. Murray Dewey Ballantine LLP 1301 Avenue of the Americas New York, New York 10019 (212) 259-8000**

Approximate date of commencement of proposed distribution to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered[1]	Proposed maximum offering price per share	Proposed maximum aggregate offering price[1]	Amount of registration fee[2]
Common Shares	2,300,000	$45.50	$104,650,000	$3,212.76

(1) *Includes 300,000 common shares which may be purchased by the underwriters to cover over allotments, if any.*

(2) *Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended on the basis of the average high and low prices of the Registrant's common shares on June 12, 2007, as reported by the American Stock Exchange.*

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

PRELIMINARY PROSPECTUS Subject to completion June 15, 2007

2,000,000 Shares

TravelCenters of America LLC

Common Shares

We are selling all 2,000,000 of our common shares offered in this prospectus.

Our common shares are traded on the American Stock Exchange, under the symbol "TA". On June 12, 2007, the last reported sale price of our common shares on the American Stock Exchange was $45.44 per share.

Although we are a limited liability company, our common shares have voting, dividend and liquidation rights that are generally associated with common stock. Ownership of our shares by any person generally is limited to 9.8% of any class or series of our equity securities.

Investment in our shares involves a high degree of risk. You should read carefully this entire prospectus, including the section entitled "Risk factors" that begins on page 5 of this prospectus, which describes the material risks.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

The underwriters may also purchase from us up to an additional 300,000 shares, at the public offering price less the underwriting discount, to cover over allotments, if any, within 30 days from the date of this prospectus.

The underwriters are offering our shares as described in "Underwriting". Delivery of the shares will be made on or about , 2007.

UBS Investment Bank

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ABOUT THIS PROSPECTUS

References in this prospectus to "we", "us", "our", the "Company" or "TravelCenters of America" mean TravelCenters of America LLC and its subsidiaries.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We believe that the information contained in this prospectus is accurate as of the date on the cover. Changes may occur after that date, and we do not expect to update this information except as required by applicable law.

Some of the descriptive material in this prospectus refers to the assets, liabilities, operations, results, activities or other attributes of the historical business conducted by our predecessor, TravelCenters of America, Inc., as if it had been conducted by us. For example, "our brands", "our assets" or similar words have been used in historical or current contexts to describe those matters which, while clearly attributable to our predecessor, have continuing relevance to us. However, our business as a whole is materially different from the business historically conducted by our predecessor, as more fully described in "Selected Financial Data." Accordingly, none of these references are intended to imply that the historical business, financial position, results of operations or cash flows of our predecessor are indicative of our business, financial position, results of operations or cash flows, now or at any future date or for any future period.

Prospectus summary

This summary highlights selected information contained in greater detail elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our common shares. You should carefully read the entire prospectus, including "Risk Factors" and the financial statements and related notes, before making an investment decision.

THE COMPANY

Business

We operate and franchise 233 travel centers primarily along the U.S. interstate highway system. Our travel centers include 164 that are operated under the "TravelCenters of America" or "TA" brand names and 69 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 quick service restaurants, or QSRs, operated by us primarily 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.

Our 233 travel centers ***Pro forma 2006 revenue: $6.6 billion***

Recent developments

Spin off. On January 31, 2007, Hospitality Properties Trust, a publicly owned real estate investment trust, or Hospitality Trust, acquired our predecessor and distributed all of our common shares to its shareholders and we became a separate public company. See " Our history".

Petro Acquisition. On May 30, 2007, we acquired Petro Stopping Centers, L.P., or Petro, for approximately $70 million. See " Our history".

Expansion activities. Since we became a public company on January 31, 2007, we have pursued expansion activities. We expect to spend $125 million to $150 million to improve our TA branded travel centers during the next four years; since January 31, 2007, we purchased one travel center; we have several single site acquisitions under conditional purchase agreements or discussion; and we have several development projects underway or planned. See " Growth strategies".

New credit facility. We are discussing a new credit facility with a large commercial bank. We expect this credit facility to be for at least $100 million and secured by certain of our accounts receivable and inventory.

Growth strategies

We expect to grow our business as follows:

Same site improvements. We expect to spend $125 million to $150 million during the next four years to, among other things, improve and expand parking lots, increase the number of our truck repair bays to reduce repair waiting times experienced at our centers and remodel the interior and exterior of many of our travel centers. We expect these improvements will make these travel centers more attractive to both professional truck drivers and motorists and increase our same site sales.

Acquisitions. In addition to our Petro acquisition, we purchased one travel center from a former TA franchisee in May 2007 for $3.1 million. We expect to substantially remodel this center for an additional cost of $1.6 million. We have nine other individual travel center purchases in various stages of negotiations, letters of intent or conditional purchase contracts. We estimate the total cost to purchase and remodel all nine of these travel centers to be $90 million; however, at this time, we are unable to assure you that any of these purchases will occur.

Development. We completed construction of a travel center in Livingston, CA, in March 2007. We expect to complete construction of another travel center in Laredo, TX, later this summer. We estimate the total cost of these two developments, including site acquisition costs, to be $30 million. We own, or have under negotiation for possible acquisition, 13 sites containing 400 acres of land which we believe may be suitable for development as travel centers. We have a 40% interest in a joint venture that may build a new travel center. We estimate our total cost to acquire and develop all of these sites to be $190 million; however, because the approval process for developing new travel centers can be long and complicated, at this time we are unable to assure you the total costs we may incur or that any of these development projects will be completed.

Franchising. Forty six of our travel centers are operated by our franchisees, 24 as Petro Stopping Centers® and 22 as TravelCenters of America®. Since January 1, 2006, we have added two TA travel centers and two Petro travel centers as franchised locations. We have agreed and expect to add one additional Petro franchised location and one additional TA franchised location in 2007. We expand our business by franchising when desirable locations are not available for purchase or when we believe a particular site can be more successfully operated by a franchisee than by us. We expect to add franchised sites; and, if a franchisee is no longer interested to operate a franchised travel center, we consider whether to purchase the site and operate it directly.

Our history

On January 31, 2007, Hospitality Trust purchased our predecessor for approximately $1.9 billion. Simultaneously with this purchase, Hospitality Trust restructured our predecessor's business as follows: (i) Hospitality Trust retained the real estate of 146 of the 163 travel centers then operated or franchised by our predecessor and other assets; (ii) our predecessor's operating business and all its assets not retained by Hospitality Trust, plus approximately $200 million of net working capital, were contributed to us; (iii) we entered a long term lease for our predecessor's real estate retained by Hospitality Trust, which we refer to as the TravelCenters lease; and (iv) all of our shares were spun off to Hospitality Trust's shareholders and we became a separate public company.

On May 30, 2007, we acquired Petro; Hospitality Trust acquired the real estate at 40 of the 69 travel centers operated by Petro for approximately $630 million plus debt defeasance costs of approximately $25 million; and we entered a long term lease for those 40 travel centers from Hospitality Trust, which we refer to as the Petro lease.

Risk factors

Your ownership of our common shares includes the following risks, among others:

- The trading market for our common shares may be volatile and thin.
- Our operating margins are small; small changes in our revenues or operating expenses may cause us to experience losses.
- Interruptions in the availability of fuel may cause us to experience losses.
- We regularly incur environmental clean up costs; these costs may become more than we can afford.
- We are engaged in a large number of simultaneous expansion activities. As a result, we may incur higher expenses than our predecessor. These expenses may result in losses and our expansion activities may not be profitable.
- Our management team has been recently assembled from Reit Management & Research LLC, or Reit Management, and its affiliates, from our predecessor and from Petro and it may not be able to work together successfully.
- We may be unable to meet reporting requirements for publicly owned companies, or we may have to increase our expenses to do so.
- We are involved in several litigations that could be expensive to defend and may result in material liabilities.
- Our continuing relationships with Hospitality Trust and Reit Management may cause conflicts of interest.
- Various provisions in our governing documents and our contracts with Hospitality Trust and Reit Management may prevent a change of control of us.

General	We are a Delaware limited liability company. Our principal place of business is 24601 Center Ridge Road, Westlake, Ohio 44145, and our telephone number is (440) 808-9100.

The offering

Common shares we are offering	2,000,000 shares
Common shares to be outstanding after this offering	10,808,575 shares
Use of proceeds	The estimated net proceeds to us from this offering are $ million, assuming a public offering price of $ per share, or $ million if the underwriters' over allotment option is exercised in full. We intend to use these net proceeds for general business purposes including funding acquisitions and our other expansion activities.
American Stock Exchange symbol	TA

The number of shares to be outstanding after the offering is based on 8,808,575 shares outstanding on June 12, 2007. If the underwriters exercise their over allotment option in full, we will issue an additional 300,000 shares. Unless otherwise stated, all information contained in this prospectus assumes no exercise of the underwriters' over allotment option.

Risk factors

Investing in our common shares involves a high degree of risk. You should carefully consider the following risks, together with all of the other information included in this prospectus, before investing in our common shares. The risks described below may not be the only risks we face. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer and the trading price of our securities could decline. Investors and prospective investors should carefully consider the following risks and the information contained in this prospectus under the heading "Warning Concerning Forward Looking Statements" before deciding whether to invest in our common shares.

The trading market for our common shares may be volatile and thin.

Our shares have only traded on the American Stock Exchange since we became a public company in early 2007. Assuming the underwriters do not exercise their over allotment option, we are selling 2,000,000 of our common shares in this offering, an amount equal to 19% of our shares outstanding prior to the offering. We cannot predict what effect this offering may have on the price of our common shares or the volume of transactions involving our shares in the market. Sales of a substantial amount of our common shares, or the perception that such sales could occur, could adversely affect the liquidity of the market for our common shares or their price. Large price changes or low volume may preclude you from buying or selling our shares at all, or at any particular price or during a time frame that satisfies your investment objectives.

Our operating margins are narrow.

Our pro forma total revenues for the year ended December 31, 2006, were $6.6 billion; and our pro forma cost of goods sold (excluding depreciation) and site level operating expenses for the same period totaled $6.3 billion. Fuel sales in particular generate low gross margins. Our pro forma fuel sales were $5.4 billion and our pro forma gross profit on fuel sales was $212 million for the year ended December 31, 2006. A small percentage decline in our future revenues or increase in our future expenses, especially revenues and expenses related to fuel, may have a material adverse effect upon our income or may cause us to experience losses.

An interruption in our fuel supplies would materially adversely affect our business.

To mitigate the risks arising from fuel price volatility, we generally maintain limited inventories of fuel. Accordingly, an interruption in our fuel supplies would materially adversely affect our business. Interruptions in fuel supplies may be caused by local conditions, such as a malfunction in a particular pipeline or terminal, or by national or international conditions, such as government rationing, acts of terrorism, war and the like. Any limitation in available fuel supplies that causes a decline in truck freight shipments or a limit on the fuel we can offer for sale may have a material adverse effect on our sales of fuel and non-fuel products and services or may cause us to experience losses.

Our storage and dispensing of petroleum products create the potential for environmental damages, and compliance with environmental laws may be costly.

Our business is subject to laws relating to the protection of the environment. The travel centers we operate include fueling areas, truck repair and maintenance facilities and tanks for the storage of petroleum products and other hazardous substances, all of which create the potential for environmental damages. As a result, we regularly incur environmental clean up costs. Because of the

uncertainties associated with environmental expenditures, it is possible that future expenditures could be substantially higher than the amounts we have previously accrued. Environmental laws expose us to the possibility that we may become liable to reimburse the government or third parties for damages and costs they incur in connection with environmental hazards. We cannot predict what environmental legislation or regulations may be enacted or how existing laws or regulations will be administered or interpreted with respect to our products or activities in the future; more stringent laws, more vigorous enforcement policies or stricter interpretation of existing laws in the future could cause us to experience losses. In addition, under the terms of the leases between us and Hospitality Trust, we have generally agreed to indemnify Hospitality Trust from all environmental liabilities it may incur arising at any of our travel centers.

Our management team has limited experience working together.

We are a recently reorganized business. Our board and our management team include persons associated with Hospitality Trust and its affiliates and with Reit Management as well as former executives of our predecessor and of Petro. This management team has limited experience working together and they may not be able to do so successfully. Although we implemented retention bonus plans for certain of our employees who are former employees of our predecessor or who were historically employees of Petro, we can provide no assurance that we will in fact retain any or all of these persons.

We may be unable to successfully integrate the business of Petro and our other expansion activities.

We recently acquired Petro. We also have undertaken other acquisition, development and franchise growth activities. The process of integrating our operations and those of Petro and our other expansion activities may involve unforeseen difficulties and may require a large amount of our management's attention and our other resources. We can give no assurance that we will effectively integrate and manage our expansion activities. These expansion activities may cause us to incur higher costs than our predecessor. If we are unable to successfully manage our enlarged operations, our expansion activities may not be profitable and we may realize losses.

We may be unable to meet financial reporting and internal control standards for a publicly owned company.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

We may identify material weaknesses in our internal control over financial reporting in the future. Beginning with our Annual Report on Form 10-K for the year ending December 31, 2007, pursuant to

Section 404 of the Sarbanes Oxley Act of 2002, our management will be required to assess the effectiveness of our internal control over financial reporting, and, beginning for the year ending December 31, 2008, we will be required to have our independent registered public accounting firm attest to the design and operating effectiveness of our internal control over financial reporting. If our management or our independent registered public accounting firm were to either identify a material weakness or otherwise conclude in their reports that our internal control over financial reporting was not effective, investors could lose confidence in our reported financial information and the value of our shares could be adversely affected which, in turn, could harm our business, have an adverse effect on our future ability to raise capital and cause the price of our traded securities to decline.

Our relationships with Hospitality Trust and Reit Management may limit the growth of our business.

In connection with our spin off from Hospitality Trust, we entered agreements which prohibit us from acquiring or financing real estate in competition with Hospitality Trust or other affiliates of Reit Management, unless those investment opportunities are first offered to Hospitality Trust or those other entities. These restrictions may make it difficult or impossible for us to alter our business strategy to include investments in real estate. Also, because our leases with Hospitality Trust limit our ability to incur debt and prohibit ownership of more than 9.8% of our shares by any party, we may be unable to independently finance future growth opportunities.

Ownership limitations and anti-takeover provisions may prevent you from receiving a takeover premium.

Our limited liability company agreement, or LLC agreement, places restrictions on the ability of any person or group to acquire beneficial ownership of more than 9.8% (in number of shares, vote or value, whichever is most restrictive) of any class or series of our equity securities. The terms of our leases with Hospitality Trust and our management and shared services agreement with Reit Management provide that our rights under those agreements may be cancelled by Hospitality Trust and Reit Management, respectively, upon the acquisition by any person or group of more than 9.8% of our shares, and upon other change of control events, as defined in those agreements. If the breach of these ownership limitations causes a lease default, shareholders causing the default are liable to us and may be liable to other shareholders for damages. These agreements and other provisions in our LLC agreement may increase the difficulty of acquiring control of us by means of a tender offer, open market purchases, a proxy fight or otherwise. Other provisions in our governing documents which may deter takeover proposals include the following:

> staggered terms for members of our board of directors;

>

the power of our board of directors, without a shareholders' vote, to authorize and issue additional shares and classes or series of shares on terms that it determines;

>

a 75% shareholder vote and cause requirements for removal of directors; and

>

advance notice procedures with respect to nominations of directors and shareholder proposals.

For these reasons, shareholders may be unable to cause a change of control of us or to realize a change of control premium for their common shares.

We have limited control of our franchisees.

Ten travel centers which we lease from Hospitality Trust are subleased to franchisees. An additional 36 travel centers are owned and operated by franchisees. For the year ended December 31, 2006, our pro

forma rent and royalty revenues from these franchisee relationships were $16 million. Various laws and our existing franchise contracts limit the control we may exercise over our franchisees' business activities. A failure by our franchisees to pay rents and royalties to us may have a material adverse effect upon our financial results or may cause us to experience losses.

We expect we will incur costs and cash outlays which are significantly higher than those of our predecessor and may result in a prolonged period of substantial losses.

Our pro forma operating expenses for the year ended December 31, 2006, include expenses of $230 million incurred under the terms of our leases with Hospitality Trust and our management and shared services agreement. This amount is significantly higher than the depreciation, which is a noncash operating expense, and interest expenses that were incurred by our predecessor and Petro that we avoid after the HPT Transaction and our acquisition of Petro. Our leases with Hospitality Trust require us to make capital expenditures to maintain the travel centers we lease. Expenditures we make for improvements that are in excess of the $125 million that we may draw from Hospitality Trust for improvements at the leased TA sites will either be paid by us directly without reimbursement or, if they are reimbursed by Hospitality Trust, increase our rent expense. These additional expenses and cash outlays may result in future substantial losses and negative cash flow. We incurred substantial pro forma net losses for 2006 and for the three months ended March 31, 2007. Material losses or negative cash flow which persist over a significant period of time may prevent us from operating our business successfully and could cause the market price of our common shares to decline substantially.

We are involved in material litigation.

We are a defendant in two class action cases and one antitrust litigation. These litigations seek material amounts of damages which may not be covered by insurance. Although we believe that we have defenses to these claims, it is impossible to predict the outcome of these litigations at this time. Moreover, the attorney's fees and other costs of this litigation are likely to be significant, and the management time required to defend these matters may distract us from other, income producing activities. See "Business Legal Proceedings" for more information about these litigations.

Our creation was, and our continuing business will be, subject to conflicts of interest with Hospitality Trust and Reit Management.

Our creation was, and our continuing business will be, subject to conflicts of interest, as follows:

>

Two of our directors were trustees of Hospitality Trust at the time we were created.

>

We have five directors: one of whom, Barry M. Portnoy, also is a trustee of Hospitality Trust and the majority owner of Reit Management; one of whom, Arthur G. Koumantzelis, is a former trustee of Hospitality Trust; and one of whom, Thomas M. O'Brien, is a former executive officer of Hospitality Trust.

- Mr. O'Brien, who serves as our President and Chief Executive Officer, and John R. Hoadley, our Executive Vice President, Chief Financial Officer and Treasurer, are also employees of Reit Management. Reit Management is the manager for Hospitality Trust, and we purchase services from Reit Management pursuant to our management and shared services agreement.

These conflicts may have caused, and in the future may cause, adverse effects on our business, including:

- Our leases with Hospitality Trust may be on terms less favorable to us than the terms we may have been able to obtain from a party other than Hospitality Trust.

- The terms of our management and shared services agreement with Reit Management may be less favorable to us than we may have been able to obtain from a party other than Reit Management.
- Future business dealings between us and Hospitality Trust, Reit Management and their respective affiliates may be on terms less favorable to us than those we could obtain from other parties.
- We may have to compete with Hospitality Trust, Reit Management and their affiliates for the time and attention of Messrs. Portnoy, O'Brien and Hoadley.

Our leases with Hospitality Trust require that we indemnify Hospitality Trust from various liabilities.

Our leases with Hospitality Trust generally require that we pay for, and indemnify Hospitality Trust from, liabilities associated with the ownership or operation of our leased travel centers. Accordingly our business will be subject to all our business operating risks and all the risks associated with real estate including:

- costs associated with uninsured damages, including damages for which insurance may be unavailable or unavailable on commercially reasonable terms;
- costs that may be required for maintenance and repair of the travel centers; and
- costs due to compliance with and changes in laws and other regulations, including environmental laws and the Americans with Disabilities Act.

Use of proceeds

We will receive net proceeds of approximately $ million from the sale of 2,000,000 shares at the assumed public offering price of $ per share, after deducting underwriting commissions and discounts and estimated expenses payable by us. A $1.00 increase (decrease) in the assumed public offering price of $ would increase (decrease) the net proceeds to us from this offering by $, assuming we sell the number of shares set forth on the cover of this prospectus and after deducting the underwriting commissions and discounts and estimated offering expenses payable by us. If the underwriters exercise their over allotment option in full, then the net proceeds will be approximately $ million.

We intend to use the net proceeds of this offering for general business purposes, including funding acquisitions and our other expansion activities. We expect that the net proceeds of this offering will be invested in short term, interest bearing securities pending other uses.

An increase or decrease of 1,000,000 shares in the number of shares offered by us would result in an increase or decrease in net proceeds to us of $ million, assuming the public offering price per share remains the same and after deducting the underwriting commissions and estimated offering expenses payable by us.

Market price of common shares

Since February 1, 2007, our common shares have been traded on the American Stock Exchange under the symbol "TA". The following table presents the high and low sales prices for our common shares as reported on the American Stock Exchange for each calendar quarter since they began to trade:

Period	**Low**	**High**
First Quarter (February 1, 2007 to March 31, 2007)	$ 28.59	$ 43.00
Second Quarter (through June 12, 2007)	$ 38.46	$ 46.90

On June 12, 2007, the last reported sale price of our common shares on the American Stock Exchange was $45.44 per share. As of June 12, 2007, there were approximately 860 shareholders of record of our common shares.

Dividend policy

We do not expect to make any distributions to any shareholders in the foreseeable future.

Under the Delaware Limited Liability Company Act, we generally cannot make a distribution that would cause our liabilities to exceed the fair value of our assets.

Capitalization

The following table describes our capitalization as of March 31, 2007:

> on an actual basis;

> on a pro forma basis after giving effect to our Petro acquisition; and

> on a pro forma as adjusted basis after giving effect to the Petro acquisition and the sale of 2,000,000 shares by us in this offering at an assumed public offering price of $45.44 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

A $1.00 increase or decrease in the public offering price per share would result in an increase or decrease in pro forma as adjusted cash and cash equivalents and total capitalization of $1.9 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus remains the same. An increase or decrease of 1,000,000 shares in the number of shares offered by us would result in an increase or decrease in pro forma as adjusted cash and cash equivalents and total capitalization of $43.2 million, assuming the public offering price per share remains the same. The pro forma as adjusted information is illustrative only, and following the completion of this offering, will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

	At March 31, 2007		
	Actual	**After giving pro forma effect to the Petro acquisition**	**As adjusted for this Offering and after giving pro forma effect to the Petro acquisition**
Cash and cash equivalents	$ 149,838	$ 106,394	$ 192,230
Restricted investments[1]		$ 274,740	$ 274,740
Capital lease obligations[2]	$ 107,620	$ 107,620	$ 107,620
Debt[1]		$ 270,399	$ 270,399
Shareholders' equity:			
Common shares, no par value, 8,808,575 actual and pro forma shares issued and outstanding and 10,808,575 pro forma as adjusted shares issued and outstanding	333,120	333,120	418,956
Accumulated other comprehensive income	123	123	123
Accumulated deficit	(11,029)	(11,029)	(11,029)
Total shareholders' equity	322,214	322,214	408,050
Total capitalization	$ 429,834	$ 700,233	$ 786,069

(1) *Prior to our acquisition of Petro, $275 million of U.S. Treasury bonds were placed in escrow for the purpose of covenant defeasance of all Petro's debt which was not repaid in connection with the Petro acquisition. These treasury bonds are reflected on our balance sheet as restricted investments and are sufficient to pay the principal amount of this defeased debt, all of the interest that will accrue on the defeased debt until the February 15, 2008, redemption date and the redemption premium due on February 15, 2008.*

(2) *As a result of our application of Statement of Financial Accounting Standards No. 98 (SFAS 98), which sets forth accounting guidance related to sale leaseback transactions, to the TravelCenters lease, 13 of the travel centers we lease from Hospitality Trust do not qualify for operating lease treatment, because more than an insignificant portion of these travel centers is sublet to a third party. The amount shown as capital lease obligation will remain on our balance sheet unless and until the subleased portion of these travel centers is reduced to an insignificant level. We expect that the Petro lease will qualify for operating lease treatment, but that determination is subject to the results of a valuation study commissioned with an independent appraiser; the results of this independent study are not expected to be complete until later in 2007.*

Dilution

Our net tangible book value as of March 31, 2007, was $273.8 million, or $31.08 per share. Net tangible book value per share is determined by dividing our net tangible book value (total tangible assets less total liabilities) by the number of common shares outstanding. Without taking into account any changes in our net tangible book value after March 31, 2007, other than to give effect to the assumed sale of the 2,000,000 shares offered by this prospectus at an assumed public offering price of $45.44 per share, our net tangible book value at March 31, 2007, would have been $359.6 million, or $33.27 per share. This represents an immediate increase in net tangible book value of $2.19 per share to existing shareholders and an immediate dilution in net tangible book value of $12.17 per share to purchasers of our common shares in this offering. The following table illustrates this per share dilution:

Assumed public offering price per share		$ 45.44
Net tangible book value per share before offering	$ 31.08	
Increase in net tangible book value per share attributable to new investors	2.19	
Net tangible book value per share after offering		33.27
Dilution per share to new investors		$ 12.17

Each $1.00 increase (decrease) in the public offering price per share would increase (decrease) the net tangible book value by $0.18 per share (assuming that we sell 2,000,000 shares in this offering and no exercise of the underwriters' option to purchase additional shares) and the dilution to investors in this offering by $0.82 per share.

Each increase (decrease) of 1,000,000 shares in the number of shares offered by us would result in an increase (decrease) would increase (decrease) the net tangible book value by $ per share (assuming no exercise of the underwriters' option to purchase additional shares) and the dilution to investors in this offering by $ per share, assuming that the public offering price per share remains the same.

If the underwriters exercise their over allotment option in full, the net tangible book value per share after the offering would have been $ million, or $ per share. This amount represents an immediate increase in net tangible book value of $ per share to the existing shareholders and an immediate dilution in net tangible book value of $ per share to purchasers of our common shares in this offering.

Business

GENERAL

We are a limited liability company formed under Delaware law on October 10, 2006 as a wholly owned subsidiary of 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 our predecessor, restructured this acquired business and distributed all of our common shares to the shareholders of Hospitality Trust. In this prospectus we sometimes refer to these transactions as the HPT Transaction.

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 May 31, 2007, after we completed our Petro acquisition, our business included 233 travel centers located in 41 states in the U.S. and the province of Ontario, Canada. 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, a fact 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 among 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 QSRs, travel and convenience stores and other 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 by a group of institutional investors. In April 1993 our predecessor acquired the travel center business of Unocal Corporation, or Unocal. This Unocal business included 139 travel centers, of which 95 were leased to third party operators, 42 were franchisee operated and two were operated by our predecessor. Unocal operated this business principally as a fuel wholesaler and franchisor. In December 1993, our predecessor acquired the travel center business of The British Petroleum Company plc, or BP. This BP business included 38 company operated and six franchisee operated travel centers.

In January 1997, our predecessor changed its business strategy to combine the operations of the former Unocal and BP travel center businesses under the TravelCenters of America and TA brand names. From January 1997 through January 31, 2007, our predecessor:

- acquired 50 travel centers, including three multi-property acquisitions of more than ten travel centers;
- designed, developed and constructed five travel centers;
- began to operate directly 51 travel centers which were previously leased to and operated by franchisees; and
- sold or closed 41 travel centers which were considered nonstrategic.

As a result of these steps, 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 Management. The material provisions of the transaction agreement 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 which we operate or franchise and certain other assets held by our predecessor were transferred to subsidiaries of Hospitality Trust that we did not own;
  - we leased the 146 travel centers owned by Hospitality Trust and agreed to operate our travel centers business;
  - we continued to own all of our working capital assets (primarily consisting of cash, receivables and inventory) and liabilities (primarily consisting of trade payables and accrued liabilities);
  - 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 in connection with the travel centers business, including furniture, vehicles and substantially all other moveable equipment employed 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; and
  - 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 shares to its shareholders.
-

We entered into a management and shared services agreement with Reit Management. See "Management 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 affiliates of Reit Management 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 restrict the ownership of our shares and conduct all of our business activities in a manner which may prevent a change of control of us or a sale of a material portion of our assets. See "Description of our limited liability company agreement Restrictions on Share Ownership and Transfer".

> 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.

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

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

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

> We entered retirement agreements with the president, the chief financial officer and the general counsel of our predecessor who continued in those positions immediately after we began operations. These agreements require us to make termination payments to these individuals through December 31, 2007. We appointed a new president, chief financial officer and general counsel.

> We have accelerated a same site improvement program for our TA locations with an emphasis upon build outs of revenue generating improvements, such as expanding the number of our truck repair bays in order to reduce waiting times for repairs.

> We have expanded our travel center acquisition and development efforts to identify individual sites which will allow us to fill in locations along the U.S. interstate highways where we do not currently have a travel center. These efforts have begun to produce results, as we have purchased one location from a former franchisee and are having discussions regarding several other possible individual site purchases.

> We have begun a strategic review of all our contractual arrangements to determine if any should be discontinued or expanded. For example, we have given notice to terminate a contract under which a third party markets hedged sales contracts to trucking fleets that in turn fuel at our TA locations in return for low pumping fee payments to us. Similarly, we have begun negotiations with a supplier to change the terms on which we buy lubricants and grease.

The Petro Acquisition. On May 30, 2007, we acquired Petro for approximately $70 million. Petro operates or franchisees 69 travel centers along the U.S. interstate highways. These 69 centers are similar to the TravelCenters locations which we operate, except that they are generally larger and newer.

Also, on May 30, 2007, Hospitality Trust acquired the real estate of 40 Petro centers for $630 million and Hospitality Trust and Petro defeased certain secured debts of Petro and paid a net defeasance cost (in addition to the debt principal included in Hospitality Trust acquisition price) of about $25 million. Simultaneously with Hospitality Trust's acquisition of this real estate, we leased these 40 locations from Hospitality Trust.

See " Our Leases with Hospitality Trust".

The Petro assets we acquired include:

> Two travel centers owned and operated by Petro.

> Two travel centers that Petro leases from third parties other than Hospitality Trust.

> A 40% minority interest in a joint venture which owns a travel center that is managed by Petro.

> Contract rights as franchisor of 24 Petro travel centers.

> Four land parcels which we believe are suitable for development of new travel centers.

> Various items of personal property, contract rights and working capital.

The majority owner of the joint venture in which we acquired a 40% interest has an option to purchase our 40% interest for $16 million, and we have offered to purchase their remaining 60% interest for $24 million. However, at this time, we do not expect that this majority owner will exercise either of these options.

In connection with the Petro acquisition, we have offered to purchase from former owners of Petro their minority interests in an entity which is a franchisee of four Petro travel centers and related assets. We believe that this entity is currently evaluating this offer. The result of this evaluation may be, generally at this franchisee's option, one of: (1) our proceeding to purchase these interests for $11 million; (2) this franchisee's other owners purchasing these interests for $11 million; or (3) our purchase of 100% of this entity and related interests for $35 million. All of these possibilities are subject to negotiation of a binding contract between the parties. It is possible that this franchisee will offer alternatives to any of the options set forth above, in which case, generally we will have the option to either proceed on the terms proposed or to pursue the purchase of the minority interests of the former owners of Petro for $11 million.

We expect to continue to operate both Petro and TA branded travel centers. We believe that the primary factors which attract customers to our travel centers are their locations and the variety, quality and prices of goods and services offered at each travel center, not the brands. We also believe that certain business activities may historically have been better operated by either Petro or our predecessor, and we have formed a management team to study and compare the historical operations at our TA and Petro operations so that we may implement the better operating practices throughout our business.

OUR GROWTH STRATEGY

Same site improvements. We plan to continue to expand and standardize many of our TA locations to increase the services we offer to attract professional truck drivers and motorists. We expect to spend $125 million to $150 million during the next four years, among other things, to improve and expand parking lots, to increase the number of our truck maintenance and repair bays to expand business and reduce repair waiting times experienced at our travel centers, to remodel the interior and exterior of many of these travel centers and for other improvements. We have identified eight TA locations that we operate that we intend to re-image and one TA location which we intend to raze and rebuild over the next two to three years. We have also identified certain TA locations at which we believe we can add 40 maintenance and repair bays during that same time period. We believe that we have other opportunities to increase our revenues, including, but not limited to, the expansion of the number of gasoline lanes at several of our travel centers to increase the number of gasoline customers serviced simultaneously. We expect soon to begin a thorough review of our Petro locations to determine what site improvements, if any, may be appropriate at these locations. We believe these improvements will make these travel centers more attractive to both professional truck drivers and motorists and increase our same site sales.

Acquisitions. In addition to the Petro Acquisition, we purchased one travel center from a former TA franchisee in May 2007 for $3.1 million. We expect to substantially remodel this center for an additional cost of $1.6. There are segments along the U.S. interstate and Canadian highway systems that we consider to be strategic but where we believe we do not have an adequate presence. We intend to pursue acquisitions in these locations. We regularly evaluate opportunities to expand through acquisitions, some of which may be significant in size. We have a contract to purchase minority interests in four Petro franchised locations for approximately $11 million, and we may be required to purchase 100% of the entity that owns these locations for an additional $24 million. We have nine other individual center purchases in various stages of negotiations, letters of intent or conditional purchase contracts at this time. We estimate the total cost to purchase and remodel all nine of these centers to be $90 million; however, at this time, we are unable to assure you that any of these purchases will occur.

Development. We completed construction of a travel center in Livingston, CA, in March 2007. We expect to complete construction of another travel center in Laredo, TX, later this summer. We estimate

the total cost of these two developments, including site acquisition costs, to be $30 million. We plan to continue expansion by building new travel centers. We have a standard design for new travel centers appropriate for markets in which we can obtain large parcels of land and where there appears to be sufficient demand to support a full service restaurant and a different standard design for markets in which less land is available or where there appears to be less or different potential business. We own, or have under negotiation for possible acquisition, 13 sites containing approximately 400 acres of land which we believe may be suitable for development as travel centers. We have a 40% interest in a joint venture that may build a new travel center. We estimate our total cost to acquire and develop all of these sites to be $192 million; however, because the approval process for developing new travel centers can be long and complicated, at this time we are unable to assure you the total costs we may incur or that any of these development projects will be completed.

Franchising. Forty six of our travel centers are operated by our franchisees, 24 as Petro Stopping Centers® and 22 as TravelCenters of America®. Since January 1, 2006, we have added two TA travel centers and two Petro travel centers as franchised locations. We have agreed and expect to add one additional Petro franchised location and one additional TA franchised location in 2007. We expand our business by franchising when desirable locations are not available for purchase or when we believe a particular site can be more successfully operated by a franchisee than by us. We expect to add franchised sites; and, when a franchisee is no longer interested to operate a franchised travel center, we consider, when we have the option, whether to purchase the site and operate it directly.

OUR TRAVEL CENTER LOCATIONS

At May 31, 2007, our travel centers consisted of:

- 176 travel centers leased from Hospitality Trust and operated by us;
- ten travel centers leased from Hospitality Trust and subleased to and operated by our franchisees;
- five travel centers we operate on sites we own;
- five 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 40% equity interest; and
- 36 travel centers that are owned and operated by our franchisees.

Our travel centers include 164 that are operated under the TravelCenters of America or TA brand names and 69 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 operated by us 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.

Substantially all of our travel centers are full service sites located on or near an interstate highway and offer fuel and non-fuel 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, which contains a full service restaurant and one or more QSRs, a travel

and convenience store, a truck maintenance and repair shop and other amenities. Many of our TA locations have one building with separate service areas, but many 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 May 31, 2007, we offer branded gasoline at 155 travel centers and unbranded gasoline at 59 travel centers. Only 19 of our travel centers do not sell gasoline.

> *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 the "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 May 31, 2007, 210 of our travel centers included a full service restaurant, 162 of our travel centers offered at least one QSR, and a total of 287 QSRs are operated in our 233 travel centers. The restaurants and QSRs in travel centers 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. 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 which work is backed by our warrantees. Most of our TA truck repair and maintenance facilities provide certain warranty work on Freightliner brand trucks through our participation in the Freightliner ServicePoint® program, as described below.

> *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. Each travel and convenience store has a selection of over 4,000 items, including food and snack items, beverages, non-prescription drug and beauty aids, batteries, automobile accessories, and music and video products. In addition to complete travel and convenience store offerings, the stores sell items specifically designed for the truck driver's on the road lifestyle, including laundry supplies, clothing and truck accessories. Most of our stores also have a "to go" snack bar as an additional 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 try to provide a consistently high level of service and amenities to professional truck drivers at all of 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 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 television room with a video player and comfortable seating.

>

Marketing. We offer truck drivers "loyal fueler" programs, called the RoadKing Club℠ and the Petro Passport℠, 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 non-fuel products and services. These points can be redeemed for discounts on non-fuel products and services at our travel centers. We publish a bi-monthly magazine called "Road King℠" 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 per location, 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. We have single sources of supply for gasoline at each of our travel centers that offer branded gasoline; but our travel centers selling unbranded gasoline generally purchase gasoline from multiple sources.

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 keep 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 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 that primarily are traded on the New York Mercantile Exchange.

Non-fuel products. We have many sources for the large variety of non-fuel products that we sell. We have developed strategic relationships with several suppliers of key non-fuel products, including Freightliner LLC 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 non-fuel, non-perishable products to our TA travel centers using a combination of contract carriers and our fleet of trucks and trailers.

Freightliner Agreement. We are party to an agreement with Freightliner LLC, a DaimlerChrysler company. Freightliner is a leading manufacturer of heavy trucks in North America. We are an authorized provider of repair work and specified warranty repairs to Freightliner's customers through the Freightliner 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 Freightliner's parts distribution, service and technical information systems. This agreement does not presently include our Petro locations.

OUR TRAVEL CENTERS

Our travel centers are geographically diversified, located in 41 states in the U.S. and in Ontario, Canada. The travel centers we operate and their significant services and amenities are generally described in the chart below (travel centers operated by our franchisees are shown separately see " Relationships with Franchisees"). The listed properties are owned by Hospitality Trust and leased by us unless otherwise indicated.

Count	Brand	City	State	Total acres	Building area	Truck parking spaces	Number of diesel lanes	Truck repair facility	Car parking spaces	Gasoline	Travel/ convenience store	Full service restaurant	QSRs
1	Petro	Bucksville	AL	48	14,400	255	12	X	167	X	X	X	X
2	TA	Mobile	AL	15	16,685	89	6	X	77	X	X		

45,983

50,679

Operating earnings	14,922	12,182	27,728	19,235
Interest expense, net	228	319	498	636
Earnings before income taxes	14,694	11,863	27,230	18,599
Provision for income taxes	5,294	3,962	9,840	6,471
Net earnings	$9,400	$7,901	$17,390	$12,128
Earnings per share:				
Basic	$0.65	$0.55	$1.20	$0.84
Diluted	$0.65	$0.55	$1.20	$0.84
Dividends declared per common share	$0.20	$0.19	$0.40	$0.38
Shares used in computation of earnings per share:				
Basic	14,443,539	14,379,450	14,434,397	14,361,464
Impact of dilutive securities	82,166	63,816	79,799	73,096
Diluted	14,525,705	14,443,266	14,514,196	14,434,560

See accompanying notes to unaudited consolidated condensed financial statements.

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BADGER METER, INC.

Consolidated Statements of Comprehensive Income

	Three Months Ended June 30, (Unaudited) (In thousands)		Six Months Ended June 30, (Unaudited)	
	2016	2015	2016	2015
Net earnings	$9,400	$7,901	$17,390	$12,128
Other comprehensive income (loss):				
Foreign currency translation adjustment	(288)	536	289	(160)
Pension and postretirement benefits, net of tax	94	108	190	239
Comprehensive income	$9,206	$8,545	$17,869	$12,207

See accompanying notes to unaudited consolidated condensed financial statements.

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BADGER METER, INC.

Consolidated Condensed Statements of Cash Flows

	Six Months Ended June 30 (Unaudited) (In thousands)	
	2016	2015
Operating activities:		
Net earnings	$17,390	$12,128
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation	5,603	5,188
Amortization	5,675	4,978
Deferred income taxes	131	—
Noncurrent employee benefits	437	276
Stock-based compensation expense	752	781
Changes in:		
Receivables	(4,652)	(8,498)
Inventories	(1,778)	(359)
Prepaid expenses and other current assets	122	(1,003)
Liabilities other than debt	4,016	5,693
Total adjustments	10,306	7,056
Net cash provided by operations	27,696	19,184
Investing activities:		
Property, plant and equipment expenditures	(5,513)	(7,604)
Net cash used for investing activities	(5,513)	(7,604)
Financing activities:		
Net decrease in short-term debt	(17,810)	(2,472)
Dividends paid	(5,791)	(5,478)
Proceeds from exercise of stock options	328	1,270
Tax benefit on stock options	—	319
Issuance of treasury stock	441	457
Net cash used for financing activities	(22,832)	(5,904)
Effect of foreign exchange rates on cash	(158)	344
(Decrease) Increase in cash	(807)	6,020
Cash – beginning of period	8,163	6,656
Cash – end of period	$7,356	$12,676

See accompanying notes to unaudited consolidated condensed financial statements.

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BADGER METER, INC.

Notes to Unaudited Consolidated Condensed Financial Statements

Note 1 Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated condensed financial statements of Badger Meter, Inc. (the "Company" or "Badger Meter") contain all adjustments (consisting only of normal recurring accruals except as otherwise discussed) necessary to present fairly the Company's consolidated condensed financial position at June 30, 2016, results of operations for the three- and six-month periods ended June 30, 2016 and 2015, comprehensive income for the three- and six-month periods ended June 30, 2016 and 2015, and cash flows for the six-month periods ended June 30, 2016 and 2015. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2 Additional Financial Information Disclosures

The consolidated condensed balance sheet at December 31, 2015 was derived from amounts included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Refer to the footnotes to the financial statements included in that report for a description of the Company's accounting policies and for additional details of the Company's financial condition. The details in those notes have not changed except as discussed below and as a result of normal adjustments in the interim.

Warranty and After-Sale Costs

The Company estimates and records provisions for warranties and other after-sale costs in the period in which the sale is recorded, based on a lag factor and historical warranty claim experience. After-sale costs represent a variety of activities outside of the written warranty policy, such as investigation of unanticipated problems after the customer has installed the product, or analysis of water quality issues. Changes in the Company's warranty and after-sale costs reserve are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
(In thousands)	2016	2015	2016	2015
Balance at beginning of period	$ 3,561	$ 1,546	$ 3,133	$ 1,739
Net additions charged to earnings	398	672	1,238	1,121
Adjustments to pre-existing warranties	610	232	863	118
Costs incurred	(1,056)	(90)	(1,721)	(618)
Balance at end of period	$ 3,513	$ 2,360	$ 3,513	$ 2,360

Note 3 Employee Benefit Plans

The Company maintains a non-contributory defined benefit pension plan that covers substantially all U.S. employees who were employed at December 31, 2011. After that date, no further benefits are being accrued in this plan. For the frozen pension plan, benefits are based primarily on years of service and, for certain plans, levels of compensation.

The Company also maintains supplemental non-qualified plans for certain officers and other key employees, and an Employee Savings and Stock Option Plan (“ESSOP”) for the majority of the U.S. employees.

The Company additionally has a postretirement healthcare benefit plan that provides medical benefits for certain U.S. retirees and eligible dependents hired prior to November 1, 2004. Employees are eligible to receive postretirement healthcare benefits upon meeting certain age and service requirements. No employees hired after October 31, 2004 are eligible to receive these benefits. This plan requires employee contributions to offset benefit costs.

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The following table sets forth the components of net periodic benefit cost for the three months ended June 30, 2016 and 2015 based on December 31, 2015 and 2014 actuarial measurement dates, respectively:

	Defined pension plan benefits		Other postretirement benefits	
(In thousands)	2016	2015	2016	2015
Service cost (benefit) – benefits earned during the year	$48	$(2)	$ 33	$ 34
Interest cost on projected benefit obligations	450	454	65	60
Expected return on plan assets	(538)	(532)	—	—
Amortization of prior service cost	—	—	(7)	13
Amortization of net loss	154	163	—	—
Net periodic benefit cost	$114	$83	$ 91	$ 107

The following table sets forth the components of net periodic benefit cost for the six months ended June 30, 2016 and 2015 based on December 31, 2015 and 2014 actuarial measurement dates, respectively:

	Defined pension plan benefits		Other postretirement benefits	
(In thousands)	2016	2015	2016	2015
Service cost – benefits earned during the year	$55	$14	$ 69	$ 74
Interest cost on projected benefit obligations	905	900	129	126
Expected return on plan assets	(1,087)	(1,075)	—	—
Amortization of prior service cost	—	—	(13)	26
Amortization of net loss	311	354	—	—
Net periodic benefit cost	$184	$193	$ 185	$ 226

The Company disclosed in its financial statements for the year ended December 31, 2015 that it was not required to make a minimum contribution to the defined benefit pension plan for the 2016 calendar year. The Company continues to believe no additional contributions will be required during 2016.

The Company also disclosed in its financial statements for the year ended December 31, 2015 that it estimated it would pay $0.4 million in other postretirement benefits in 2016 based on actuarial estimates. As of June 30, 2016, $13,000 of such benefits have been paid. The Company continues to believe that its estimated payments for the full year are reasonable. However, such estimates contain inherent uncertainties because cash payments can vary significantly depending on the timing of postretirement medical claims and the collection of the retirees’ portion of certain costs. Note that the amount of benefits paid in calendar year 2016 will not impact the expense for postretirement benefits for 2016.

Note 4 Accumulated Other Comprehensive Loss

Components of and changes in accumulated other comprehensive loss at June 30, 2016 are as follows:

(In thousands)	Unrecognized pension and postretirement benefits	Foreign currency	Total

Balance at beginning of period	$ (11,968)	$ (812)	$(12,780)
Other comprehensive loss before reclassifications	—	289	289
Amounts reclassified from accumulated other comprehensive loss, net of tax of $(0.1) million	190	—	190
Net current period other comprehensive income, net of tax	190	289	479
Accumulated other comprehensive loss	$ (11,778)	$ (523)	$(12,301)

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Details of reclassifications out of accumulated other comprehensive loss during the six months ended June 30, 2016 are as follows:

(In thousands)	Amount reclassified from accumulated other comprehensive loss
Amortization of defined benefit pension items:	
Prior service benefit (1)	$ (13)
Amortization of actuarial loss (1)	311
Total before tax	298
Income tax benefit	(108)
Amount reclassified out of accumulated other comprehensive loss	$ 190

(1) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost in Note 3 "Employee Benefit Plans."

Components of and changes in accumulated other comprehensive loss at June 30, 2015 are as follows:

(In thousands)	Unrecognized pension and postretirement benefits	Foreign currency	Total
Balance at beginning of period	$ (11,891)	$ 35	$(11,856)
Other comprehensive income before reclassifications	—	(160)	(160)
Amounts reclassified from accumulated other comprehensive loss, net of tax of $(0.1) million	239	—	239
Net current period other comprehensive income (loss), net of tax	239	(160)	79
Accumulated other comprehensive loss	$ (11,652)	$ (125)	$(11,777)

Details of reclassifications out of accumulated other comprehensive loss during the six months ended June 30, 2015 are as follows:

(In thousands)	Amount reclassified from accumulated other comprehensive loss
Amortization of defined benefit pension items:	
Prior service cost (1)	$ 27
Amortization of actuarial loss (1)	354
Total before tax	381
Income tax benefit	(142)
Amount reclassified out of accumulated other comprehensive loss	$ 239

(1)

These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost in Note 3 “Employee Benefit Plans.”

Note 5 Acquisition

On August 17, 2015, the Company's wholly-owned subsidiary, National Meter & Automation, Inc. (“National Meter”), acquired the assets of United Utilities, Inc. of Smyrna, Tennessee, which was one of the Company's distributors serving Tennessee and Georgia. National Meter will do business in those and additional areas as "United Utilities".

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The total purchase consideration for the United Utilities assets was $3.3 million, which included $0.4 million in cash and settlement of $2.9 million of pre-existing Company receivables. The Company's allocation of the purchase price at December 31, 2015 included $0.8 million of receivables, $0.4 million of inventory, $0.1 million of property, plant and equipment, $1.7 million of intangibles, and $0.3 million of goodwill. The intangible assets acquired are primarily customer relationships with an estimated average useful life of 12 years. The preliminary allocation of the purchase price to the assets acquired was based upon the estimated fair values at the date of acquisition. As of June 30, 2016, the Company had not completed its analysis for estimating the fair value of the assets acquired.

The United Utilities acquisition was accounted for under the purchase method, and accordingly, the results of operations were included in the Company's financial statements from the date of acquisition. The acquisition did not have a material impact on the Company's consolidated financial statements or the notes thereto.

Note 6 Contingencies, Litigation and Commitments

In the normal course of business, the Company is named in legal proceedings. There are currently no material legal proceedings pending with respect to the Company. The more significant legal proceedings are discussed below.

The Company is subject to contingencies related to environmental laws and regulations. The Company is named as one of many potentially responsible parties in two landfill lawsuits. The landfill sites are impacted by the Federal Comprehensive Environmental Response, Compensation and Liability Act and other environmental laws and regulations. At this time, the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company’s financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based on the Company’s assessment of its limited past involvement with these landfill sites as well as the substantial involvement of and government focus on other named third parties with these landfill sites. However, due to the inherent uncertainties of such proceedings, the Company cannot predict the ultimate outcome of any of these matters. A future change in circumstances with respect to these specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2015 and the first half of 2016 were not material.

Like other companies in recent years, the Company is named as a defendant in numerous pending multi-claimant/multi-defendant lawsuits alleging personal injury as a result of exposure to asbestos, manufactured by third parties, and in the past may have been integrated into or sold with a very limited number of the Company’s products. The Company is vigorously defending itself against these claims. Although it is not possible to predict the ultimate outcome of these matters, the Company does not believe the ultimate resolution of these issues will have a material adverse effect on the Company’s financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based in part on the fact that no claimant has proven or substantially demonstrated asbestos exposure caused by products manufactured or sold by the Company and that a number of cases have been voluntarily dismissed.

The Company relies on single suppliers for most brass castings and certain electronic subassemblies in several of its product lines. The Company believes these items would be available from other sources, but that the loss of certain suppliers would result in a higher cost of materials, delivery delays, short-term increases in inventory and higher quality control costs in the short term. The Company attempts to mitigate these risks by working closely with key suppliers, purchasing minimal amounts from alternative suppliers and by purchasing business interruption insurance where appropriate.

The Company reevaluates its exposures on a periodic basis and makes adjustments to reserves as appropriate.

Note 7 Income Taxes

The provision for income taxes as a percentage of earnings before income taxes for the second quarter of 2016 was 36.0% compared to 33.4% in the second quarter of 2015. The provision for income taxes as a percentage of earnings before income taxes for the first half of 2016 was 36.1% compared to 34.8% in the first half of 2015. Interim provisions are tied to an estimate of the overall annual rate which can vary due to state taxes, the relationship of foreign and domestic earnings, and production credits available. These items cause variations between periods.

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Note 8 Fair Value Measurements of Financial Instruments

The Company applies the accounting standards for fair value measurements and disclosures for its financial assets and financial liabilities. The carrying amounts of cash, receivables and payables in the financial statements approximate their fair values due to the short-term nature of these financial instruments. Short-term debt is comprised of notes payable drawn against the Company's lines of credit and commercial paper. Because of its short-term nature, the carrying amount of the short-term debt also approximates fair value. Included in other assets are insurance policies on various individuals who were associated with the Company. The carrying amounts of these insurance policies approximate their fair value.

Note 9 Subsequent Events

The Company evaluates subsequent events at the date of the balance sheet as well as conditions that arise after the balance sheet date but before the financial statements are issued. The effects of conditions that existed at the date of the balance sheet date are recognized in the financial statements. Events and conditions arising after the balance sheet date but before the financial statements are issued are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, if any, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions. For purposes of preparing the accompanying consolidated financial statements and the notes to these financial statements, the Company evaluated subsequent events through the date the accompanying financial statements were issued.

Note 10 New Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842),” which requires lessees to record most leases on their balance sheets. Lessees initially recognize a lease liability (measured at the present value of the lease payments over the lease term) and a right-of-use ("ROU") asset (measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs). Lessees can make an accounting policy election to not recognize ROU assets and lease liabilities for leases with a lease term of 12 months or less as long as the leases do not include options to purchase the underlying assets that the lessee is reasonably certain to exercise. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted for all entities. The ASU is effective for the Company beginning on January 1, 2019 and the standard requires the use of a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. The Company is continuing to evaluate the impact that the adoption of this guidance will have on its financial condition, results of operations and the presentation of its financial statements.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory (Topic 330),” which requires entities to measure inventories at the lower of cost or net realizable value (“NRV”). This simplifies the evaluation from the current method of lower of cost or market, where market is based on one of three measures (i.e. replacement cost, net realizable value, or net realizable value less a normal profit margin). The ASU does not apply to inventories measured under the last-in, first-out method or the retail inventory method, and defines NRV as the “estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” The ASU is effective on a prospective basis for the Company beginning on January 1, 2017, with early adoption permitted. The Company is continuing to evaluate the impact that the adoption of this guidance will have on its financial condition, results of operations and the presentation of its financial statements.

In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 provides a single principles-based, five-step model to be applied to all contracts with customers. The five steps are to identify the contract(s) with the customer, to identify the performance obligations in the contract, to determine the transaction price, to allocate the transaction price to the performance obligations in the contract and to recognize revenue when each performance obligation is satisfied. Revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services.

In April 2015, the FASB tentatively agreed to delay the effective date of ASU 2014-09 for one year and to permit early adoption by entities as of the original effective dates. In July 2015, the FASB affirmed its proposal to defer the effective date of the ASU, which has since been issued in August 2015. Considering the one year deferral, ASU 2014-09 will be effective for the Company beginning on January 1, 2018 and the standard allows for either full retrospective adoption or modified retrospective adoption. The Company is continuing to evaluate the impact that the adoption of this guidance will have on its financial condition, results of operations and the presentation of its financial statements.

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

Business Description and Overview

Badger Meter is an innovator in flow measurement, control and communication solutions, serving water utilities, municipalities, and commercial and industrial customers worldwide. The Company's products measure water, oil, chemicals and other fluids, and are known for accuracy, long-lasting durability and for providing and communicating valuable and timely measurement data. The Company's product lines fall into two categories: sales of water meters and related technologies to municipal water utilities (municipal water) and sales of meters to various industries for water and other fluids (flow instrumentation). The Company estimates that over 80% of its products are used in water applications when both categories are grouped together.

Municipal water, the largest category by sales volume, includes mechanical and ultrasonic (electronic) water meters and related technologies and services used by municipal water utilities as the basis for generating water and wastewater revenues. The key market for the Company's municipal water meter products is North America, primarily the United States, because most meters are designed and manufactured to conform to standards promulgated by the American Water Works Association. The majority of water meters sold continues to be mechanical in nature. In recent years, the Company has made inroads in selling ultrasonic water meters. The development of smaller diameter ultrasonic water meters combined with advanced radio technology now provides the Company with the opportunity to sell into other geographical markets, for example Europe, the Middle East and South America. In the municipal water category, sales of water meters and related technologies and services are also commonly referred to as residential or commercial water meter sales, the latter referring to larger sizes of water meters.

Flow instrumentation includes meters and valves sold worldwide to measure and control materials flowing through a pipe or pipeline including water, air, steam, oil, and other liquids and gases. These products are used in a variety of applications, primarily into the following industries: water/wastewater; heating, ventilating and air conditioning (HVAC); oil and gas; chemical and petrochemical; test and measurement; automotive aftermarket; and the concrete construction process. Furthermore, the Company's flow instrumentation technologies are sold to original equipment manufacturers as the primary flow measurement device within a product or system.

Residential and commercial water meters are generally classified as either manually read meters or remotely read meters via radio technology. A manually read meter consists of a water meter and a register that provides a visual totalized meter reading. Meters equipped with radio technology (endpoints) receive flow measurement data from encoder registers attached to the water meter which is encrypted and transmitted via radio frequency to a receiver that collects and formats the data appropriately for water utility billing systems. These remotely read, or mobile, systems are either automatic meter reading (AMR) systems, where a vehicle equipped for meter reading purposes, including a radio receiver, computer and reading software, collects the data from utilities' meters; or fixed network advanced metering infrastructure (AMI) systems, where data is gathered utilizing a network of permanent data collectors or gateway receivers that are always active or listening for the radio transmission from the utilities' meters. AMI systems eliminate the need for utility personnel to drive through service territories to collect meter reading data. These systems provide the utilities with more frequent and diverse data at specified intervals from their meters.

The ORION® family of radio endpoints provides water utilities with a range of industry-leading options for meter reading. These include ORION Mobile (for mobile meter reading), ORION Fixed Network (for traditional fixed network applications), and ORION Cellular (for infrastructure-free meter reading). ORION Mobile makes the migration to fixed network easier for utilities that prefer to start with mobile reading and later adopt fixed network communications, allowing utilities to choose a solution for their current needs and be positioned for their future operational changes.

Critical to the water metering ecosystem is information and analytics. The Company's BEACON® AMA Managed Solution is the latest in metering technology. BEACON AMA combines the BEACON analytical software suite with proven ORION technologies using two-way fixed and cellular networks in a managed solution, improving utilities' visibility of their water consumption and eliminating the need for costly utility managed infrastructure.

The BEACON AMA secure, cloud-hosted software suite includes a customizable dashboard, the ability to establish alerts for specific conditions, and consumer engagement tools that allow end water customers to view and manage their water usage activity. Benefits to the utility include improved customer service, increased visibility through faster leak detection, the ability to promote and quantify the effects of its water conservation efforts, and easier compliance reporting.

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The Company’s net sales and corresponding net earnings depend on unit volume and product mix, with the Company generally earning higher margins on meters equipped with radio technology. The Company’s proprietary radio products generally result in higher margins than the remarketed, non-proprietary technology products. The Company also sells registers and endpoints separately to customers who wish to upgrade their existing meters in the field.

The proprietary ORION endpoint technology has been licensed to other technology providers on a non-exclusive basis, including those providing radio products that communicate over power lines, broadband networks and proprietary radio frequency networks, allowing ORION a distinct advantage in the radio solutions market. In addition, the ORION universal gateway receiver transmits data over a variety of public wireless networks, which allows for strategic deployments, such as monitoring large commercial users.

Water meter replacement and the adoption and deployment of new technology comprise the majority of water meter product sales, including radio products. To a much lesser extent, housing starts also contribute to the new product sales base. Over the last decade, there has been a growing trend in the conversion from manually read water meters to radio technology. This conversion rate is accelerating and contributes to an increased water meter and radio solutions base of business. The Company estimates that less than 53% of water meters installed in the United States have been converted to a radio solutions technology. The Company’s strategy is to fulfill customers’ metering expectations and requirements with its proprietary meter reading systems or other systems available through its alliance partners in the marketplace.

Flow instrumentation products serve flow measurement and control applications across a broad industrial spectrum, occasionally leveraging the same technologies used in the municipal water category. Specialized communication protocols that control the entire flow measurement process and mandatory certifications drive these markets. The Company’s specific flow measurement and control applications and technologies serve the flow measurement market through both customized and standard flow instrumentation solutions.

Industries today face accelerating demands to contain costs, reduce product variability, and meet ever-changing safety, regulatory and sustainability requirements. To address these challenges, customers must reap more value from every component in their systems. This system-wide scrutiny has heightened the focus on flow instrumentation in industrial process, manufacturing, commercial fluid, building automation, and precision engineering applications where flow measurement and control are critical.

An industry leader in both mechanical and electrical flow metering technologies, the Company offers one of the broadest flow measurement, control and communication portfolios in the market. The portfolio carries respected brand names including Recordall®, E-Series®, ORION, Hedland®, Dynasonics®, Blancett®, and Research Control®, and includes eight of the ten major flow meter technologies. Customers rely on the Company for application-specific solutions that deliver accurate, timely and dependable flow data and control essential for product quality, cost control, safer operations, regulatory compliance, and more sustainable operations.

Business Trends

Increasingly, the electric utility industry relies on AMI technology for two-way communication to monitor and control electrical devices at the customer's site. Although the Company does not sell products for electric market applications, the trend toward AMI affects the markets in which the Company does participate, particularly for those customers in the water utility market that are interested in more frequent and diverse data collection. Specifically, AMI and AMA technologies enable water utilities to capture readings from each meter at more frequent and variable intervals. Similar to the electric utility industry in recent years, the water utility industry is beginning to see the adoption of ultrasonic meters. Ultrasonic water metering has lower barriers to entry which could affect the competitive landscape in North America.

The Company sells its technology solutions to meet customer requirements. Since the technology products have comparable margins, any change in the mix between AMR, AMI or AMA is not expected to have a significant impact on the Company's net sales related to meter reading technology.

There are approximately 52,000 water utilities in the United States and the Company estimates that less than 53% of them have converted to a radio solutions technology. With the BEACON AMA managed solution and the wide breadth of water meters, the Company believes it is well-positioned to meet customers' future needs.

In the global market, companies need to comply with increasing regulations requiring companies to better manage critical resources, monitor their use of hazardous materials, and reduce exhaust gases. Some customers measure fluids to identify leaks and/or misappropriation for cost control or add measurement points to help automate manufacturing. Other customers employ measurement to comply with government mandates and laws. The Company provides technology to measure water, hydrocarbon-based fluids, chemicals, gases and steams.

Flow measurements are critical to provide a baseline and quantify reductions as customers attempt to reduce consumption. Once water usage is better understood, a strategy for water-use reduction can be developed with specific water-reduction initiatives targeted to those areas where water reduction is most viable. With the Company's technology, customers have found costly leaks, pinpointed equipment in need of repair, and identified areas for process improvements.

Acquisition

On August 17, 2015, the Company's wholly-owned subsidiary, National Meter and Automation, Inc. ("National Meter"), acquired the assets of United Utilities, Inc. of Smyrna, Tennessee, which was one of the Company's distributors serving Tennessee and Georgia. National Meter will do business in those and additional areas as "United Utilities."

The total purchase consideration for the United Utilities assets was \$3.3 million, which included \$0.4 million in cash and settlement of \$2.9 million of pre-existing Company receivables. The Company's allocation of the purchase price at December 31, 2015 included \$0.8 million of receivables, \$0.4 million of inventory, \$0.1 million of property, plant and equipment, \$1.7 million of intangibles and \$0.3 million of goodwill. As of June 30, 2016, the Company had not completed its analysis for estimating the fair value of the assets acquired and liabilities assumed. This acquisition is further described in Note 5 "Acquisitions" in the Notes to Consolidated Financial Statements.

Revenue and Product Mix

As the industry continues to evolve, the Company has been vigilant in anticipating and exceeding customer expectations. In 2011, the Company introduced AMA as a hardware and software solution for water and gas utilities, and then in early 2014 launched its new BEACON AMA system as a managed solution which it believes will help maintain the Company's position as a market leader. Over the past two years, sales of BEACON AMA has continued to increase, with large cities and private water utilities selecting BEACON AMA and the Company's industry-leading water meters.

The Company continues to seek opportunities for additional revenue enhancement. For instance, the Company is periodically asked to oversee and perform field installation of its products for certain customers. The Company assumes the role of general contractor, hiring installation subcontractors and supervising their work. The Company also supports its product and technology sales with the sale of extended service programs that provide additional services beyond the standard warranty. In recent years, the Company has sold ORION radio technology to natural gas utilities for installation on their gas meters. And most recently, the introduction of the BEACON AMA system opens the door to "software as a service" revenues. With the exception of a large sale of gas radios to one particular customer several years ago, revenues from such products and services are not yet significant and the Company is uncertain of the potential growth achievable for such products and services in future periods.

Results of Operations - Three Months Ended June 30, 2016

The Company's net sales for the three months ended June 30, 2016 increased \$4.9 million, or 5.0%, to \$103.8 million compared to \$98.9 million during the same period in 2015. This was the net result of higher sales of municipal water products, offset somewhat by lower sales of flow instrumentation products.

Municipal water sales represented 77.1% of sales in the second quarter of 2016 compared to 75.5% in the second quarter of 2015. These sales increased \$5.4 million, or 7.2%, to \$80.0 million in the second quarter of 2016 from

$74.6 million in the second quarter of 2015. The increase was the result of higher sales of both residential and commercial water meters and related technologies. Overall residential sales increased 3.5% on higher volumes and modestly higher prices while commercial sales increased 29.1% due to higher volumes of product sold.

Flow instrumentation products represented 22.9% of sales for the three months ended June 30, 2016 compared to 24.5% in the same period in 2015. These sales decreased $0.5 million, or 2.1%, to $23.8 million from $24.3 million in the same period last year. Sales of these products continue to be impacted by the slow growth economy and overall general softness in the markets served.

Gross margin as a percentage of sales was 37.9% in the second quarter of 2016 compared to 35.5% in the second quarter of 2015. Higher volumes of product produced, modestly higher prices and lower material costs, particularly brass castings, contributed to the higher percentage, offset somewhat by product mix (lower volumes of higher margin flow instrumentation products).

Selling, engineering and administration expenses for the three months ended June 30, 2016 increased $1.5 million, or 6.5%, to $24.5 million from $23.0 million in the same period in 2015. Approximately $0.7 million are costs associated with the Company's exploration of various options to enhance shareholder value and amounts associated with an early retirement program offered to certain flow instrumentation employees. The remainder of the increase was due to higher employee incentive costs and normal inflationary impacts.

Operating earnings for the second quarter of 2016 increased $2.7 million, or 22.1%, to $14.9 million compared to $12.2 million in the same period in 2015 as the result of the higher overall sales and increased gross margins, offset somewhat by higher selling, engineering and administration expenses.

The provision for income taxes as a percentage of earnings before income taxes for the second quarter of 2016 was 36.0% compared to 33.4% in the second quarter of 2015, which included the reversal of reserves no longer required due to the settlement of tax audits. Interim provisions are tied to an estimate of the overall annual rate that can vary due to state taxes, the relationship of foreign and domestic earnings and production credits available.

As a result of the above mentioned items, net earnings for the three months ended June 30, 2016 were $9.4 million, or $0.65 per diluted share, compared to $7.9 million, or $0.55 per diluted share, for the same period in 2015.

Results of Operations - Six Months Ended June 30, 2016

The Company's net sales for the six months ended June 30, 2016 increased $21.8 million, or 11.9%, to $204.4 million compared to $182.6 million during the same period in 2015. This was the net result of higher sales of municipal water products, offset somewhat by lower sales of flow instrumentation products.

Municipal water sales represented 77.0% of sales for the first six months of 2016 compared to 72.9% for the first six months of 2015. These sales increased $24.2 million, or 18.2%, to $157.3 million from $133.1 million in 2015. The increase was the result of higher sales of both residential and commercial water meters and related technologies. Overall residential sales for the first six months of 2016 increased 14.3% on higher volumes and modestly higher pricing while commercial sales increased 42.8% due to higher volumes of product sold.

Flow instrumentation products represented 23.0% of sales for the six months ended June 30, 2016 compared to 27.1% in the same period in 2015. These sales decreased $2.4 million, or 4.8%, to $47.1 million for the first six months in 2016 to $49.5 million in the same period last year. Sales of these products are being impacted by the slow growth economy and overall general softness in the markets served. In addition, lower sales of meters to oil and gas customers and the loss of two key customers contributed to the decrease.

Gross margin as a percentage of sales was 38.4% for the first six months of 2016 compared to 35.7% in the same period in 2015. This percentage was favorably impacted by the higher volumes of product sold, modestly higher pricing and lower material costs, particularly brass, offset somewhat by product mix (lower volumes of higher margin flow instrumentation products).

Selling, engineering and administration expenses for the six months ended June 30, 2016 increased $4.7 million, or 10.2%, to $50.7 million from $46.0 million in the same period in 2015. The increase was due to higher employee incentive costs and software amortization expenses. Also, approximately $0.9 million of the increase were costs associated with the Company's exploration of various options to enhance shareholder value and amounts associated with an early retirement program offered to certain flow instrumentation employees.

Operating earnings for the first six months of 2016 increased $8.5 million, or 44.3%, to $27.7 million compared to $19.2 million in the same period in 2015 as the result of the higher overall sales and increased gross margins, offset somewhat by higher selling, engineering and administration expenses.

The provision for income taxes as a percentage of earnings before income taxes for the first six months of 2016 was 36.1% compared to 34.8% for the same period in 2015, which included the reversal of reserves no longer required due to the settlement of tax audits. Interim provisions are tied to an estimate of the overall annual rate that can vary due to state taxes, the relationship of foreign and domestic earnings and production credits available.

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As a result of the above mentioned items, net earnings for the six months ended June 30, 2016 were $17.4 million, or $1.20 per diluted share, compared to $12.1 million, or $0.84 per diluted share, for the same period in 2015.

Liquidity and Capital Resources

The main sources of liquidity for the Company are cash from operations and borrowing capacity. Cash provided by operations was $27.7 million for the first six months of 2016 compared to $19.2 million in the first six months of 2015. The increase was primarily the net effect of higher earnings and higher liabilities other than debt, offset by increases in receivables.

Receivables increased from $56.6 million at December 31, 2015 to $61.3 million at June 30, 2016. The increase was due to higher sales in the second quarter of 2016 than the fourth quarter of 2015. Generally, sales are lower in the fourth quarter of the year, resulting in lower receivable balances at year end. The Company believes its net receivables balance is fully collectible.

Inventories increased $2.1 million to $80.7 million at June 30, 2016 from $78.6 million at December 31, 2015 due principally to delays in certain anticipated sales.

Net property, plant and equipment at June 30, 2016 decreased slightly to $90.8 million from $90.9 million at December 31, 2015. This was the net effect of $5.5 million of capital expenditures in the first half of 2016, offset by depreciation expense.

Intangible assets decreased to $54.3 million at June 30, 2016 from $57.3 million at December 31, 2015 due to normal amortization expense.

Short-term debt at June 30, 2016 decreased to $53.6 million from $71.4 million at December 31, 2015 as cash generated from operations was used to reduce borrowings.

Payables of $22.2 million at June 30, 2016 increased $3.0 million from $19.2 million at December 31, 2015. These balances are affected by the timing of purchases and payments.

Accrued compensation and employee benefits increased to $11.1 million at June 30, 2016 from $9.7 million at December 31, 2015 due primarily to increased employee incentive compensation earned in the first half of 2016.

Income and other taxes increased to $3.5 million from $1.2 million at December 31, 2015. The change was the net impact of higher pretax earnings and the timing of actual tax payments.

The overall increase in total shareholders’ equity from $232.3 million at December 31, 2015 to $245.9 million at June 30, 2016 was the net effect of net earnings and stock options exercised, offset by dividends paid.

The Company’s financial condition remains strong. In May 2014, the Company amended its May 2012 credit agreement with its primary lender to a three-year $105.0 million line of credit that supports commercial paper (up to $70.0 million) and includes $5.0 million of a Euro line of credit, which it expects to renew. While the facility is unsecured, there are a number of financial covenants with which the Company must comply, and the Company was in compliance as of June 30, 2016. The Company believes that its operating cash flows, available borrowing capacity, and its ability to raise capital provide adequate resources to fund ongoing operating requirements, future capital expenditures and the development of new products. The Company continues to take advantage of its local commercial paper market and carefully monitors the current borrowing market. The Company had $59.1 million of unused credit lines available at June 30, 2016.

Other Matters

In the normal course of business, the Company is named in legal proceedings. There are currently no material legal proceedings pending with respect to the Company. The more significant legal proceedings are discussed below.

The Company is subject to contingencies related to environmental laws and regulations. The Company is named as one of many potentially responsible parties in two landfill lawsuits. The landfill sites are impacted by the Federal Comprehensive Environmental Response, Compensation and Liability Act and other environmental laws and regulations. At this time, the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based on the Company's assessment of its limited past involvement with these landfill sites as well as the substantial involvement of and government focus on other named third parties with these landfill sites. However, due to the inherent uncertainties of such proceedings, the Company cannot predict the ultimate outcome of any of these matters. A future change in circumstances with respect to these specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2015 and the first half of 2016 were not material.

Like other companies in recent years, the Company is named as a defendant in numerous pending multi-claimant/multi-defendant lawsuits alleging personal injury as a result of exposure to asbestos, manufactured by third parties, and in the past may have been integrated into or sold with a very limited number of the Company's products. The Company is vigorously defending itself against these claims. Although it is not possible to predict the ultimate outcome of these matters, the Company does not believe the ultimate resolution of these issues will have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based in part on the fact that no claimant has proven or substantially demonstrated asbestos exposure caused by products manufactured or sold by the Company and that a number of cases have been voluntarily dismissed.

See the "Special Note Regarding Forward Looking Statements" at the front of this Quarterly Report on Form 10-Q and Part I, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of risks and uncertainties that could impact the Company's financial performance and results of operations.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company's off-balance sheet arrangements and contractual obligations are discussed in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings "Off-Balance Sheet Arrangements" and "Contractual Obligations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and have not materially changed since that report was filed unless otherwise indicated in this Form 10-Q.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

The Company's quantitative and qualitative disclosures about market risk are included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Market Risks" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and have not materially changed since that report was filed.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management evaluated, with the participation of the Company's Chairman, President and Chief Executive Officer and the Company's Senior Vice President - Finance, Chief Financial Officer and Treasurer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the quarter ended June 30, 2016. Based upon their evaluation of these disclosure controls and procedures, the Company's Chairman, President and Chief Executive Officer and the Company's Senior Vice President

- Finance, Chief Financial Officer and Treasurer concluded that, as of the date of such evaluation, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II – Other Information
Item 6 Exhibits

Exhibit No.	Description
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter and six months ended June 30, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows, (v) Notes to Unaudited Consolidated Condensed Financial Statements, tagged as blocks of text and (vi) document and entity information.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	BADGER METER, INC.	
Dated: July 22, 2016	By	/s/ Richard A. Meeusen Richard A. Meeusen Chairman, President and Chief Executive Officer
	By	/s/ Richard E. Johnson Richard E. Johnson Senior Vice President – Finance, Chief Financial Officer and Treasurer
	By	/s/ Beverly L. P. Smiley Beverly L. P. Smiley Vice President – Controller

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BADGER METER, INC.

Quarterly Report on Form 10-Q for the Period Ended June 30, 2016

Exhibit Index

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