

TRAVELCENTERS OF AMERICA INC

FORM 10-Q (Quarterly Report)

Filed 11/16/1998 For Period Ending 9/30/1998

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 1998

Commission file number 333-26497

TRAVELCENTERS OF AMERICA, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

36-3856519
(IRS Employer
Identification No.)

24601 Center Ridge Road, Suite 200
Westlake, OH 44145-5634
(Address of principal executive offices, including zip code)

(440) 808-9100
(Telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes / / No //

TRAVELCENTERS OF AMERICA, INC.

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements. Statements looking forward in time are included in this Form 10-Q pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. They involve known and unknown risks and uncertainties that may cause the Company's actual results to differ from future performance suggested herein. In the context of forward-looking information provided in this Form 10-Q and in other reports, please refer to the discussion of risk factors detailed in, as well as the other information contained in, the Company's filings with the Securities and Exchange Commission.

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TRAVELCENTERS OF AMERICA, INC.

CONSOLIDATED BALANCE SHEET

	SEPTEMBER 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
ASSETS	(IN THOUSANDS OF DOLLARS)	
Current assets:		
Cash.....	\$ 51,008	\$ 71,756
Accounts receivable (less allowance for doubtful accounts of \$3,295 for 1998 and \$2,707 for 1997).....	65,814	68,433
Inventories.....	38,499	33,718
Deferred income taxes.....	4,714	3,740
Other current assets.....	7,204	10,256
	-----	-----
Total current assets.....	167,239	187,903
Notes receivable, net.....	1,582	1,692
Property and equipment, net.....	305,286	286,472
Intangible assets.....	22,121	15,651
Deferred financing costs.....	10,686	11,786
Deferred income taxes.....	1,021	-
Other assets.....	4,412	4,288
	-----	-----
Total assets.....	\$ 512,347	\$ 507,792
	=====	=====
	LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:		
Current maturities of long-term debt.....	\$ 610	\$ 500
Accounts payable.....	27,961	29,035
Other accrued liabilities.....	80,332	72,265
	-----	-----
Total current liabilities.....	108,903	101,800
Commitments and contingencies (Note 8)		
Long-term debt.....	292,184	289,625
Deferred income taxes.....	1,041	4,985
Other long-term liabilities.....	7,908	4,479
	-----	-----
Total long-term liabilities.....	410,036	400,889
Mandatorily redeemable senior convertible participating preferred stock.....	67,767	61,404
Other preferred stock, common stock and other stockholders' equity.....	43,570	43,945
Retained earnings (deficit).....	(9,026)	1,554
	-----	-----
Total liabilities and stockholders' equity.....	\$ 512,347	\$ 507,792
	=====	=====

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

TRAVELCENTERS OF AMERICA, INC.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997

	(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)			
Revenues:				
Fuel.....	\$ 137,591	\$ 166,296	\$ 408,114	\$ 539,780
Nonfuel.....	95,422	76,193	256,646	211,418
Rent and royalties.....	5,322	7,823	16,436	29,104

Total revenues.....	238,335	250,312	681,196	780,302
Cost of revenues (excluding depreciation).....	159,360	180,537	463,943	585,226

Gross profit (excluding depreciation).....	78,975	69,775	217,253	195,076
Operating expenses.....	51,637	43,136	142,416	118,681
Selling, general and administrative expenses.....	8,759	9,390	27,127	30,070
Transition expense.....	884	3,867	2,758	10,958
Depreciation and amortization.....	8,464	5,777	33,034	20,073
(Gain) on sales of property and equipment.....	(971)	(7,409)	(826)	(5,945)
Other operating expense, net.....	89	1,100	1,061	1,100

Income from operations.....	10,113	13,914	11,683	20,139
Interest (expense), net.....	(6,128)	(5,987)	(18,263)	(16,954)

Income (loss) before income taxes and extraordinary item.....	3,985	7,927	(6,580)	3,185
Provision (benefit) for income taxes.....	1,598	3,069	(2,362)	1,231

Income (loss) before extraordinary item.....	2,387	4,858	(4,218)	1,954
Extraordinary loss (less applicable income tax benefit of \$3,608)....	-	-	-	(5,554)

Net income (loss).....	2,387	4,858	(4,218)	(3,600)
Less: preferred dividends.....	(2,217)	(1,941)	(6,362)	(5,579)
Retained earnings (deficit) ?beginning of the period.....	(9,196)	2,742	1,554	14,838

Retained earnings (deficit) ?end of the period.....	\$ (9,026)	\$ 5,659	\$ (9,026)	\$ 5,659
	=====			
Earnings (loss) per common share (basic):				
Income (loss) before extraordinary item.....	\$ 0.29	\$ 2.93	\$ (17.46)	\$ (3.25)
Extraordinary loss.....	-	-	-	(4.98)

Net income (loss).....	\$ 0.29	\$ 2.93	\$ (17.46)	\$ (8.23)
	=====			
Earnings (loss) per common share (diluted):				
Income (loss) before extraordinary item.....	\$ 0.05	\$ 0.64	\$ (17.46)	\$ (3.25)
Extraordinary loss.....	-	-	-	(4.98)

Net income (loss).....	\$ 0.05	\$ 0.64	\$ (17.46)	\$ (8.23)
	=====			

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

TRAVELCENTERS OF AMERICA, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
	(IN THOUSANDS OF DOLLARS)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,218)	\$ (3,600)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Extraordinary loss.....	-	5,554
Depreciation and amortization.....	33,034	20,073
Deferred income taxes.....	(5,939)	-
Provision for doubtful accounts.....	1,036	1,404
Provision for stock compensation.....	2,625	1,100
(Gain) on sales of property and equipment.....	(826)	(5,945)
Changes in assets and liabilities, adjusted for the effects of acquisitions of network assets:		
Accounts receivable.....	765	(16,208)
Inventories.....	(3,863)	1,558
Other current assets.....	3,432	1,756
Accounts payable.....	(1,887)	(16,083)
Other current liabilities.....	7,935	25,509
Other, net.....	(69)	420
	-----	-----
Net cash provided by operating activities.....	32,025	15,538
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures.....	(49,090)	(19,372)
Acquisitions of network assets.....	(6,270)	(11,069)
Proceeds from sales of property and equipment.....	3,337	20,099
	-----	-----
Net cash used in investing activities.....	(52,023)	(10,342)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Revolving loan borrowings.....	-	3,750
Revolving loan repayments.....	-	(17,750)
Long-term debt borrowings.....	-	205,000
Long-term debt repayments.....	(375)	(126,550)
Repurchases of common stock.....	(375)	(3,706)
Debt issuance costs.....	-	(12,903)
	-----	-----
Net cash provided by (used in) financing activities.....	(750)	47,841
	-----	-----
Net increase (decrease) in cash.....	(20,748)	53,037
Cash at the beginning of the period.....	71,756	23,779
	-----	-----
Cash at the end of the period.....	\$ 51,008	\$ 76,816
	=====	=====

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

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS DESCRIPTION AND SUMMARY OF OPERATING STRUCTURE

TravelCenters of America, Inc., (collectively with its subsidiaries, the "Company"), was incorporated on December 2, 1992, to raise equity and to function as the holding company of its wholly-owned operating subsidiary, National Auto/Truckstops, Inc. ("National"). National was incorporated to acquire the travel center network (the "National Network") of Unocal Corporation ("Unocal") (the "National Acquisition"). On December 10, 1993, the Company capitalized a second wholly-owned subsidiary, TA Holdings Corporation ("TAHC"), which in turn capitalized a wholly-owned subsidiary, TA Operating Corporation ("TA"). TA was incorporated to acquire the travel center network ("the TA Network") of BP Exploration and Oil Company ("BP") (the "TA Acquisition"), and had a wholly-owned subsidiary, TA Franchise Systems Inc. ("TAFSI"), which holds all of the TA franchise agreements. The National Acquisition was consummated on April 14, 1993 and the TA Acquisition was consummated on December 10, 1993. On March 27, 1997 the Company's subsidiaries were restructured such that the Company directly owns its three subsidiaries, National, TA and TAFSI (the Company's former subsidiary, TAHC, was merged into the Company as of such date).

The Company is a holding company which, through its wholly-owned subsidiaries, owns, operates and franchises more full-service travel centers in the United States than any of its competitors, with 126 network sites nationwide, including 124 travel centers in 36 states operating under the "TravelCenters of America" or "TA" brand names and two travel centers in two states operating under the licensed "Unocal 76" and related brand names.

The accompanying unaudited, consolidated financial statements as of and for the three- and the nine-month periods ended September 30, 1998 and 1997 have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 1997. In the opinion of management, the accompanying unaudited, consolidated financial statements contain all adjustments, all of which were of a normal recurring nature, necessary to present fairly, in all material respects, the consolidated results of operations and cash flows for the three- and nine-month periods ended September 30, 1998 and 1997, and are not necessarily indicative of the results to be expected for the full year.

2. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the current year presentation.

3. EARNINGS PER SHARE

A reconciliation of the income and shares used in the computation of earnings per share follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
	(DOLLARS AND SHARES IN THOUSANDS)		(DOLLARS AND SHARES IN THOUSANDS)	
Income (loss) before extraordinary loss	\$ 2,387	\$ 4,858	\$ (4,218)	\$ 1,954
Less: Preferred stock dividends	(2,217)	(1,941)	(6,362)	(5,579)
Net income (loss) available to common Stockholders	170	2,917	(10,580)	(3,625)
Weighted average shares outstanding	596	994	606	1,115
Net income (loss) per share	\$ 0.29	\$ 2.93	\$ (17.46)	\$ (3.25)

The assumed conversion of stock options, warrants and convertible series of preferred stock would have an antidilutive effect on the loss per share for the nine-month periods ended September 30, 1998 and 1997. An additional 3,003,000 and 6,757,000 incremental common shares were included in the calculation of diluted earnings per share for the three-month periods ended September 30, 1998 and 1997, respectively, to reflect the dilutive effect of warrants, options and convertible preferred stock.

4. INVENTORIES

Inventories consist of the following:

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
	-----	-----
	(DOLLARS IN THOUSANDS)	
Nonfuel merchandise.....	\$ 36,142	\$ 30,883
Petroleum products.....	2,357	2,835
	-----	-----
Total inventories.....	\$ 38,499	\$ 33,718
	=====	=====

5. PROPERTY AND EQUIPMENT

During the first quarter of 1998, the estimated useful lives of certain machinery, equipment, furniture and fixtures were revised from 10 years to five years in order to conform National's estimated useful lives to those of TA. The effect of this change in estimate resulted in reductions in income before extraordinary items and net income of \$9.5 million and \$5.7 million, respectively. Additionally, earnings per share for the first quarter and for the first nine months of 1998 were reduced by \$9.08 and \$9.37, respectively. This change resulted in these assets becoming fully depreciated at March 31, 1998.

During 1997, a reserve of \$559,000 was recorded to recognize the impairment of certain sites held for sale. This impairment was based on the estimated sales proceeds at that time. Based on current information available to the Company, the estimated sales proceeds less costs to sell now exceed the current carrying values of the related assets. Accordingly, the impairment charge was reversed in June 1998. This amount is included in depreciation and amortization in the statement of income and retained earnings.

6. COMBINATION PLAN AND REFINANCING

On January 21, 1997, the Company's Board of Directors approved a plan to combine the operations of its National and TA Networks under the existing TA Network management. This plan (the "Combination Plan") provides for the divesting of certain National Network locations, terminating of certain franchise relationships, transfer of operation of all National Network company-operated locations to the TA Network and rebranding of the remaining National Network locations to the TA brand. This plan is substantially complete at September 30, 1998. Transition expenses of \$2,758,000 have been incurred in 1998 to execute the Combination Plan, bringing the total of such expenses to \$17,970,000.

On March 27, 1997, the Company was recapitalized and restructured pursuant to a series of transactions (the "Refinancing") in which (i) the Company's indebtedness under the old National and TA Credit Facilities and Subordinated Notes were refinanced, (ii) TA and National guaranteed the Company's obligations under the new Credit Facilities, the Senior Notes and the Subordinated Notes and (iii) the Company's subsidiaries were restructured such that the Company directly owns its three subsidiaries, National, TA and TAFSI (the Company's former subsidiary, TAHC, was merged into the Company as of such date).

The Refinancing resulted in the early extinguishment of the Company's prior credit facilities. The remaining unamortized balance, at the time of the Refinancing, of the deferred financing costs and unamortized debt discount of \$7,847,000 and \$1,315,000, respectively, were written off and an extraordinary loss of \$5,554,000, net of the related tax benefit of \$3,608,000, was recognized in the first quarter of 1997.

7. SUPPLEMENTAL CASH FLOW INFORMATION:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
	(DOLLARS IN THOUSANDS)		(DOLLARS IN THOUSANDS)	
Cash paid during the period for:				
Interest	\$ 3,982	\$ 4,633	\$ 17,838	\$ 11,941
Income taxes	\$ 46	\$ 157	\$ 160	\$ 3,481
Inventory and property and equipment received in liquidation of trade accounts and note receivable	\$ 435	\$ 1,689	\$ 928	\$ 4,495
Acquisition of network assets in exchange for notes payable	\$ 3,044	\$ -	\$ 3,044	\$ -

8. COMMITMENTS AND CONTINGENCIES

ACQUISITION

On October 17, 1998 the Company entered into an asset purchase agreement to acquire substantially all of the assets and assume certain liabilities of the Burns Bros. Travel Stops Division ("Burns") of Burns Bros. Inc (the "Burns Acquisition") for an aggregate cash purchase price of approximately \$55,000,000. Pursuant to the asset purchase agreement, the Company will acquire all of the assets of Burns relating to 17 of the 19 sites owned by Burns, as well as those assets used in the wholesale fuel supply and transportation business operated by Burns. The Company will also purchase the inventory and outstanding receivables of Burns, and assume certain of its current liabilities. The closing of the acquisition is conditioned on, among other things, satisfactory completion of the Phase I environmental assessments for each of the 17 sites, Phase II environmental assessments at certain of the 17 sites and the Company's due diligence investigation of Burns. The expected closing date, subject to satisfactory completion of the above items, is November 30, 1998. The Company intends to finance this acquisition through an increase in the term loan facility of its Credit Agreement dated March 21, 1997.

ENVIRONMENTAL MATTERS

The Company's operations and properties are subject to extensive regulation pursuant to federal, state and local laws, regulations and ordinances that (i) govern activities and operations that may have adverse environmental effects, such as discharges to air, soil and water, as well as handling, storage and disposal practices for petroleum products and other hazardous and toxic substances ("Hazardous Substances") or (ii) impose liability and damages for the costs of cleaning up sites affected by, and for damages resulting from, past spills and disposal or other releases of Hazardous Substances ("Environmental Laws").

The Company owns and uses underground storage tanks ("USTs") and aboveground storage tanks ("ASTs") at Company-operated and Leased Sites to store petroleum products and waste. These tanks must comply with requirements of Environmental Laws regarding tank construction, integrity testing, leak detection and monitoring, overfill and spill control, release reporting, financial assurance and corrective action in case of a release from a UST or AST into the environment. At certain locations, the Company also is subject to Environmental Laws relating to vapor recovery and discharges to water. The Company believes that all of its travel centers are in material

compliance with applicable requirements of Environmental Laws. The Company is making necessary upgrades to USTs to comply with federal regulations which will take effect in December 1998. These upgrades are expected to be completed in 1998 at an estimated cost to the Company of approximately \$6 to \$8 million. The Company does not believe that such costs will have a material adverse effect on the Company and the Capital Program incorporates funds to complete such upgrades.

While the costs of compliance for these matters have not had a material adverse impact on the Company, it is impossible to predict accurately the ultimate effect these changing laws and regulations may have on the Company in the future.

The Company has received notices of alleged violations of Environmental Laws, or is aware of the need to undertake corrective actions to comply with Environmental Laws, at Company-owned travel centers in a number of jurisdictions. The Company does not expect that any financial penalties associated with these alleged violations, instances of noncompliance, or compliance costs incurred in connection therewith, will be material to the Company's results of operation or financial condition. The Company is conducting investigatory and/or remedial actions with respect to releases and/or spills of Hazardous Substances that have occurred subsequent to the National Acquisition and the TA Acquisition, respectively, at approximately 25 Network properties. While the Company cannot precisely estimate the ultimate costs it will incur in connection with the investigation and remediation of these properties, based on its current knowledge, the Company does not expect that the costs to be incurred at these properties, individually or in the aggregate, will be material to the Company's results of operation or financial condition. While the aforementioned matters are, to the best knowledge of the Company, the only proceedings for which the Company is currently exposed to potential liability (particularly given the Unocal and BP indemnities discussed below), there can be no assurance that additional contamination does not exist at these or additional Network properties, or that material liability will not be imposed in the future. If additional environmental problems arise or are discovered, or if additional environmental requirements are imposed by government agencies, increased environmental compliance or remediation expenditures may be required, which could have a material adverse effect on the Company.

The Company has estimated the current ranges of remediation costs at currently active sites and what it believes will be its ultimate share for such costs after required indemnification and remediation is performed by Unocal and BP under the environmental agreements and has a reserve of \$1,373,000 for such matters. While it is not possible to quantify with certainty the environmental exposure, in the opinion of management, the potential liability, beyond that considered in the reserve, for all environmental proceedings, based on information known to date, will not have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

PENDING LITIGATION

Forty-Niner Truck Plaza Litigation. In connection with the acquisition of the Network, the Company acquired six travel centers located in California. In January 1993, the Operators of four of these travel centers (the "California Plaintiffs") commenced litigation against Unocal, The Clipper Group, L.P. ("Clipper," organizer of the institutional investor group which formed the Company) and the Company in California state court seeking, among other things, specific performance by Unocal of their alleged rights, either under the California Business and Professions Code (the "California Statute") or, in the alternative, pursuant to an alleged contract with Unocal, to purchase their travel centers at what they alleged was a fair market price and seeking compensatory and punitive damages against the Company and others for both tortious interference with the California Plaintiffs' alleged rights and civil conspiracy. The four properties operated by the California Plaintiffs are referred to herein as the "California Properties". Two of the California Plaintiffs settled their claims prior to commencement of the trial.

Under the asset purchase agreements pursuant to which the Company acquired the California Properties from Unocal, and related agreements, Unocal agreed to indemnify the Company for, among other things, claims arising under the California Statute arising out of or resulting from the sale of the California Properties, including any amounts ("Excess Amounts") by which the original purchase price paid by the Company for the California Properties exceeds the price at which the Company might be ordered by a court to resell such properties. Pursuant to such agreements, Unocal is not required to indemnify the Company for awards of punitive damages. The Company believes that the claims asserted by the California Plaintiffs against the Company are without merit and has engaged in a vigorous defense.

On May 1, 1995, the jury rendered a verdict in favor of the two remaining California Plaintiffs and against Unocal and the Company. The jury determined that the two remaining California Plaintiffs were entitled to total compensatory damages of \$4,012,000, for which all defendants are jointly and severably liable. On May 3, 1995, the jury rendered a verdict assessing punitive damages against Unocal, Clipper and the Company in the amounts of \$7,000,000, \$1,600,000 and \$1,500,000, respectively. The California State Court rendered a decision in favor of the defendants on the equitable claims asserted by the California Plaintiffs and denying Plaintiffs' request for rescission of the asset purchase agreements for the related California Properties. The Company then filed motions with the trial court to enter judgment in its favor on plaintiffs' damages claims notwithstanding the verdict, or in the alternative, to order a new trial. On August 1, 1995, the California Court denied the motion for judgment notwithstanding the verdict, but granted the defendants' motion for a new trial on all issues. On October 22, 1997, the California Court of Appeal filed a decision affirming the trial court's orders granting a new trial and denying defendants' motions for judgment notwithstanding the verdict. The Court of Appeal also reversed an order of the trial court granting a nonsuit on plaintiff's claim against the Company and Clipper for civil conspiracy. The California Supreme Court has denied review. On September 1, 1998, one of the two remaining plaintiffs entered into a settlement agreement with Unocal and the Company, and dismissed its claims in the case. In connection with the settlement, the Company also entered into an agreement whereby the Company acquired the assets and the operations of that plaintiff's travel center. The case with the one remaining plaintiff had been scheduled for retrial on October 5, 1998, which date has been postponed until February 16, 1999, and the discovery phase of the proceedings is ongoing. The Company's ultimate liability in the disposition of this matter is difficult to estimate. However, it is management's belief that the outcome, while potentially material to the Company's results of operations, is not likely to have a material adverse effect on the Company's financial position.

The Company believes all compensatory damages ultimately awarded and legal fees incurred in this matter are covered under the indemnification agreement with Unocal. Legal costs incurred by the Company through September 30, 1998 total \$5,727,000, of which Unocal has paid \$1,117,000 to the Company to date. Unocal has contested certain of the amounts comprising the Company's claims for such indemnification. However, the Company believes that the effect on the financial statements of any amounts not ultimately collected from Unocal will not be material.

In addition to the above matters, the Company is the subject of, or party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters, including laws and regulations relating to the environment. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the Company's results of operations, but is not expected to be material to the Company's financial position or liquidity.

9. CONDENSED CONSOLIDATING FINANCIAL STATEMENT SCHEDULES

The following schedules set forth the consolidating balance sheets of the Company as of September 30, 1998 and December 31, 1997, the consolidating statements of income and retained earnings of the Company for the three months and nine months ended September 30, 1998 and 1997, and the consolidating statements of cash flows of the Company for the nine months ended September 30, 1998 and 1997. In the following schedules, "Parent Company" refers to the unconsolidated balances of TravelCenters of America, Inc., "Guarantor Subsidiaries" refers to the combined unconsolidated balances of TA and National, and "Nonguarantor Subsidiary" refers to the balances of TAFSI. "Eliminations" represent the adjustments necessary to (a) eliminate intercompany transactions and, (b) eliminate the Company's investments in its subsidiaries. The Guarantor Subsidiaries, TA and National, are wholly-owned subsidiaries of the Company and have fully and unconditionally guaranteed the exchange notes. In the 10-Q filing, the Company has not presented separate financial statements and other disclosures concerning the Guarantor Subsidiaries because management has determined such information is not material to investors.

TRAVELCENTERS OF AMERICA, INC. SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET SCHEDULES:

SEPTEMBER 30, 1998

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
ASSETS					
Current assets:					
Cash.....	\$ 31,376	\$ 19,632	\$ -	\$ -	\$ 51,008
Accounts receivable, net.....	-	64,913	901	-	65,814
Inventories.....	-	38,499	-	-	38,499
Deferred income taxes.....	-	4,714	-	-	4,714
Other current assets.....	31,035	38,316	6,034	(68,181)	7,204
	-----	-----	-----	-----	-----
Total current assets.....	62,411	166,074	6,935	(68,181)	167,239
Notes receivable, net.....	917	665	-	-	1,582
Property and equipment, net.....	-	305,286	-	-	305,286
Intangible assets.....	-	22,121	-	-	22,121
Deferred financing costs.....	10,686	-	-	-	10,686
Deferred income taxes.....	4,131	(3,110)	-	-	1,021
Other assets.....	730	3,682	-	-	4,412
Investments in subsidiaries.....	341,673	-	-	(341,673)	-
	-----	-----	-----	-----	-----
Total assets.....	\$ 420,548	\$ 494,718	\$ 6,935	\$ (409,854)	\$ 512,347
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt..	\$ 500	\$ 110	\$ -	\$ -	\$ 610
Accounts payable.....	-	27,961	-	-	27,961
Other accrued liabilities.....	27,233	119,183	2,084	(68,168)	80,332
	-----	-----	-----	-----	-----
Total current liabilities.....	27,733	147,254	2,084	(68,168)	108,903
Long-term debt.....	289,250	2,934	-	-	292,184
Deferred income taxes.....	-	1,041	-	-	1,041
Other liabilities.....	-	233,811	-	(225,903)	7,908
	-----	-----	-----	-----	-----
Total liabilities.....	316,983	385,040	2,084	(294,071)	410,036
Mandatorily redeemable senior convertible participating preferred stock.....	67,767	-	-	-	67,767
Other preferred stock, common stock and other stockholders' equity.....	44,824	81,180	-	(82,434)	43,570
Retained earnings (deficit).....	(9,026)	28,498	4,851	(33,349)	(9,026)
	-----	-----	-----	-----	-----
	35,798	109,678	4,851	(115,783)	34,544
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 420,548	\$ 494,718	\$ 6,935	\$ (409,854)	\$ 512,347
	=====	=====	=====	=====	=====

TRAVELCENTERS OF AMERICA, INC. SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1997

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
ASSETS					
Current assets:					
Cash.....	\$ 59,592	\$ 12,164	\$ -	\$ -	\$ 71,756
Accounts receivable, net.....	-	67,927	506	-	68,433
Inventories.....	-	33,718	-	-	33,718
Deferred income taxes.....	-	3,740	-	-	3,740
Other current assets.....	14,176	38,971	2,591	(45,482)	10,256
Total current assets.....	73,768	156,520	3,097	(45,482)	187,903
Notes receivable, net.....	887	805	-	-	1,692
Property and equipment, net.....	-	286,472	-	-	286,472
Intangible assets.....	-	15,651	-	-	15,651
Deferred financing costs.....	11,786	-	-	-	11,786
Other assets.....	730	3,558	-	-	4,288
Investments in subsidiaries.....	342,860	-	-	(342,860)	-
Total assets.....	\$ 430,031	\$ 463,006	\$ 3,097	\$ (388,342)	\$ 507,792
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt..	\$ 500	\$ -	\$ -	\$ -	\$ 500
Accounts payable.....	-	29,387	-	(352)	29,035
Other accrued liabilities.....	32,601	83,905	889	(45,130)	72,265
Total current liabilities.....	33,101	113,292	889	(45,482)	101,800
Long-term debt.....	289,625	-	-	-	289,625
Deferred income taxes.....	(852)	5,837	-	-	4,985
Other liabilities.....	-	230,371	-	(225,892)	4,479
Total liabilities.....	321,874	349,500	889	(271,374)	400,889
Mandatorily redeemable senior convertible participating preferred stock.....	61,404	-	-	-	61,404
Other preferred stock, common stock and other stockholders' equity.....	45,199	81,179	-	(82,433)	43,945
Retained earnings.....	1,554	32,327	2,208	(34,535)	1,554
Total liabilities and stockholders' equity.....	\$ 430,031	\$ 463,006	\$ 3,097	\$ (388,342)	\$ 507,792

STATEMENT OF INCOME AND RETAINED EARNINGS SCHEDULES:

	THREE MONTHS ENDED SEPTEMBER 30, 1998				
	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS OF DOLLARS)				
Revenues:					
Fuel.....	\$ -	\$ 137,591	\$ -	\$ -	\$ 137,591
Nonfuel.....	-	94,743	679	-	95,422
Rent and royalties.....	-	8,195	1,832	(4,705)	5,322
	-----	-----	-----	-----	-----
Total revenues.....	-	240,529	2,511	(4,705)	238,335
Cost of revenues (excluding depreciation).....	-	159,360	-	-	159,360
	-----	-----	-----	-----	-----
Gross profit (excluding depreciation).....	-	81,169	2,511	(4,705)	78,975
Operating expenses.....	53	55,536	753	(4,705)	51,637
Selling, general and administrative.....	192	8,349	218	-	8,759
Transition expense.....	-	884	-	-	884
Depreciation and amortization.....	375	8,089	-	-	8,464
Gain on sales of property and equipment.....	-	(971)	-	-	(971)
Other operating (income) expense, net.....	-	89	-	-	89
	-----	-----	-----	-----	-----
Income (loss) from operations.....	(620)	9,193	1,540	-	10,113
Interest (expense), net.....	(846)	(5,282)	-	-	(6,128)
Equity income (loss).....	3,355	-	-	(3,355)	-
	-----	-----	-----	-----	-----
Income (loss) before income taxes	1,889	3,911	1,540	(3,355)	3,985
Provision (benefit) for income taxes.....	(498)	1,522	574	-	1,598
	-----	-----	-----	-----	-----
Net income (loss).....	2,387	2,389	966	(3,355)	2,387
Less: preferred dividends.....	(2,217)	-	-	-	(2,217)
Retained (deficit) earnings - beginning of the period.....	(9,196)	26,109	3,885	(29,994)	(9,196)
	-----	-----	-----	-----	-----
Retained (deficit) earnings - end of the period.....	\$ (9,026)	\$ 28,498	\$ 4,851	\$ (33,349)	\$ (9,026)
	=====	=====	=====	=====	=====

TRAVELCENTERS OF AMERICA, INC. SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 1997

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
Revenues:					
Fuel.....	\$ -	\$ 171,434	\$ -	\$ (5,138)	\$ 166,296
Nonfuel.....	-	76,193	-	-	76,193
Rent and royalties.....	-	11,506	398	(4,081)	7,823
Total revenues.....	-	259,133	398	(9,219)	250,312
Cost of revenues (excluding depreciation).	-	185,675	-	(5,138)	180,537
Gross profit (excluding depreciation).....	-	73,458	398	(4,081)	69,775
Operating expenses.....	-	47,217	-	(4,081)	43,136
Selling, general and administrative.....	385	8,979	26	-	9,390
Transition expense.....	-	3,630	237	-	3,867
Depreciation and amortization.....	(69)	5,846	-	-	5,777
Gain on sales of property and equipment.....	-	(7,409)	-	-	(7,409)
Other operating (income) expense, net.....	-	1,100	-	-	1,100
Income (loss) from operations.....	(316)	14,095	135	-	13,914
Interest (expense), net.....	(6,362)	375	-	-	(5,987)
Equity income (loss).....	12,157	-	-	(12,157)	-
Income (loss) before income taxes.....	5,479	14,470	135	(12,157)	7,927
Provision (benefit) for income taxes.....	621	5,627	59	(3,238)	3,069
Net income (loss).....	4,858	8,843	76	(8,919)	4,858
Less: preferred dividends.....	(1,941)	-	-	-	(1,941)
Retained earnings (deficit) - beginning of the period.....	2,742	32,550	958	(33,508)	2,742
Retained earnings (deficit) - end of the period.....	\$ 5,659	\$ 41,393	\$ 1,034	\$ (42,427)	\$ 5,659

TRAVELCENTERS OF AMERICA, INC. SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 1998

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
Revenues:					
Fuel.....	\$ -	\$ 408,114	\$ -	\$ -	\$ 408,114
Nonfuel.....	-	255,816	830	-	256,646
Rent and royalties.....	-	24,774	5,171	(13,509)	16,436
	-----	-----	-----	-----	-----
Total revenues.....	-	688,704	6,001	(13,509)	681,196
Cost of revenues (excluding depreciation).	-	463,943	-	-	463,943
	-----	-----	-----	-----	-----
Gross profit (excluding depreciation).....	-	224,761	6,001	(13,509)	217,253
Operating expenses.....	159	154,633	1,133	(13,509)	142,416
Selling, general and Administrative.....	638	25,836	653	-	27,127
Refinancing, transition and development costs.....	-	2,758	-	-	2,758
Depreciation and amortization.....	1,122	31,912	-	-	33,034
Gain on sale of property and equipment.....	-	(826)	-	-	(826)
Other operating (income) expense, net.....	-	1,061	-	-	1,061
	-----	-----	-----	-----	-----
Income (loss) from operations.....	(1,919)	9,387	4,215	-	11,683
Interest (expense), net.....	(2,674)	(15,589)	-	-	(18,263)
Equity income (loss).....	(1,186)	-	-	1,186	-
	-----	-----	-----	-----	-----
Income (loss) before income taxes	(5,779)	(6,202)	4,215	1,186	(6,580)
Provision (benefit) for income taxes.....	(1,561)	(2,373)	1,572	-	(2,362)
	-----	-----	-----	-----	-----
Net income (loss).....	(4,218)	(3,829)	2,643	1,186	(4,218)
Less: preferred dividends.....	(6,362)	-	-	-	(6,362)
Retained earnings - beginning of the period.....	1,554	32,327	2,208	(34,535)	1,554
	-----	-----	-----	-----	-----
Retained earnings (deficit) - end of the period.....	\$ (9,026)	\$ 28,498	\$ 4,851	\$ (33,349)	\$ (9,026)
	=====	=====	=====	=====	=====

TRAVELCENTERS OF AMERICA, INC. SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 1997

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
Revenues:					
Fuel.....	\$ -	\$ 544,918	\$ -	\$ (5,138)	\$ 539,780
Nonfuel.....	-	211,418	-	-	211,418
Rent and royalties.....	-	32,093	1,092	(4,081)	29,104
Total revenues.....	-	788,429	1,092	(9,219)	780,302
Cost of revenues (excluding depreciation).....	-	590,364	-	(5,138)	585,226
Gross profit (excluding depreciation).....	-	198,065	1,092	(4,081)	195,076
Operating expenses.....	-	122,762	-	(4,081)	118,681
Selling, general and Administrative.....	639	28,705	726	-	30,070
Transition expense.....	-	10,721	237	-	10,958
Depreciation and amortization.....	741	19,332	-	-	20,073
Gain on sales of property and equipment.....	-	(5,945)	-	-	(5,945)
Other operating (income) expense, net.....	-	1,100	-	-	1,100
Income (loss) from operations.....	(1,380)	21,390	129	-	20,139
Interest (expense), net.....	(12,721)	(4,233)	-	-	(16,954)
Equity income (loss).....	8,199	75	-	8,274	-
Income (loss) before income taxes and extraordinary item.....	(5,902)	17,232	129	-	3,185
Provision (benefit) for income taxes.....	(2,302)	6,721	50	(3,238)	1,231
Income (loss) before extraordinary item Extraordinary loss (less applicable income tax benefit).....	(3,600)	10,511	79	(5,036)	1,954
Net income (loss).....	(3,600)	4,957	79	(5,036)	(3,600)
Less: preferred dividends.....	(5,579)	-	-	-	(5,579)
Retained earnings - beginning of the period.....	14,838	36,436	955	(37,391)	14,838
Retained earnings - end of the period.....	\$ 5,659	\$ 41,393	\$ 1,034	\$ (42,427)	\$ 5,659

CONDENSED STATEMENT OF CASH FLOW SCHEDULES:

NINE MONTHS ENDED SEPTEMBER 30, 1998					
	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
CASH FLOWS PROVIDED BY (USED IN)					
OPERATING ACTIVITIES.....	\$ (27,466)	\$ 59,491	\$ -	\$ -	\$ 32,025
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures.....	-	(49,090)	-	-	(49,090)
Acquisitions of network assets.....	-	(6,270)	-	-	(6,270)
Proceeds from sales of property and equipment.....	-	3,337	-	-	3,337
Net cash used in investing activities.....	-	(52,023)	-	-	(52,023)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Long-term debt repayments.....	(375)	-	-	-	(375)
Repurchase of common stock.....	(375)	-	-	-	(375)
Net cash used in financing activities.....	(750)	-	-	-	(750)
Net increase (decrease) in cash....	(28,216)	7,468	-	-	(20,748)
Cash at the beginning of the period.....	59,592	12,164	-	-	71,756
Cash at the end of the period.....	\$ 31,376	\$ 19,632	\$ -	\$ -	\$ 51,008
	=====	=====	=====	=====	=====

TRAVELCENTERS OF AMERICA, INC. SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 1997

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES.....	\$ (590)	\$ 18,858	\$ -	\$ -	\$ 15,538
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures.....	-	(19,372)	-	-	(19,372)
Acquisitions of network assets.....	-	(11,069)	-	-	(11,069)
Proceeds from sales of property and equipment.....	-	20,099	-	-	20,099
Net cash used in investing activities.....	-	(10,342)	-	-	(10,342)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Revolving loan borrowings.....	-	3,750	-	-	3,750
Revolving loan repayments.....	-	(17,750)	-	-	(17,750)
Long-term debt borrowings.....	205,000	-	-	-	205,000
Long-term debt repayments.....	(250)	(126,300)	-	-	(126,550)
Advance from parent.....	(138,900)	138,900	-	-	-
Repurchase of common stock.....	(3,706)	-	-	-	(3,706)
Debt issuance costs.....	(12,903)	-	-	-	(12,903)
Net cash provided by (used in) financing activities.....	49,366	(1,400)	-	-	47,841
Net increase in cash.....	45,526	7,511	-	-	53,037
Cash at the beginning of the period.....	-	23,779	-	-	23,779
Cash at the end of the period.....	\$ 45,526	\$ 31,290	\$ -	\$ -	\$ 76,816

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included herein, and the audited financial statements and Management's Discussion and Analysis included with the Company's Form 10-K for the year ended December 31, 1997.

OVERVIEW

The Company is a holding company which, through its wholly-owned subsidiaries, owns, operates and franchises more travel centers in the United States than any of its competitors with 126 network sites nationwide, consisting of 124 travel centers in 36 states operating under the "TravelCenters of America" or "TA" brand names and two travel centers in two states operating under the licensed "Unocal 76" and related brand names. Of the 126 total sites, the Company owns 116 and 10 are owned by franchisees.

Historically, under the Company's ownership, National operated principally as a franchisor. As a result, its revenues consisted primarily of wholesale diesel fuel sales to Operators and Franchisee-Owners, rent from Operators of Leased Sites and nonfuel franchise royalty payments. Since early 1995, National has increased its number of Company-operated Sites as certain Operators terminated their franchise and lease agreements. In contrast, TA operated principally as an owner-operator of travel centers. Consequently, while TA derived the majority of its revenues from retail diesel fuel sales, the majority of its gross profit has been derived from, and its principal strategic focus has been, the sale of higher margin nonfuel products and services.

COMBINATION PLAN

During the three months and nine months ended September 30, 1998, the Company incurred approximately \$0.9 million and \$2.8 million, respectively, of expenses related to the Combination Plan. These costs, identified as transition expenses in the Company's consolidated financial statements, are expected to total approximately \$20.0 million, of which approximately \$3.0 million to \$4.0 million is expected to be incurred in 1998. These expenses relate to, among other things, (i) employee separations, (ii) the costs to convert National Network travel centers to Network travel centers, (iii) the costs to dispose of travel centers or terminate lease or franchise agreements, and (iv) the costs of integrating the management and operations of the Existing Networks into the Network, including relocation, travel, training, and legal expenses.

Employee Terminations

As a result of the Combination Plan, which was approved by the Board of Directors in January 1997, most of National's corporate-level employees have been terminated. In January 1997, certain of National's executive officers resigned and related severance costs of \$0.8 million were recognized. In May 1997, management finalized its plans regarding employee terminations and, accordingly, the related costs were recognized. This expense totaled approximately \$1.8 million. Pursuant to the Company's plans, 111 employees were terminated, with payments of termination benefits of \$2.0 million and \$0.6 million made in 1997 and in the first quarter of 1998, respectively.

Network Rationalization

Throughout 1997, the Company continued to refine and execute its plans for improving the profitability of the Network through rebranding of its sites under the TA brand name and rationalizing the number and locations of its travel centers. For the year ended December 31, 1997, 15 National Leased Sites were sold to the Operators of those sites for a net gain on sale of \$11.9 million. The Company anticipates additional site sales during 1998 as it continues rationalizing the Network. No sales were finalized during the first quarter of 1998, and one sale was finalized during each of the second and third quarters of 1998. During the year ended December 31, 1997, the franchise agreements with the Franchisee-Owners of 27 Franchisee-Owner Sites were terminated. Beginning in July 1997, those National Network franchisees whose sites were selected for inclusion in the Network began to convert their franchises to TAFSI from National, a process that includes rebranding the travel centers to the TA brand, installation of TA's store and shop programs, training of the franchisees in TA's operating procedures and revisions to the franchise agreements and lease agreements, such that there is an increase in the royalty the Company receives as a percentage of the franchisees' nonfuel revenues and a decrease in fixed rent revenue. The Company expects these new agreements will result in reduced revenue in the short term, but that in the long term

increased franchisee nonfuel revenues will result in a net increase in the Company's revenue. Through September 30, 1998, 29 former National franchisees had signed TAFSI franchise agreements.

Site Conversions

During 1997, the Company converted 27 National Leased Sites to Company-operated Sites by acquiring the travel center operations from the related Operators. Such conversions result in decreased rent revenue and increased operating expenses, offset to varying degrees for each individual site by increased fuel and nonfuel revenues. Three such conversions were completed in the second quarter of 1998, and two such conversions were completed during the third quarter of 1998. Management expects that, over time, the increases in revenues will exceed the decreases in rent revenue and increases in operating expenses, especially as TA management, marketing, operations, safety and training programs are fully implemented.

The following table sets forth the number and type of ownership and management of the Company's travel centers at September 30, 1998 and 1997:

	SEPTEMBER 30,	
	1998 (1)	1997
Company-owned and operated sites	86	82
Company-owned and leased sites	30	43
	-----	-----
Company-owned sites	116	125
Franchisee-owner sites	10	20
	-----	-----
Total	126	145
	=====	=====
Stand-alone shops	2	2
	=====	=====

(1) Excludes two closed sites as of September 30, 1998.

RESULTS OF OPERATIONS FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1998 AND 1997

Revenues

The Company's consolidated revenues for the three- and nine-month periods ended September 30, 1998 were \$238.3 million and \$681.2 million, respectively, which represent decreases from the prior periods of \$12.0 million, or 4.8%, for the three-month period and \$99.1 million, or 12.7%, for the nine-month period.

Fuel revenue for the nine months ended September 30, 1998 reflects a decrease of \$131.7 million, or 24.4%. For the third quarter, the 1998 amount reflects a decrease from the same period in 1997 of \$28.7 million, or 17.3%. The decrease in fuel revenue for the three- and nine-month periods is a result of decreased diesel volumes combined with a decrease in diesel pump prices. For the three months and nine months ended September 30, 1998, diesel volumes decreased 0.3% and 6.0% between years, respectively, which is the result of a decrease in the total number of sites between years, partially offset by increased volumes at continuing sites. Average diesel sale prices decreased 18.7% and 20.0%, for the same periods, respectively, as a result of declines in the cost of crude oil.

Nonfuel revenues for the quarter ended September 30, 1998 increased 25.2% to \$95.4 million from \$76.2 million for the same period in 1997. For the nine-month period ended September 30, 1998 nonfuel revenues increased 21.4% to \$256.6 million from \$211.4 million for the same period in 1997. These increases are due to the increase in the number of Company-operated sites between years, coupled with the increased revenues at former National locations that have been rebranded as TA travel centers.

Rent and royalty revenues for both 1998 periods have decreased from the same periods in 1997 as a result of (a) conversions of Leased Sites to Company-operated Sites, (b) sales of Leased Sites and (c) the rent reductions that are effective when former National franchisees sign new franchise and lease agreements with TAFSI. The new franchise and lease agreements provide for reduced fixed rents, but increased franchise royalty rates to be applied to nonfuel revenues generated by the franchisees' operations. Rent revenues for Leased Sites that were leased in all of the first three quarters of 1998 and 1997 decreased 15.9% between years. Royalty revenues for franchisee locations in the Network in all of the first three quarters of both 1998 and 1997 increased 74.9% between years. The decline in rent revenue is expected to cease, as the network rationalization is substantially complete with regards to franchisee-lessees.

Gross Profit

The Company's gross profit for the third quarter of 1998 was \$79.0 million, compared to \$69.8 million for 1997, an increase of \$9.2 million, or 13.2%. Year-to-date gross profit through September 30, 1998 was \$217.3 million compared to \$195.1 million for 1997, an increase of \$22.2 million, or 11.4%. The increases in the Company's gross profit were primarily due to increases in nonfuel revenues and diesel fuel margins, partially offset by decreased rent revenue resulting from the conversion of travel centers from Leased Sites to Company-operated Sites.

Operating and Selling, General and Administrative Expenses

Operating expenses include the direct expenses of Company-operated Sites, and selling, general and administrative expenses (SG&A) include corporate overhead and administrative costs.

The Company's operating expenses increased by \$8.5 million, or 19.7%, to \$51.6 million for the three-month period ended September 30, 1998. Operating expenses for the nine-month period ending September 30, 1998 increased by \$23.7 million, or 20.0%, to \$142.4 million. These increases reflect the increased number of Company-operated Sites from the conversion of Leased Sites that occurred throughout 1997.

The Company's SG&A for the third quarter decreased from \$9.4 million in 1997 to \$8.8 million in 1998. Year-to-date SG&A expense decreased from \$30.1 million in 1997 to \$27.1 million in 1998. The reductions in SG&A are primarily a result of synergies resulting from personnel reductions at National pursuant to the Combination Plan, partially offset by increased staffing in the operational support and business development areas at TA.

Transition Expense

Transition expenses for the nine months ended September 30, 1998 were \$2.8 million, compared to \$11.0 million for the same period in 1997. For the three months ended September 30, 1998, these expenses were \$0.9 million, compared to \$3.9 million for the same period in 1997. These costs were incurred in effecting the Combination Plan. The Company anticipates approximately \$3.0 million to \$4.0 million of such costs to be incurred in 1998.

Depreciation and Amortization

Depreciation and amortization for the third quarter of 1998 was \$8.5 million, compared to \$5.8 million for the same period in the prior year. Depreciation for the nine-month period ending September 30, 1998 was \$33.0 million, compared to \$20.1 million for the same period in 1997.

During the first quarter of 1998, the estimated useful lives of certain machinery, equipment, furniture and fixtures were revised downward from 10 years to five years in order to conform National's estimated useful lives to those of TA. The effect of this change in estimate resulted in reductions in income before extraordinary items, net income and earnings per share of \$9.5 million, \$5.7 million and \$9.08, respectively. This change resulted in these assets becoming fully depreciated at March 31, 1998. In addition, an impairment reserve of \$0.6 million recorded in the 1997 fourth quarter with respect to certain sites being held for sale was completely reversed in the 1998 second quarter. This reversal was based on increases in the estimated sales prices of the respective sites.

Income from Operations

Income from operations was \$10.1 million for the third quarter of 1998, compared to \$13.9 million for the third quarter of 1997. This is a result of an increase in gross profit of \$9.2 million, a decrease in SG&A of \$0.6 million, a decrease in transition expenses of \$3.0 million and a decrease in other expenses of \$1.0 million, offset by increases in operating expenses of \$8.5 million, increases in depreciation and amortization of \$2.7 million and decreases in gains on sales of property and equipment of \$6.4 million.

Income from operations was \$11.7 million for the nine months ended September 30, 1998, compared with \$20.1 million for the nine months ended September 30, 1997. This is a result of an increase in gross profit of \$22.2 million, a decrease in SG&A of \$3.0 million and decreases in transition expenses of \$8.2 million, offset by increases in operating expenses of \$23.7 million, increases in depreciation and amortization of \$12.9 million and reductions in gains on sales of property and equipment of \$5.1 million.

EBITDA (defined as income from operations plus the sum of (a) depreciation, amortization and other non-cash charges, (b) transition expense and (c) gains or losses from sales of property and equipment) for the Company for the three- and nine-month periods ending September 30, 1998 was \$19.4 million and \$49.3 million, respectively, compared to \$17.2 million and \$46.3 million for the respective 1997 periods.

Interest Expense - Net

Interest expense for the third quarter and first nine months of 1998 was \$0.1 million and \$1.3 million higher than the same periods in the prior year as a result of the increased debt balance after the consummation of the Refinancing (discussed in Liquidity and Capital Resources below).

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash requirements consist principally of working capital needs, payments of principal and interest on outstanding indebtedness and capital expenditures, including expenditures for acquisition, expansion and environmental upgrades.

Net cash provided by operating activities totaled \$32.0 million for the first nine months of 1998, compared to \$15.5 million for the same period in the prior year. The increase between years is primarily the result of increases in income before depreciation and amortization combined with net reductions in working capital needs between years.

Net cash used in investing activities increased to \$52.0 million for the first nine months of 1998 from \$10.3 million for the first nine months of 1997. The increase is primarily the result of increases in capital expenditures and decreases in proceeds from sales of property and equipment offset by the decrease in the acquisitions of network assets. Acquisitions of network assets represent amounts spent acquiring the leasehold interests of Operators when converting Leased Sites to Company-operated Sites. These activities were substantially complete at September 30, 1998, however additional conversions remain possible. The increase in capital expenditures between years is primarily the result of the timing, as capital expenditures for the full year are expected to be at the same level as for the year ended December 31, 1997.

Net cash used in financing activities was \$0.8 million during the first half of 1998, compared to \$47.8 million generated during the first half of the prior year. The change in the amount of financing activity cash flows between 1997 and 1998 was due to the refinancing completed in the first quarter of 1997.

On March 27, 1997 the Company was refinanced and currently has outstanding \$292.8 million of indebtedness, consisting of \$125.0 million principal amount of Senior Subordinated Notes, \$85.5 million principal amount of Senior Notes, a \$79.3 million term loan facility and a \$3.0 million note payable (net of unamortized discount of \$1.9 million). The Company also has a \$40.0 million revolving credit facility, which, except for \$1.5 million used for letters of credit, was not drawn upon at September 30, 1998. The Senior Notes have no amortization requirements until 2001, the Senior Subordinated Notes are due in 2007 and the term facility has annual amortization requirements of \$0.5 million until 2004.

The Company expects to invest approximately \$240 million in the Network between 1997 and the end of 2001 (with approximately \$75 million of this amount to be spent in each of 1997 and 1998) in connection with the Capital Program to upgrade, rebrand, reimage and increase the number of travel centers. Approximately \$50 million of the capital expenditures intended to be made represent normal ongoing maintenance and related capital expenditures (with approximately \$10 million of this amount to be spent in 1998). The Company has budgeted expenditures in order to add additional sites, rebrand and reimage sites, add additional non-fuel offerings (such as quick-serve restaurant offerings) at existing sites, make required environmental improvements, and purchase, install and upgrade its information systems.

The Company anticipates that it will be able to fund its 1998 working capital requirements and capital expenditures primarily from funds generated from the refinancing, funds generated from operations and asset sales, and, to the extent necessary, from borrowings under the revolving facility. The Company's long-term liquidity requirements, including capital expenditures, are expected to be financed by a combination of internally generated funds, borrowings and other sources of external financing as needed.

ACQUISITION

On October 17, 1998 the Company entered into an asset purchase agreement to acquire substantially all of the assets and assume certain liabilities of the Burns Bros. Travel Stops Division ("Burns") of Burns Bros. Inc (the "Burns Acquisition") for an aggregate cash purchase price of approximately \$55,000,000. Pursuant to the asset purchase agreement, the Company will acquire all of the assets of Burns relating to 17 of the 19 sites owned by Burns, as well as those assets used in the wholesale fuel supply and transportation business operated by Burns. The Company will also purchase the inventory and outstanding receivables of Burns, and assume certain of its current liabilities. The closing of the acquisition is conditioned on, among other things, satisfactory completion of the Phase I and Phase II environmental assessments for each of the 17 sites and the Company's due diligence investigation of Burns. The expected closing date, subject to satisfactory completion of the above items is, November 30, 1998. The Company intends to finance this acquisition through an increase in the term loan facility of its Credit Agreement dated March 21, 1997.

ENVIRONMENTAL MATTERS

The Company's operations and properties are subject to various Environmental Laws.

The Company owns and operates USTs and ASTs at Company-operated Sites and Leased Sites which must comply with certain statutory and regulatory requirements by December 22, 1998. The Company is making necessary upgrades to comply with those requirements. The Company expects to spend a total of approximately \$6 million to \$8 million in 1998 to complete the upgrade of USTs and other environmental related costs. In addition, the Company has estimated the current ranges of remediation costs at currently active sites and what it believes will be its ultimate share for such costs after required indemnification and remediation is performed by Unocal and BP under the respective Environmental Agreements and has a reserve for such matters of \$1.4 million as of September 30, 1998. While it is not possible to quantify with certainty the environmental exposure, in the opinion of management, the potential liability, beyond that considered in the reserve, for all environmental proceedings, based on information known to date, will not have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

YEAR 2000 READINESS DISCLOSURE

The Year 2000 issue results from date sensitive computer programs that improperly handle dates beyond 1999. This issue will impact virtually every business that relies on a computer, including the Company, its customers and suppliers and other third party service providers such as credit and trucking fleet billing card providers, utilities and other basic service providers. The Company's management is working to ensure that its Year 2000 issues are addressed on a company-wide basis, which includes (1) internal information technology (IT) systems such as any hardware and software used to process daily operational data and information; (2) non-IT systems or embedded technology such as micro-controllers contained in various equipment; and (3) Year 2000 compliance of key third parties, including suppliers, customers and third party credit and trucking fleet billing card providers, especially those with which the Company conducts business electronically.

The Company is currently in the process of making its IT systems Year 2000 compliant. As a result of the Combination, management determined a new IT system would be required to handle the combined operations of TA and National, as neither TA's nor National's current IT systems have the capability of handling the combined operations as effectively as desired. To this end, the Company has begun implementing a new IT system that will replace substantially all of the IT systems currently in use, some of which are not Year 2000 compliant. The new IT system is Year 2000 compliant, and management expects to begin using the new system during the second quarter of 1999. This implementation has not been accelerated due to Year 2000 issues. Only minor modifications are necessary to current systems that will continue to be used, such as the Access 76 fleet billing system and certain retail point of sale systems, and management anticipates these modifications will be completed and tested prior to December 31, 1999. The costs of these modifications are not expected to be material to the Company's financial position or results of operations.

The Company is currently in the process of surveying and testing its significant non-IT systems, such as in fuel pumps, cash registers and truck repair equipment, to determine whether such systems are Year 2000 compliant. As a result of the significant capital improvements made at the Company's sites, including under the Capital Program, over the past few years, substantially all of the Company's mission critical non-IT systems recently have been upgraded or are in the process of being upgraded and are believed to be Year 2000 compliant, although the Company is still in the process of formally testing and evaluating its non-IT systems. The Company expects to complete this process by March 31, 1999.

The Company's management believes that its efforts and plans to ensure its internal IT and non-IT systems are Year 2000 compliant are adequate and, therefore, the greatest risk to the Company's operations lies with third parties. The Company is still in the early stages of contacting key third parties and, accordingly, has not yet determined what its most reasonably likely worst case scenario is with respect to Year 2000 issues. Consequently, the Company has not yet prepared a contingency plan for dealing with that scenario. The Company expects that it will complete its third party surveys and assessments by March 31, 1999. When that process is complete, management will complete an analysis of its most reasonably likely worst case scenario and a contingency plan to deal with that scenario will be developed.

While management believes the Company is adequately addressing the Year 2000 issue and will not suffer a material adverse effect from such issues, there is no guarantee that the estimated completion dates and costs will be achieved. In addition, there is no guarantee that key third parties will be successful in completing their Year 2000 efforts. If needed modifications are not made on a timely basis, including to third parties' systems, and/or contingency plans are not implemented, the Year 2000 issue could have a material adverse effect on the Company's operations and, potentially, its financial condition.

FORWARD-LOOKING STATEMENTS

The Company is making this statement in order to satisfy the "safe harbor" provision contained in the Private Securities Litigation Reform Act of 1995. The statements contained in this report that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Moreover, from time to time the Company may issue other forward-looking statements. Such forward-looking statements are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to uncertainties and factors relating to the Company's operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed in or implied by forward-looking statements. The following factors are among those that could cause actual results to differ materially from the forward-looking statements: competition from other travel center and truckstop operators, including additional or improved services or facilities of competitors; the economic condition of the trucking industry, which in turn is dependent on general economic factors; diesel and gasoline fuel pricing; availability of fuel supply; the potential future impact of Year 2000 related issues; and difficulties that may be encountered by the Company or its franchisees in implementing the Combination Plan. The forward-looking statements should be considered in light of these factors.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time the Company is a party to litigation in the ordinary course of its business involving, by way of example, matters such as breach of contract, actions under PMPA or other franchise regulations, actions under Environmental Laws, bankruptcy claims, condemnation matters, employment claims, negligence and other similar claims. Certain of such claims are covered by the Company's third party insurance policies or indemnification agreements with BP or Unocal. While claims for damages in such litigation in certain instances may not be covered by an insurance policy or an indemnification agreement or may be in excess of the Company's insurance coverage, the Company does not expect its existing litigation to have a material adverse effect on the Company. The following describes the more significant pending matters in which the Company is involved as of September 30, 1998.

Forty-Niner Truck Plaza Litigation. This action was commenced in California Superior Court, Sacramento County, on January 28, 1993 by four Operators of National Leased Sites in California. The complaint asserts claims on behalf of each of the plaintiffs against the Company, Clipper and Unocal based upon alleged violations by Unocal of the California Business and Professions Code and of an alleged contract by failing to provide the plaintiffs with a bona fide offer or right of first refusal to purchase their truckstops in connection with the sale of the plaintiffs' truckstops by Unocal to the Company. Two of the plaintiffs settled their claims prior to commencement of the trial. The claims of two plaintiffs, who were franchisees of National in Sacramento and Santa Nella, California, were tried, and the jury rendered a verdict awarding \$4.0 million in compensatory damages jointly and severally against the Company, Unocal and Clipper, and assessing punitive damages against them in the amount of \$1.5 million, \$7.0 million and \$1.6 million, respectively. On August 1, 1995, the court granted the defendants' motions for a new trial on all issues, although it denied defendants' motions for judgment notwithstanding the verdict. On October 22, 1997, the California Court of Appeal filed a decision affirming the trial court's orders granting a new trial and denying defendants' motions for judgment notwithstanding the verdict. The Court of Appeal also reversed an order of the trial court granting a nonsuit on plaintiffs' claim against the Company and Clipper for civil conspiracy. The California Supreme Court has denied review. On September 1, 1998, one of the two remaining plaintiffs entered into a settlement agreement with Unocal and the Company, and dismissed its claims in the case. In connection with the settlement, the Company also entered into an agreement whereby the company acquired the assets and the operations of the plaintiff's travel center. The case with the one remaining plaintiff had been scheduled for retrial on October 5, 1998, which date has now been postponed to February 16, 1999, and the discovery phase of the proceedings is ongoing. Pursuant to the asset purchase and related agreements between the Company and Unocal, the Company believes that Unocal is required to indemnify it for attorneys' fees and compensatory damages. Unocal has contested certain of the amounts comprising the Company's claim for indemnification. The indemnification agreement between Unocal and the Company does not by its terms cover punitive damages. The Company entered into an agreement indemnifying Clipper in connection with the Company's purchase of the properties in the National Network, and Clipper has asserted and the Company has concurred that this agreement obligates the Company to pay any compensatory and punitive damages assessed against Clipper.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the third quarter of 1998.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Exhibit
27	Financial Data Schedule

(b) Reports on Form 8-K

During the third quarter of 1998, the Company filed no reports on Form 8-K.

SIGNATURE

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.

TRAVELCENTERS OF AMERICA, INC.
(Registrant)

Date: November 16, 1998

By: /s/ James W. George

Name: James W. George

*Title: Senior Vice President and
Chief Financial Officer
(Principal Financial Officer and
Duly Authorized Officer)*

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	SEP 30 1998
CASH	51,008
SECURITIES	0
RECEIVABLES	69,109
ALLOWANCES	3,295
INVENTORY	38,499
CURRENT ASSETS	167,239
PP&E	305,286
DEPRECIATION	0
TOTAL ASSETS	512,347
CURRENT LIABILITIES	108,903
BONDS	292,794
PREFERRED MANDATORY	67,767
PREFERRED	38
COMMON	14
OTHER SE	34,492
TOTAL LIABILITY AND EQUITY	512,347
SALES	664,760
TOTAL REVENUES	681,196
CGS	463,943
TOTAL COSTS	463,943
OTHER EXPENSES	204,534
LOSS PROVISION	1,036
INTEREST EXPENSE	18,263
INCOME PRETAX	(6,580)
INCOME TAX	(2,362)
INCOME CONTINUING	(4,218)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(4,218)
EPS PRIMARY	(17.46)
EPS DILUTED	(17.46)

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