

# TRAVELCENTERS OF AMERICA INC

## FORM 10-Q (Quarterly Report)

Filed 8/14/1998 For Period Ending 6/30/1998

Address	24601 CENTER RIDGE ROAD SUITE 200 WESTLAKE, Ohio 44145-5634
Telephone	440-808-9100
CIK	0001038523
Fiscal Year	12/31

# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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## FORM 10-Q

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

For the Quarterly Period Ended June 30, 1998

*Commission file number 333-26497*

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## 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

	JUNE 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
	-----	
ASSETS	(IN THOUSANDS OF DOLLARS)	
Current assets:		
Cash.....	\$ 59,106	\$ 71,756
Accounts receivable (less allowance for doubtful accounts of \$2,709 for 1998 and \$2,707 for 1997).....	71,684	68,433
Inventories.....	37,207	33,718
Deferred income taxes.....	4,390	3,740
Other current assets.....	9,574	10,256
	-----	-----
Total current assets.....	181,961	187,903
Notes receivable, net.....	1,545	1,692
Property and equipment, net.....	294,358	286,472
Intangible assets.....	15,833	15,651
Deferred financing costs.....	11,049	11,786
Deferred income taxes.....	384	-
Other assets.....	4,292	4,288
	-----	-----
Total assets.....	\$ 509,422	\$ 507,792
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt.....	\$ 500	\$ 500
Accounts payable.....	35,471	29,035
Other accrued liabilities.....	77,486	72,265
	-----	-----
Total current liabilities.....	113,457	101,800
Commitments and contingencies (Note 7)		
Long-term debt.....	289,375	289,625
Deferred income taxes.....	1,115	4,985
Other long-term liabilities.....	5,552	4,479
	-----	-----
Total long-term liabilities.....	409,499	400,889
Mandatorily redeemable senior convertible participating preferred stock.....	65,549	61,404
Other preferred stock, common stock and other stockholders' equity.....	43,570	43,945
Retained earnings (deficit).....	(9,196)	1,554
	-----	-----
Total liabilities and stockholders' equity.....	\$ 509,422	\$ 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
	(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)			
Revenues:				
Fuel.....	\$ 137,914	\$ 179,839	\$ 270,522	\$ 373,483
Nonfuel.....	86,187	75,397	161,224	135,731
Rent and royalties.....	5,436	9,641	11,114	20,776
Total revenues.....	229,537	264,877	442,860	529,990
Cost of revenues (excluding depreciation).....	157,373	198,811	304,583	404,689
Gross profit (excluding depreciation).....	72,164	66,066	138,277	125,301
Operating expenses.....	46,094	41,460	90,779	75,544
Selling, general and administrative expenses.....	9,428	8,949	18,368	20,681
Transition expense.....	881	5,473	1,874	7,091
Depreciation and amortization.....	8,027	7,352	24,571	14,296
Loss on sales of property and equipment.....	101	1,538	144	1,464
Other operating expense, net.....	292	-	972	-
Income from operations.....	7,341	1,294	1,569	6,225
Interest (expense), net.....	(6,144)	(5,862)	(12,134)	(10,967)
Income (loss) before income taxes and extraordinary item.....	1,197	(4,568)	(10,565)	(4,742)
Provision (benefit) for income taxes.....	519	(1,770)	(3,960)	(1,838)
Income (loss) before extraordinary item.....	678	(2,798)	(6,605)	(2,904)
Extraordinary loss (less applicable income tax benefit of \$3,608)....	-	-	-	(5,554)
Net income (loss).....	678	(2,798)	(6,605)	(8,458)
Less: preferred dividends.....	(2,073)	(1,818)	(4,145)	(3,637)
Retained earnings (deficit) ?beginning of the period.....	(7,801)	7,358	1,554	14,837
Retained earnings (deficit) ?end of the period.....	\$ (9,196)	\$ 2,742	\$ (9,196)	\$ 2,742
Earnings per common share (basic and diluted):				
Loss before extraordinary item.....	\$ (2.34)	\$ (4.29)	\$ (17.59)	\$ (5.67)
Extraordinary loss.....	-	-	-	(4.82)
Net loss.....	\$ (2.34)	\$ (4.29)	\$ (17.59)	\$ (10.49)

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

TRAVELCENTERS OF AMERICA, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30,	
	1998	1997
	(IN THOUSANDS OF DOLLARS)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss .....	\$ (6,605)	\$ (8,458)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Extraordinary loss.....	-	5,554
Depreciation and amortization.....	24,571	14,295
Deferred income taxes.....	(4,904)	-
Provision for doubtful accounts.....	568	808
Loss on sale of property and equipment.....	144	1,506
Changes in assets and liabilities, adjusted for the effects of acquisitions of network assets:		
Accounts receivable.....	(4,115)	(5,383)
Inventories.....	(2,920)	(1,569)
Other current assets.....	674	1,344
Accounts payable.....	6,097	5,644
Other current liabilities.....	5,094	4,441
Other, net.....	711	86
	-----	-----
Net cash provided by operating activities.....	19,315	18,268
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions of network assets.....	(1,828)	(7,901)
Proceeds from sales of property and equipment.....	137	2,886
Capital expenditures.....	(29,649)	(7,553)
	-----	-----
Net cash used in investing activities.....	(31,340)	(12,568)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Revolving loan borrowings.....	-	3,750
Revolving loan repayments.....	-	(17,750)
Long-term debt borrowings.....	-	205,000
Long-term debt repayments.....	(250)	(126,425)
Repurchase of common stock.....	(375)	(2,205)
Debt issuance costs.....	-	(12,357)
	-----	-----
Net cash provided by (used in) financing activities.....	(625)	50,013
	-----	-----
Net increase (decrease) in cash.....	(12,650)	55,713
Cash at the beginning of the period.....	71,756	23,779
	-----	-----
Cash at the end of the period.....	\$ 59,106	\$ 79,492
	=====	=====

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

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

1. BUSINESS DESCRIPTION AND SUMMARY OF OPERATING STRUCTURE

TravelCenters of America, Inc., (collectively with its subsidiaries, as the context may require, 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 127 network sites nationwide, including 117 Company-owned locations. The Company currently operates a network of 123 travel centers in 36 states under the "TravelCenters of America" or "TA" brand names and a network of four travel centers in two states under the licensed "Unocal 76" and related brand names.

The accompanying unaudited, consolidated financial statements as of and for the three- and six-month periods ended June 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 of cash flows for the three- and six-month periods ended June 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
	-----		-----	
	(DOLLARS AND SHARES IN THOUSANDS)		(DOLLARS AND SHARES IN THOUSANDS)	
Loss before extraordinary loss	\$ 678	\$ (2,798)	\$ (6,605)	\$ (2,904)
Less: Preferred stock dividends	(2,073)	(1,818)	(4,145)	(3,637)
	-----	-----	-----	-----
Net loss available to common stockholders	(1,395)	(4,616)	(10,750)	(6,541)
Weighted average shares outstanding	596	1,119	611	1,175
	-----	-----	-----	-----
Loss per share	\$ (2.34)	\$ (4.13)	\$ (17.59)	\$ (5.57)
	=====	=====	=====	=====

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 three- and six-month periods ended June 30, 1998 and 1997.

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

4. INVENTORIES

Inventories consist of the following:

	JUNE 30, 1998	DECEMBER 31, 1997
	-----	-----
	(DOLLARS IN THOUSANDS)	
Nonfuel merchandise.....	\$ 35,380	\$ 30,883
Petroleum products.....	1,827	2,835
	-----	-----
Total inventories.....	\$ 37,207	\$ 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 downward from 10 years to five years. 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.

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 provides for the divesting of certain National Network locations, terminating of certain franchise relationships, transfer of operations of all National Network company-operated locations to the TA Network and rebranding of certain National Network locations to TA.

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 liquidated 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 \$7,846,703 and \$1,315,012, respectively, were written off.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES

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 fewer than 30 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 \$1,160,000 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.

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

**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 alleged statements made by Unocal, to purchase their travel centers at 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 operator of a fifth California travel center also asserted a purchase right, but never filed suit. This property, together with the four properties operated by the California Plaintiffs, are referred to herein as the "California Properties".

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 cannot predict whether it ultimately will be required to resell any or all of the California Properties to the California Plaintiffs. However, in such event, the Company would seek indemnification from Unocal for any Excess Amounts. The Company believes that the claims asserted by the California Plaintiffs against the Company are without merit and has engaged in a vigorous defense.

During 1995, the trial commenced and two of the California Plaintiffs elected to settle their portion of the litigation with Unocal and the Company. In resolution, the Company entered into an agreement whereby the Company acquired the assets and operations of one of the related travel centers and paid approximately \$900,000 for the operations and certain assets used in the operations. The other operator's issues were resolved at no cost to the Company.

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. The case has been scheduled for retrial on October 5, 1998, and the discovery phase of the proceedings has commenced. 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.

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

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 June 30, 1998 total \$5,420,000, of which Unocal has paid \$1,000,000 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.

**8. CONDENSED CONSOLIDATING FINANCIAL STATEMENT SCHEDULES**

The following schedules set forth the consolidating balance sheets of the Company as of June 30, 1998 and December 31, 1997, the consolidating statements of income and retained earnings of the Company for the three months and six months ended June 30, 1998 and 1997, and the consolidating statements of cash flows of the Company for the six months ended June 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:

JUNE 30, 1998

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
<b>ASSETS</b>					
Current assets:					
Cash.....	\$ 41,612	\$ 17,494	\$ -	\$ -	\$ 59,106
Accounts receivable, net.....	-	71,149	535	-	71,684
Inventories.....	-	37,207	-	-	37,207
Deferred income taxes.....	-	4,390	-	-	4,390
Other current assets.....	22,147	53,740	4,835	(71,148)	9,574
<b>Total current assets.....</b>	<b>63,759</b>	<b>183,980</b>	<b>5,370</b>	<b>(71,148)</b>	<b>181,961</b>
Notes receivable, net.....	908	637	-	-	1,545
Property and equipment, net.....	-	294,358	-	-	294,358
Intangible assets.....	-	15,833	-	-	15,833
Deferred financing costs.....	11,049	-	-	-	11,049
Deferred income taxes.....	1,804	(1,420)	-	-	384
Other assets.....	730	7,262	-	(3,700)	4,292
Investments in subsidiaries.....	338,318	-	-	(338,318)	-
<b>Total assets.....</b>	<b>\$ 416,568</b>	<b>\$ 500,650</b>	<b>\$ 5,370</b>	<b>\$ (413,166)</b>	<b>\$ 509,422</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Current maturities of long-term debt..	\$ 500	\$ -	\$ -	\$ -	\$ 500
Accounts payable.....	-	35,459	12	-	35,471
Other accrued liabilities.....	25,516	121,633	1,473	(71,136)	77,486
<b>Total current liabilities.....</b>	<b>26,016</b>	<b>157,092</b>	<b>1,485</b>	<b>(71,136)</b>	<b>113,457</b>
Long-term debt.....	289,375	-	-	-	289,375
Deferred income taxes.....	-	1,115	-	-	1,115
Other liabilities.....	-	231,455	-	(225,903)	5,552
<b>Total liabilities.....</b>	<b>315,391</b>	<b>389,662</b>	<b>1,485</b>	<b>(297,039)</b>	<b>409,499</b>
Mandatorily redeemable senior convertible participating preferred stock.....	65,549	-	-	-	65,549
Other preferred stock, common stock and other stockholders' equity.....	44,824	84,879	-	(86,133)	43,570
Retained earnings (deficit).....	(9,196)	26,109	3,885	(29,994)	(9,196)
	35,628	110,988	3,885	(116,127)	34,374
<b>Total liabilities and stockholders' equity.....</b>	<b>\$ 416,568</b>	<b>\$ 500,650</b>	<b>\$ 5,370</b>	<b>\$ (413,166)</b>	<b>\$ 509,422</b>

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)					
<b>ASSETS</b>					
<b>Current assets:</b>					
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
	=====	=====	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current liabilities:</b>					
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
	-----	-----	-----	-----	-----
	46,753	113,506	2,208	(116,968)	45,499
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 430,031	\$ 463,006	\$ 3,097	\$ (388,342)	\$ 507,792
	=====	=====	=====	=====	=====

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

STATEMENT OF INCOME AND RETAINED EARNINGS SCHEDULES:

	THREE MONTHS ENDED JUNE 30, 1998				
	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS OF DOLLARS)				
Revenues:					
Fuel.....	\$ -	\$ 137,914	\$ -	\$ -	\$ 137,914
Nonfuel.....	-	86,036	151	-	86,187
Rent and royalties.....	-	8,227	1,656	(4,447)	5,436
	-----	-----	-----	-----	-----
Total revenues.....	-	232,177	1,807	(4,447)	229,537
Cost of revenues (excluding depreciation).	-	157,373	-	-	157,373
	-----	-----	-----	-----	-----
Gross profit (excluding depreciation).....	-	74,804	1,807	(4,447)	72,164
Operating expenses.....	52	50,245	244	(4,447)	46,094
Selling, general and administrative.....	191	9,020	217	-	9,428
Transition expense.....	-	881	-	-	881
Depreciation and amortization.....	373	7,654	-	-	8,027
(Gain) loss on sale of property and equipment.....	-	101	-	-	101
Other operating (income) expense, net.....	-	292	-	-	292
	-----	-----	-----	-----	-----
Income (loss) from operations.....	(616)	6,611	1,346	-	7,341
Interest (expense), net.....	(949)	(5,195)	-	-	(6,144)
Equity income (loss).....	1,711	-	-	(1,711)	-
	-----	-----	-----	-----	-----
Income (loss) before income taxes .....	146	1,416	1,346	(1,711)	1,197
Provision (benefit) for income taxes.....	(532)	549	502	-	519
	-----	-----	-----	-----	-----
Net income (loss).....	678	867	844	(1,711)	678
Less: preferred dividends.....	(2,073)	-	-	-	(2,073)
Retained (deficit) earnings - beginning of the period.....	(7,801)	25,242	3,041	(28,283)	(7,801)
	-----	-----	-----	-----	-----
Retained (deficit) earnings - end of the period.....	\$ (9,196)	\$ 26,109	\$ 3,885	\$ (29,994)	\$ (9,196)
	=====	=====	=====	=====	=====

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

THREE MONTHS ENDED JUNE 30, 1997

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
Revenues:					
Fuel.....	\$ -	\$ 179,839	\$ -	\$ -	\$ 179,839
Nonfuel.....	-	75,397	-	-	75,397
Rent and royalties.....	-	9,294	347	-	9,641
Total revenues.....	-	264,530	347	-	264,877
Cost of revenues (excluding depreciation).....	-	198,811	-	-	198,811
Gross profit (excluding depreciation).....	-	65,719	347	-	66,066
Operating expenses.....	-	41,460	-	-	41,460
Selling, general and administrative.....	62	8,460	427	-	8,949
Transition expense.....	-	5,473	-	-	5,473
Depreciation and amortization.....	809	6,543	-	-	7,352
(Gain) loss on sale of property and equipment.....	-	1,538	-	-	1,538
Other operating (income) expense, net.....	-	-	-	-	-
Income (loss) from operations.....	(871)	2,245	(80)	-	1,294
Interest (expense), net.....	(6,156)	294	-	-	(5,862)
Equity income (loss).....	1,490	-	-	(1,490)	-
Income (loss) before income taxes.....	(5,537)	2,539	(80)	(1,490)	(4,568)
Provision (benefit) for income taxes.....	(2,739)	997	(28)	-	(1,770)
Net income (loss).....	(2,798)	1,542	(52)	(1,490)	(2,798)
Less: preferred dividends.....	(1,818)	-	-	-	(1,818)
Retained earnings (deficit) - beginning of the period.....	7,358	31,008	1,003	(32,011)	7,358
Retained earnings (deficit) - end of the period.....	\$ 2,742	\$ 32,550	\$ 951	\$ (33,501)	\$ 2,742
	=====	=====	=====	=====	=====

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

SIX MONTHS ENDED JUNE 30, 1998

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
Revenues:					
Fuel.....	\$ -	\$ 270,522	\$ -	\$ -	\$ 270,522
Nonfuel.....	-	161,072	152	-	161,224
Rent and royalties.....	-	16,578	3,339	(8,803)	11,114
Total revenues.....	-	448,172	3,491	(8,803)	442,860
Cost of revenues (excluding depreciation).....	-	304,583	-	-	304,583
Gross profit (excluding depreciation).....	-	143,589	3,491	(8,803)	138,277
Operating expenses.....	106	99,096	380	(8,803)	90,779
Selling, general and Administrative.....	446	17,486	436	-	18,368
Refinancing, transition and development costs.....	-	1,874	-	-	1,874
Depreciation and amortization.....	747	23,824	-	-	24,571
(Gain) loss on sale of property and equipment.....	-	144	-	-	144
Other operating (income) expense, net.....	-	972	-	-	972
Income (loss) from operations.....	(1,299)	193	2,675	-	1,569
Interest (expense), net.....	(1,828)	(10,306)	-	-	(12,134)
Equity income (loss).....	(4,541)	-	-	4,541	-
Income (loss) before income taxes .....	(7,668)	(10,113)	2,675	4,541	(10,565)
Provision (benefit) for income taxes.....	(1,063)	(3,895)	998	-	(3,960)
Net income (loss).....	(6,605)	(6,218)	1,677	4,541	(6,605)
Less: preferred dividends.....	(4,145)	-	-	-	(4,145)
Retained earnings - beginning of the period.....	1,554	32,327	2,208	(34,535)	1,554
Retained earnings - end of the period.....	\$ (9,196)	\$ 26,109	\$ 3,885	\$ (29,994)	\$ (9,196)

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

SIX MONTHS ENDED JUNE 30, 1997

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
Revenues:					
Fuel.....	\$ -	\$ 373,483	\$ -	\$ -	\$ 373,483
Nonfuel.....	-	135,731	-	-	135,731
Rent and royalties.....	-	20,082	694	-	20,776
Total revenues.....	-	529,296	694	-	529,990
Cost of revenues (excluding depreciation).....	-	404,689	-	-	404,689
Gross profit (excluding depreciation).....	-	124,607	694	-	125,301
Operating expenses.....	-	75,544	-	-	75,544
Selling, general and Administrative.....	255	19,726	700	-	20,681
Transition expense.....	-	7,091	-	-	7,091
Depreciation and amortization.....	809	13,487	-	-	14,296
(Gain) loss on sale of property and equipment.....	-	1,464	-	-	1,464
Other operating (income) expense, net.....	-	-	-	-	-
Income (loss) from operations.....	(1,064)	7,295	(6)	-	6,225
Interest (expense), net.....	(6,434)	(4,533)	-	-	(10,967)
Equity income (loss).....	(3,883)	-	-	3,883	-
Income (loss) before income taxes and extraordinary item.....	(11,381)	2,762	(6)	3,883	(4,742)
Provision (benefit) for income taxes.....	(2,923)	1,094	(9)	-	(1,838)
Income (loss) before extraordinary item Extraordinary loss (less applicable income tax benefit).....	(8,458)	1,668	3	3,883	(2,904)
Net income (loss).....	(8,458)	(3,886)	3	3,883	(8,458)
Less: preferred dividends.....	(3,637)	-	-	-	(3,637)
Retained earnings - beginning of the period.....	14,837	36,436	948	(37,384)	14,837
Retained earnings - end of the period.....	\$ 2,742	\$ 32,550	\$ 951	\$ (33,501)	\$ 2,742

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

CONDENSED STATEMENT OF CASH FLOW SCHEDULES:

	SIX MONTHS ENDED JUNE 30, 1998				
	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS OF DOLLARS)				
CASH FLOWS PROVIDED BY (USED IN)					
OPERATING ACTIVITIES.....	\$ (17,355)	\$ 36,670	\$ -	\$ -	\$ 19,315
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures.....	-	(29,649)	-	-	(29,649)
Proceeds from sales of property and equipment.....	-	137	-	-	137
Acquisitions of network assets.....	-	(1,828)	-	-	(1,828)
Net cash used in investing activities.....	-	(31,340)	-	-	(31,340)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Long-term debt repayments.....	(250)	-	-	-	(250)
Repurchase of common stock.....	(375)	-	-	-	(375)
Net cash used in financing activities.....	(625)	-	-	-	(625)
Net increase (decrease) in cash.....	(17,980)	5,330	-	-	(12,650)
Cash at the beginning of the period.....	59,592	12,164	-	-	71,756
Cash at the end of the period.....	\$ 41,612	\$ 17,494	\$ -	\$ -	\$ 59,106

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

SIX MONTHS ENDED JUNE 30, 1997

	PARENT COMPANY	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
(IN THOUSANDS OF DOLLARS)					
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES.....	\$ (590)	\$ 18,858	\$ -	\$ -	\$ 18,268
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisitions of network assets.....	-	(7,901)	-	-	(7,901)
Proceeds from sales of property and equipment.....	-	2,886	-	-	2,886
Capital expenditures.....	-	(7,553)	-	-	(7,553)
Net cash used in investing activities.....	-	(12,568)	-	-	(12,568)
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.....	-	(126,425)	-	-	(126,425)
Advance from parent.....	(138,775)	138,775	-	-	-
Repurchase of common stock.....	(2,205)	-	-	-	(2,205)
Debt issuance costs.....	(12,357)	-	-	-	(12,357)
Net cash provided by (used in) financing activities.....	51,538	(1,525)	-	-	50,013
Net increase in cash.....	50,948	4,765	-	-	55,713
Cash at the beginning of the period.....	-	23,779	-	-	23,779
Cash at the end of the period.....	\$ 50,948	\$ 28,544	\$ -	\$ -	\$ 79,492

## 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 127 network sites nationwide, including 117 Company-owned locations. The Company currently operates a network of 123 travel centers in 36 states under the "TravelCenters of America" or "TA" brand names and a network of four travel centers in two states under the licensed "Unocal 76" and related brand names.

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 six months ended June 30, 1998, the Company incurred approximately \$0.9 million and \$1.9 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. Two of these sales took place in the first half of 1997. 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 the second quarter of 1998. One additional sale was completed in July 1998. During the year ended December 31, 1997, relationships with the Franchisee-Owners of 27 Franchisee-Owner Sites were terminated. Beginning in July 1997, those National Network franchisees whose sites have been 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 will be 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 June 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 typically 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 one additional conversion was completed on July 15, 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 at the former National Company-operated Sites converted to TA operation. In June 1997, 14 of the National Company-operated Sites were converted to TA Company-operated Sites, and in July 1997, the then remaining 21 National Company-operated Sites were so converted. National Leased Sites subsequently converted to Company-operated Sites were converted to TA Company-operated Sites at the time of the acquisitions of the site operations from the respective Operators. During the first few months of operation after both the conversion from a Leased Site and the conversion to a TA branded site (with respect to all former National travel centers), the operating results of each converted travel center are adversely affected by the costs (such as for maintenance and supplies) of bringing the travel centers into compliance with TA's standards. In addition, the Company has chosen to increase the number of employees at the converted sites in order to improve customer service and increase revenues and, as a consequence, employees were hired in anticipation of the expected revenue increases. For these reasons, the Company anticipates that the operating results of these converted travel centers will continue to improve during 1998.

The following table sets forth the number and type of ownership and management of the travel centers operating in each of the Company's networks.

	TA		NATIONAL	
	JUNE 30,		JUNE 30,	
	1998 (1)	1997	1998	1997
Company-owned and operated sites	84	40	-	35
Company-owned and leased sites	29	-	4	58
Company-owned sites	113	40	4	93
Franchisee-owner sites	10	8	-	21
Total	123	48	4	114
Stand-alone shops	2	2	-	-

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

### RESULTS OF OPERATIONS FOR THE SIX- AND THREE-MONTH PERIODS ENDED JUNE 30, 1998 AND 1997

#### Revenues

The Company's consolidated revenues for the three- and six-month periods ended June 30, 1997 were \$229.5 million and \$442.9 million, respectively, which represent decreases from the prior periods of \$35.3 million, or 13.3% for the three-month period and \$87.1 million, or 16.4% for the six-month period.

Fuel revenue for the six months ended June 30, 1998 reflects a decrease of \$103.0 million, or 27.6%. For the second quarter, the 1998 amount reflects a decrease from the same period in 1997 of \$41.9 million, or 23.3%. The decrease in fuel revenue for the three- and six-month periods is a result of decreased diesel volumes combined with a decrease in diesel pump prices. For the three months and six months ended June 30, 1998, diesel volumes decreased 6.3% and 9.0% between years, respectively, which is the result of a decrease in the total number of sites between years, offset by increased volumes at continuing sites. Average diesel sale prices decreased 10.1% and 18.5%, for the same periods, respectively, as a result of declines in the cost of crude oil.

Nonfuel revenues for the quarter ended June 30, 1998 increased 14.3% to \$86.2 million from \$75.4 million for the same period in 1997. For the six-month period ended June 30, 1998 nonfuel revenues increased 18.8% to \$161.2 million from \$135.7 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 both the first two quarters of 1998 and 1997 decreased 22.3% between years. Royalty revenues for franchisee locations in the Network in the first two quarters of both 1998 and 1997 increased 75.7% 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 second quarter of 1998 was \$72.2 million, compared to \$66.1 million for 1997, an increase of \$6.1 million, or 9.2%. Year-to-date gross profit through June 30, 1998 was \$138.3 million compared to \$125.3 million for 1997, an increase of \$13.0 million, or 10.4%. 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 \$4.6 million, or 11.1%, to \$46.1 million for the three-month period ended June 30, 1998. Operating expenses for the six-month period ending June 30, 1998 increased by \$15.2 million, or 20.1%, to \$90.8 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 second quarter increased from \$8.9 million in 1997 to \$9.4 million in 1998. Year-to-date SG&A expense decreased from \$20.7 million in 1997 to \$18.4 million in 1998. The year-to-date 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 six months ended June 30, 1998 were \$1.9 million, compared to \$7.1 million for the same period in 1997. For the three months ended June 30, 1998, these expenses were \$0.9 million, compared to \$5.5 million for the same period in 1997. These costs were incurred in effecting the Combination Plan. The Company anticipates approximately \$2.5 million to \$4.0 million of such costs to be incurred in 1998.

## **Depreciation and Amortization**

Depreciation and amortization for the second quarter of 1998 was \$8.0 million, compared to \$7.4 million for the same period in the prior year. Depreciation for the six-month period ending June 30, 1998 was \$24.6 million, compared to \$14.3 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. 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 \$7.3 million for the second quarter of 1998, compared to \$1.3 million for the second quarter of 1997. This is a result of an increase in gross profit of \$6.1 million, a decrease in transition expense of \$4.6 million and a decrease in losses on sales of property and equipment of \$1.4 million, offset by increases in operating expenses of \$4.6 million, increases in SG&A of \$0.5 million and increases in depreciation expense of \$0.7 million.

Income from operations was \$1.6 million for the six months ended June 30, 1998, compared to \$6.2 million for the six months ended June 30, 1997. This is a result of an increase in gross profit of \$13.0 million, a decrease in transition expense of \$5.2 million, decreases in SG&A of \$2.3 million and a decrease in losses on sales of property and equipment of \$1.3 million, offset by increases in operating expenses of \$15.2 million, increases in depreciation expense of \$10.3 million and other expense of \$1.0 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 six-month periods ending June 30, 1998 was \$17.2 million and \$29.9 million, respectively, compared to \$15.7 million and \$29.1 million for the respective 1997 periods.

## **Interest Expense - Net**

Interest expense for the first quarter and first half of 1998 was \$0.3 million and \$1.2 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 \$19.3 million for the first half of 1998, compared to \$18.3 million for the same period in the prior year. The increase between years is primarily the result of net reductions in working capital needs between years combined with reduced net losses.

Net cash used in investing activities increased to \$31.3 million for the first half of 1998, up from \$12.6 million for the first half of 1997. The increase is primarily the result of increases in capital expenditures offset by the decrease in the acquisitions of network assets. Acquisitions of network assets represents amounts spent acquiring the leasehold interests of Operators when converting Leased Sites to Company-operated Sites. These activities were substantially complete at June 30, 1998, although one such conversion was completed in July 1998, and a few additional conversions remain possible. The increase in capital expenditures between years is primarily the result of converting National Network travel centers to TA Network travel centers, remodeling of existing TA network travel centers and improvements in USTs and ASTs to comply with increased statutory requirements which will take effect on December 22, 1998.

Net cash used in financing activities was \$0.6 million during the first half of 1998, compared to \$50.0 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 \$289.9 million of indebtedness, consisting of \$125.0 million principal amount of Senior Subordinated Notes, \$85.5 million principal amount of Senior Notes and a \$79.4 million term loan facility. 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 June 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 in excess of \$200 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, borrowing and other sources of external financing as needed.

## **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 \$1.2 million as of June 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" ISSUES**

The Company is currently in the process of making its information technology systems ("IT") 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 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 older IT systems that were in use. The new IT system is fully 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 older systems that will continue to be used, such as the Access 76 fleet billing system and various 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 has not yet determined what its most reasonably likely Year 2000 worst case scenario would be and, consequently, has not yet prepared a contingency plan for dealing with that scenario. Management believes the Company's efforts to ensure its IT systems are Year 2000 compliant are adequate and, thus, the greatest risk lies with third parties. The Company is currently surveying its customers, vendors, and third-party billing providers to determine their state of readiness for Year 2000 processing. When that process is complete, an assessment of the most reasonably likely worst case scenario will be made, and a contingency plan to deal with that scenario will be developed.

## **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; 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 June 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 are 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. The case has been scheduled for retrial on October 5, 1998, and the discovery phase of the proceedings has commenced. 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 the Unocal Entities 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

The Annual Meeting of Stockholders of TravelCenters of America, Inc. was held on May 7, 1998, for the purpose of electing a board of directors and approving an amendment to the Company's Restated Certificate of Incorporation. The nominees Harrison T. Bubb, Robert B. Calhoun, Jr., Margaret M. Eisen, Edwin P. Kuhn, Eugene P. Lynch, Louis J. Mischianti and Rolf H. Towe were all elected by the following vote:

Shares Voted "For"	2,780,183
Shares Voted "Against"	405,000
Shares "Withheld"	0

The amendment to the Company's Restated Certificate of Incorporation was approved by the following vote:

Shares Voted "For"	5,460,839
Shares Voted "Against"	405,000
Shares "Withheld"	0

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits

Exhibit Number	Exhibit
3.1*	Restated Certificate of Incorporation of the Company
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of the Company.
27	Financial Data Schedule
*	Incorporated herein by reference to exhibits filed with the Company's Registration Statement on Form S-4 (File No. 333-26497) effective July 17, 1997.

##### (b) Reports on Form 8-K

During the second 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: August 14, 1998*

*By: /s/ James W. George*  
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*Name: James W. George  
Title: Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer and  
Duly Authorized Officer)*

**Exhibit 3.2**

**CERTIFICATE OF AMENDMENT  
TO THE  
RESTATED CERTIFICATE OF INCORPORATION  
OF  
TRAVELCENTERS OF AMERICA, INC.**

Pursuant to Section 242 of the General Corporation Law of the State of Delaware

TravelCenters of America, Inc., a Delaware corporation (hereinafter referred to as the "Corporation"), does hereby certify as follows:

FIRST: Section 8.1 of the Corporation's Restated Certificate of Incorporation is hereby amended to read in its entirety as set forth below:

8.1 To the extent not prohibited by law, the Corporation shall indemnify any person who is or was made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding (a "PROCEEDING"), whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a Director or officer of the Corporation, or at the request of the Corporation, is or was serving as a director or officer of any other corporation or in a capacity with comparable authority or responsibilities for any partnership, joint venture, trust, employee benefit plan or other enterprise (an "OTHER ENTITY"), all such persons being deemed to be "Eligible Persons" against judgments, fines, penalties, excise taxes, amounts paid in settlement and costs, charges and expenses (including attorneys' fees, disbursements and other charges). Persons who are not Directors or officers of the Corporation (or otherwise entitled to indemnification pursuant to the preceding sentence) may be similarly indemnified in respect of service to the Corporation or to an Other Entity to the extent the Board at any time specifies that such persons are entitled to the benefits of this Section 8.

SECOND: The foregoing amendment was duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, TravelCenters of America, Inc. has caused this Certificate to be duly executed in its corporate name this 24th day of July, 1998.

**TRAVELCENTERS OF AMERICA, INC.**

*By: /s/ Edwin P. Kuhn*

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*Name: Edwin P. Kuhn*

*Title: President and CEO*

## ARTICLE 5

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

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	JUN 30 1998
CASH	59,106
SECURITIES	0
RECEIVABLES	74,393
ALLOWANCES	2,709
INVENTORY	37,207
CURRENT ASSETS	181,961
PP&E	294,358
DEPRECIATION	0
TOTAL ASSETS	509,422
CURRENT LIABILITIES	113,457
BONDS	289,375
PREFERRED MANDATORY	65,549
PREFERRED	38
COMMON	14
OTHER SE	34,322
TOTAL LIABILITY AND EQUITY	509,422
SALES	431,746
TOTAL REVENUES	442,860
CGS	304,583
TOTAL COSTS	304,583
OTHER EXPENSES	136,140
LOSS PROVISION	568
INTEREST EXPENSE	12,134
INCOME PRETAX	(10,565)
INCOME TAX	(3,960)
INCOME CONTINUING	(6,605)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(6,605)
EPS PRIMARY	(17.59)
EPS DILUTED	(17.59)

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