TRAVELCENTERS OF AMERICA LLC
Form 10-K
March 18, 2013

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PART IV

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

OR

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

Commission file number 001-33274

TRAVELCENTERS OF AMERICA LLC

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-5701514**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

24601 Center Ridge Road, Suite 200, Westlake, OH 44145-5639
(Address of Principal Executive Offices)

(440) 808-9100
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Name of each exchange on which registered
Common Shares	NYSE MKT
8.25% Senior Notes due 2028	NYSE MKT

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

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

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

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of the voting shares of the registrant held by non-affiliates was $121.4 million based on the closing price per common share of $5.07 on the NYSE MKT on June 29, 2012. For purposes of this calculation, the aggregate of 2,274,824 common shares that were held by the directors and officers of the registrant, and 2,540,000 common shares that were held by Hospitality Properties Trust, as of June 29, 2012, have been included in the number of common shares held by affiliates.

Number of the registrant's common shares outstanding as of March 14, 2013: 29,535,851.

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

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference to our definitive Proxy Statement for our 2013 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A, or our definitive Proxy Statement.

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WARNING CONCERNING FORWARD LOOKING STATEMENTS

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

- WE STATE IN THIS ANNUAL REPORT OUR BELIEF THAT THE U.S. ECONOMY IS IN A PERIOD OF SLOW AND UNEVEN ECONOMIC RECOVERY AND EXPANSION. RECENT ECONOMIC DATA HAS BEEN MIXED AND IMPROVEMENTS, IF ANY, IN THE U.S. ECONOMY OR IN THE TRUCKING OR TRAVEL CENTER INDUSTRIES MAY NOT CONTINUE, AND OUR FUEL AND NONFUEL SALES VOLUME MAY DECLINE;

- THIS ANNUAL REPORT INCLUDES STATEMENTS THAT OUR NONFUEL SALES, FUEL GROSS MARGIN AND NONFUEL GROSS MARGIN LEVELS INCREASED. AN IMPLICATION OF THESE STATEMENTS MAY BE THAT WE WILL BE ABLE TO OPERATE PROFITABLY IN THE FUTURE. IN FACT, THERE ARE MANY FACTORS WHICH WILL IMPACT OUR FUTURE OPERATIONS THAT MAY CAUSE US TO OPERATE UNPROFITABLY IN ANNUAL AND/OR QUARTERLY PERIODS IN ADDITION TO THOSE STATED ITEMS, INCLUDING SOME FACTORS WHICH ARE BEYOND OUR CONTROL SUCH AS SEASONALITY, THE CONDITION OF THE U.S. ECONOMY GENERALLY, THE FUTURE DEMAND FOR OUR GOODS AND SERVICES AND COMPETITION IN OUR BUSINESS;

- OUR ENVIRONMENTAL LIABILITY MAY BE GREATER THAN WE CURRENTLY ANTICIPATE AND LEGISLATION AND REGULATION REGARDING CLIMATE CHANGE, INCLUDING GREENHOUSE GAS EMISSIONS, AND OTHER ENVIRONMENTAL MATTERS MAY BE ADOPTED OR ADMINISTERED AND ENFORCED DIFFERENTLY IN THE FUTURE AND ANY GLOBAL CLIMATE CHANGE COULD ADVERSELY IMPACT OUR TRAVEL CENTERS AND BUSINESS, WHICH COULD CAUSE US TO EXPEND SIGNIFICANT AMOUNTS AND CAUSE OUR BUSINESS TO DECLINE MATERIALLY;

- THIS ANNUAL REPORT STATES THAT WE HAVE ACQUIRED TRAVEL CENTER LOCATIONS DURING 2011 AND 2012, REFERENCES SEVERAL TRAVEL CENTER AND BUSINESS PURCHASES THAT WE HAVE COMPLETED OR AGREED TO COMPLETE DURING 2012 AND TO DATE IN 2013, STATES THAT WE EXPECT PURCHASES TO CLOSE DURING THE FIRST HALF OF 2013 AND STATES THAT WE CURRENTLY INTEND TO CONTINUE OUR EFFORTS TO SELECTIVELY ACQUIRE ADDITIONAL PROPERTIES. THE IMPLICATIONS OF THESE STATEMENTS MAY BE THAT WE WILL BE ABLE TO COMPLETE THE REFERENCED PURCHASES, WE WILL BE ABLE TO OPERATE OUR PURCHASED LOCATIONS PROFITABLY, AND WE WILL BE ABLE TO CONTINUE TO IDENTIFY AND COMPLETE ADDITIONAL PURCHASES. MANY OF THE TRAVEL CENTERS WE HAVE ACQUIRED PRODUCED OPERATING

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RESULTS WHICH MAY HAVE CAUSED THE PRIOR OWNERS TO EXIT THESE BUSINESSES AND OUR ABILITY TO OPERATE THESE LOCATIONS PROFITABLY DEPENDS UPON MANY FACTORS, INCLUDING OUR ABILITY TO INTEGRATE NEW OPERATIONS INTO OUR EXISTING OPERATIONS AND SOME FACTORS WHICH ARE BEYOND OUR CONTROL SUCH AS THE LEVEL OF DEMAND FOR OUR GOODS AND SERVICES ARISING FROM THE U.S. ECONOMY GENERALLY. WE MAY NOT BE ABLE TO SUCCESSFULLY INTEGRATE NEW TRAVEL CENTER OPERATIONS OR OPERATE SUCH LOCATIONS PROFITABLY IN THE FUTURE. ALSO, WE MAY NOT SUCCEED IN COMPLETING THE PURCHASES TO WHICH WE HAVE AGREED AND WE MAY NOT SUCCEED IN IDENTIFYING AND/OR ACQUIRING OTHER PROPERTIES;

THIS ANNUAL REPORT STATES THAT OUR BUSINESS REQUIRES THAT WE MAKE REGULAR CAPITAL INVESTMENTS IN OUR BUSINESS AND THAT WE ESTIMATE THAT DURING 2013 WE WILL MAKE SUSTAINING CAPITAL INVESTMENTS OF $45 MILLION TO $55 MILLION IN OUR EXISTING TRAVEL CENTERS, SOME OF WHICH IS EXPECTED TO BE OF THE TYPE OF IMPROVEMENTS WE TYPICALLY REQUEST HPT PURCHASE FROM US, AND CAPITAL INVESTMENTS FOR IMPROVEMENTS TO TRAVEL CENTERS WE HAVE ACQUIRED OR AGREED TO ACQUIRE OF $47 MILLION. THE AMOUNT AND TIMING OF CAPITAL EXPENDITURES ARE OFTEN DIFFICULT TO PREDICT. SOME CAPITAL PROJECTS COST MORE THAN ANTICIPATED AND THE PROCEEDS FROM THE ULTIMATE SALES OF IMPROVEMENTS, IF ANY, TO HPT MAY BE LESS THAN OUR ESTIMATE. CURRENTLY UNANTICIPATED PROJECTS THAT WE MAY BE REQUIRED TO COMPLETE IN THE FUTURE, AS A RESULT OF GOVERNMENT PROGRAMS OR REGULATION, ADVANCES OR CHANGES MADE BY OUR COMPETITION, DEMANDS OF OUR CUSTOMERS, ACQUISITIONS OR OTHER MATTERS, MAY ARISE AND CAUSE US TO SPEND MORE OR LESS THAN CURRENTLY ANTICIPATED. SOME CAPITAL PROJECTS TAKE MORE TIME THAN ANTICIPATED. AS A RESULT OF MARKET CONDITIONS OR CAPITAL CONSTRAINTS, WE MAY DEFER CERTAIN CAPITAL PROJECTS AND SUCH DEFERRAL MAY HARM OUR BUSINESS OR REQUIRE US TO MAKE LARGER CAPITAL EXPENDITURES IN THE FUTURE;

THIS ANNUAL REPORT STATES THAT AT DECEMBER 31, 2012, WE HAD $35.2 MILLION OF CASH AND CASH EQUIVALENTS, THAT THERE WERE NO AMOUNTS OUTSTANDING UNDER OUR BANK CREDIT FACILITY AT DECEMBER 31, 2012, THAT DURING 2012, WE RECEIVED $76.8 MILLION FROM HOSPITALITY PROPERTIES TRUST, OR HPT, FOR SALES TO HPT OF QUALIFYING IMPROVEMENTS, THAT SOME OF THE CAPITAL IMPROVEMENTS WE EXPECT TO MAKE IN 2013 WILL BE OF THE TYPE WE TYPICALLY REQUEST HPT PURCHASE FROM US, THAT WE INTEND IN THE FUTURE TO SELL TO HPT IMPROVEMENTS WE HAVE MADE TO THE PROPERTIES WE LEASE FROM HPT, THAT IN JANUARY 2013 WE RAISED NET PROCEEDS OF APPROXIMATELY $105.2 MILLION FROM THE SALE OF SENIOR NOTES, AND THAT WE OWN UNENCUMBERED REAL ESTATE THAT MAY BE AN ADDITIONAL SOURCE OF FINANCIAL LIQUIDITY OVER TIME. THESE STATEMENTS MAY IMPLY THAT WE HAVE ABUNDANT WORKING CAPITAL AND CASH LIQUIDITY. IN FACT, OUR REGULAR OPERATIONS REQUIRE LARGE AMOUNTS OF WORKING CASH. AS OF DECEMBER 31, 2012, $58.2 MILLION OF OUR BANK CREDIT FACILITY WAS USED TO SECURE LETTERS OF CREDIT FOR OUR SUPPLIERS, INSURERS, AND TAXING AUTHORITIES, AND WE HAVE COLLATERALIZED OUR BANK FACILITY WITH SUBSTANTIALLY ALL OF OUR CASH, ACCOUNTS RECEIVABLE, INVENTORIES, EQUIPMENT AND INTANGIBLE

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ASSETS. IN ADDITION, OUR BUSINESS REQUIRES US TO MAKE SIGNIid #000000; BORDER-BOTTOM:1px solid #000000; padding-right:8px">

Citizenship or place of organization

Delaware

Number of

shares

beneficially

owned by

each

reporting

person

with:

(5)

Sole voting power

0

(6)

Shared voting power

0

(7)

Sole dispositive power

0

(8)

Shared dispositive power

0

(9)

Aggregate amount beneficially owned by each reporting person

0

(10)

Check if the aggregate amount in Row (9) excludes certain shares (see instructions) ¨

(11)

Percent of class represented by amount in Row (9)

0%

(12)

Type of reporting person (see instructions)

Any proxy, if received in time, properly signed and not revoked, will be voted at such meeting in accordance with the directions of the stockholder. If no directions are specified, the proxy will be voted FOR each of Proposals I, II, and III contained herein. Any stockholder giving a proxy has the power to revoke it at any time before it is exercised. A proxy may be revoked (1) by delivery of a written statement to the Secretary of the Company stating that the proxy is revoked, (2) by presentation at the annual meeting of a subsequent proxy executed by the person executing the prior proxy, or (3) by attendance at the annual meeting and voting in person.

Vote Required for Approval; Quorum. The nominees for director who receive a majority of the votes cast will be elected. If you indicate “withhold authority to vote” for a particular nominee by entering the number of any nominee (as designated on the proxy card) below the pertinent instruction on the proxy card, your vote will not count either for or against the nominee. As of the Record Date, 142,648,568 shares of the common stock of the Company (the “Common Stock”) were outstanding, of which 142,030,119 shares entitled the holder thereof to one vote on each of the matters to be voted upon at the annual meeting. As of the Record Date, our executive officers and directors had the power to vote approximately 0.70% of the outstanding shares of Common Stock. Our executive officers and directors have advised us that they intend to vote their shares of Common Stock FOR each of Proposals I, II, and III contained herein.

Votes cast in person or by proxy at the annual meeting will be tabulated and a determination will be made as to whether or not a quorum is present. We will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence or absence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to the stockholders. If a broker submits a proxy indicating that it does not have discretionary authority as to certain shares to vote on a particular matter (broker non-votes), those shares will not be considered as present and entitled to vote with respect to such matter. Broker non-votes with respect to the election of directors will have no effect on the outcome of the vote on that proposal.

YOUR VOTE AT THE ANNUAL MEETING IS VERY IMPORTANT TO US.

Solicitation of Proxies. Solicitation of proxies will be primarily by mail. However, our directors and officers may also solicit proxies by telephone or telegram or in person. All of the expenses of soliciting proxies, including preparing, assembling, printing and mailing the materials used in the solicitation of proxies, will be paid by us. Arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to forward soliciting materials, at our expense, to the beneficial owners of shares held of record by such persons.

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PROPOSAL I

ELECTION OF DIRECTORS

Nominees

The persons named below have been nominated by the Board of Directors of the Company (the "Board of Directors" or the "Board") for election as directors to serve until the next annual meeting of stockholders or until their successors shall have been elected and qualified.

In selecting the candidates to nominate for election as directors, the Board's principal qualification is whether an individual has the ability to act in the best interests of the Company and its stockholders. In making such determination with respect to each nominee, the Board takes into account certain interpersonal skills, including leadership abilities, work ethic, business judgment, collegiality and communication skills, and believes that each nominee possesses the interpersonal skills necessary to act in the best interests of the Company and its stockholders. The Board also takes into account each person's experience and management skills, the specifics of which are discussed in the table below. The table sets forth each nominee's name, age, principal occupation or employment and directorships in other public corporations during at least the last five years, as well as the specific experience, qualifications, attributes and skills each nominee has acquired in such positions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ALL OF THE NOMINEES DESCRIBED BELOW FOR ELECTION AS DIRECTORS.

Name and Age	Background
Don DeFosset, 67	Mr. DeFosset has served as a director of the Company since December 2008. Mr. DeFosset currently serves on the boards of directors for Regions Financial Corporation, ITT Corporation and Terex Corporation and also serves on the board of trustees for the University of Tampa. Mr. DeFosset retired in November 2005 as Chairman, President and Chief Executive Officer of Walter Industries, Inc., a diversified company with principal operating businesses in homebuilding and home financing, water transmission products and energy services. Mr. DeFosset is a graduate of Purdue University, where he earned a Bachelor's degree in Industrial Engineering. He received his MBA from Harvard Business School in 1974. The Board believes, that in these positions, Mr. DeFosset has acquired the experience, qualifications, attributes and skills, including business and management experience, real estate experience, finance and capital markets experience and an understanding of corporate governance regulations necessary to act in the best interests of the Company and its stockholders, and based on these skills, together with the interpersonal skills mentioned above, the Board has concluded that Mr. DeFosset should serve as a director for the Company.

David M. Fick, 58	Mr. Fick has served as a director of the Company since November 2010. Mr. Fick is a professional faculty member at the Johns Hopkins University Carey Business School where he teaches graduate-level Real Estate Finance, Capital Markets, and Investments. He is President of Nandua Oyster Company, an aquaculture business he founded in 2007. Mr. Fick served as Managing Director at Stifel Nicolaus & Company, a successor to Legg Mason Wood Walker. In that position he headed Real Estate Research and was an analyst covering real estate investment trusts ("REITs") from 1997 to 2010. During this period he was also a member of the Legg Mason Real Estate Capital Investment Committee. Mr. Fick also served as Equity Vice President, Finance with Alex Brown Kleinwort Benson and LaSalle Partners from 1993 to 1995, and as Chief Financial Officer at Mills Corporation and Western Development Corporation from 1991 to 1994. Prior to that, he was a practicing CPA and consultant with a national accounting firm, specializing in the real estate industry. He is also a member of the International Council of Shopping Centers ("ICSC"), the National Association of Real Estate Investment Trusts ("NAREIT"), and the American Institute of Certified Public Accountants, and is a non-practicing Certified Public Accountant. Mr. Fick is also a member of the Virginia Eastern Shorekeeper board, and the Virginia Coastal Land Management Advisory Council. The Board believes, that in these positions, Mr. Fick has acquired the experience, qualifications, attributes and skills, including business and management experience, real estate experience, accounting experience, finance and capital markets experience and an understanding of corporate governance regulations necessary to act in the best interests of the Company and its stockholders, and based on these skills, together with the interpersonal skills mentioned above, the Board has concluded that Mr. Fick should serve as a director for the Company.
Edward J. Fritsch, 57	Mr. Fritsch has served as a director of the Company since February 2012. Mr. Fritsch is President, Chief Executive Officer and Director of Highwoods Properties, Inc., a REIT publicly traded on the New York Stock Exchange. Joining Highwoods in 1982, Mr. Fritsch was a partner in the predecessor firm which launched its initial public offering in 1994. In 2004, Mr. Fritsch assumed the role of Chief Executive Officer. Mr. Fritsch is also a member of the Board of Governors of NAREIT and serves as chair of its executive committee, as well as a member of its governance committee. Mr. Fritsch is also a director and audit committee chair of Capital Associated Industries, Inc., a member of Wells Fargo's central regional advisory board, a member of the University of North Carolina at Chapel Hill Foundation Board, a director of the University of North Carolina at Chapel Hill Real Estate Holdings, a member of the University of North Carolina Kenan-Flagler's Business School board of visitors, and a member of Dix Park Conservancy Board. The Board believes, that in these positions, Mr. Fritsch has acquired the experience, qualifications, attributes and skills, including business and

management experience, real estate experience, accounting experience, finance and capital markets experience and an understanding of corporate governance regulations necessary to act in the best interests of the Company and its stockholders, and based on these skills, together with the interpersonal skills mentioned above, the Board has concluded that Mr. Fritsch should serve as a director for the Company.

Kevin B. Habicht, 57	Mr. Habicht has served as a director of the Company since June 2000, as Executive Vice President and Chief Financial Officer of the Company since December 1993 and as Treasurer of the Company since January 1998. Mr. Habicht served as Secretary of the Company from January 1998 to May 2003. Mr. Habicht is a Certified Public Accountant and a Chartered Financial Analyst. The Board believes, that in these positions, Mr. Habicht has acquired the experience, qualifications, attributes and skills, including business and management experience, real estate experience, accounting experience, finance and capital markets experience and an understanding of corporate governance regulations necessary to act in the best interests of the Company and its stockholders, and based on these skills, together with the interpersonal skills mentioned above, the Board has concluded that Mr. Habicht should serve as a director for the Company.
Robert C. Legler, 72	Mr. Legler has served as a director of the Company since 2002. From 1973 until 1990, Mr. Legler was the chairman of privately-held First Marketing Corporation, which he founded and was then America's largest publisher of custom newsletters serving nearly 500 clients in the commercial banking, brokerage, health care, cable television, travel, and retail industries. Upon the sale of the company to Reed (now Reed Elsiever) in 1990, Mr. Legler served as non-executive Chairman of the Board of First Marketing until his retirement in September 2000. Mr. Legler served as a director of Ligonier Ministries of Lake Mary, Florida for more than 20 years. The Board believes, that in these positions, Mr. Legler has acquired the experience, qualifications, attributes and skills, including business and management experience, real estate experience, finance and capital markets experience and an understanding of corporate governance regulations necessary to act in the best interests of the Company and its stockholders, and based on these skills, together with the interpersonal skills mentioned above, the Board has concluded that Mr. Legler should serve as a director for the Company.
Craig Macnab, 60	Mr. Macnab has served as Chief Executive Officer of the Company since 2004 and as Chairman of the Board of Directors of the Company since February 2008. Mr. Macnab has served as a director of DDR Corp. from 2003 to May 2015. Mr. Macnab has been an independent director of Cadillac Fairview Corporation, a Canadian corporation, since 2011, and an independent director of American Tower Corporation since December 2014. The Board believes, that in these positions, Mr. Macnab has acquired the experience, qualifications, attributes and skills, including business and management experience, real estate experience, finance and capital markets experience and an understanding of corporate governance regulations necessary to act in the best interests of the Company and its

stockholders, and based on these skills, together with the interpersonal skills mentioned above, the Board has concluded that Mr. Macnab should serve as a director for the Company.

Sam L. Susser, 52	Mr. Susser has served as a director of the Company since November 10, 2015. Mr. Susser is currently President of Susser Investment Company, the general partner of Susser Holdings II, L.P., a private investment firm he founded in 1998. Mr. Susser led the growth of Susser Holdings Corporation, a Fortune 500 convenience store operator and motor fuel distributor, from 1988 until its sale to Energy Transfer Partners in August 2014, as Chairman of the Board since September 2013, as President and CEO since 1992, and as a director since 1988. Mr. Susser remained Chairman of the Board of Susser Petroleum Partners LP (now known as Sunoco LP), a publicly traded partnership created by Susser Holdings Corporation in September 2012, until May 2015. Mr. Susser's career began in the corporate finance division and the mergers and acquisitions group of Salomon Brothers, Inc., an investment bank, from 1985 through 1987. He received his BBA in Finance from the University of Texas at Austin. The Board believes, that in these positions, Mr. Susser has acquired the experience, qualifications, attributes and skills, including business and management experience, real estate experience, accounting experience, finance and capital markets experience and an understanding of corporate governance regulations necessary to act in the best interests of the Company and its stockholders, and based on these skills, together with the interpersonal skills mentioned above, the Board has concluded that Mr. Susser should serve as a director for the Company.

In the event that any nominee(s) should be unable to accept the office of director, which is not anticipated, it is intended that the persons named in the Proxy will vote FOR the election of such other person in the place of such nominee(s) for the office of director as the Board of Directors may recommend.

Corporate Governance

General. We are currently managed by a nine-member Board of Directors that consists of Messrs. DeFosset, Fick, Fritsch, Habicht, Lanier, Legler, Macnab, Martinez, and Susser, with Mr. Macnab serving as Chairman and Mr. Lanier serving as Lead Director. Until his death on February 28, 2016, Richard B. Jennings was also a member of our Board of Directors. Messrs. Lanier and Martinez have elected not to stand for re-election as directors at the 2016 annual meeting of shareholders. Therefore, the Board of Directors, upon the recommendation of the Governance and Nominating Committee, has elected Mr. Legler to serve as Lead Director following the 2016 annual meeting of shareholders.

The Board of Directors has adopted a set of corporate governance guidelines, which, along with the written charters for the Board committees described below, provide the framework for the Board’s governance of the Company. Our corporate governance guidelines are available on our website at http://www.nnnreit.com.

Independence and Composition. Our corporate governance guidelines and the rules and regulations of the New York Stock Exchange, which we refer to as the NYSE listing standards, each require that a majority of the Board of Directors are “independent” directors, as that term is defined in the NYSE listing standards.

The Board of Directors has determined that Messrs. DeFosset, Fick, Fritsch, Lanier, Legler, Martinez, and Susser, representing a majority of the Board of Directors, qualify as independent directors (the “Independent Directors”) as that term is defined in the NYSE listing standards. The Board of Directors made its determination based on information furnished by all directors regarding their relationships with us and our affiliates and research conducted by management. In addition, the Board of Directors consulted with our external legal counsel to ensure that the Board’s determination would be consistent with all relevant securities laws and regulations as well as the NYSE listing standards.

Leadership Structure. We have chosen Mr. Macnab to serve as both Chairman of the Board and Chief Executive Officer because we believe he will best serve the Company and its stockholders in that dual role. Mr. Macnab is intimately familiar with our business, history, industry and strategic plans and future objectives. We believe it is appropriate to keep Mr. Macnab in this combined role in order to provide consistent and strong leadership and direction. Further, we believe by serving as both our Chairman and Chief Executive Officer, Mr. Macnab will be better able to provide information to the rest of the Board in order to facilitate deliberations and the decision-making process. Our corporate governance guidelines provide that the Chairman may or may not be Chief Executive Officer of the Company, but specify that if the same individual is both the Chairman and Chief Executive Officer, then the Board will annually appoint an independent lead director or, in the absence of such appointment, the chairman of the Governance and Nominating Committee will serve as independent lead director. Mr. Lanier has been appointed the independent lead director of the Board. In such role, Mr. Lanier presides as chairman when the Board meets in executive session and he serves as the interface between the Board and the Chief Executive Officer in communicating matters discussed during the executive session. Mr. Lanier, in his role as lead director, reviews and approves Board meeting schedules, agendas, and information provided to the Board.

Risk Oversight. Our management is responsible for managing the day-to-day risks associated with our business. The Board of Directors, however, is elected to provide effective oversight of our affairs for the benefit of our stockholders, and among its primary responsibilities, in accordance with our corporate governance guidelines, is overseeing management in the competent and ethical operation of the Company, reviewing and approving our business plans and corporate strategies, and adopting and evaluating policies of corporate and ethical conduct and governance. Implicit in these duties is risk oversight, the primary responsibility of which has been delegated to the Board’s Audit Committee. The Audit Committee reviews with management annually, or more frequently as the Audit Committee deems necessary, our significant risks or exposures and discusses guidelines and policies to govern this process and assesses steps that management has taken to minimize such risks to the Company.

While the primary responsibility has been delegated to the Audit Committee, the Governance and Nominating Committee and the Compensation Committee consider risks within their area of responsibility. Further, each director may consult with management at any time and is encouraged to discuss with management any questions such director may have.

With respect to risks related to compensation matters, our management, together with the Compensation Committee, reviewed our compensation policies and practices for our employees in order to determine whether they are reasonably likely to have a material adverse effect on the Company. We believe that our compensation policies and practices do not promote unreasonable risk-taking behavior and are not reasonably likely to have a material adverse effect based on the following factors:

- the Compensation Committee consists solely of independent non-employee directors, and the Compensation Committee has engaged an independent, external compensation consultant to assist with creating the executive compensation program;

- the Compensation Committee maintains the right, in its sole discretion, to modify the compensation policies and practices at any time;

- the Compensation Committee has elected to use awards of restricted stock instead of other equity awards, such as stock options, because, as a REIT, which pays a large portion of its annual earnings to stockholders in the form of dividends, the Compensation Committee believes that restricted stock provides a better incentive and alignment of interest than stock options;

- restricted stock grants are intended to provide our named executive officers with a significant interest in the long-term performance of our stock;
- restricted stock awards are subject to forfeiture upon certain employment termination events;
- performance-contingent restricted stock grants tied to our three-year total shareholder returns relative to a broad REIT peer group further focus our executive officers on long-term shareholder value creation;
- bonus awards to our executive officers are reduced if balance sheet leverage exceeds levels previously approved by the Compensation Committee;

- we have adopted a stock ownership policy for our executive officers and members of our Board which requires all directors and executive officers to own meaningful levels of Company stock;

- we have adopted an insider trading policy which prohibits, among other things, trading of Company securities on a short-term basis, buying puts or calls on Company securities, short sales of Company securities, and other certain activities. We have also adopted an anti-hedging policy for directors and executive officers which prohibits all hedging activities, including, buying, selling or trading in options or other derivative securities based on Company securities;

- we have adopted a pledging limitation policy for our directors and executive officers which restricts directors and executive officers from pledging shares of the Company and holding of shares of the Company in margin accounts. Directors and executive officers of the Company may pledge shares or hold shares in a margin account so long as all of the following policy requirements are met: (i) prior to pledging shares or holding shares in a margin account such director or executive officer shall notify the Chief Financial Officer, (ii) in no event shall such director or executive officer pledge more than 25% of the total vested common stock of the Company owned by such director or executive officer, (iii) in no event shall any pledged shares be counted as shares owned by such director or executive officer for purposes of complying with the Company's minimum stock ownership requirements, and (iv) in no event shall any proposed pledging of shares result in such director or executive officer falling below the minimum stock ownership requirements;

- we have adopted a clawback policy for our executive officers which allows the Board to recover certain incentive compensation if the Company has a material restatement of financial results, as a result of such restatement the incentive compensation would not have been earned, and the executive officer engaged in fraud or other intentional misconduct;

- none of our employees are paid commission compensation;

- bonus and incentive awards to our employees eligible for bonus awards are capped; and

- we base executive compensation on several critical success factors.

Given these factors, we believe we have mitigated potential short-term excessive risk-taking and aligned compensation with increasing long-term shareholder value.

Meetings and Attendance. The Board of Directors met six times in the fiscal year ended December 31, 2015. Each of the nominees serving on the Board of Directors in 2015 attended 100% of the meetings of (i) the Board of Directors and (ii) the committees of the Board of Directors on which he served. Our corporate governance guidelines provide that it is the responsibility of individual directors to make themselves available to attend scheduled and special Board meetings on a consistent basis. All of our directors were in attendance for the 2015 annual meeting of the Company's stockholders. In addition, non-management members of the Board of Directors met in executive session four times in the fiscal year ended December 31, 2015. These sessions were presided over by Mr. Lanier in his capacity as Lead Director.

Interested Party Communications. The Board of Directors has adopted a process whereby stockholders and other interested parties can send communications to our directors. Anyone wishing to communicate directly with one or more directors may do so in writing addressed to the director or directors, c/o National Retail Properties, Inc., 450 South Orange Avenue, Suite 900, Orlando, Florida

32801, attention: Secretary of the Company. All correspondence will be reviewed by the Secretary of the Company and forwarded directly to the addressee so long as, in the Secretary's discretion, such correspondence is reasonably related to protecting or promoting legitimate interests of interested parties or the reliability of the financial markets.

Audit Committee

General. The Board of Directors has established an Audit Committee, which is governed by a written charter, a copy of which is available on our website at http://www.nnnreit.com. Among the duties, powers and responsibilities of the Audit Committee as provided in its charter, the Audit Committee:

- has sole power and authority concerning the engagement and fees of independent registered public accounting firms;
- reviews with the independent registered public accounting firm the plans and results of the audit engagement;
- pre-approves all audit services and permitted non-audit services provided by the independent registered public accounting firm;
- reviews the independence of the independent registered public accounting firm;
- reviews the adequacy and effectiveness of our internal control over financial reporting; and
- reviews accounting, auditing and financial reporting matters with our independent registered public accounting firm and management.

Independence and Composition. The composition of the Audit Committee is subject to the independence and other requirements of the Securities Exchange Act of 1934 and the rules and regulations promulgated by the SEC thereunder (the "Exchange Act"), and the NYSE listing standards.

The Board of Directors, upon the unanimous recommendation of the Governance and Nominating Committee, has determined that all current members of the Audit Committee are "independent," as that term is defined in the NYSE listing standards and as required by the Exchange Act, and meet all audit committee composition requirements of the Exchange Act and the NYSE listing standards, and that each of Messrs. Fick, Lanier, and Susser qualifies as an "audit committee financial expert" as that term is defined in the Exchange Act.

Meetings. The Audit Committee met eight times in the fiscal year ended December 31, 2015. Between January 1, 2015, and November 9, 2015, Messrs. Fick, Fritsch, Jennings, Lanier and Martinez were the members of the Audit Committee, with Mr. Jennings serving as Chairman. Following November 9, 2015, and until Mr. Jennings' death on February 28, 2016, the Audit Committee consisted of Messrs. Fick, Fritsch, Jennings, Lanier, Martinez, and Susser, with Mr. Jennings serving as Chairman. Following Mr. Jennings' death, Mr. Fick was elected to serve as Chairman.

Governance and Nominating Committee

General. The Board of Directors has established a Governance and Nominating Committee, which is governed by a written charter, a copy of which is available on our website at http://www.nnnreit.com. As provided in the Governance and Nominating Committee charter, the Governance and Nominating Committee:

- identifies and recommends to the Board of Directors individuals to stand for election and re-election to the Board of Directors at our annual meeting of stockholders and to fill vacancies that may arise from time to time;
-

develops and makes recommendations to the Board of Directors for the creation and ongoing review and revision of a set of effective corporate governance principles that promote our competent and ethical operation and a policy governing ethical business conduct of our employees and Directors; and

- makes recommendations to the Board of Directors as to the structure and membership of committees of the Board of Directors.

Selection of Director Nominees. Our corporate governance guidelines provide that the Governance and Nominating Committee will endeavor to identify individuals to serve on the Board of Directors who have expertise that is useful to us and complimentary to the background, skills and experience of other Board members. The Governance and Nominating Committee's assessment of the composition of the Board of Directors includes (a) skills – business and management experience, real estate experience, accounting experience, finance and capital markets experience, and an understanding of corporate governance regulations and public policy matters, (b) character - ethical and moral standards, leadership abilities, sound business judgment, independence and innovative thought, and (c) composition - diversity, age and public company experience. The Governance and Nominating Committee measures its composition by taking into account the entirety of the Board and the criteria listed above rather than having any representational directors. While we do not have a formal policy on diversity, the Governance and Nominating Committee assesses its effectiveness in accounting for diversity, along with the other factors taken into account to identify director nominees, when it annually evaluates the performance of the Board and each director and periodically reviews the Company's corporate governance guidelines. The principal qualification for a director is the ability to act in the best interests of the Company and its stockholders. Each of the candidates for director named in this proxy statement have been recommended by the Governance and Nominating Committee and approved by the Board of Directors for inclusion on the attached proxy card.

The Governance and Nominating Committee also considers director nominees recommended by stockholders. See the section of this proxy statement entitled "PROPOSALS FOR NEXT ANNUAL MEETING" for a description of how stockholders desiring to make nominations for directors and/or to bring a proper subject before a meeting should do so. The Governance and Nominating Committee evaluates director candidates recommended by stockholders in the same manner as it evaluates director candidates recommended by our directors, management or employees.

Independence and Composition. The NYSE listing standards require that the Governance and Nominating Committee consist solely of independent directors. The Board of Directors, upon the unanimous recommendation of the Governance and Nominating Committee, has determined that all current members of the Governance and Nominating Committee are "independent" as that term is defined in the NYSE listing standards.

Meetings. The Governance and Nominating Committee met four times in the fiscal year ended December 31, 2015. During fiscal year 2015 and until Mr. Jennings' death on February 28, 2016, Messrs. DeFosset, Jennings and Legler were the members of the Governance and Nominating Committee, with Mr. DeFosset serving as Chairman.

Compensation Committee

General. The Board of Directors has established a Compensation Committee, which is governed by a written charter, a copy of which is available on our website at http://www.nnnreit.com.

Processes and Procedures for Executive and Director Compensation Determinations

- Role of Compensation Committee. The Compensation Committee is responsible for discharging the responsibilities of the Board of Directors with respect to approving and evaluating compensation plans, policies and programs for our executive officers and directors and approving all awards to any executive officer, director or associate under our equity incentive plans. The Compensation Committee also serves as the administrator of our 2007 Performance Incentive Plan.
- Role of Management in Compensation Determinations. The Compensation Committee considers the recommendations of our Chief Executive Officer when determining the base salary and incentive performance compensation levels of the other executive officers. Similarly, the Compensation Committee also considers the recommendations of our Chief Executive Officer when setting specific Company and individual incentive performance targets. In addition, officers may be invited to attend committee meetings. Management generally does not have a role in the setting of director compensation.

Role of Compensation Consultants. The Compensation Committee has the authority, in its sole discretion, to engage compensation consultants as needed or desired to assist the Compensation Committee in researching and evaluating executive officer and director compensation programs. Since 2012, the Compensation Committee has retained Pearl Meyer & Partners, an independent compensation consulting firm ("Pearl Meyer"), to assist the Compensation Committee in reviewing and evaluating the Company's executive and non-employee director compensation programs. The use of independent third-party consultants provides additional assurance that our executive compensation programs are reasonable, consistent with Company objectives, and competitive with executive compensation for companies in our peer group. Pearl Meyer reports directly to the Compensation Committee, provides no other services to the Company, and regularly participates in committee meetings. The Compensation Committee assessed the independence of Pearl Meyer pursuant

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to the applicable SEC rules and concluded no conflict of interest exists that would prevent Pearl Meyer from serving as an independent advisor to the Committee.

- Delegation of Authority by the Committee. The Committee may delegate its authority to make and administer awards under our equity incentive plans to another committee of the Board of Directors or, except for awards to individuals subject to Section 16 of the Exchange Act, to one or more of our officers. On an annual basis, the Committee typically authorizes a limited number of shares of restricted stock to be awarded by our Chief Executive Officer to such of our non-executive associates as he determines, in consultation with our other executive officers.

Our executive compensation programs and philosophy are described in greater detail under the section entitled "Compensation Discussion and Analysis."

Independence and Composition. The NYSE listing standards require that the Compensation Committee consist solely of independent directors. The Board of Directors, upon the unanimous recommendation of the Governance and Nominating Committee, has determined that all current members of the Compensation Committee are "independent" as that term is defined in the NYSE listing standards.

Meetings. The Compensation Committee met four times in the fiscal year ended December 31, 2015. During fiscal year 2015 and as of February 17, 2016, Messrs. DeFosset, Fick, Fritsch, Legler and Martinez were the members of the Compensation Committee, with Mr. Legler serving as Chairman.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is or was previously an officer or employee of the Company, and no executive officer of the Company serves on the board of directors of any company at which any member of the Compensation Committee is employed.

Director Compensation

The following table shows the compensation paid to our non-employee directors during fiscal year 2015.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Don DeFosset	$53,500	$132,000	--	--	--	--	$185,500
David M. Fick[2]	$83,500	$99,000	--	--	--	--	$182,500
Edward J. Fritsch	-	$182,500	--	--	--	--	$182,500
Richard B. Jennings	$96,000	$99,000	--	--	--	--	$195,000
Ted B. Lanier	$43,000	$165,000	--	--	--	--	$208,000
	$23,000	$165,000	--	--	--	--	$188,000

Robert C. Legler[2]							
Robert Martinez	$83,500	$99,000	--	--	--	--	$182,500
Sam L. Susser	$20,500	$27,000	--	--	--	--	$47,500

(1) The awards shown in column (c) represent annual grants made to directors of the Company. The amounts represent the grant date fair value with respect to the fiscal year in accordance with FASB ASC Topic 718.

(2) The cash fees and stock awards earned by Mr. Legler, as well as the stock awards earned by Mr. Fick, are deferred into shares of our common stock under our Deferred Fee Plan, which is described in greater detail below.

The Company only compensates non-employee directors for services provided as directors of the Company. Following a study by Pearl Meyer which found that total compensation levels for our directors were below the median of industry peers (as identified in "Executive Compensation-Compensation Discussion and Analysis-Benchmarking"),

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effective July 1, 2015, board compensation was set at $180,000 per year, payable in quarterly increments. Non-employee directors may elect to receive up to $72,000 of their annual compensation in the form of cash, with the remainder paid in shares of the Company's Common Stock. Additionally, the Lead Director, the Chairman of the Audit Committee, the Chairman of the Compensation Committee and the Chairman of the Governance and Nominating Committee receive $36,000, $25,000, $18,000 and $13,000, respectively. Additionally, each non-chair member of the Audit Committee, Compensation Committee and Governance and Nominating Committee receives $10,000, $7,500, and $5,000, respectively.

Pursuant to our corporate governance guidelines, each of our non-employee directors is required to own our Common Stock equivalent to three times the annual board compensation within five years of becoming a board member. The Compensation Committee reviews progress toward meeting these ownership requirements annually, and each of the nominees that have served on the Board of Directors for the requisite number of years exceed the ownership requirements.

A Deferred Fee Plan was established by the Company for the benefit of its directors and their beneficiaries. A director may elect to defer all or part of his or her director's fees to be earned in any calendar year by filing a deferred fee agreement with the Company no later than December 15 of the previous year. A director has the option to have deferred fees paid in cash, in shares of Common Stock or in a combination of cash and Common Stock. If the director elects to have the deferred fees paid in stock, the number of shares allocated to the director's stock account is determined based on the market value of the Common Stock on the day the deferred director's fees were earned. A director is entitled to receive the vested portion of the amounts credited to his or her deferred fee account on the earlier of the occurrence of a change of control or the time specified in such director's fee agreement. The Deferred Fee Plan was amended by the Compensation Committee on May 30, 2008, for compliance purposes pursuant to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

The following table sets forth fees deferred into shares of Common Stock by directors under the Deferred Fee Plan.

	Number of Shares Credited to Deferred Fee Account	
Name	2015	Total
Don DeFosset	1,109	26,295
David M. Fick	3,258	18,677
Richard B. Jennings	1,684	39,918
Robert C. Legler	8,115	81,216
Robert Martinez	1,844	43,717
Total	16,010	209,823

Code of Business Conduct and Insider Trading Policy

Our directors, as well as our officers and employees, are also governed by our code of business conduct. Our code of business conduct is available on our website at http://www.nnnreit.com. Amendments to, or waivers from, a provision of the code of business conduct that applies to our directors, executive officers or employees will be posted to our website within four business days following the date of such amendment or waiver.

Executive Officers

Our executive officers are listed below.

Name	Position
Craig Macnab	Chief Executive Officer
Julian E. Whitehurst	President and Chief Operating Officer
Kevin B. Habicht	Executive Vice President, Chief Financial Officer, Assistant Secretary and Treasurer
Paul E. Bayer	Executive Vice President and Chief Investment Officer
Christopher P. Tessitore	Executive Vice President, General Counsel and Secretary
Stephen A. Horn, Jr.	Executive Vice President and Chief Acquisition Officer

The backgrounds for Messrs. Whitehurst, Bayer, Tessitore and Horn are set forth below. The backgrounds of Messrs. Macnab and Habicht are described above at "PROPOSAL I - ELECTION OF DIRECTORS - Nominees."

Julian E. Whitehurst, age 58, has served as President of the Company since May 2006 and as Chief Operating Officer of the Company since June 2004. He also previously served as Executive Vice President of the Company from February 2003 to May 2006, as Secretary of the Company from May 2003 to May 2006 and previously served as General Counsel from 2003 to 2006. Prior to February 2003, Mr. Whitehurst was a shareholder at the law firm of Lowndes, Drosdick, Doster, Kantor & Reed, P.A. He is a member of ICSC and NAREIT, and serves on the board of trustees and on the executive committee of Lake Highland Preparatory School.

Paul E. Bayer, age 54, has served as Executive Vice President of the Company since January 2007 and as Chief Investment Officer since June 2010. He also previously served as Senior Vice President of the Company from September 2005 to December 2006. From September 1999 through September 2005, he served as Vice President of Leasing of the Company. Prior to September 1999, Mr. Bayer was a leasing agent at J. Donegan Company from 1994 through 1999. Mr. Bayer also previously served as a leasing agent for Combined Properties from 1992 until 1993 and as a marketing principal at Trammell Crow Company from 1988 until 1991. He is a member of ICSC.

Christopher P. Tessitore, age 48, has served as Executive Vice President of the Company since January 2007, as General Counsel since February 2006 and as Secretary since May 2006. He also previously served as Senior Vice President and Assistant General Counsel of the Company from 2005 to 2006. Prior to March 2005, Mr. Tessitore was a shareholder at the law firm of Lowndes, Drosdick, Doster, Kantor & Reed, P.A., where he specialized in real estate acquisition, development and finance, as well as general business law. Mr. Tessitore serves on the board of directors of Elevate Orlando. Mr. Tessitore previously served as the lead director and on the executive committee of BETA Center, Inc., and is a current member of the Advisory Board. He is a member of ICSC, NAREIT, and the Association of Corporate Counsel.

Stephen A. Horn, Jr., age 44, has served as Executive Vice President and Chief Acquisition Officer of the Company since January 2, 2014. He also previously served as Senior Vice President of Acquisitions for the Company from June 2008 to December 2013, and as Vice President of Acquisitions of the Company from 2003 to 2008. Prior to 2003, Mr. Horn worked in the mergers and acquisitions group at A.G. Edwards & Sons in St. Louis, MO. He is a member of ICSC.

AUDIT COMMITTEE REPORT

The information contained in this report shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any previous or future filings under the Securities Act of 1933 (the “Securities Act”) or the Exchange Act except to the extent that the Company incorporated it by specific reference.

Management is responsible for the Company’s financial statements, internal controls and financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company’s consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Audit Committee’s responsibility is to monitor and oversee these processes. The Audit Committee is governed by a charter, a copy of which is available on our website at http://www.nnnreit.com. The Audit Committee charter is designed to assist the Audit Committee in complying with applicable provisions of the Exchange Act and the NYSE listing standards, all of which relate to corporate governance and many of which directly or indirectly affect the duties, powers and responsibilities of the Audit Committee.

Review and Discussions with Management and Independent Registered Public Accounting Firm. In this context, the Audit Committee has met and held discussions with management and the independent registered public accounting firm. Management represented to the Audit Committee that the Company’s consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed the audited consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 16, issues regarding accounting and auditing principles and practices, and the adequacy of internal control over financial reporting that could significantly affect the Company’s financial statements.

The Company’s independent registered public accounting firm also provided to the Audit Committee the written disclosures and letter required by applicable requirements of the Public Company Accounting Oversight Board (the “PCAOB”) regarding the independent accountant’s communications with the Audit Committee concerning independence, and the Audit Committee discussed with the independent registered public accounting firm that firm’s independence. The Audit Committee has reviewed the original proposed scope of the annual audit of the Company’s financial statements and the associated fees and any significant variations in the actual scope of the audit and fees.

Conclusion. Based on the review and discussions referred to above, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC.

AUDIT COMMITTEE

David M. Fick, Chairman
Edward J. Fritsch
Ted B. Lanier
Robert Martinez
Sam L. Susser

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

We design our executive compensation program in order to maintain our ability to attract and retain talented and experienced executive officers. Our Compensation Committee (for purposes of this discussion, the "Committee") seeks to provide compensation that is not only competitive relative to our peer group, but also structured so as to align our executives' short-term and long-term interests with the interests of our stockholders. Accordingly, the Committee seeks to incentivize our executive officers and emphasize pay-for-performance by basing a significant portion of compensation on achievement of critical success factors. The primary elements of our total compensation program for our named executive officers ("NEOs") include base salary, annual cash incentives and long-term equity-based incentives. We have designed a compensation program that makes a substantial percentage of executive pay variable, subject to increase and decrease based on actual versus planned corporate performance and total shareholder returns relative to our peers. In addition, executive officers are subject to market competitive stock ownership guidelines.

Executive Compensation Program. In 2015, the Committee approved annual incentive awards and long-term incentive awards. Annual incentives are tied to the achievement of performance goals based on our funds from operation ("FFO") per share, excluding any impairments, and are subject to downward adjustment if our debt leverage ratio exceeds a cap established by the board. For 2015, the Committee approved long-term incentive compensation through grants of the following: (i) service-based restricted stock vesting ratably over four years, and (ii) performance-based restricted stock awards, the vesting of which is tied to the three-year relative total shareholder return of the Company compared to a broad group of REIT companies as of December 31, 2017.

Restricted Stock. Restricted stock grants are intended to provide our NEOs with a significant interest in the long-term performance of our stock. The Committee has elected to use awards of restricted stock instead of other equity awards, such as stock options, because, as a REIT, which pays a large portion of its annual earnings to stockholders in the form of dividends, we believe that restricted stock provides a better incentive and alignment of interest than stock options. The Committee has determined that our desired compensation objectives are better achieved by awarding restricted stock. The Company did not issue any stock options to its executive officers in 2015, and there are no outstanding stock options. Consistent with our pay for performance philosophy, half of the target long-term incentive award opportunity for our NEOs is provided in the form of performance-contingent restricted stock grants.

2015 Business Results. The following are some of the highlights of our business results in 2015:

- Generated recurring FFO per share of $2.22 per share and Adjusted FFO of $2.27 per share, reflecting an increase of 6.7% and 7.1%, respectively;

- Dividends increased to $1.71 per share marking the 20th consecutive year of annual dividend increases;

- Invested $726.3 million in 221 properties at a projected 7.2% initial cash return on assets;

- Sold 19 properties for $39.1 million;

- Balance sheet leverage and portfolio property occupancy remained at sector leading levels; and

- Delivered annualized total return to shareholders of 6.4%, 13.8% and 14.2% for the past one, three and five years ending December 31, 2015.

The common stock of the Company currently is traded on the NYSE under the symbol “NNN.” Set forth below is a line graph comparing the cumulative total stockholder return on NNN’s common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index (“NAREIT”) and the S&P 500 Index (“S&P”) for the five-year period commencing December 31, 2010, and ending December 31, 2015. The graph assumes an investment of $100 on December 31, 2010.

Comparison to Five-Year Cumulative Total Return

Set forth below is a line graph comparing the cumulative total stockholder return on NNN’s common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index (“NAREIT”) and the S&P 500 Index (“S&P”) for the 10-year period commencing December 31, 2005 and ending December 31, 2015. The graph assumes an investment of $100 on December 31, 2005.

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Comparison to Ten-Year Cumulative Total Return

2015 Compensation Highlights. The following are some of the highlights related to the 2015 compensation of our executive officers:

- The Committee approved base salary increases averaging 3.6% and ranging from 2.0% to 6.0% to bring all NEOs' base salaries in line with peer group 50th percentile (or "median") base salaries;
- The Committee approved annual cash incentive award opportunities for NEOs, based on position, with potential awards ranging from 55% to 75% for “threshold” performance, 110% to 150% for "target" performance, and 165% to 225% for “maximum” performance, expressed as a percentage of each executive’s base salary, with any earned awards, subject to downward adjustment of up to 20% of the funded award levels if our leverage exceeded the 57.5% cap established by the board for 2015;
- Based on our FFO (excluding impairments) per share results, which exceeded maximum performance goals, the Committee approved payment of annual cash incentive compensation for 2015 at maximum award levels, ranging from 150% to 225% of each executive officer’s base salary;
- The Committee approved total long-term incentive award opportunities for NEOs, based on position and maximum performance results, for the three-year period ending December 31, 2017, ranging from 160% to 315% of each executive’s base salary, if any;
- The Committee engaged Pearl Meyer as an independent third-party compensation consultant in order to assist in the development and evaluation of the executive compensation program. Pearl Meyer was not engaged for any non-compensation related services; and

- The Committee concluded that our compensation policies and practices do not promote unreasonable risk-taking behavior and are not reasonably likely to have a material adverse effect on the Company.

2015 Say on Pay Voting Results

In 2015, we submitted our executive compensation program to an advisory vote of our shareholders (also known as “Say on Pay”). Approximately 96.0% of voting shareholders at the 2015 annual meeting approved our executive compensation program. The Committee considered such strong shareholder support as an endorsement of the Company’s executive compensation program and policies and the Committee intends to continue the pay-for-performance program that is currently in place. The Committee values the opinions of our stockholders and will continue to consider those opinions when making future executive compensation decisions.

Objectives of Compensation Program

We believe our success is largely attributable to the talent and dedication of our employees (whom we refer to as associates) and to the management and leadership efforts of our executive officers. Our goal is to establish a compensation program that will attract and retain talented corporate officers, motivate them to perform to their fullest potential, and align their long-term interests with the interests of our stockholders.

What Our Compensation Program is Designed to Reward and Other Policies

We believe that the most effective compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals, and which aligns executives’ interests with those of the stockholders by rewarding performance that meets or exceeds established goals, with the ultimate objective of improving stockholder value. Our Committee evaluates both performance and compensation to ensure that we maintain our ability to attract and retain superior executive officers and that compensation provided to our executive officers is appropriately aligned with performance and remains competitive relative to the compensation paid to similarly situated executives of our peer companies. In making compensation decisions, the Committee considers the compensation practices and financial performance of REIT and other industry participants and from time to time receives assessments and advice regarding compensation practices from third party compensation consultants. In evaluating performance, the Committee considers quantitative and qualitative improvement in factors such as FFO per share based metrics, capital structure, absolute and relative stockholder returns, individual performance, and contribution to corporate goals and objectives. Additionally, the Committee takes into account our general performance, the executive officer’s past performance, the executive officer’s anticipated performance and contribution to our achievement of our long-term goals, and the position, level and scope of the executive officer’s responsibility.

We believe that our compensation program for executive officers, which includes the use of performance-based and service-based restricted stock awards, results in a significant alignment of interest between these individuals and our stockholders. Under our corporate governance guidelines, within five years of becoming a Covered Person, as defined by the Committee, executive officers are required to own our Common Stock (including restricted stock) equal to a minimum of five times the annual base salary for CEO and three times their annual base salary for all other executive officers. The Committee reviews progress toward meeting these guidelines annually and each executive officer exceeds the stock ownership guidelines. In addition, beginning with all restricted stock grants in 2010, and continuing with all subsequent restricted stock grants, the Committee eliminated tax gross ups on all such grants for all executive officers and does not intend to provide tax gross ups on any future restricted stock grants. Additionally, we have adopted a clawback policy for our executive officers which allows the Board to recover certain incentive compensation if the Company has a material restatement of financial results, as a result of such restatement the incentive compensation would not have been earned, and the executive officer engaged in fraud or other intentional misconduct.

Accounting and Tax Considerations

We have selected compensation elements that help us achieve the objectives of our compensation program and not because of preferential financial accounting or tax treatment. However, when awarding compensation, the Committee is mindful of the accounting impact of the compensation expense of each compensation element. In addition, Section 162(m) of the Code provides that public companies cannot deduct for federal income tax purposes non-performance-based compensation paid to certain NEOs in excess of $1.0 million per year. While we have not adopted a policy requiring that all compensation be deductible and expect that we may pay compensation that is not deductible when necessary to achieve our compensation objectives, we consider the consequences of Section 162(m). Under our 2007 Performance Incentive Plan, a portion of our restricted stock awards are intended to be performance-based grants that are exempt from the deduction limits of Section 162(m).

Benchmarking

In 2015, the Committee, with the assistance of Pearl Meyer, determined that our Peer Group included CBL & Associates Properties, EPR Properties, Equity One, Inc., Federal Realty Investment Trust, Omega Healthcare Investors, Realty Income Corporation, Regency Centers Corporation, Retail Properties of America, Spirit Realty Capital, Tanger Factory Outlet Centers, Taubman Centers, Inc., W.P. Carey, Inc., and Weingarten Realty Investment Trust (collectively, the “Peer Group”).

Company	GICS Industry Description	Total Assets LFQ ($mm)	Equity Market Cap as of 12/31/2015 ($mm)	Enterprise Value as of 12/31/2015 ($mm)	TSR (%) as of 12/31/2015		
					1-Yr	3-Yr	5-Yr
CBL & Associates Properties Inc.	Retail REITs	$6,480	$ 2,109	$ 7,056	(32)%	(12)%	-2%
EPR Properties	Specialized REITs	$4,201	$ 3,493	$ 5,531	8%	15%	12%
Equity One Inc.	Retail REITs	$3,309	$ 3,516	$ 4,987	11%	13%	13%
Federal Realty Investment Trust	Retail REITs	$4,912	$ 10,143	$ 12,913	12%	15%	17%
Omega Healthcare Investors Inc.	Healthcare REITs	$8,593	$ 6,543	$ 11,138	(5)%	20%	17%
Realty Income Corporation	Retail REITs	$11,739	$ 12,893	$ 18,564	13%	14%	14%
Regency Centers Corporation	Retail REITs	$4,171	$ 6,414	$ 8,790	10%	17%	14%
Retail Properties of America, Inc.	Retail REITs	$4,804	$ 3,504	$ 5,699	(7)%	12%	—
Spirit Realty Capital, Inc.	Diversified REITs	$7,892	$ 4,423	$ 8,401	(10)%	—	—
Tanger Factory Outlet Centers Inc.	Retail REITs	$2,327	$ 3,098	$ 4,646	(8)%	1%	8%
Taubman Centers, Inc.	Retail REITs	$3,495	$ 4,621	$ 6,972	4%	4%	13%
W. P. Carey Inc.	Diversified REITs	$8,888	$ 6,160	$ 10,728	(10)%	10%	20%
Weingarten Realty Investors	Retail REITs	$3,895	$ 4,286	$ 6,542	3%	14%	13%

	75th Percentile	$7,892	$ 6,414	$ 10,728	10%	15%	15%
	Median	$4,804	$ 4,423	$ 7,056	3%	13%	13%
	25th Percentile	$3,895	$ 3,504	$ 5,699	(8)%	9%	12%
National Retail Properties, Inc.	Retail REITs	$5,349	$5,453	$8,049	6%	14%	14%
Percentile		61	63	56	63	54	69

Data Source: S&P Capital IQ

In 2015, Retail Properties of America and Spirit Realty Capital were added, and Acadia Realty Trust, BioMed Realty Trust and Lexington Realty Trust were removed, from the Peer Group in order to better reflect the retail property character of our portfolio. The Peer Group consists of 13 publicly-traded REITs operating across a variety of property sectors, with a primary focus on the retail sector, recognizing that the Company competes with REITs across all property sectors for capital and executive talent. Relative to the Peer Group, the Company’s total assets and equity market

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capitalization are between the Peer Group 50th and 75th percentiles. In determining 2015 pay opportunities for executive officers, the Committee considered the compensation of our executive officers as compared to the compensation of executive officers of companies in our Peer Group. Pearl Meyer provided the Committee with a detailed analysis of the compensation of our executive officers as compared to the executive officers of companies in our Peer Group, with the overall objective of providing target total pay opportunities comparable to those provided by industry peers, and actual pay that is directionally aligned with performance relative to peers. For the past one, three, five, and ten years ending December 31, 2015, our total return to shareholders was above the median total return of the Peer Group.

We believe that our compensation, benchmarked against our Peer Group, provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term shareholder value creation, and encourages executive recruitment and retention. The Committee compared base salary and total compensation for our executive officers against the Peer Group, generally focusing on targeting total pay opportunities between the 50th and 75th percentiles in recognition of the Company’s use of stretch performance goals. Compared with the Peer Group, 2015 base salaries for each of our NEOs were comparable with that of the Peer Group median. Cash compensation for each of our NEOs, comprised of base salary and “target” annual cash incentive bonus, was in line with the Peer Group median. Total "target" compensation for our NEOs, including base salary, “target” cash bonus and “target” equity incentive awards, ranged between the 50th and 75th percentiles of the Peer Group median, and in the aggregate was equal to 103% of the Peer Group median.

2015 Executive Compensation Components and How They Relate to Our Objectives

For the fiscal year ended December 31, 2015, base salary, annual cash incentives, cash bonus, and long-term equity-based incentives were the principal components of compensation for the NEOs. Executives also receive certain benefits and other perquisites. We believe that these compensation components provide an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term shareholder value, and encourages executive recruitment and retention. Total “target” compensation mix for NEOs was 22% base salary, 24% cash incentive bonus and 51% long-term incentive compensation which is comparable with the Peer Group 50th percentile target compensation mix.

The differences in the amounts of compensation awarded to the NEOs are primarily a result of comparing each executive's compensation against corresponding market values for industry peers and giving consideration to differences in position and responsibilities among the Company’s NEOs. The responsibilities for each named executive officer are as follows: (i) Mr. Macnab, our Chairman and Chief Executive Officer, is responsible for developing, defining, implementing and executing the Company’s corporate strategy, policies, mission, philosophy, goals and objectives; (ii) Mr. Whitehurst, our President and Chief Operating Officer, is responsible for overseeing the day-to-day operations of the Company including its acquisitions, dispositions, development, property management, underwriting, structured finance, human resources, and legal departments; (iii) Mr. Habicht, our Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary, is responsible for overseeing all capital, financial reporting, tax, information technology and corporate communication matters of the Company and assisting the corporate secretary with his duties; (iv) Mr. Bayer, our Executive Vice President and Chief Investment Officer, is responsible for overseeing the leasing,

asset management, due diligence and underwriting groups of the Company; and (v) Mr. Tessitore, our Executive Vice President, General Counsel and Secretary, is responsible for overseeing all legal matters involving the Company, all insurance matters, certain risk management matters, and maintaining corporate minutes for board, committee, stockholder and other meetings. Our Committee believes that the different levels of compensation provided to the NEOs are commensurate to the responsibilities of each executive.

Base Salary

The Committee sets and adjusts the base salaries of our NEOs based on the qualifications, experience, scope of responsibilities and past performance of each executive, the practices of and salaries awarded by our Peer Group, and other factors deemed appropriate by the Committee. The base salary of each named executive officer has been below the Peer Group median in recent years. Based on these criteria and consistent with the Committee’s plan to make base salaries more comparable to the median base salaries of the Peer Group, the Committee approved 2015 base salary increases for our NEOs ranging from 2.0% to 6.0% (3.6% weighted average). After these increases, 2015 base salaries for NEOs were comparable with median levels for the Peer Group, ranging from 94% to 102% of median levels.

Annual Incentive Compensation

Cash Incentive Bonus. We believe that a significant portion of each NEO's total compensation should be provided in the form of incentive compensation. For 2015, the Committee approved annual cash incentive bonus opportunities based upon per share profitability tempered with potential reductions in bonus amounts if balance sheet leverage rose above 50%. Profitability was based on FFO per share, excluding impairments, and ranged from $2.08 per share for “threshold” performance to $2.16 per share for “target” level performance to $2.22 per share for “maximum” performance. Each NEO's bonus opportunity for threshold, target and maximum performance is set forth in the table below. Straight line interpolation is used to determine awards for results in between performance levels. The Committee reserved the right, in its sole discretion, to review and further modify the executive compensation program.

	2015 Annual Cash Incentive Bonus Opportunity (as % of Base Salary)			
Position	Threshold	Target	Maximum	2015 Actual
Chairman & Chief Executive Officer	75.0%	150%	225.0%	225.0%
President & Chief Operating Officer	57.5%	115%	172.5%	172.5%
EVP, CFO, Asst Secretary, & Treasurer	57.5%	115%	172.5%	172.5%
EVP & Chief Investment Officer	55.0%	110%	165.0%	165.0%
EVP & General Counsel	55.0%	110%	165.0%	165.0%

Executive officers receiving a cash incentive bonus may elect to have such bonus paid in cash or in stock of the Company. If an NEO elects to have the cash incentive bonus paid in stock, the NEO is entitled to receive restricted stock in an amount equal to 125% of the cash incentive bonus, vesting on the third anniversary from grant date based on continued service.

Based on our actual 2015 FFO per share results of $2.22 per share (excluding impairments), which exceeded maximum performance goals, the Committee approved annual cash incentive bonus awards for NEOs ranging from 165% to 225% of base salary. Additionally, the Committee determined that these payments were consistent with the strong performance of the executive management team. These cash incentive awards are reflected in the “Non-Equity Incentive Plan Compensation” column of the Summary Compensation Table below.

Long-Term Incentive Compensation

For 2015, the Committee approved long-term incentive compensation opportunities for executive officers provided through an equally weighted mix of performance-based restricted stock and service-based restricted stock. Total target award opportunities for NEOs ranged from 160% to 315% of base salary, varying by position, as set forth in the table below.

Position	2015 Target Long-Term Incentive Award Opportunity (as % of Salary)		
	Performance Restricted Shares	Service Restricted Shares	Total Target Award
Chairman & Chief Executive Officer	157.5%	157.5%	315%
President & Chief Operating Officer	120%	120%	240%
EVP, CFO, Assistant Secretary, & Treasurer	100%	100%	200%
EVP & Chief Investment Officer	80%	80%	160%
EVP & General Counsel	80%	80%	160%

Service-based restricted stock vests annually over a four-year period to enhance retention and promote long-term equity ownership. Performance-based restricted stock vests, if at all, at the end of three years on January 1, 2018. Vesting for performance-based restricted stock is tied to our total shareholder return relative to other companies in the NAREIT All Equity REIT Index for the three-year period ending December 31, 2017. The Committee chose this comparator group to allow for performance assessments within our applicable industry group. Total Shareholder Return ("TSR") includes stock price appreciation plus dividends over the three-year period, with calculations for the Company and comparators based on ten-day average closing stock prices leading up to the start and end of the measurement period. Performance levels and corresponding award funding levels for 2015 performance-based restricted stock grants are summarized in the following table.

Performance Level	3-Year Relative TSR Positioning	% of Target Award Funded
Below Threshold	Below 33rd Percentile	0%
Threshold	33rd Percentile	50%
Target	50th Percentile	100%
Superior	75th Percentile or Above	200%

For performance-based restricted share grants, 50% of the corresponding target award opportunity is earned for threshold performance, 100% for target performance, and 200% for maximum performance. No performance-based shares are earned for results below the threshold level. Straight line interpolation is used to determine awards for results in between performance levels.

In setting long-term incentive award levels for 2015, the Committee considered resulting total compensation, including base salary, bonus awards, and long-term incentives compared against the Peer Group 50th and 75th percentile market values, to account for the Company's use of stretch performance goals. The number of shares of service-based restricted stock and performance-based restricted stock granted was based on the average closing share price of our Common Stock for ten days prior to the grant date ($41.445 per share). Accordingly, the Committee approved grants of service-based restricted stock and target grants of performance-based restricted stock to Messrs. Macnab (28,502 service-based and 28,502 performance-based shares), Whitehurst (14,767 service-based and 14,767 performance-based shares), Habicht (10,194 service-based and 10,194 performance-based shares), Bayer (6,852 service-based and 6,852 performance-based shares), and Tessitore (6,852 service-based and 6,852 performance-based shares) as shown in the Grants of

Plan-Based Awards Table. The service-based restricted stock shall vest pro-rata in annual increments over a four-year period, and performance-based restricted stock shall vest at the end of the three-year period on January 1, 2018, to the extent earned.

Executive officers are entitled to receive dividends on unvested shares of service-based restricted stock. Dividends payable on performance-based restricted stock will accumulate and be payable to the executive officers only if and to the extent the shares vest. No tax gross ups shall be paid to the executive officers on any service-based restricted stock nor on any performance-based restricted stock.

In 2013, the executive officers were granted a performance-based restricted stock award as part of the 2013 executive compensation plan. Vesting for this award was tied to our total shareholder return relative to all Equity REITs in the NAREIT Index for the three-year period ending December 31, 2015. The Company's total shareholder return during this period was in the 63.0 percentile compared to all Equity REITs in the NAREIT Index. The amounts earned from this award are included for our NEOs in the Summary Compensation Table below in column (g) despite the fact these awards were granted in 2013 as part of the 2013 executive compensation plan and earned over the past three years. As a result, executive officers earned approximately 152% of the target number of shares granted. These shares are included in the Outstanding Equity Awards at Fiscal Year End.

Benefits and Other Perquisites

We provide benefits to our executive officers under the National Retail Properties, Inc. Retirement Plan. We do not sponsor a defined benefit pension plan for our executive officers or any other associates. Our NEOs are eligible to receive, on the same basis as other associates, employer matching contributions under the plan. This allows our executive officers to save for retirement on a tax-deferred basis through the Section 401(k) savings feature of the plan, with the Company-funded portion of these benefits based on matching the contributions of the executive officers.

Our NEOs are also eligible to participate in the other employee benefit and welfare plans that the Company maintains on similar terms as associates who meet applicable eligibility criteria.

We do not consider perquisites to be a principal component of our executive officers' compensation. Costs attributed to the perquisites and other personal benefits afforded to the named executive officers for the fiscal year ended December 31, 2015, are shown in the "Other Compensation" column of the Summary Compensation Table below.

We believe that our executive officer benefit and perquisite programs provided are reasonable and competitive with benefits and perquisites provided to executive officers of other REITs, and are necessary to sustain a fully competitive executive compensation program.

Executive Compensation Tables

The following table shows total compensation paid or earned by the NEOs for the fiscal years ended December 31, 2015, 2014, and 2013.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(3)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Craig Macnab Chief Executive Officer	2015	$750,000	—	$2,490,624	—	$1,687,500	—	$14,332	$4,942,456
	2014	$735,000	—	$2,738,304	—	$1,653,750	—	$152,981	$5,280,035
	2013	$716,000	—	$2,467,414	—	$2,521,021	—	$156,959	$5,861,394
Julian E. Whitehurst President and Chief Operating Officer	2015	$510,000	—	$1,290,391	—	$879,750	—	$14,332	$2,694,473
	2014	$495,000	—	$1,405,072	—	$853,875	—	$81,524	$2,835,471
	2013	$479,000	—	$1,320,548	—	$1,334,025	—	$83,452	$3,217,025
Kevin B. Habicht Executive Vice President, Chief Financial Officer, Assistant Secretary and Treasurer	2015	$422,500	—	$890,803	—	$728,813	—	$14,332	$2,056,448
	2014	$410,000	—	$969,845	—	$707,250	—	$76,557	$2,163,652
	2013	$397,000	—	$912,039	—	$1,108,275	—	$77,871	$2,495,185
Paul E. Bayer Executive Vice President and Chief Investment	2015	$355,000	—	$598,785	—	$585,750	—	$13,852	$1,553,387
	2014	$335,000	—	$633,940	—	$552,750	—	$45,808	$1,567,498
	2013	$319,000	—	$586,261	—	$761,860	—	$46,733	$1,713,854

Officer

Christopher P. Tessitore, Executive Vice President and General Counsel	2015	$355,000	—	$598,785	—	$585,750	—	$13,660	$1,553,195
	2014	$335,000	—	$1,232,056	—	—	—	$45,616	$1,612,672
	2013	$319,000	—	$586,261	—	$761,860	—	$46,541	$1,713,662

(1) The amounts in column (e) represent the grant date fair value with respect to the fiscal year in accordance with FASB ASC Topic 718. Further information regarding the valuation of stock awards and any assumptions made can be found in Note 14 in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015. Assuming “maximum” performance is achieved for the 2015 grant results in the fair value provided in the table above.

(2) The amounts in column (g) represent the annual incentive cash bonuses awarded to the NEOs, which are discussed under “Compensation Discussion and Analysis - Annual Incentive Compensation (Cash Incentive Bonus).”

(3) The amounts in column (i) represent: (See discussion under Compensation and Discussion Analysis - Long-Term Incentive Compensation.)

- reimbursement payments for taxes incurred in connection with the vesting of restricted stock awards granted prior to 2010 which vested during 2014 and 2013 ($138,949 and $142,927, respectively, for Mr. Macnab, $67,492 and $69,420, respectively, for Mr. Whitehurst, $62,525 and $64,319, respectively, for Mr. Habicht, $32,256 and $33,181, respectively, for Mr. Bayer, and $32,256 and $33,181, respectively for Mr. Tessitore). No tax reimbursements have been provided for vesting of restricted stock granted to executive officers since 2009;

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- the Company’s contribution to the Company’s 401(k) plan on behalf of each of the NEOs in an amount of $13,300 in 2015, $13,000 in 2014, and $13,000 in 2013; and
- life insurance premiums paid by the Company with respect to life insurance for the benefit of the NEOs during 2015, 2014, and 2013, ($1,032, $1,032, and $1,032, respectively, for each of Messrs. Macnab and Whitehurst, $1,032, $1,032, and $552 for Mr. Habicht, respectively, and $552, $552, and $552, respectively, for Mr. Bayer, and $360, $360, and $360, respectively, for Mr. Tessitore).

The following table sets forth certain information with respect to grants of plan-based awards to the NEOs of the Company during or for the fiscal year ended December 31, 2015.

Grants of Plan-Based Awards

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exe or E Pric Opt Aw ($/S
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Craig Macnab	--[1]	$562,500	$1,125,000	$1,687,500	—	—	—	—	—	—
	02/17/15[2]	—	—	—	—	—	—	28,502	—	—
	02/17/15[3]	—	—	—	14,251	28,502	57,003	—	—	—
Julian E. Whitehurst	--[1]	$293,250	$586,500	$879,750	—	—	—	—	—	—
	02/17/15[2]	—	—	—	—	—	—	14,767	—	—
	02/17/15[3]	—	—	—	7,383	14,767	29,533	—	—	—
Kevin B. Habicht	--[1]	$242,937	$485,875	$728,813	—	—	—	—	—	—
	02/17/15[2]	—	—	—	—	—	—	10,194	—	—
	02/17/15[3]	—	—	—	5,097	10,194	20,388	—	—	—
Paul E. Bayer	--[1]	$195,250	$390,500	$585,750	—	—	—	—	—	—
	02/17/15[2]	—	—	—	—	—	—	6,852	—	—
	02/17/15[3]	—	—	—	3,426	6,852	13,705	—	—	—
Christopher P. Tessitore	--[1]	$195,250	$390,500	$585,750	—	—	—	—	—	—
	02/17/15[2]	—	—	—	—	—	—	6,852	—	—
	02/17/15[3]	—	—	—	3,426	6,852	13,705	—	—	—

(1) The amounts shown in columns (c)-(e) reflect the annual incentive cash bonus potential under the Executive Compensation Program. The actual cash bonus amounts earned by each NEO in 2015 are included under the “Non-Equity Incentive Plan Compensation” column in the Summary Compensation Table. For a detailed discussion, see “Compensation Discussion and Analysis -

Annual Incentive Compensation (Cash Incentive Bonus)" above.

(2) The amounts shown in column (i) reflect the service-based restricted stock issued under our Restricted Stock Plan in 2015. These shares are only subject to time-based vesting and vest 25% per year over a four-year period.

(3) The amounts shown in columns (f), (g) and (h) reflect the performance-based stock grants issued under the Executive Compensation Program. The potential stock bonus is based on our Total Shareholder Return ("TSR") performance relative to other REITs for the three-year period ending December 31, 2017. This performance-based stock award amount is determined in accordance with FASB ASC Topic 718, using a Monte Carlo simulation model.

The following table sets forth certain information with respect to equity awards outstanding as of December 31, 2015, for each of the NEOs. All shares are valued based on the Company's closing stock price of $40.05 per share on December 31, 2015.

Outstanding Equity Awards at Fiscal Year End

	Option Awards					Stock Awards		
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Craig Macnab	—	—	—	—	—	80,907[1]	$3,240,325[1]	64,242[4] 70,885[5] 57,003[8]
Julian E. Whitehurst	—	—	—	—	—	42,227[2]	$1,691,191[2]	34,382[4] 36,373[5] 29,533[8]
Kevin B. Habicht	—	—	—	—	—	29,150[3]	$1,167,458[3]	23,747[4] 25,106[5] 20,388[8]
Paul E. Bayer	—	—	—	—	—	19,144[6]	$766,717 [6]	15,265[4] 16,411[5] 13,705[8]
Christopher P. Tessitore	—	—	—	—	—	36,083[7]	$1,445,124[7]	15,265[4] 16,411[5] 13,705[8]

(1) The service-based restricted shares vest as follows: 33,780 in 2016, 24,015 in 2017, 15,987 in 2018, and 7,125 in 2019.

(2) The service-based restricted shares vest as follows: 17,761 in 2016, 12,536 in 2017, 8,239 in 2018, and 3,691 in 2019.

(3) The service-based restricted shares vest as follows: 12,261 in 2016, 8,654 in 2017, 5,687 in 2018, and 2,548 in 2019.

(4) The amounts shown in columns (i) and (j) reflect the "maximum" long-term performance-based stock issued on February 22, 2013. The amount of the performance-based stock that will vest is

based on the Company's TSR performance relative to other REITs for the three-year period ending December 31, 2015. For a detailed discussion of the long-term incentive compensation, see "Compensation Discussion and Analysis - Long-Term Incentive Compensation."

(5) The amounts shown in columns (i) and (j) reflect the "maximum" long-term performance-based stock issued on February 12, 2014. The amount of the performance-based stock that will vest is based on the Company's TSR performance relative to other REITs for the three-year period ending December 31, 2016 For a detailed discussion of the long-term incentive compensation, see "Compensation Discussion and Analysis - Long-Term Incentive Compensation."

(6) The service-based restricted shares vest as follows: 7,995 in 2016, 5,672 in 2017, 3,764 in 2018, and 1,713 in 2019.

(7) The service-based restricted shares vest as follows: 7,995 in 2016, 22,611 in 2017, 3,764 in 2018, 1,713 in 2019.

(8) The amounts shown in columns (i) and (j) reflect the "maximum" long-term performance-based stock issued on February 17, 2015. The amount of the performance-based stock that will vest is based on the Company's TSR performance relative to other REITs for the three-year period ending December 31, 2017. For a detailed discussion of the long-term incentive compensation, see "Compensation Discussion and Analysis - Long-Term Incentive Compensation."

The following table sets forth certain information with respect to stock options that were exercised and restricted and performance-based stock that vested during the fiscal year ended December 31, 2015.

Option Exercises and Stock Vested

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
(a)	(b)	(c)	(d)	(e)
Craig Macnab	--	--	103,890	$4,098,297
Julian E. Whitehurst	--	--	59,359	$2,345,111
Kevin B. Habicht	--	--	44,519	$1,760,861
Paul E. Bayer	--	--	31,816	$1,260,743
Christopher P. Tessitore	--	--	31,816	$1,260,743

Equity Compensation Plan Information

The following table provides information regarding the Company’s equity compensation plans as of December 31, 2015:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights [2](a)	Weighted average exercise price of outstanding options, warrants and rights [2](b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders [1]	—	—	3,344,817
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	3,344,817

(1) Consists entirely of common shares authorized for issuance under the 2007 Performance Incentive Plan.

(2) Excludes 19,307 restricted shares granted and 209,823 phantom shares credited under the Deferred Fee Plan for Directors. No exercise price is required to be paid upon the vesting of restricted shares.

Potential Payments Upon Termination or Change of Control

Effective December 1, 2008, the Company entered into new employment agreements with Messrs. Macnab, Whitehurst, Habicht, Bayer, and Tessitore, each as amended effective November 8, 2010, in order to comply with Section 409A of the Code. Each employment agreement is subject to automatic successive two-year renewals unless one party provides written notice to the other party of non-renewal 60 days prior to the expiration date of the agreement. The initial expiration date for each employment agreement was as follows: (a) May 16, 2011, for Mr. Macnab; (b) August 17, 2011, for Messrs. Habicht and Whitehurst; and (c) January 2, 2011, for Messrs. Bayer and Tessitore. Messrs. Macnab, Habicht, Whitehurst, Bayer, and Tessitore are collectively referred to herein as the "Executives" and each, an "Executive." Each agreement contains severance provisions that provide for payment to the Executive upon the occurrence of certain events, including death or disability, termination by the Company for "cause" or by the Executive without "good reason," termination by the Company without "cause" or by the Executive with "good reason," and termination upon expiration of the employment agreement. In the event the Executive is unable to perform his job duties due to death or disability, each agreement provides for payment of his accrued salary, a prorated performance bonus and, for a period of one year following termination of the agreement due to death, health benefits under the

Company's health plans and programs to the Executive's dependents. In the event the Executive is terminated by the Company for "cause" or the Executive terminates his employment agreement without "good reason," the Executive is entitled to his accrued salary and benefits prior to the date of termination.

Each agreement and the Executive Compensation Program also contain severance provisions that call for payment to the Executive of the following amounts in the event that he is terminated without "cause" or he resigns for "good reason":

- accrued and unpaid salary through the date of termination;
- a cash payment equal to 200% (with respect to Messrs. Bayer and Tessitore), 250% (with respect to Messrs. Habicht and Whitehurst), and 300% (with respect to Mr. Macnab) of his respective annual salary;
- a cash payment equal to 200% (with respect to Messrs. Bayer and Tessitore), 250% (with respect to Messrs. Habicht and Whitehurst), and 300% (with respect to Mr. Macnab) of his respective average bonus for the last three years of employment under the agreement;
- immediate vesting of his service-based restricted stock awards, stock options and other equity awards, and all performance-based awards will be allowed to run their course to determine the performance level, and the executive officers will receive such award upon vesting;
- for a period of one year after termination (but in no event after the Executive becomes eligible to receive benefits of the same type from another employer), health benefits under the Company's health plans and programs generally available to senior executives of the Company; and
- in the event of such a termination upon or after a "change of control," a prorated annual non-equity bonus at the target level for the year in which termination occurred.

Under each employment agreement and the Executive Compensation Program, in the event the agreement naturally terminates at the end of its term because the Company elects not to renew, the Executive will be entitled to the following severance payments:

- accrued and unpaid salary through the date of termination;
- a cash payment equal to 100% of his annual salary;
- service-based restricted stock awards will accelerate on a pro rata amount based on the date of termination; and all performance-based units and restricted stock awards will be allowed to run their course to determine the performance level and the executive officers will receive a pro rata share based on the date of termination;
- for a period of one year after termination (but in no event after the Executive becomes eligible to receive benefits of the same type from another employer), health benefits under the Company's health plans and programs generally available to senior executives of the Company; and
- a prorated annual non-equity bonus at the target level for the year in which termination occurred.

In addition to the foregoing payments, each Executive will be entitled to gross-up payments to the extent such payments result in the imposition of excise tax, interest or penalties. The Committee does not intend to provide excise tax gross-up payments in any future employment agreements.

“Cause” is defined in each Executive’s agreement as the Executive’s:

- conviction of (or pleading nolo contendere to) an indictment or information that is filed against Executive and is not discharged or otherwise resolved within 12 months thereafter, and said indictment of information charged Executive with a felony, any crime of moral turpitude, fraud or any act of dishonesty or any crime which is

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likely to result in material injury, either monetarily or otherwise, to the Company or any of its majority-owned subsidiaries;

- the continued failure by Executive substantially to perform his duties or to carry out the lawful written directives of the Board of Directors;
- material breach of a fiduciary duty, including disclosure of any conflicts of interest that are known to the Executive, or with reasonable diligence should be known, relating to Executive's employment with the Company, or otherwise engaging in gross misconduct or willful or gross neglect (in connection with the performance of his duties) which is materially injurious, either monetarily or otherwise, to the Company or any of its majority-owned subsidiaries; or
- material breach of the non-competition and confidentiality clauses set forth in his employment agreement.

"Good reason" is defined in each agreement, unless otherwise consented to by Executive, as:

- a material reduction in Executive's position, authority, duties or responsibilities;
- a reduction in the annual salary of Executive;
- the relocation of Executive's office to more than 50 miles from the Company's principal place of business in Orlando, Florida;
- the Company's material breach of his employment agreement;
- the Company's failure to obtain an agreement from any successor to the business of the Company by which the successor assumes and agrees to perform his employment agreement; or
- with respect to Mr. Macnab, a change in Executive's reporting responsibilities such that he is no longer reporting directly to the Board of Directors.

"Change of control," as defined in each agreement, means:

- a "person" or "group" (which terms shall have the meaning they have when used in Section 13(d) of the Exchange Act) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, any corporation owned directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of voting securities of the Company) becomes (other than solely by reason of a repurchase of voting securities by the Company), the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 40% or more of the combined voting power of the Company's then total outstanding voting securities, provided, however, that in no event shall a change of control for purposes of each agreement be deemed to have arisen merely by virtue of a "person" or "group" having become a direct or indirect owner of Company securities (such that a change of control would otherwise have been deemed to have occurred), if the Executive is a member of such person or group; or
- the Company consolidates with or merges with or into another corporation or partnership or conveys, transfers or leases, in any transaction or series of transactions, all or substantially all of its assets to any corporation or partnership, or any corporation or partnership consolidates with or merges with or

into the Company, in any event pursuant to a transaction in which the outstanding voting stock of the Company is reclassified or changed into or exchanged for cash, securities or other property, other than any such transaction where (i) the outstanding voting securities of the Company are changed into or exchanged for voting securities of the surviving corporation and (ii) the persons who were the beneficial owners of the Company’s voting securities immediately prior to such transaction beneficially own immediately after such transaction 50% or more of the total outstanding voting power of the surviving corporation, or the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution.

The amount of compensation payable to each Executive upon any termination is shown below. All estimates are based on an assumed termination date of December 31, 2015. The actual payments due on terminations occurring on different dates could materially differ from the estimates in the table.

Termination Upon Death or Disability

Name	Salary [1]	Bonus	Early Vesting of Incentive Awards [2]	Other [3]	Total
Craig Macnab	$125,000	$1,125,000	$5,946,264	$14,332	$7,210,596
Julian E. Whitehurst	$85,000	$586,500	$3,108,040	$14,332	$3,793,872
Kevin B. Habicht	$70,417	$485,875	$2,145,719	$14,332	$2,716,343
Paul E. Bayer	$59,167	$390,500	$1,400,989	$13,852	$1,864,508
Christopher P. Tessitore	$59,167	$390,500	$2,079,396	$13,660	$2,542,723

(1) Payable in the case of death only and represents payment of two months of the Executive’s salary.

(2) Represents early vesting of certain service-based and performance-based cash and/or stock awards.

(3) Represents payment of health benefits for spouse and dependents of Executive for one year following the event of death.

Termination by the Company without Cause; Termination by Executive for Good Reason

Name	Severance Amount	Early Vesting of Incentive Awards [4]	Other [5]	Change of Control Payment [6]	Total
Craig Macnab	$6,933,750 [1]	$5,946,264	$14,332	$1,125,000	$14,019,346
Julian E. Whitehurst	$3,348,375 [2]	$3,108,040	$14,332	$586,500	$7,057,247
Kevin B. Habicht	$2,774,031 [2]	$2,145,719	$14,332	$485,875	$5,419,957
Paul E. Bayer	$1,788,000 [3]	$1,400,989	$13,852	$390,500	$3,593,341
Christopher P. Tessitore	$1,788,000 [3]	$2,079,396	$13,660	$390,500	$4,271,556

(1) Represents a cash payment of 300% of annual salary payable in equal installments over a 12-month period, and a cash payment of 300% of Mr. Macnab's average annual bonus for the three contract years preceding termination, payable in equal installments over a 12-month period.

(2) Represents a cash payment of 250% of annual salary payable in equal installments over a 12-month period, and a cash payment of 250% of Mr. Whitehurst's and Mr. Habicht's average annual bonus for the three contract years preceding termination, payable in equal installments over a 12-month period.

(3) Represents a cash payment of 200% of annual salary payable in equal installments over a 12-month period, and a cash payment of 200% of Mr. Bayer’s and Mr. Tessitore's average annual bonus for the three contract years preceding termination, payable in equal installments over a 12-month period.

(4) Represents early vesting of certain service-based and performance-based cash and/or stock awards. Certain awards that are to be paid based upon actual future performance were calculated assuming “target” performance. If “maximum” performance is achieved, the payout of early vesting would result in: Mr. Macnab - $8,652,162; Mr. Whitehurst - $4,524,929; Mr. Habicht - $3,124,020; Mr. Bayer - $2,035,341; and Mr. Tessitore - $2,713,748.

(5) Represents payment of health benefits, health plans and other perquisites.

(6) Represents a cash payment of prorated annual bonus at the “target” level for the year of termination, payable in a single sum if the Executive is terminated upon or following a change of control.

Termination upon Expiration of the Employment Agreement

Name	Severance Amount (1)	Early Vesting of Incentive Awards (2)	Other (3)	Bonus (4)	Total
Craig Macnab	$750,000	$5,477,831	$14,332	$1,125,000	$7,367,163
Julian E. Whitehurst	$510,000	$2,867,685	$14,332	$586,500	$3,978,517
Kevin B. Habicht	$422,500	$1,979,812	$14,332	$485,875	$2,902,519
Paul E. Bayer	$355,000	$1,292,548	$13,852	$390,500	$2,051,900
Christopher P. Tessitore	$355,000	$1,970,955	$13,660	$390,500	$2,730,115

(1) Represents cash payment of 100% of annual salary payable in equal installments over a 12-month period.

(2) Represents early vesting of certain service-based and performance-based cash and/or stock awards.

(3) Represents payment of health benefits, health plans and other perquisites for one year following termination.

(4) Represents a cash payment of prorated annual bonus at the "target" level for the year of termination, payable in a single sum.

COMPENSATION COMMITTEE REPORT

The information contained in this report shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any previous or future filings under the Securities Act or the Exchange Act except to the extent that the Company incorporated it by specific reference.

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, both filed with the SEC.

COMPENSATION COMMITTEE

Robert C. Legler, Chairman
Don DeFosset
David M. Fick
Edward J. Fritsch
Robert Martinez

PROPOSAL II

ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) enables our stockholders to vote, on a non-binding advisory basis, to approve the compensation of our named executive officers as disclosed in this proxy statement.

As described in detail under the heading “Executive Compensation-Compensation Discussion and Analysis,” our executive compensation programs are designed to attract and retain our named executive officers, motivate them to perform to their fullest potential, and align their interests with the interests of our stockholders. Under these programs, our named executive officers are rewarded for the achievement of specific annual, long-term and strategic and corporate goals. Please read the Compensation Discussion and Analysis for additional details about our executive compensation programs and policies, including information about the fiscal 2015 compensation of our named executive officers.

The Compensation Committee continually reviews the compensation programs for our named executive officers to ensure they achieve the desired goals of aligning our executive compensation structure with our stockholders’ interests and current market practices. We are asking our stockholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a “say-on-pay” proposal, gives our stockholders the opportunity to express their views on our named executive officers’ compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we will ask our stockholders to vote for the following resolution at the annual meeting:

“RESOLVED, that the Company’s stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company’s Proxy Statement for the 2016 Annual Meeting of Stockholders pursuant to the rules and regulations of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the related tables and disclosure.”

While this vote is advisory, and therefore not binding on the Company, the Compensation Committee or our Board of Directors, we value the opinions of our stockholders and will consider those opinions and the vote outcome when making future compensation decisions for our named executive officers.

The Board of Directors unanimously recommends a vote FOR the approval of the compensation of our named executive officers, as disclosed in this proxy statement.

PROPOSAL III

RATIFICATION OF
ERNST & YOUNG LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee appointed Ernst & Young LLP to serve as the Company's principal independent registered public accounting firm to audit the Company's financial statements for the year ending December 31, 2016, to review quarterly interim results and to perform other appropriate accounting services. We are requesting ratification of such appointment by the stockholders.

Ernst & Young LLP has acted as our independent registered public accounting firm for our two most recent fiscal years and our Audit Committee currently believes that we should continue our relationship with Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016. In the event that the stockholders do not ratify this appointment by the requisite vote, the Audit Committee will reconsider its appointment of Ernst & Young LLP.

A representative of Ernst & Young LLP will be present at the annual meeting and will be provided with the opportunity to make a statement if desired. Such representative will also be available to respond to appropriate questions.

Fiscal 2015 and 2014 Audit Firm Summary. During the fiscal years ended December 31, 2015 and 2014, we retained Ernst & Young LLP to provide services in the following categories and amounts:

	Fiscal Year 2015	Fiscal Year 2014
Audit Fees (1)	$1,270,166	$1,216,135
Audit Related Fees (2)	—	—
Total Audit and Audit Related Fees	1,270,166	1,216,135
Tax Fees (3)	73,391	32,600
All Other Fees	—	—
Total Fees	$1,343,557	$1,248,735

(1) Audit fees include the audit fee and fees for comfort letters, attest services, consents and assistance with and review of documents filed with the SEC (including those related to securities offerings). Aggregate fees billed by Ernst & Young LLP associated with the issuance of comfort letters to underwriters in connection with securities offerings amounted to $168,290 and $130,180 in 2015 and 2014, respectively.

(2) Audit related fees consist of fees incurred for consultation concerning financial accounting and reporting standards, performance of agreed-upon procedures, and other audit or attest services not required by statute or regulation.

(3) Tax fees consist of fees for tax compliance services and consulting.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Accountants. Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent accountants. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent accountants.

Prior to engagement of the independent accountants for the next year's audit, management will submit to the Audit Committee for approval an aggregate of services expected to be rendered during that year for each of the services described above in the captions Audit Fees, Audit Related Fees and Tax Fees.

Prior to engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires the independent accountants and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent accountants for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent accountants.

For the fiscal years ended December 31, 2015 and 2014, the Audit Committee pre-approved 100% of services described above in the captions Audit Related Fees and Tax Fees. For the fiscal year ended December 31, 2015, no hours expended on Ernst & Young LLP's engagement to audit our financial statements were attributed to work performed by persons other than full-time, permanent employees of Ernst & Young LLP.

Pursuant to our Audit Committee charter, the Audit Committee may delegate pre-approval authority to the chairman of the Audit Committee, who shall promptly advise the remaining members of the Audit Committee of such approval at the next regularly scheduled meeting.

The Board of Directors unanimously recommends a vote FOR ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2016.

SECURITY OWNERSHIP

The following table sets forth, as of February 29, 2016 (except as described in the footnotes), the number and percentage of outstanding shares of Common Stock beneficially owned by all persons known by the Company to own beneficially more than five percent of the Company's Common Stock, by each director and nominee, by each of the persons named in the Summary Compensation Table under "Executive Compensation," above, and by all officers and directors as a group, based upon information furnished to the Company by such stockholders, officers and directors. Unless otherwise noted below, the persons named in the table have sole voting and sole investment power with respect to each of the shares beneficially owned by such person.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Stock	Percent of Class
The Vanguard Group, Inc. (1) 100 Vanguard Blvd. Malvern, PA 19355	19,307,190	13.63%
BlackRock, Inc.(2) 40 East 52nd Street New York, NY 10022	12,208,752	8.62%
Cohen & Sterns, Inc.(3) 280 Park Avenue New York, NY 10017	10,365,002	7.32%
State Street Corporation(4) State Street Financial Center One Lincoln Street Boston, MA 02111	11,703,558	8.26%
Paul E. Bayer(6) 450 South Orange Avenue, Suite 900 Orlando, FL 32801	181,641(7)	*(19)
Don DeFosset(5) 4221 West Boy Scout Blvd., Suite 1000 Tampa, FL 33607	38,580(8)	*(19)
David M. Fick(5) 13348 Full Measure Lane Pungoteague, VA 23422	23,942(9)	*(19)
Edward J. Fritsch(5) 3100 Smoketree Court, Suite 600 Raleigh, NC 27604	20,320	*(19)
Kevin B. Habicht(5)(6) 450 South Orange Avenue, Suite 900 Orlando, FL 32801	178,872(10)	*(19)
Stephen A. Horn, Jr.(6) 450 South Orange Avenue, Suite 900 Orlando, FL 32801	116,924(11)	*(19)
Ted B. Lanier(5) 1818 Windmill Drive Sanford, NC 27330	93,325(12)	*(19)
Robert C. Legler(5) 400 Beachview Drive, Penthouse North	87,678(13)	*(19)

Vero Beach, FL 32963

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Craig Macnab[5][6] 450 South Orange Avenue, Suite 900 Orlando, FL 32801	540,832[14]	*[19]
Robert Martinez[5] 100 North Tampa Street, Suite 4100 Tampa, FL 33602	68,247[15]	*[19]
Sam L. Susser[5] 800 N. Shoreline Blvd., Suite 2200N Corpus Christi, TX 78401	16,089[16]	*[19]
Christopher P. Tessitore[6] 450 South Orange Avenue, Suite 900 Orlando, FL 32801	123,525[17]	*[19]
Julian E. Whitehurst[6] 450 South Orange Avenue, Suite 900 Orlando, FL 32801	299,816[18]	*[19]
All directors and executive officers as a group (13 persons)	1,789,791 [7][8][9][10][11][12][13][14][15][16][17][18]	—

(1) This information is based solely on a Schedule 13G/A filed with the SEC on February 10, 2016, in which it was reported that as of December 31, 2014, the beneficial owner had sole power to vote or direct the voting of a combined 299,942 shares and the sole power to dispose of or to direct the disposition of a combined 19,097,936 shares.

(2) This information is based solely on a Schedule 13G/A filed with the SEC on February 10, 2016, in which it was reported that as of December 31, 2015, the beneficial owner had sole power to vote or direct the voting of a combined 11,699,558 shares, and the sole power to dispose or to direct the disposition of a combined 12,208,752 shares.

(3) This information is based solely on a Schedule 13G filed with the SEC on February 16, 2016, in which it was reported that as of December 31, 2015, the beneficial owner had sole or shared power to vote or direct the voting of a combined 5,551,347 shares and the sole shared power to dispose or to direct the disposition of 10,365,002 shares.

(4) This information is based solely on a Schedule 13G filed with the SEC on February 16, 2016, in which it was reported that as of December 31, 2015, the beneficial owner had sole power to vote or direct the voting of a combined 0 shares, and the sole power to dispose or to direct the disposition of a combined 0 shares.

(5) A director of the Company.

(6) An executive officer of the Company.

(7) Includes 61,096 restricted shares, 17,759 for which Mr. Bayer has sole voting power, 43,337 for which Mr. Bayer has no voting power.

(8) Includes 26,569 phantom shares credited under the Deferred Fee Plan for Directors.

(9) Includes 19,519 phantom shares credited under the Deferred Fee Plan for Directors.

(10) Includes 92,944 restricted shares, 27,076 for which Mr. Habicht holds sole voting power, and 65,868 for which Mr. Habicht has no voting power.

(11) Includes 85,711 restricted shares, 50,110 for which Mr. Horn has sole voting power, and 35,601 for which Mr. Horn has no voting power.

(12) Includes 14,000 shares held by Mr. Lanier's spouse, and 2,500 shares held in a trust in which Mr. Lanier is the sole Trustee and for which Mr. Lanier disclaims any beneficial ownership.

(13)

Includes 2,400 shares held by Mr. Legler's spouse, and 83,278 phantom shares credited under the Deferred Fee Plan for Directors.

(14) Includes 257,646 restricted shares, 74,671 for which Mr. Macnab has sole voting power, and 182,975 for which Mr. Macnab has no voting power. Also includes 42,435 shares held in a margin account.

(15) Includes 6,125 shares held in trust in which Mr. Martinez is the sole Trustee and for which Mr. Martinez disclaims any beneficial ownership, and 44,172 phantom shares credited under the Deferred Fee Plan for Directors.

(16) Includes 13,800 shares held in a family limited partnership, the general partner of which is controlled by Sam L. Susser, and 491 phantom shares credited under the Deferred Fee Plan for Directors.

(17) Includes 78,035 restricted shares, 34,698 for which Mr. Tessitore has sole voting power, and 43,337 for which Mr. Tessitore has no voting power.

(18) Includes 133,158 restricted shares, 38,728 for which Mr. Whitehurst has sole voting power, and 94,430 for which Mr. Whitehurst has no voting power.

(19) Less than one percent.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC and the New York Stock Exchange. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Forms 3, 4 and 5 they file.

Based solely on the Company's review of the copies of such forms it has received, written representations from certain reporting persons that they were not required to file Forms 5 for the last fiscal year and other information known to the Company, the Company believes that all its officers, directors and greater than ten percent beneficial owners complied with all filing requirements applicable to them with respect to transactions filed during fiscal year 2015.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Audit Committee is charged with monitoring and reviewing the material facts of any transactions with related parties and either approving or disapproving the entry into such transactions. The Audit Committee has adopted a written policy governing transactions with related parties. In determining whether to approve or ratify a transaction with a related party, the Audit Committee will take into account, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction.

OTHER MATTERS

The Board of Directors does not know of any matters to be presented at the annual meeting other than those stated above. If any other business should come before the annual meeting, the person(s) named in the enclosed Proxy will vote thereon as he or they determine to be in the best interests of the Company.

PROPOSALS FOR NEXT ANNUAL MEETING

Any stockholder proposal to be considered for inclusion in the Company's proxy statement and form of proxy for the annual meeting of stockholders to be held in 2017 must be received at the Company's office at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801, no later than December 1, 2016.

Stockholders desiring to make nominations for directors and/or to bring a proper subject before a meeting should do so by notice delivered to the Secretary of the Company. The proxy for the 2017 annual meeting will grant discretionary authority to vote with regard to nominations and proposals unless (a) notice is received by December 1, 2016, and (b) the conditions set forth in Rule 14a-4(c)(2)(i)-(iii) under the Exchange Act are met. The Company requests that such stockholder notice set forth (a) as to each nominee for director, all information relating to such nominee that is required to be disclosed in solicitations of proxies for election of directors under the proxy rules of the SEC; (b) as to any other business, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder; and (c) as to the stockholder, (i) the name and address of such stockholder, (ii) the class or series and number of shares of stock of the Company which are owned beneficially and of record by such stockholder, and (iii) the date(s) upon which the stockholder acquired ownership of such shares.

ANNUAL REPORT

A copy of the 2015 Annual Report of the Company on Form 10-K, which contains all of the financial information (including the Company's audited financial statements and financial statement schedules) and certain general information regarding the Company, may be obtained without charge by writing to Christopher P. Tessitore, Secretary, National Retail Properties, Inc., 450 South Orange Avenue, Suite 900, Orlando, Florida 32801.

NATIONAL RETAIL PROPERTIES, INC.
450 SOUTH ORANGE AVENUE, SUITE 900
ORLANDO, FL 32801

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site. You will be prompted to enter the 16-digit Control Number which is located below to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FURTHER SHAREHOLDER COMMUNICATIONS
If you would like to reduce the costs incurred by National Retail Properties, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call. You will be prompted to enter the 16-digit Control Number which is located below and then follow the simple instructions the Vote Voice provides you.

VOTE BY MAIL
Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to National Retail Properties, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

NATIONAL RETAIL PROPERTIES, INC.
Vote on Directors

	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee, mark “For All Except” and write the nominee’s number on the line below.
1. To elect seven directors to serve until the next annual meeting of stockholders or until their successors shall have been elected or qualified.				
01) Don DeFosset	|_|	|_|	|_|	

02) David M. Fick	05) Robert C. Legler
	06) Craig Macnab
03) Edward J. Fritsch	07) Sam L. Susser
04) Kevin B. Habicht	

Vote On Proposals

	For	Against	Abstain
2. Advisory vote to approve executive compensation.	|_|	|_|	|_|
3. Ratification of the selection of the independent registered public accounting firm for 2016.	|_|	|_|	|_|

In their discretion, the proxies are authorized to vote upon and transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee, custodian, guardian or corporate officer, please give your full title as such. If a corporation, please sign in full corporate name by authorized officer. If a partnership, please sign in partnership name by authorized person. The proxies are authorized in their discretion, to vote such shares upon any other business that may properly come before the meeting and all adjournments and postponements thereof.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

PROXY
NATIONAL RETAIL PROPERTIES, INC.
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Craig Macnab, Kevin B. Habicht, and Christopher P. Tessitore, and any of them, attorneys and proxies, with full power of substitution and revocation, to vote, as designated on the reverse side, all shares of common stock that the undersigned is entitled to vote, with all powers that the undersigned would possess if personally present at the annual meeting (including all adjournments thereof) of stockholders of National Retail Properties, Inc. (the “Meeting”) to be held on May 19, 2016, at 8:30 a.m. local time, at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801.

The shares represented by this Proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no direction is specified, the shares represented by this Proxy will be voted FOR each of Proposals I, II and III. In addition, the proxies may vote in their discretion on such other matters as may properly come before this Meeting.

THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF THE PROXY STATEMENT OF NATIONAL RETAIL PROPERTIES, INC.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD
PROMPTLY USING THE ENCLOSED ENVELOPE.

ONT>**2010**

Cash flows from operating activities:

Net income (loss)

$32,198 $23,574 $(66,690)

Adjustments to reconcile net income (loss) to net cash provided by operating activities:

Noncash rent expense

(9,628) (4,946) 60,459

Share based compensation expense

2,470 2,435 1,745

Depreciation and amortization

51,534 47,466 44,116

Income from equity investees

(1,877) (1,169) (757)

Distribution from equity investee

4,800 960

Amortization of deferred financing costs

352 403 285

Deferred income tax provision

641 429 207

Provision for (recovery of) doubtful accounts

349 99 (183)

Cash received for tenant improvements

7,015

Changes in operating assets and liabilities, net of effects of business acquisitions:

Accounts receivable

24,200 (48,444) (10,250)

Inventories

(17,045) (27,048) (10,589)

Other assets

6,529 (6,916) (7,551)

Accounts payable and other liabilities

(13,131) 43,847 11,247

Other, net

1,680 411 879

Net cash provided by operating activities

83,072 30,141 30,893

Cash flows from investing activities:

Proceeds from sales of improvements to HPT

68,156 69,122

Acquisitions of businesses, net of cash acquired

(52,070) (31,216)

Capital expenditures

(188,694) (124,851) (59,485)

Proceeds from asset sales

134 147 17

Investment in equity investee

(76)

Net cash used in investing activities

(172,474) (86,798) (59,544)

Cash flows from financing activities:

Proceeds from issuance of common shares, net

53,135

Proceeds from borrowings under credit facility

1,000

Repayment of borrowings under credit facility

(1,000)

Payment of deferred financing fees

(187) (1,542)

Proceeds from sale/leaseback transactions

8,598

Sale/leaseback financing obligation payments

(2,089) (2,046) (1,628)

Net cash provided by (used in) financing activities

6,322 49,547 (1,628)

Effect of exchange rate changes on cash

14
(31
)
43

Net decrease in cash and cash equivalents

(83,066) (7,141) (30,236)

Cash and cash equivalents at the beginning of the year

118,255 125,396 155,632

Cash and cash equivalents at the end of the year

$35,189 $118,255 $125,396

Supplemental disclosure of cash flow information:

Interest paid (including rent classified as interest)

$10,227 $10,462 $23,826

Income taxes paid (net of refunds)	1,127	658	859

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

Table of Contents

TravelCenters of America LLC

Consolidated Statements of Shareholders' Equity

(in thousands, except share data)

	Number of Common Shares	Common Shares	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
December 31, 2009	17,269,646	$ 545,321	$ 815	$ (242,053)	$ 304,083
Grants under share award plan and share based compensation, net of forfeitures	746,550	1,745			1,745
Other comprehensive income, net of tax			378		378
Net loss				(66,690)	(66,690)
December 31, 2010	18,016,196	547,066	1,193	(308,743)	239,516
Grants under share award plan and share based compensation, net of forfeitures	759,475	2,435			2,435
Shares issued in public offering	10,000,000	53,135			53,135
Other comprehensive loss, net of tax			(59)		(59)
Net income				23,574	23,574
December 31, 2011	28,775,671	602,636	1,134	(285,169)	318,601
Grants under share award plan and share based compensation, net of forfeitures	760,795	2,470			2,470
Other comprehensive income, net of tax			165		165
Net income				32,198	32,198
December 31, 2012	29,536,466	$ 605,106	$ 1,299	$ (252,971)	$ 353,434

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

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TravelCenters of America LLC

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

1. Basis of Presentation, Business Description and Organization

TravelCenters of America LLC, which we refer to as the Company or we, us and our, operates and franchises travel centers under the "TravelCenters of America," "TA" or related brand names, or the TA brand, and the "Petro Stopping Centers" and "Petro" brand names, or the Petro brand, primarily along the U.S. interstate highway system. Our customers include long haul trucking fleets and their drivers, independent truck drivers and motorists.

At December 31, 2012, our geographically diverse business included 243 travel centers in 41 U.S. states and in Canada, including 171 travel centers operating under the TA brand, and 72 travel centers operating under the Petro brand. As of December 31, 2012, we operated 208 of these travel centers, which we refer to as Company operated sites, and our franchisees operated 35 of these travel centers. Of our 243 travel centers at December 31, 2012, we owned 25, we leased or managed 189 from or for others, including 185 that we leased from HPT, and franchisees owned or leased from others 29. We sublease to franchisees six of the travel centers we lease from HPT.

Our travel centers typically include over 25 acres of land and offer customers diesel fuel and gasoline as well as nonfuel products and services such as truck repair and maintenance services, full service restaurants, quick service restaurants, travel and convenience stores and other driver amenities. We also collect rents, royalties and other fees from our franchisees.

We were formed as a Delaware limited liability company on October 10, 2006, by Hospitality Properties Trust, or HPT. We were a wholly owned, indirect subsidiary of HPT, and we conducted no business activities until January 31, 2007. On January 31, 2007, HPT acquired TravelCenters of America, Inc., our predecessor, through a merger of one of its subsidiaries with TravelCenters of America, Inc. HPT then restructured the business of our predecessor and distributed our then outstanding shares to its shareholders in a spin off transaction. The principal effects of the restructuring were that (i) our predecessor became our 100% owned subsidiary, (ii) subsidiaries of HPT became owners of the real estate at substantially all of the travel centers and certain other assets previously owned by our predecessor as of January 31, 2007, (iii) we entered a lease for that real estate and those other assets, which we refer to as the TA Lease, and (iv) all of the outstanding indebtedness of our predecessor was repaid in full. Herein we refer to this series of transactions as the HPT Transaction. We retained the balance of the assets previously owned by our predecessor and continue their operation.

On May 30, 2007, we acquired Petro Stopping Centers, L.P., or Petro, from Petro Stopping Centers Holdings, L.P., or Petro Holdings. Also on May 30, 2007, HPT acquired Petro Holdings, which owned the real estate of 40 Petro travel centers. Simultaneously with HPT's acquisition of this real estate, we leased these 40 travel centers from HPT. We refer to this lease as the Petro Lease and we refer to the TA Lease and the Petro Lease collectively as the HPT Leases. Herein we refer to our acquisition of Petro as the Petro Acquisition.

2. Summary of Significant Accounting Policies

Principles of Consolidation. Our consolidated financial statements include the accounts of TravelCenters of America LLC and its wholly owned subsidiaries (collectively, we, us or the Company) after eliminating intercompany transactions, profits and balances. We use the equity method of accounting for investments in entities when we have the ability to significantly influence, but not

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

control, the investee's operating and financial policies, typically when we own 20% to 50% of the investee's voting stock. See Note 15 for more information about our equity investments.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Segment Reporting. We manage our business on the basis of one operating segment and, therefore, have one reportable segment. Our travel centers sell similar products and services, use similar processes to sell those products and services, and sell their products and services to similar groups of customers. We make specific disclosures concerning fuel and nonfuel products and services because it facilitates our discussion of trends and operational initiatives within our business and industry. We have a single travel center located in a foreign country, Canada, and, accordingly, the revenues and assets related to our operations in Canada are considered to be not material.

Revenue Recognition. We recognize sales revenues and related costs at the time of delivery of motor fuel to customers at either the terminal or the customer's facility for wholesale fuel sales and at the time of final sale to consumers at our company operated travel centers for retail fuel and nonfuel sales. We record the estimated cost to us of the redemption by customers of our loyalty program points as a discount against gross sales in determining net sales presented in our consolidated statement of operations and comprehensive income (loss).

For those travel centers that we sublease to a franchisee, we recognize rent revenue based on the amount of rent payment due for each period. These leases specify rent increases each year based on inflation rates for the respective periods or capital improvements we make at the travel center. Because the rent increases related to these factors are contingent upon future events, we recognize the related rent revenue when such events have occurred.

We collect and recognize franchise royalty revenues monthly as earned. We determine royalty revenues as a percentage of the franchisees' revenues. We recognize initial franchise fee revenues when the franchisee opens for business under our brand name, which is when we have fulfilled all of our initial obligations under the related agreements.

Motor Fuel and Sales Taxes. We collect the cost of certain motor fuel and sales taxes from consumers and remit those amounts to the supplier or the appropriate governmental agency. We present these collections and remittances net in the accompanying consolidated statements of operations and comprehensive income (loss).

Earnings Per Share. We calculate basic earnings per common share by dividing net income or loss available to common shareholders (and, if applicable, income from continuing operations, cumulative effect of a change in accounting, extraordinary items and discontinued operations) by the weighted average number of common shares outstanding during the year. The net income or loss attributable to participating securities is deducted from our total net income or loss to determine the net income or loss attributable to common shareholders. We calculate diluted earnings per common share by adjusting

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

weighted average outstanding shares, assuming conversion of all potentially dilutive share securities, using the treasury stock method; but we had no dilutive share securities outstanding as of December 31, 2012, nor during the three year period then ended. Unvested shares issued under our share award plan are deemed participating securities because they participate equally in earnings or losses with all of our other common shares.

Cash and Cash Equivalents. We consider all liquid investments with an initial maturity of three months or less at date of purchase to be cash equivalents. The carrying amount of cash and cash equivalents is equal to its fair value.

Accounts Receivable and Allowance for Doubtful Accounts. We record trade accounts receivable at the invoiced amount and those amounts do not bear interest. The recorded allowance for doubtful accounts is our best estimate of the amount of probable losses in our existing accounts receivable. We base the allowance on customer risk assessment and historical write off experience. We individually review for collectability past due balances over specific amounts. We review all other balances for collectability on a pooled basis by the type of receivable. We charge off account balances against the allowance when we believe it is probable the receivable will not be recovered.

Inventories. We state our inventories at the lower of cost or market value. We determine cost principally on the weighted average cost method.

Other current assets. Other current assets primarily consisted of prepaid expenses, the current portion of expected future recoveries of environmental expenditures, and supplier deposits. The most significant item included in other current assets is supplier deposits, which amounted to $39,487 and $46,987 at December 31, 2012 and 2011, respectively.

Property and Equipment. We recorded property and equipment that we acquired as a result of the HPT Transaction, Petro Acquisition or any subsequent business combination based on their fair market values as of the date of the respective transaction. We record all other property and equipment at cost. We depreciate our property and equipment on a straight line basis generally over the following estimated useful lives of the assets:

Buildings and site improvements	15 - 40 years
Machinery and equipment	3 - 15 years
Furniture and fixtures	5 - 10 years

We depreciate leasehold improvements over the shorter of the lives shown above or the remaining term of the underlying lease. Although the assets related to the qualifying tenant improvements funded by HPT under the tenant improvements allowance are legally owned by HPT, they remained on our balance sheet after the funding by HPT and are amortized over the estimated useful lives of the assets or the remaining term of the lease, whichever is shorter, as depreciation and amortization expense. We account for these leasehold improvements funded through a rental allowance as lease incentives. Amortization expense related to assets recorded in connection with the sale/leaseback financing obligation is included in depreciation and amortization expense over the estimated useful lives of the assets.

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

We charge repair and maintenance costs to expense as incurred, while we capitalize renewals and betterments. We remove from the accounts the cost and related accumulated depreciation of property and equipment sold, replaced or otherwise disposed. We recognize any resulting gains or losses in depreciation and amortization in the accompanying consolidated statements of operations and comprehensive income (loss).

Goodwill and Intangible Assets. We initially recognize our acquired intangible assets, other than goodwill, based on their fair values in accordance with the Financial Accounting Standards Board, or FASB's, guidance regarding business combinations. This guidance requires an allocation of purchase price to all assets and liabilities acquired, including those intangible assets that arise from contractual or other legal rights or are otherwise capable of being separated or divided from the acquired entity (but excluding goodwill), based on the fair values of the acquired assets and liabilities. Any excess of acquisition cost over the fair value of the acquired net assets is recorded as goodwill. We expense as incurred the costs of internally developing, maintaining, or restoring intangible assets that are not specifically identifiable, that have indeterminate lives or that are inherent in a continuing business and related to the entity as a whole. We amortize the recorded cost of intangible assets with finite lives on a straight line basis over their estimated lives, principally the terms of the related contractual agreements giving rise to them. We do not amortize goodwill or intangible assets with indefinite lives but instead we review these assets each year (or more frequently if impairment indicators arise) for impairment. See Note 8 for more information about our intangible assets.

Internal Use Software Costs. During the application development stage of an internal use computer software project, we capitalize (i) the external direct costs of materials and services consumed in developing or obtaining the internal use computer software, (ii) to the extent of time spent directly on the project, payroll costs of employees directly associated with, and who devote time to, the project, and (iii) related interest costs incurred. Internal and external costs incurred in the preliminary project stage and post-implementation stage, such as for exploring alternative technologies, vendor selection and maintenance, are expensed as incurred, as are all training costs. We account for the costs of significant upgrades and enhancements that result in additional functionality in the same manner as similar costs for new software projects. We expense as incurred the costs of all other upgrades and enhancements. The amounts capitalized in accordance with this policy are included in the property and equipment balances in our consolidated balance sheet.

Impairment. We review definite lived assets for indicators of impairment during each reporting period. We recognize impairment charges when (a) the carrying value of a long lived or indefinite lived asset group to be held and used in the business is not recoverable and exceeds its fair value and (b) when the carrying value of a long lived asset to be disposed of exceeds the estimated fair value of the asset less the estimated cost to sell the asset. Our estimates of fair value are based on our estimates of likely market participant assumptions including with respect to projected operating results, rental payments and the discount rate used to measure the present value of projected future cash flows. If the business climate deteriorates our actual results may not be consistent with these assumptions and estimates. We recognize such impairment charges in the period during which the circumstances surrounding an asset to be held and used have changed such that the carrying value is no longer recoverable, or during which a commitment to a plan to dispose of the asset is made. The lowest level of asset groupings for which the cash flows are largely independent of the cash flows of other assets

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

and liabilities is the individual travel center and, accordingly, it is at the individual travel center level that we perform our impairment analysis for substantially all of our property and equipment. We evaluate definite lived intangible assets for impairment when indicators exist and we evaluate goodwill and indefinite lived intangible assets for impairment at least annually. GAAP permits that we first perform a qualitative assessment to determine whether a quantitative assessment is required. We subject goodwill and intangible assets to further evaluation and recognize impairment charges when events and circumstances indicate the carrying value of the goodwill or intangible asset exceeds the fair market value of the asset. We include impairment charges, when required, in depreciation and amortization expense in our consolidated statements of operations and comprehensive income (loss).

Deferred Financing Costs. We capitalize costs incurred to borrow and we amortize those costs as interest expense over the term of the related borrowing. Deferred financing costs were $1,511 and $1,676 at December 31, 2012 and 2011, respectively, net of accumulated amortization of $416 and $64, respectively, and are included in other noncurrent assets in our consolidated balance sheet. We recognized $107 of expense to write off deferred financing fees when we entered into an amended and restated loan and security agreement, or the credit facility, in October 2011 and we capitalized $1,542 of costs related to entering the credit facility in 2011. In 2012 we capitalized $165 of costs related to the issuance of our 8.25% Senior Notes due on January 15, 2028, or the Senior Notes, and in January 2013 capitalized an additional $4,635 of costs related to that offering. We estimate we will recognize future amortization of deferred financing fees, including the costs incurred during January 2013, of approximately $673 in each of the years from 2013 through 2015, $609 in 2016 and $320 in 2017.

Classification of Costs and Expenses. Cost of goods sold (excluding depreciation) represents the costs of fuels and other products sold, including freight. Site level operating expenses principally represent costs incurred in operating our travel centers, consisting primarily of labor, maintenance, supplies, utilities, property taxes, inventory losses, environmental costs, and credit card transaction fees.

Share Based Employee Compensation. We recognize compensation cost related to share based payment transactions in the financial statements based on the fair value at the grant date. The awards made under our share award plan to date have consisted of share grants and not share options. Shares issued to directors vest immediately. Shares issued to others vest in five to ten equal annual installments beginning on the date of grant. The compensation expense related to share grants is determined based on the market value of our shares on either the date of grant for employees or the vesting date for nonemployees, as appropriate, with the aggregate value of the granted shares amortized to expense over the related vesting period. We include share based compensation expense in selling, general and administrative expenses in our consolidated statements of operations and comprehensive income (loss).

Environmental Remediation. We record the expense of remediation costs and penalties when the obligation to remediate is probable and the amount of associated costs is reasonably determinable. We include remediation expenses within site level operating expenses in our consolidated statements of operations and comprehensive income (loss). Generally, the timing of remediation accruals coincides with completion of a feasibility study or the commitment to a formal plan of action. Accrued liabilities related to environmental matters are recorded on an undiscounted basis because of the uncertainty associated with the timing of the related future payments. We record a receivable if recoveries of

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

remediation costs from third parties are probable. The accrual for environmental matters is included in other noncurrent liabilities in our consolidated balance sheet, with the amount estimated to be expended within the subsequent twelve months included in other current liabilities.

Self Insurance Accruals. We establish accruals under insurance programs for which we pay deductibles and for which we are partially self insured up to certain stop loss amounts for both estimated losses on known claims and claims incurred but not reported, based on claims histories and using actuarial methods.

Asset Retirement Obligations. We recognize the future costs for our obligations related to the removal of our underground storage tanks and to remove leasehold improvements as required at expiration of the respective leases over the estimated useful lives of each tank or leasehold improvement. We record a liability for the fair value of an asset retirement obligation with a corresponding increase to the carrying value of the related long lived asset at the time an underground storage tank or leasehold improvement is installed. We amortize the amount recorded as property and equipment and recognize accretion expense in connection with the discounted liability over the lesser of the remaining life of the respective underground storage tank or the remaining term of the underlying lease. We base the estimated liability on our historical experiences in removing these assets, their estimated useful lives, external estimates as to the cost to remove the assets in the future and regulatory or contractual requirements. The liability is a discounted liability using a credit adjusted risk free rate. Revisions to the liability could occur due to changes in removal costs, asset useful lives or if new regulations regarding the removal of such tanks are enacted and/or amendments to the lease contracts are negotiated. We are obligated to remove underground storage tanks and to remove certain other assets at certain sites we lease. See Note 7 for more information about our asset retirement obligations.

Leasing Transactions. Leasing transactions are a material part of our business. The following discussion summarizes various aspects of our accounting for leasing transactions and the related balances.

Operating Lease Expense. We charge rent under operating leases without scheduled rent increases to expense over the lease term as it becomes payable. Certain operating leases specify scheduled rent increases over the lease term or other lease payments that are not scheduled evenly throughout the lease term. We recognize the effects of those scheduled rent increases in rent expense over the lease term on an average, or straight line, basis. The rent payments resulting from our sales to HPT of improvements to the properties we lease from HPT are contingent rent. Other than at the 14 travel centers discussed below under "Sale/leaseback Financing Obligation," we recognize the expense related to this contingent rent evenly throughout the lease term beginning on the dates of the related sales to HPT.

Leasehold improvements receivable. In connection with the commitment by HPT to fund up to $125,000 of capital projects at the sites we lease under the TA Lease, we recognized a receivable of the discounted value of the expected future amounts to be received from HPT, based upon our expected timing of receipt of these future payments as of the date we entered the TA Lease. We accreted this receivable over the time this receivable was expected to be received, and such

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

accretion was recognized as interest income. The receivable was fully accreted and collected from HPT by September 30, 2010.

Sale/leaseback Financing Obligation. GAAP governing the transactions related to our entering the TA Lease required us to recognize in our consolidated balance sheets the leased assets at 13 of the travel centers previously owned by our predecessor that we now lease from HPT because we sublease more than a minor portion of those travel centers to third parties, and one travel center that did not qualify for operating lease treatment for other reasons. Accordingly, we recorded the leased assets at these travel centers at an amount equal to HPT's recorded initial carrying amounts, which were equal to their fair values, and recognized an equal amount of liability that is presented as sale/leaseback financing obligation in our consolidated balance sheet. We recognize a portion of the total rent payments to HPT related to these assets as a reduction of the sale/leaseback financing obligation and a portion as interest expense in our consolidated statements of operations. We determine the allocation of these rent payments to the liability and to interest expense using the effective interest method. The assets and liabilities resulting from this accounting for the affected sites are derecognized when the subleases end and we defer any resulting gain or loss, as further discussed below under "Deferred Gain on Sale/Leaseback Transactions". At sites for which we have recorded a sale/leaseback financing obligation, we follow this same accounting when we sell to HPT improvements at those sites.

Deferred Gain on Sale/Leaseback Transactions. Under GAAP, the gain or loss from the sale portion of a sale/leaseback transaction is deferred and amortized into rent expense on a straight line basis over the term of the lease.

Deferred Tenant Improvements Allowance. HPT committed to fund up to $125,000 of capital projects at the sites we lease under the TA Lease without an increase in rent payable by us, which amount HPT had fully funded by September 30, 2010, net of discounting to reflect our accelerated receipt of those funds. In connection with this commitment, we recognized a liability for the rent deemed to be related to this improvement allowance. This improvement allowance was initially recorded at an amount equal to the leasehold improvements receivable we recognized for the discounted value of the then expected future amounts to be received from HPT, based upon our then expected timing of receipt of those tenant improvements funding payments. We amortize the deferred tenant improvements allowance on a straight line basis over the term of the TA Lease as a reduction of rent expense.

Deferred Rent Obligation. Pursuant to a rent deferral agreement with HPT, through December 31, 2010, we deferred a total of $150,000 of rent payable to HPT. The deferred rent obligation is payable in two installments, $107,085 in December 2022 and $42,915 in June 2024. This obligation does not bear interest, unless certain events of default or other events occur, including a change of control of us.

Income Taxes. We establish deferred income tax assets and liabilities to reflect the future tax consequences of differences between the tax bases and financial statement bases of assets and liabilities. We reduce the measurement of deferred tax assets, if necessary, by a valuation allowance when it is more likely than not the deferred tax asset will not be realized.

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

As required by the FASB Accounting Standards Codification™, or ASC, Topic, *Income Taxes*, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount we recognize in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of interest expense and general and administrative expense, respectively. We have concluded that the effects of uncertain tax positions, if any, are not material to our consolidated financial statements.

Concentration of Credit Risk. We grant credit to some of our trucking company customers and are therefore exposed to a concentration of our accounts receivable from that one industry. We may require letters of credit or other collateral from customers based on our evaluation of their credit worthiness.

Certain Significant Risks and Uncertainties. We are exposed to risks arising from the changes in the demand for and the price of fuel. Because petroleum products are traded in commodity markets, material changes in demand for and the price of fuel worldwide and financial speculation in these commodities markets may have a material effect upon the prices we have to pay for fuel and may also impact our customers' demand for fuel and other products.

Fair Value of Financial Instruments. The fair values of financial instruments classified as current assets or current liabilities approximate the carrying values due to the short term maturity of the instruments.

Reclassifications and Revisions. Certain prior year amounts have been reclassified to be consistent with the current year presentation. We previously had included the liability (approximately $10,900 at December 31, 2011) for the estimated amounts due to HPT at the end of the terms of the HPT Leases related to the retirement obligation for underground and above ground storage tanks in the other noncurrent liabilities balance along with the liability for asset retirement obligations at our other sites, but revised our accounting for this liability such that it is now included in the HPT Leases liabilities balance and have reflected the revised accounting in the prior year balances. The total amounts of prior year liabilities are unchanged. We also revised the presentation of the 2010 distribution from an equity investee from investing activities to operating activities in our statement of cash flows.

Recently Issued Accounting Pronouncements

In July 2012, the FASB issued an update to amend ASC Topic No. 350, *Intangibles Goodwill and Other.* This guidance permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. The more likely than not threshold is defined as having a likelihood of more than 50 percent. In accordance with this update, an entity will have an option not to calculate annually the fair value of an indefinite lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. This update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We adopted this guidance during the fourth quarter of 2012.

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

In June 2011, the FASB issued an update to amend ASC Topic No. 220, *Comprehensive Income*, which amended its guidance on the presentation of comprehensive income in financial statements with a stated intention of improving the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a single statement that presents net income and comprehensive income, or (2) a separate statement of comprehensive income immediately following the income statement. Companies are no longer allowed to present comprehensive income on the statement of changes in shareholders' equity. In both options, companies must present the components of net income, total net income, the components of other comprehensive income, total other comprehensive income and total comprehensive income. In addition, in December 2011, the FASB issued an amendment to the standard that deferred the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. The provisions of both pieces of new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and require retrospective application for all periods presented. Our adoption of this new standard, which was effective January 1, 2012, affected our presentation of comprehensive income but did not otherwise affect our financial position or results of operations.

3. Earnings Per Share

Unvested shares issued under our share award plan are deemed participating securities because they participate equally in earnings with all of our other common shares. The following table presents a reconciliation from net income (loss) to the net income (loss) available to common shareholders and the related earnings per share.

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income (loss), as reported	$ 32,198	$ 23,574	$ (66,690)
Less: net income (loss) attributable to participating securities	1,851	1,384	(4,133)
Net income (loss) available to common shareholders	$ 30,347	$ 22,190	$ (62,557)
Weighted average common shares[(1)]	27,193,889	22,689,063	16,286,307
Basic and diluted net income (loss) per share	$ 1.12	$ 0.98	$ (3.84)

(1) Excludes the unvested shares granted under our share award plan, which shares are considered participating securities because they participate equally in earnings and losses with all of our other common shareholders. The weighted average number of unvested shares outstanding for the years ended December 31, 2012, 2011 and 2010, was 1,658,718, 1,415,892 and 1,076,027, respectively.

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

4. Accounts Receivable

Changes in, and balances of, the allowance for doubtful accounts receivable were as follows:

	Balance at Beginning of Period	Amounts Charged/ (Credited) To Expense	Amounts Charged Off, Net of Recoveries	Balance at End of Period
Year Ended December 31, 2012				
Deducted from accounts receivable for doubtful accounts	$ 1,679	$ 349	$ (512)	$ 1,516
Year Ended December 31, 2011				
Deducted from accounts receivable for doubtful accounts	$ 2,023	$ 99	$ (443)	$ 1,679
Year Ended December 31, 2010				
Deducted from accounts receivable for doubtful accounts	$ 2,901	$ (183)	$ (695)	$ 2,023

5. Inventories

Inventories at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Nonfuel products	$ 144,025	$ 128,341
Fuel products	46,981	39,926
Total inventories	$ 191,006	$ 168,267

6. Acquisitions

During the year ended December 31, 2012, we invested $52,310 to purchase ten travel centers in six business combination transactions and to acquire from our franchisees the operations at four travel centers we previously subleased to those franchisees in two business combination transactions. Each of these transactions was the purchase of assets for cash and was accounted for as a business combination. See Note 16 below for further information regarding the acquisitions of former franchisee businesses and certain lease accounting effects resulting from those transactions.

During the year ended December 31, 2011, we invested $37,975 to purchase eight travel centers. Each of these transactions was the purchase of assets for cash. We invested $31,371 to purchase six travel centers in two business combination transactions and one transaction for $6,604 was accounted for as an asset purchase because it had not been an operating business at the time we acquired it.

During 2012 and 2011, we incurred $785 and $446, respectively, of acquisition costs related to the business combinations described above, which amounts are included in our consolidated statements of operations. We have included the results of these sites in our consolidated financial statements from their respective dates of acquisition. The pro forma impact of including the results of operations of the acquired businesses from the beginning of the periods presented in our condensed consolidated financial statements is not material to our consolidated results of operations for those periods. The following table summarizes the amounts assigned, based on their fair values, to the assets we acquired and liabilities we assumed in the business combinations described above. The estimates of fair values

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

6. Acquisitions (Continued)

for certain of the assets acquired and liabilities assumed during 2012 were based upon preliminary calculations and valuations and our estimates and assumptions for those assets and liabilities are subject to change as we obtain additional information during the respective measurement periods (up to one year from the acquisition date).

	Years Ended December 31, 2012	Years Ended December 31, 2011
Cash	$ 240	$ 155
Accounts receivable	93	
Inventories	5,679	1,425
Other current assets	77	
Property and equipment	45,283	30,727
Goodwill	1,690	
Intangible assets		105
Other noncurrent assets	83	290
Other current liabilities	(314)	(748)
Other noncurrent liabilities	(521)	(583)
Total aggregate purchase price	$ 52,310	$ 31,371

During January and February of 2013 we acquired for cash the assets at two travel centers for an aggregate of $8,768. We expect to account for these transactions as business combinations.

7. Property and Equipment

Property and equipment, at cost, as of December 31, 2012 and 2011, consisted of the following:

	2012	2011
Land and improvements	$ 176,313	$ 179,047
Buildings and improvements	120,529	93,656
Machinery, equipment and furniture	205,195	166,687
Leasehold improvements	182,955	158,580
Construction in progress	95,744	48,740
	780,736	646,710
Less: accumulated depreciation and amortization	204,224	166,767
Property and equipment, net	$ 576,512	$ 479,943

Total depreciation expense for the years ended December 31, 2012, 2011 and 2010, was $46,888, $42,344 and $39,859, respectively, including impairment charges of $351, $302 and $536 for the years ended December 31, 2012, 2011 and 2010, respectively.

The following table shows the amounts of property and equipment owned by HPT but recognized in our consolidated balance sheet and included within the balances of property and equipment shown in the table above, as a result of the required accounting for the assets funded by HPT under the

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

7. Property and Equipment (Continued)

tenant improvements allowance and for the assets that we lease from HPT that did not qualify for sale/leaseback accounting. During 2012, we acquired the businesses of the former franchisees at four travel centers that we subleased to the franchisees and that did not previously qualify for sale/leaseback accounting. Those acquisitions eliminated the sublease such that these sites then qualified for sale/leaseback accounting. Accordingly, we derecognized the undepreciated and unamortized balances of the assets and liabilities related to those sites as of the dates of the respective acquisitions. We reduced our property and equipment balance by $22,229 and our sale/leaseback financing obligation balance by $24,646 ($231 current and $24,415 noncurrent), resulting in a gain of $2,417 that was deferred and will be amortized as a reduction of rent expense over the remaining term of the TA Lease.

	December 31,	
	2012	2011
Land and improvements	$ 62,818	$ 84,363
Buildings and improvements	21,999	21,384
Machinery, equipment and furniture	5,925	1,873
Leasehold improvements	115,820	115,962
	206,562	223,582
Less: accumulated depreciation and amortization	53,527	46,368
Property and equipment, net	$ 153,035	$ 177,214

At December 31, 2012, our property and equipment balance included assets of $16,842 that we intend to sell to HPT as permitted by the HPT Leases; however, HPT is not obligated to purchase those assets.

The following table shows a reconciliation of our asset retirement obligation liability for the sites we operate that we do not lease from HPT, which is included within other noncurrent liabilities in our consolidated balance sheets.

	Years Ended December 31,		
	2012	2011	2010
Balance at beginning of period	$ 829	$ 485	$ 1,506
Liabilities acquired	505	361	
Liabilities settled		(74)	(1,056)
Accretion expense	96	57	35
Balance at end of period	$ 1,430	$ 829	$ 485

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

8. Goodwill and Intangible Assets

Goodwill and intangible assets, net, as of December 31, 2012 and 2011, consisted of the following:

	2012	2011
Amortizable intangible assets:		
Agreements with franchisees	$ 18,258	$ 24,899
Leasehold interests	2,094	2,094
Other	3,200	3,301
Total amortizable intangible assets	23,552	30,294
Less: accumulated amortization	(13,107)	(16,243)
Net carrying value of amortizable intangible assets	10,445	14,051
Carrying value of trademarks (indefinite lived)	7,906	7,906
Intangible assets, net	18,351	21,957
Goodwill	1,690	
Goodwill and intangible assets, net	$ 20,041	$ 21,957

Total amortization expense for amortizable intangible assets for the years ended December 31, 2012, 2011 and 2010 was $3,606, $3,892 and $3,136, respectively, including $215, $1,034 and $147, respectively, related to write offs related to early terminations of franchise and lease agreements for various reasons.

We estimate the aggregate amortization expense for our amortizable intangible assets to be $1,020 for each of the years from 2013 through 2017. We amortize our amortizable intangible assets over a weighted average period of 11 years.

Goodwill. Goodwill results from our business combinations and represents the excess of amounts paid to the sellers over the fair values of the tangible assets acquired. During 2012, we recognized $1,690 of goodwill in connection with our business combinations. We did not have any goodwill in 2011 or 2010. Our goodwill is deductible for tax purposes.

9. Other Current Liabilities

Other current liabilities, as of December 31, 2012 and 2011, consisted of the following:

	2012	2011
Taxes payable, other than income taxes	$ 35,127	$ 42,240
Accrued wages and benefits	13,494	16,246
Self insurance program accruals, current portion	14,797	15,503
Loyalty program points reserve	11,967	10,868
Accrued capital expenditures	15,327	9,930
Environmental reserve, current portion	7,988	5,447
Other	12,468	13,390
Total other current liabilities	$ 111,168	$ 113,624

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

10. Other Noncurrent Liabilities

Other noncurrent liabilities, as of December 31, 2012 and 2011, consisted of the following:

	2012	2011
Asset retirement obligations	$ 1,430	$ 829
Environmental reserve, noncurrent portion	2,367	3,495
Self insurance program accruals, noncurrent portion	16,573	15,174
Other noncurrent liabilities	10,215	15,415
Total other noncurrent liabilities	$ 30,585	$ 34,913

11. Revolving Credit Facility

In October 2011, we entered into the credit facility with a group of commercial banks that amended and restated our preexisting credit facility. Under the credit facility, a maximum of $200,000 may be drawn, repaid and redrawn until maturity in October 2016. The availability of this maximum amount is subject to limits based on qualified collateral. Subject to available collateral and lender participation, the maximum amount may be increased to $300,000. The credit facility may be used for general business purposes and provides for the issuance of letters of credit. Generally, no principal payments are due until maturity. Borrowings under the credit facility bear interest at a rate based on, at our option, LIBOR or a base rate plus a premium (initially 225 basis points in the case of LIBOR or 125 basis points in the case of the base rate, subject to adjustment based upon facility availability, utilization and other matters). Pursuant to the credit facility, we pay a monthly unused line fee equal to an applicable fee rate, which is initially 50 basis points, times the average daily principal amount of unused commitments under the credit facility. The unused line fee applicable rate is subject to adjustment according to the average daily principal amount of unused commitment under the credit facility each month.

The credit facility requires us to maintain certain levels of collateral, limits our ability to incur debt and liens, restricts us from making certain investments and paying dividends and other distributions, requires us to maintain a minimum fixed charge ratio in certain circumstances and contains other customary covenants and conditions. The credit facility provides for the acceleration of principal and interest payments upon an event of default including, but not limited to, failure to pay interest or other amounts due, a change in control of us, as defined in the credit facility, and our default under certain contracts, including the HPT Leases and our business management and shared services agreement with RMR.

The credit facility is secured by substantially all of our cash, accounts receivable, inventory, equipment and intangible assets, and the amount available to us is determined by reference to a borrowing base calculation based on eligible cash, accounts receivable and inventory. At December 31, 2012, a total of $132,288 was available to us for loans and letters of credit under the credit facility. At December 31, 2012 and 2011, there were no borrowed amounts outstanding under the credit facility. At December 31, 2012 and 2011, we had outstanding $58,229 and $65,686, respectively, of letters of credit issued under this facility securing certain purchases, insurance, fuel tax and other trade obligations. These letters of credit reduce the amount available for borrowing under the credit facility.

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

12. Leasing Transactions

As a lessee. We have entered into lease agreements covering most of our travel center locations, warehouse space, and various equipment and vehicles, with the most significant leases being the two we have entered with HPT as further described below. Certain leases include renewal options, and certain leases include escalation clauses and purchase options. Future minimum lease payments required under leases that had remaining noncancelable lease terms in excess of one year, as of December 31, 2012, were as follows (included herein are the full payments due under the HPT Leases including the amount attributed to those sites that are accounted for as a financing in our consolidated balance sheet as reflected in the sale/leaseback financing obligation):

Year ending December 31,	Total
2013	$ 225,115
2014	222,601
2015	221,357
2016	218,691
2017	217,364
Thereafter	1,334,389
Total	$ 2,439,517

The expenses related to our operating leases are included in the site level operating expense, selling, general and administrative expense, and real estate rent lines of the operating expenses section of our consolidated statements of operations and comprehensive income (loss). Rent expense under our operating leases consisted of the following:

	Years Ended December 31,		
	2012	2011	2010
Minimum rent	$ 195,964	$ 189,984	$ 233,596
Sublease rent	8,736	8,625	8,602
Contingent rent	1,710	790	623
Total rent expense	$ 206,410	$ 199,399	$ 242,821

We have two leases with HPT, pursuant to which we lease 185 travel centers from HPT. Our TA Lease is for 145 travel centers that we operate under the TA brand name. The TA Lease became effective on January 31, 2007. Our Petro Lease is for 40 travel centers that we operate under the Petro brand name. Our Petro Lease became effective on May 30, 2007. The TA Lease expires on December 31, 2022. The Petro Lease expires on June 30, 2024, and may be extended by us for up to two additional periods of 15 years each.

The HPT Leases are "triple net" leases that require us to pay all costs incurred in the operation of the leased travel centers, including personnel, utilities, acquiring inventories, providing services to customers, insurance, paying real estate and personal property taxes, environmental related expenses, underground storage tank removal costs and ground lease payments at those travel centers at which HPT leases the property and subleases it to us. We also are required to generally indemnify HPT for certain environmental matters and for liabilities which arise during the terms of the leases from ownership or operation of the leased travel centers. The TA Lease and the Petro Lease also include arbitration provisions for the resolution of certain disputes, claims and controversies. See Note 16 for a further description of the HPT Leases and related transactions and relationships.

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Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

12. Leasing Transactions (Continued)

As a lessor. As of December 31, 2012 and 2011, six and ten, respectively, of the travel centers we lease from HPT were subleased to franchisees under operating lease agreements. Prior to the HPT Transaction, our predecessor owned these sites and leased them to these franchisees. During 2012, we acquired the operations at four travel centers that previously had been subleased from us by former franchisees. The initial terms of each of the ten subleases expired between June and September of 2012 and the current terms of the six remaining sublease agreements expire between June and September 2017. Five of the six subleases have one remaining renewal option for an additional five year period; the sixth sublease has no further renewal option. These leases include rent escalations that are contingent on future events, namely inflation or our investing in capital improvements at these travel centers. Rent revenue from these operating leases totaled $5,724, $5,152 and $5,045 for the years ended December 31, 2012, 2011 and 2010, respectively. Future minimum lease payments due to us for the six subleased sites under these operating leases as of December 31, 2012, were as follows:

Year ending December 31,	Total
2013	$ 4,950
2014	4,950
2015	4,950
2016	4,950
2017	2,731
Total	$ 22,531

13. Shareholders' Equity

In May 2011, we issued 10,000,000 common shares in a public offering, raising proceeds of approximately $53,135 after underwriters' discounts and commissions and other costs of the offering.

Share Award Plan. An aggregate of 6,000,000 of our common shares were authorized for issuance under the terms of our Amended and Restated 2007 Equity Compensation Plan, or the Plan. We awarded a total of 767,925, 760,875 and 750,350 common shares under the Plan during the years ended December 31, 2012, 2011 and 2010, respectively, with aggregate market values of $3,377, $3,363 and $2,639, respectively, based on the closing prices of our common shares on the exchange on which they are traded on the dates of the awards. During the years ended December 31, 2012, 2011 and 2010, we recognized total share based compensation expense of $2,470, $2,435 and $1,745, respectively. During the years ended December 31, 2012, 2011 and 2010, the vesting date fair value of common shares that vested was $2,358, $2,013 and $1,475, respectively.

The weighted average grant date fair value of common shares issued in 2012, 2011 and 2010 was $4.40, $4.42 and $3.52, per share, respectively. Shares issued to directors vest immediately and the related compensation expense is recognized on the grant date. Shares issued to others vest in five to ten equal annual installments beginning on the date of grant and the related compensation expense is recognized ratably over the vesting periods. As of December 31, 2012, 2,147,200 shares remained available for issuance under the Plan. As of December 31, 2012, there was a total of $7,910 of share based compensation related to unvested shares that will be amortized to expense over a weighted average remaining service period of 5.3 years. The following table sets forth the number and weighted

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Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

13. Shareholders' Equity (Continued)

average grant date fair value of unvested common shares and common shares issued under the Plan for the year ended December 31, 2012.

	Number Of Shares	Weighted Average Grant Date Fair Value Per Share
Unvested shares balance as of December 31, 2011	1,652,190	$ 4.36
Granted during 2012	767,925	$ 4.40
Vested during 2012	(574,820)	$ 4.13
Forfeited/canceled during 2012	(7,130)	$ 3.75
Unvested shares balance as of December 31, 2012	1,838,165	$ 4.45

Accumulated Other Comprehensive Income. Accumulated other comprehensive income at December 31, 2012, 2011 and 2010, consisted of the following:

	Foreign currency translation adjustment	Equity interest in investee's unrealized gain (loss) on investments	Accumulated other comprehensive income
Balance at December 31, 2009	$ 815	$	$ 815
2010 foreign currency translation adjustment, net of tax of $132	378		378
Balance at December 31, 2010	$ 1,193	$	$ 1,193
2011 foreign currency translation adjustment, net of tax of $(55)	(136)		(136)
2011 equity interest in investee's unrealized gain on investments		77	77
Balance at December 31, 2011	$ 1,057	$ 77	$ 1,134
2012 foreign currency translation adjustment, net of tax of $55	143		143
2012 equity interest in investee's unrealized gain on investments		22	22
Balance at December 31, 2012	$ 1,200	$ 99	$ 1,299

14. Income Taxes

Our state and federal income tax returns for periods subsequent to January 31, 2007 are subject to possible examination by the respective tax authorities. We believe we have made adequate provision for income taxes and interest and penalties on unpaid income taxes that may become payable for years not yet examined.

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

14. Income Taxes (Continued)

The provision for income taxes was as follows:

	Years Ended December 31,		
	2012	2011	2010
Current tax provision:			
State	$ 850	$ 950	$ 680
Total current tax provision	850	950	680
Deferred tax provision:			
Federal	587	383	185
State	54	46	22
Total deferred tax provision	641	429	207
Total tax provision	$ 1,491	$ 1,379	$ 887

Because we do not have sufficient history of generating taxable income we do not currently recognize in our income tax provision the future benefit of all of our deferred tax assets, including the tax benefit associated with our loss carry forwards from prior years. We will continue to assess our ability to generate taxable income during future periods in which our deferred tax assets may be realized. If and when we believe it is more likely than not that we will recover our deferred tax assets, we will reverse the valuation allowance as an income tax benefit in our consolidated statements of operations and comprehensive income (loss), which will affect our results of operations. As a result of certain trading in our shares during 2007, our 2007 federal net operating loss of $50,346 and other tax credit carry forwards are generally not available to us for the purpose of offsetting future taxable income because of certain Internal Revenue Code provisions regarding changes in ownership of our common shares. As of December 31, 2012, we had an unrestricted federal net operating loss carry forward of approximately $109,795. In 2012 and 2011, we used $26,114 and $31,979, respectively, of our federal net operating loss carryforward to reduce the amount of tax that would otherwise have been payable. Our federal net operating loss carryforward and tax credits, and the majority of our state net operating loss carry forwards will begin to expire in 2027. Certain of our other state net operating loss carry forwards began to expire in 2012. In addition, certain states have temporarily suspended the use of net operating loss carry forwards.

Our tax provisions for the years ended December 31, 2012, 2011 and 2010, were $1,491, $1,379 and $887, respectively, which included tax expense of $850, $950 and $680, respectively, for certain state taxes on operating income that are payable without regard to our tax loss carry forwards. During 2012, 2011 and 2010, tax expense also included $641, $429, and $207, respectively, related to a noncash deferred liability arising from foreign currency translation adjustments that are unavailable to offset our deferred tax assets and the amortization of indefinite lived intangible assets for tax purposes but not for GAAP purposes. Our income tax provision differed from the amounts of provision expected to be calculated at statutory rates primarily due to the impact of a valuation allowance. The principal reasons

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

14. Income Taxes (Continued)

for the difference between our income tax provision and the income tax provision (benefit) at the U.S. Federal statutory income tax rate of 35% is as follows:

	Years Ended December 31,		
	2012	2011	2010
U.S. federal statutory rate applied to income (loss) before taxes	$ 11,791	$ 8,734	$ (23,031)
State income taxes	1,817	1,544	(2,382)
Benefit of tax credits	(1,178)	(1,243)	(1,062)
Taxes on foreign income at different than U.S. rate	125	(377)	(153)
Change in valuation allowance	(5,066)	(6,472)	25,315
Revisions of previous estimates	(8,107)	(2,982)	1,037
Other net	2,109	2,175	1,163
Total tax provision	$ 1,491	$ 1,379	$ 887

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

14. Income Taxes (Continued)

Significant components of our deferred tax assets and liabilities at December 31, 2012 and 2011, were as follows:

	2012	2011
Current deferred tax assets:		
Reserves	$ 14,179	$ 11,778
Other	1,558	609
Total current deferred tax asset before valuation allowance	15,737	12,387
Valuation allowance	(10,337)	(7,749)
Total current deferred tax assets	5,400	4,638
Noncurrent deferred tax assets:		
Straight line rent accrual	22,437	23,010
Reserves	12,074	10,917
Sale/leaseback financing obligation	33,060	38,884
Asset retirement obligation	556	328
Tax credits	5,662	4,913
Tax loss carry forwards	65,218	76,555
Other	752	4,160
Total noncurrent deferred tax asset before valuation allowance	139,759	158,767
Valuation allowance	(92,177)	(99,831)
Total noncurrent deferred tax assets	47,582	58,936
Total deferred tax assets	52,982	63,574
Noncurrent deferred tax liabilities:		
Depreciable assets	(31,026)	(43,953)
Deferred tenant improvements allowance	(19,534)	(16,901)
Intangible assets	(2,431)	(3,351)
Other	(1,519)	(317)
Total	(54,510)	(64,522)
Net deferred tax liabilities	$ (1,528)	$ (948)

Changes in, and balances of, our valuation allowance for deferred tax assets were as follows:

	Balance at Beginning of Year	Additions/ (Reversals) Recorded in the Provision for Income Taxes	Balance at End of Year
Year Ended December 31, 2012	$ 107,580	$ (5,066)	$ 102,514
Year Ended December 31, 2011	$ 114,052	$ (6,472)	$ 107,580

Year Ended December 31, 2010	$	88,737	$	25,315	$	114,052

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

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14. Income Taxes (Continued)

In measuring our deferred tax assets, we considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed for all or a portion of the deferred tax assets. Judgment is required in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is unnecessary. In order to assess the likelihood of realizing the benefit of these deferred tax assets, we are required to rely on our projections of future income. We believe that our history of losses coupled with the fact that we have a short history of operating profits that is limited to 2011 and 2012, creates sufficient negative evidence such that we are unable to conclude that realization of the benefit is more likely than not. As a result, we have concluded that it is appropriate to maintain a full valuation allowance against our net deferred tax assets until our profitability becomes more predictable. We may reverse some or all of the valuation allowance when we believe that we will more likely than not realize the benefit of our deferred tax assets. At that time, we will record deferred tax assets as an income tax benefit in our consolidated statements of operations and comprehensive income (loss), which will affect our results of operations. Given our profitability over the past two years and our current expectations, we believe it is reasonably likely that our estimates and assumptions regarding the valuation allowance will change in the future.

15. Equity Investments

Affiliates Insurance Company

At December 31, 2012, we owned 12.5% of Affiliates Insurance Company, or AIC. Although we own less than 20% of AIC, we use the equity method to account for this investment because we believe that we have significant influence over AIC because all of our Directors are also directors of AIC. This investment had a carrying value of $5,629 and $5,291 as of December 31, 2012 and 2011, respectively, and is presented on our balance sheets in other noncurrent assets. During 2010, we invested $76 in AIC. During 2012, 2011 and 2010, we recognized income of $316 and $140 and a loss of $1, respectively, related to this investment. See Note 16 for a further description of our transactions with AIC.

Petro Travel Plaza Holdings LLC

We own a 40% interest in Petro Travel Plaza Holdings LLC, or PTP, and operate the two travel centers that PTP owns for which we receive management and accounting fees. This investment is accounted for under the equity method. The carrying value of this investment as of December 31, 2012 and 2011, was $15,332 and $18,571, respectively and was included in other noncurrent assets in our consolidated balance sheet. The carrying value of our investment in PTP exceeded the amount of underlying equity in net assets of PTP by $3,246 as of the date we acquired Petro. This difference arose through the valuation process that was applied to the assets acquired in the Petro Acquisition and is being amortized over a period of 15 years, the estimated useful life of the assets whose values resulted in this difference. The equity income recorded from this investment for the years ended December 31, 2012, 2011 and 2010, was $1,561, $1,029 and $758, respectively. See Note 16 for a further description of our transactions with PTP.

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15. Equity Investments (Continued)

The travel centers owned by PTP are encumbered by debt with a balance due of approximately $18,076 as of December 31, 2012. Since we account for our investment in PTP under the equity method of accounting, we have not recorded a liability for this debt. We are not directly liable for this loan, but the carrying value of our investment in this joint venture could be adversely affected if the joint venture defaulted on this debt and the joint venture's property, which is collateral for this loan, was sold. In connection with the loan agreement entered by PTP in 2009, we and our joint venture partner each agreed to indemnify the lender against liability from environmental matters related to PTP's sites.

Fair Value

It is not practicable to estimate the fair value of TA's investment in the equity of AIC or PTP because of the lack of quoted market prices and the inability to estimate current fair value without incurring excessive costs. However, management believes that the carrying amounts of AIC and PTP at December 31, 2012, were not impaired given these companies' overall financial conditions and earnings trends.

16. Related Party Transactions

Governance Guidelines

We have adopted written Governance Guidelines that address the consideration and approval of any related person transactions. Under these Governance Guidelines, we may not enter into any transaction in which any Director or executive officer, any member of the immediate family of any Director or executive officer or any other related person, has or will have a direct or indirect material interest unless that transaction has been disclosed or made known to our Board of Directors and our Board of Directors reviews and approves or ratifies the transaction by the affirmative vote of a majority of the disinterested Directors, even if the disinterested Directors constitute less than a quorum. If there are no disinterested Directors, the transaction must be reviewed and approved or ratified by both (1) the affirmative vote of a majority of our entire Board of Directors and (2) the affirmative vote of a majority of our Independent Directors. The Governance Guidelines further provide that, in determining whether to approve or ratify a transaction, our Board of Directors, or disinterested Directors or Independent Directors, as the case may be, shall act in accordance with any applicable provisions of our limited liability company agreement and bylaws, consider all of the relevant facts and circumstances, and approve only those transactions that are fair and reasonable to us. All related person transactions described below were reviewed and approved or ratified by a majority of the disinterested Directors or otherwise in accordance with our policies described above. In the case of any transaction with us in which any other employee of ours who is subject to our Code of Business Conduct and Ethics and who has a direct or indirect material interest in the transaction, the employee must seek approval from an executive officer who has no interest in the matter for which approval is being requested.

Relationship with HPT

HPT is our former parent company, our principal landlord and our largest shareholder. We were created as a separate public company in 2007 as a result of a spin off from HPT. As of December 31,

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

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16. Related Party Transactions (Continued)

2012, HPT owned 2,540,000 of our common shares (which included the 1,000,000 of our common shares that HPT purchased from the underwriters in our public equity offering that we completed in May 2011), representing approximately 8.6% of our outstanding common shares. One of our Managing Directors, Mr. Barry Portnoy, is a managing trustee of HPT. Mr. Barry Portnoy's son, Mr. Adam Portnoy, is also a trustee of HPT, and Mr. Barry Portnoy's son-in-law is an executive officer of HPT. Our other Managing Director, Mr. Thomas O'Brien, who is also our President and Chief Executive Officer, was a former executive officer of HPT. In addition, one of our Independent Directors, Mr. Arthur Koumantzelis, was a trustee of HPT at the time we were created; Mr. Koumantzelis resigned and ceased to be a trustee of HPT shortly before he joined our Board of Directors in 2007.

We have two leases with HPT, pursuant to which we lease 185 travel centers from HPT. Our TA Lease is for 145 travel centers that we operate under the "TravelCenters of America" or "TA" brand names. The TA Lease became effective on January 31, 2007. Our Petro Lease is for 40 travel centers that we operate under the "Petro" brand name. Our Petro Lease became effective on May 30, 2007. The TA Lease expires on December 31, 2022. The Petro Lease expires on June 30, 2024, and may be extended by us for up to two additional periods of 15 years each. We have the right to use the "TA", "TravelCenters of America" and other trademarks historically used by our predecessor, which are owned by HPT, during the term of the TA Lease.

The HPT Leases are "triple net" leases that require us to pay all costs incurred in the operation of the leased travel centers, including personnel, utilities, acquiring inventories, providing services to customers, insurance, paying real estate and personal property taxes, environmental related expenses, underground storage tank removal costs and ground lease payments at those travel centers at which HPT leases the property and subleases it to us. We also are required to generally indemnify HPT for certain environmental matters and for liabilities which arise during the terms of the leases from ownership or operation of the leased travel centers. The TA Lease and the Petro Lease also include arbitration provisions for the resolution of disputes.

As amended by the Amendment Agreement that we entered into with HPT on January 31, 2011, and which is further described below, or the Amendment Agreement, the TA Lease requires us to pay minimum rent to HPT of $135,139 per year for the period from January 1, 2011 through January 31, 2012, and $140,139 per year for the period from February 1, 2012 through December 31, 2022. These amounts are exclusive of any increase in minimum rent, as described below, as a result of HPT's purchasing improvements to the leased TA travel centers. During 2012 and 2011 our minimum annual rent under the TA Lease increased by $4,656 and $4,184, respectively, due to such purchases. As amended by the Amendment Agreement, the Petro Lease requires us to pay minimum rent to HPT of $54,160 per year through June 30, 2024. This amount is exclusive of any increase in minimum rent to HPT, as described below, as a result of HPT's purchasing improvements to the leased Petro travel centers. During 2012 and 2011 our minimum annual rent under the Petro Lease increased by $1,868 and $1,691, respectively, due to such purchases. As of December 31, 2012, our minimum annual rents payable under the TA Lease and the Petro Lease were $148,979 and $57,719, respectively. Effective January 2012, we began to incur percentage rent payable to HPT under the TA Lease. The Petro Lease requires us to incur percentage rent payable to HPT effective January 1, 2013. In each case, the percentage rent equals 3% of increases in nonfuel gross revenues and 0.3% of increases in gross fuel revenues at the leased travel centers over base amounts. The increases in percentage rents attributable

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16. Related Party Transactions (Continued)

to fuel revenues are subject to a maximum each year calculated by reference to changes in the consumer price index. Also, as discussed below, HPT has agreed to waive payment of the first $2,500 of percentage rent that may become due under our Petro Lease. The total amount of percentage rent that we incurred during the year ended December 31, 2012 was $1,465. Under the HPT Leases, we are obligated to pay to HPT at lease expiration an amount equal to an estimate of the cost of removing underground storage tanks on the leased sites.

HPT previously agreed to provide up to $25,000 of tenant improvements allowance funding annually for the first five years of the TA Lease for certain improvements to the leased properties without an increase in our rent. This funding was cumulative, meaning if some of the $25,000 was not spent in one year it might have been drawn by us from HPT in subsequent years. All improvements funded under the tenant improvements allowance are owned by HPT. On May 12, 2008, we and HPT amended the TA Lease to permit us to receive this tenant improvements allowance funding, without an increase in our rent, from HPT earlier than previously permitted. As we elected to receive funding for these tenant improvements before the time contractually required by the original lease terms, HPT's tenant improvements allowance was discounted to reflect the accelerated receipt of funds by us according to a present value formula established in the amended lease. We recorded the discounted amount of the remaining uncollected tenant improvements allowance in our balance sheet as a leasehold improvements receivable. During the year ended December 31, 2010, we received funding of $7,015 from HPT for qualifying tenant improvements. As of September 30, 2010, we had received all of the tenant improvements allowance from HPT without an increase in rent payments, portions of which were discounted pursuant to the terms of the lease because we elected to receive those funds on an accelerated basis. We recognized and accounted for this $125,000 tenant improvements allowance as follows:

- We recognized an asset on our balance sheets that we referred to as our leasehold improvements receivable, which represented our right to receive these amounts in the future, at their discounted value, based upon our expected timing of receipt of future payments from HPT. As of September 30, 2010, we had received from HPT all of the $125,000 tenant improvements allowance available under the TA Lease. Portions of this amount were discounted pursuant to the terms of the lease because we elected to receive those funds on an accelerated basis. We accreted the leasehold improvements receivable over the time this receivable was received, and we recognized such accretion as interest income. Interest income related to this accretion for the year ended December 31, 2010 was $248. This receivable was fully accreted and collected from HPT by September 30, 2010.

- We recognized a liability on our balance sheets that we refer to as our deferred tenant improvements allowance, which represents the then expected future amounts of our unearned tenant improvements allowance from HPT. We reduce this liability by a portion of each rent payment made to HPT. We amortize the deferred tenant improvements allowance over the period of the lease on a straight line basis with an offsetting reduction to rent expense.

- Although they are legally owned by HPT, we retained the assets related to the qualifying tenant improvements on our balance sheet after they were funded by HPT and we are amortizing those assets over the estimated useful lives of the assets or the remaining term of the lease, whichever is shorter, as depreciation and amortization expense.

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16. Related Party Transactions (Continued)

Under the HPT Leases, we may request that HPT purchase approved amounts for renovations, improvements and equipment at the leased travel centers in return for increases in our minimum annual rent according to the following formula: the minimum rent per year will be increased by an amount equal to the amount paid by HPT multiplied by the greater of (i) 8.5% or (ii) a benchmark U.S. Treasury interest rate plus 3.5%. During 2012, pursuant to the terms of the HPT Leases, we sold to HPT $76,754 of improvements we previously made to properties leased from HPT, and, as a result, our minimum annual rent payable to HPT increased by approximately $6,524. During 2011, pursuant to the terms of the HPT Leases, we sold to HPT $69,122 of improvements we previously made to properties leased from HPT, and, as a result, our minimum annual rent payable to HPT increased by approximately $5,875. During 2010, we did not sell any such leasehold improvements to HPT. As of December 31, 2012, our property and equipment balance included $16,842 for similar improvements we have made to HPT owned sites that we intend to request that HPT purchase from us for an increase in future rent; however, HPT is not obligated to purchase these improvements.

The following table sets forth the amounts of minimum lease payments required under the HPT Leases as of December 31, 2012, in each of the years shown.

Year ending December 31,	Minimum Rent	Rent for Ground Leases Acquired by HPT	Total Minimum Lease Payments Due to HPT	Rent for Ground Leases Subleased from HPT
2013	$ 206,698	$ 4,988	$ 211,686	$ 8,832
2014	206,698	4,772	211,470	8,547
2015	206,698	4,617	211,315	7,829
2016	206,698	4,668	211,366	5,751
2017	206,698	4,731	211,429	4,901
2018	206,698	4,796	211,494	4,263
2019	206,698	4,470	211,168	2,432
2020	206,698	2,482	209,180	1,781
2021	206,698	1,536	208,234	1,543
2022(1)	338,304		338,304	829
2023	57,720		57,720	232
2024(2)	81,170		81,170	17

(1) Includes previously deferred rent payments of $107,085 due on December 31, 2022.

(2) Includes previously deferred rent payments of $42,915 due on June 30, 2024.

Although certain specified minimum rent payments under the TA Lease increased from 2007 through February 2012, we are required, under generally accepted accounting principles, or GAAP, to recognize expense related to these payments in equal annual amounts for the term of the lease, or approximately $126,313 per year for 2011 through the end of the lease term in 2022.

At the time of our spin off from HPT, our acquisitions and transactions with HPT in connection with the Petro Lease and an equity offering we completed in June 2007, we and HPT believed that we were adequately capitalized to meet all of our obligations, including those owed to HPT. Thereafter,

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16. Related Party Transactions (Continued)

however, there were material changes in the market conditions in which we operate. Specifically, the increase during the first half of 2008 in the price of diesel fuel which we buy and sell at our travel centers and the slowing of the U.S. economy during 2008 both adversely affected the volume of our business and increased our working capital requirements. Although we undertook a restructuring of our business to adjust to these changed market conditions, our balance sheet flexibility and liquidity remained a concern to us because of the impact the then weakening economy and fuel price volatility might have on our working capital requirements. Accordingly, on August 11, 2008, we and HPT entered a rent deferral agreement. Under the terms of this deferral agreement we had the option to defer our monthly rent payments to HPT by up to $5,000 per month for periods beginning July 1, 2008 until December 31, 2010. Also pursuant to the deferral agreement, we issued 1,540,000 of our common shares to HPT (approximately 9.6% of our shares then outstanding immediately after this new issuance). Under the terms of this agreement, interest began to accrue on January 1, 2010 on all unpaid deferred rent at a rate of 1% per month and was payable monthly in arrears by us to HPT. During 2010, we recognized interest expense of $14,100, on our deferred rent, and at December 31, 2010, we had interest payable to HPT of $1,450, which we paid in 2011. No additional rent deferrals were permitted for rent periods after December 31, 2010. Any deferred rent (and interest thereon) not previously paid was contractually due to HPT on July 1, 2011. This deferral agreement also included a prohibition on share repurchases and dividends by us while any deferred rent remains unpaid and provided that all deferred rent and interest thereon would become immediately due and payable by us to HPT if certain events provided in that agreement occurred, including a change of control of us (as defined in the agreement) while deferred rent was unpaid. Also, in connection with this deferral agreement, we entered into a registration rights agreement with HPT, which provides HPT with certain rights to require us to conduct a registered public offering with respect to our common shares issued to HPT pursuant to the deferral agreement, which rights continue through the date that is twelve months following the latest of the expiration of the terms of the TA Lease and the Petro Lease. As of December 31, 2010, we had accrued an aggregate of $150,000 of deferred rent payable to HPT, which amount remained outstanding at December 31, 2012.

On January 31, 2011, we and HPT entered the Amendment Agreement that amended the TA Lease, the Petro Lease and our 2008 rent deferral agreement with HPT. This Amendment Agreement provided for the following:

- The minimum annual rent payable to HPT under the TA Lease was reduced effective January 1, 2011, by $29,983, to $135,139 per year until February 1, 2012, when it increased to $140,139 per year through the end of the lease term in December 2022.

- The $5,000 increase in annual minimum rent payable to HPT under the TA Lease that was scheduled to begin on February 1, 2011, was eliminated.

- The minimum annual rent payable to HPT under the Petro Lease was reduced effective January 1, 2011, by $12,017, to $54,160 through the end of the lease term in June 2024.

- The due date for the $150,000 of rent we had deferred as of December 31, 2010, pursuant to our 2008 rent deferral agreement with HPT was extended from July 1, 2011, so that $107,085 is now payable on December 31, 2022, and the remaining $42,915 is now payable on June 30, 2024, and interest ceased to accrue on our deferred rent obligation beginning on January 1, 2011;

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16. Related Party Transactions (Continued)

provided, however, that the deferred rent obligation shall be accelerated and interest shall begin to accrue thereon if certain events provided in the Amendment Agreement occur, including a change of control of us.

HPT will waive payment of the first $2,500 of percentage rent that may become due under the Petro Lease beginning in 2013, which percentage rent obligation is described above.

The following table summarizes the various amounts related to the HPT Leases and other lessors that are reflected in real estate rent expense in our consolidated statements of operations.

	Years Ended December 31,		
	2012	**2011**	**2010**
Cash payments for rent under the HPT Leases and interest on the deferred rent obligation	$ 207,653	$ 196,364	$ 188,162
Accrued estimated percentage rent not yet paid (overpaid)	(11)		
Required straight line rent adjustments	(2,664)	3,021	6,986
Rent deferred under rent deferral agreement			60,000
Less interest paid on deferred rent		(1,450)	(12,650)
Less sale/leaseback financing obligation amortization	(2,089)	(2,046)	(1,628)
Less portion of rent payments recognized as interest expense	(7,330)	(7,390)	(9,900)
Less deferred tenant improvements allowance amortization	(6,769)	(6,769)	(6,769)
Amortization of deferred gain on sale/leaseback transactions	(103)		
Rent expense related to HPT Leases	188,687	181,730	224,201
Rent paid to others(1)	9,915	9,764	9,785
Straight line rent adjustments for other leases	325	304	242
Total real estate rent expense	$ 198,927	$ 191,798	$ 234,228

(1) Includes rent paid directly to HPT's landlords under leases for properties we sublease from HPT as well as rent related to properties we lease from landlords other than HPT.

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16. Related Party Transactions (Continued)

The following table summarizes the various amounts related to the HPT Leases that are included in our consolidated balance sheets.

	December 31, 2012	December 31, 2011
Current HPT Leases liabilities:		
Accrued rent	$ 17,092	$ 16,109
Current portion of sale/leaseback financing obligation[1]	2,038	2,195
Current portion of straight line rent accrual[2]	2,149	1,750
Total Current HPT Leases obligations	21,279	20,054
Current portion of deferred gain on sale/leaseback transactions[3]	306	68
Current portion of deferred tenant improvements allowance[4]	6,769	6,769
Total Current HPT Leases liabilities	$ 28,354	$ 26,891
Noncurrent HPT Leases liabilities:		
Deferred rent obligation[5]	$ 150,000	$ 150,000
Sale/leaseback financing obligation[1]	82,195	97,765
Straight line rent accrual[2]	55,233	57,286
Total Noncurrent HPT Leases obligations	287,428	305,051
Deferred gain on sale/leaseback transactions[3]	2,792	716
Deferred tenant improvements allowance[4]	60,915	67,684
Total Noncurrent HPT Leases liabilities	$ 351,135	$ 373,451

(1) *Sale/leaseback Financing Obligation.* GAAP governing the transactions related to our entering the TA Lease required us to recognize in our consolidated balance sheets the leased assets at thirteen of the travel centers previously owned by our predecessor that we now lease from HPT because we sublease more than a minor portion of those travel centers to third parties, and one travel center that did not qualify for operating lease treatment for other reasons. Accordingly, we recorded the leased assets at these travel centers at an amount equal to HPT's recorded initial carrying amounts, which were equal to their fair values, and recognized an equal amount of liability that is presented as sale/leaseback financing obligation in our consolidated balance sheet. We recognize a portion of the total rent payments to HPT related to these assets as a reduction of the sale/leaseback financing obligation and a portion as interest expense in our consolidated statements of operations. We determined the allocation of these rent payments to the liability and to interest expense using the effective interest method. The amounts allocated to interest expense during the years ended December 31, 2012, 2011 and 2010, were $7,330, $7,390 and $9,900, respectively.

In August 2012 and November 2012, we acquired the businesses of former franchisees at four travel centers that we subleased to the franchisees and that were four of the thirteen

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Notes to Consolidated Financial Statements (Continued)

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16. Related Party Transactions (Continued)

travel centers discussed in the previous paragraph. Those acquisitions eliminated the sublease such that these sites then qualified for sale/leaseback accounting. Accordingly, we removed from our balance sheet the undepreciated and unamortized amounts of the assets and liabilities related to those sites. We reduced our property and equipment balance by $22,229 and our sale/leaseback financing obligation balance by $24,646 ($231 current and $24,415 noncurrent), resulting in a gain of $2,417 that was deferred and will be amortized as a reduction of rent expense over the remaining term of the TA Lease. See also footnote (3) below.

(2) *Straight Line Rent Accrual.* The TA Lease included scheduled rent increases over the lease term, as do certain of the leases for properties we sublease from HPT and pay the rent directly to HPT's landlords. Under our leases with HPT, we are obligated to pay to HPT at lease expiration an amount equal to an estimate of the asset retirement obligation we would have if we owned the underlying assets. We recognize the effects of scheduled rent increases and the future payment to HPT for asset retirement obligations in rent expense over the lease terms on a straight line basis, with offsetting entries to this accrual balance.

(3) *Deferred Gain on Sale/Leaseback Transactions.* Under GAAP, the gain or loss from the sale portion of a sale/leaseback transaction is deferred and amortized into rent expense on a straight line basis over the term of the lease. See also footnote (1) above.

(4) *Deferred Tenant Improvements Allowance.* HPT committed to fund up to $125,000 of capital projects at the sites we lease under the TA Lease without an increase in rent payable by us, which amount HPT had fully funded by September 30, 2010, net of discounting to reflect our accelerated receipt of those funds. In connection with this commitment, we recognized a liability for the rent deemed to be related to this tenant improvements allowance. This deferred tenant improvements allowance was initially recorded at an amount equal to the leasehold improvements receivable we recognized for the discounted value of the then expected future amounts to be received from HPT, based upon our then expected timing of receipt of those payments. We amortize the deferred tenant improvements allowance on a straight line basis over the term of the TA Lease as a reduction of rent expense.

(5) *Deferred Rent Obligation.* Pursuant to a rent deferral agreement with HPT, through December 31, 2010, we deferred a total of $150,000 of rent payable to HPT. The deferred rent obligation is payable in two installments, $107,085 in December 2022 and $42,915 in June 2024. This obligation does not bear interest, unless certain events of default or other events occur, including a change of control of us.

RMR provides management services to both us and HPT and, as noted above, there are other current and historical relationships between us and HPT. Accordingly, the terms of the 2008 rent deferral agreement and the 2011 Amendment Agreement were negotiated and approved by special committees of our Independent Directors and HPT's independent trustees, none of whom are directors or trustees of the other company, and each special committee was represented by separate counsel.

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16. Related Party Transactions (Continued)

Relationship with RMR

RMR provides business management and shared services to us pursuant to a business management and shared services agreement, or our business management agreement. One of our Managing Directors, Mr. Barry Portnoy, is Chairman, majority owner and an employee of RMR. Mr. Barry Portnoy's son, Mr. Adam Portnoy, is an owner of RMR and serves as President, Chief Executive Officer and a director of RMR. Our other Managing Director, Mr. Thomas O'Brien, who is also our President and Chief Executive Officer, is also an Executive Vice President of RMR. Mr. Andrew Rebholz, our Executive Vice President, Chief Financial Officer and Treasurer, and Mr. Mark Young, our Executive Vice President and General Counsel, are each a Senior Vice President of RMR. HPT's executive officers are officers of RMR. A majority of our Independent Directors also serve as independent directors or independent trustees of other public companies to which RMR or its affiliates provide management services. Mr. Barry Portnoy serves as a managing director or managing trustee of those companies, including HPT, and Mr. Adam Portnoy serves as a managing trustee of a majority of those companies, including HPT. In addition, officers of RMR serve as officers of those companies. We understand that further information regarding those relationships is provided in the applicable periodic reports and proxy statements filed by those other companies with the SEC.

Messrs. O'Brien and Rebholz were officers of RMR throughout all of 2010, 2011 and 2012 and Mr. Young was an officer of RMR since October 2011. Because at least 80% of Messrs. O'Brien's, Rebholz's and Young's business time is devoted to services to us, 80% of Messrs. O'Brien's, Rebholz's and Young's total cash compensation (that is, the combined base salary and cash bonus paid by us and RMR) was paid by us and the remainder was paid by RMR (for Mr. Young, this arrangement was not in place prior to October 2011). Messrs. O'Brien, Rebholz and Young are also eligible to participate in certain RMR benefit plans. We believe the compensation we paid to these officers reasonably reflected their division of business time; however, periodically, these individuals may divide their business time differently than they do currently and their compensation from us may become disproportionate to this division. RMR has approximately 790 employees and provides management services to other companies in addition to us and HPT.

Our Board of Directors has given our Compensation Committee, which is comprised exclusively of our Independent Directors, authority to act on our behalf with respect to our business management agreement with RMR. The charter of our Compensation Committee requires the Committee annually to review the business management agreement, evaluate RMR's performance under this agreement and renew, amend, terminate or allow to expire the business management agreement.

Pursuant to the business management agreement, RMR assists us with various aspects of our business, which may include, but are not limited to, compliance with various laws and rules applicable to our status as a publicly owned company, maintenance of our travel centers, site selection for properties on which new travel centers may be developed, identification of, and purchase negotiation for, travel centers and travel center companies, accounting and financial reporting, capital markets and financing activities, investor relations and general oversight of our daily business activities, including legal and tax matters, human resources, insurance programs, management information systems and the like. Under our business management agreement, we pay RMR an annual business management fee equal to 0.6% of the sum of our gross fuel margin (which is our fuel sales revenues less our cost of fuel sales) plus our total nonfuel revenues. The fee is payable monthly based on the prior month's

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16. Related Party Transactions (Continued)

margins and revenues. This fee totaled $10,025, $9,435 and $8,508 for the years ended December 31, 2012, 2011 and 2010, respectively. RMR also provides internal audit services to us in return for our share of the total internal audit costs incurred by RMR for us and other companies managed by RMR and its affiliates, which amounts are subject to approval by our Compensation Committee. Our Audit Committee appoints our Director of Internal Audit. Our share of RMR's costs of providing this internal audit function was approximately $193 for 2012, $240 for 2011 and $211 for 2010. These allocated costs are in addition to the business management fees earned by RMR.

The business management agreement automatically renews for successive one year terms unless we or RMR give notice of non-renewal before the end of an applicable term. We or RMR may terminate the business management agreement upon 60 days prior written notice. RMR may also terminate the business management agreement upon five business days notice if we undergo a change of control, as defined in the business management agreement. On December 4, 2012, we amended and restated our business management agreement with RMR to extend the term of the business management agreement until December 31, 2013, and to amend certain procedures for the arbitration of disputes pursuant to the agreement as well as for other clarification and administrative changes.

Under our business management agreement with RMR, we acknowledge that RMR also provides management services to other companies, including HPT. The fact that RMR has responsibilities to other entities, including our largest landlord, HPT, could create conflicts; and in the event of such conflicts, our business management agreement allows RMR to act on its own behalf and on behalf of HPT or such other entity rather than on our behalf.

We are also generally responsible for all of our expenses and certain expenses incurred by RMR on our behalf. Pursuant to our business management agreement, RMR may from time to time negotiate on our behalf with certain third party vendors and suppliers for the procurement of services to us. As part of this arrangement, we may enter agreements with RMR and other companies to which RMR provides management services for the purpose of obtaining more favorable terms from such vendors and suppliers.

Effective July 21, 2011, we entered a property management agreement with RMR under which RMR provides building management services to us for our headquarters building. The charter of our Compensation Committee requires the Committee annually to review the property management agreement, evaluate RMR's performance under this agreement and renew, amend or terminate this agreement. For 2012 and 2011, we paid RMR $132 and $58, respectively, for property management services at our headquarters building.

Under the Plan, we typically grant restricted shares to certain employees of RMR who are not also Directors, officers or employees of ours. In 2012, 2011 and 2010, we granted to such persons a total of 59,725, 61,350 and 62,750, respectively, restricted shares with an aggregate value of $260, $260 and $223, respectively, based upon the closing price of our common shares on the NYSE MKT (formerly NYSE Amex) on the dates of grant. One fifth of those restricted shares vested on the grant dates and one fifth vests on each of the next four anniversaries of the grant dates. These share grants to RMR employees are in addition to both the fees we pay to RMR and our share grants to our Directors, officers and employees. On occasion, we have entered into arrangements with former employees of

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16. Related Party Transactions (Continued)

ours or RMR in connection with the termination of their employment with us or RMR, providing for the acceleration of vesting of restricted shares previously granted to them under the Plan.

Other Relationships with HPT and RMR

In connection with our spin off from HPT in 2007, we entered a transaction agreement with HPT and RMR, pursuant to which we granted HPT a right of first refusal to purchase, lease, mortgage or otherwise finance any interest we own in a travel center before we sell, lease, mortgage or otherwise finance that travel center to or with another party, and we granted HPT and any other company managed by RMR a right of first refusal to acquire or finance any real estate of the types in which they invest before we do. We also agreed that for so long as we are a tenant of HPT we will not permit: the acquisition by any person or group of beneficial ownership of 9.8% or more of the voting shares or the power to direct the management and policies of us or any of our subsidiary tenants or guarantors under our leases with HPT; the sale of a material part of our assets or of any such tenant or guarantor; or the cessation of our continuing directors to constitute a majority of our board of directors or any such tenant or guarantor. Also, we agreed not to take any action that might reasonably be expected to have a material adverse impact on HPT's ability to qualify as a REIT and to indemnify HPT for any liabilities it may incur relating to our assets and business. The transaction agreement includes arbitration provisions for the resolution of disputes.

In connection with a shareholder derivative litigation on behalf of us against members of our Board of Directors, HPT and RMR that we settled in 2011, we paid $119 to HPT and $51 to RMR pursuant to our indemnity obligations under our limited liability company agreement and our agreements with HPT and RMR.

Relationship with AIC

We, RMR, HPT and five other companies to which RMR provides management services each currently own 12.5% of AIC, an Indiana insurance company. All of our Directors, all of the trustees and directors of the other publicly held AIC shareholders and nearly all of the directors of RMR currently serve on the board of directors of AIC. RMR provides management and administrative services to AIC pursuant to a management and administrative services agreement with AIC. Our Governance Guidelines provide that any material transaction between us and AIC shall be reviewed, authorized and approved or ratified by the affirmative votes of both a majority of our entire Board of Directors and a majority of our Independent Directors. The shareholders agreement among us, the other shareholders of AIC and AIC includes arbitration provisions for the resolution of disputes.

As of December 31, 2012, we have invested $5,229 in AIC since its formation in November 2008. Although we own less than 20% of AIC, we use the equity method to account for this investment because we believe that we have significant influence over AIC because all of our Directors are also directors of AIC. Our investment in AIC had a carrying value of $5,629 and $5,291 as of December 31, 2012 and 2011, respectively, which amounts are included in other noncurrent assets on our consolidated balance sheets. For 2012, 2011 and 2010, we recognized income of $316 and $140 and a loss of $1, respectively, related to our investment in AIC. We and the other shareholders of AIC have purchased property insurance providing $500,000 of coverage pursuant to an insurance program arranged by AIC and with respect to which AIC is a reinsurer of certain coverage amounts. This program was modified

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16. Related Party Transactions (Continued)

and extended in June 2012 for a one year term, and we paid a premium, including taxes and fees, of $3,183 in connection with that renewal, which amount may be adjusted from time to time as we acquire or dispose of properties that are included in this program. Our annual premiums for this property insurance in 2011 and 2010 were $1,664 and $2,308, respectively. We are also currently investigating the possibilities to expand our insurance relationships with AIC to include other types of insurance. We may invest additional amounts in AIC in the future if the expansion of this insurance business requires additional capital, but we are not obligated to do so. By participating in this insurance business with RMR and the other companies to which RMR provides management services, we expect that we may benefit financially by possibly reducing our insurance expenses or by realizing our pro rata share of any profits of this insurance business. See Note 15 for a further description of our investment in AIC.

Relationship with PTP

PTP is a joint venture between us and Tejon Development Corporation, which owned the land on which PTP has built two travel centers in California. We own a 40% interest in PTP and operate the two travel centers PTP owns for which we receive management and accounting fees. The carrying value of the investment in PTP as of December 31, 2012 and 2011, was $15,332 and $18,571, respectively. During the years ended December 31, 2012, 2011 and 2010, we recognized management and accounting fee income of $800, $800 and $725, respectively. At December 31, 2012 and 2011, we had a net payable to PTP of $575 and $559, respectively. We recognized income of $1,561, $1,029 and $758 during the years ended December 31, 2012, 2011 and 2010, respectively, related to this investment. In June and September 2012, we received distributions from PTP of $2,000 and $2,800, respectively. In June 2010, we received a $960 distribution from PTP. These distributions represented a return on our investment and, accordingly, are included as operating activities in the accompanying statement of cash flows. See Note 15 for a further description of our investment in PTP.

17. Commitments and Contingencies

Purchase Commitments

As of December 31, 2012, we had entered agreements to purchase four travel centers for an aggregate of $20,300; two of these acquisitions were completed during January and February 2013 and two acquisitions are expected to close during the first half of 2013. However, those acquisitions are subject to conditions and, accordingly, may be delayed, their terms may be changed or they may not be completed. See Note 6 above for further information regarding these acquisitions.

Guarantees

In the normal course of our business we periodically enter into agreements that contain guarantees or indemnification provisions. While we cannot estimate the maximum amount to which we may be exposed under these agreements, we do not believe that any potential guaranty or indemnification is likely to have a material adverse effect on our consolidated financial position or results of operations.

We offer a warranty of our workmanship in our truck maintenance and repair facilities, but we believe the annual warranty expense and corresponding liability are not material to us.

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17. Commitments and Contingencies (Continued)

Environmental Matters

Extensive environmental laws regulate our operations and properties. These laws may require us to investigate and clean up hazardous substances, including petroleum products, released at our owned and leased properties. Governmental entities or third parties may hold us liable for property damage and personal injuries, and for investigation, remediation and monitoring costs incurred in connection with any contamination and regulatory compliance. We use both underground storage tanks and above ground storage tanks to store petroleum products and waste at our travel centers. We must comply with environmental laws regarding tank construction, integrity testing, leak detection and monitoring, overfill and spill control, release reporting and financial assurance for corrective action in the event of a release. At some locations we must also comply with environmental laws relative to vapor recovery or discharges to water. Under the terms of our leases, we generally have agreed to indemnify HPT for any environmental liabilities related to travel centers that we lease from HPT and we are required to pay all environmental related expenses incurred in the operation of the travel centers.

From time to time we have received, and in the future likely will receive, notices of alleged violations of environmental laws or otherwise have become or will become aware of the need to undertake corrective actions to comply with environmental laws at our travel centers. Investigatory and remedial actions were, and regularly are, undertaken with respect to releases of hazardous substances at our travel centers. In some cases we received, and may receive, contributions to partially offset our environmental costs from insurers, from state funds established for environmental clean up associated with the sale of petroleum products or from indemnitors who agreed to fund certain environmental related costs at travel centers purchased from those indemnitors. To the extent we incur material amounts for environmental matters for which we do not receive insurance or other third party reimbursement or for which we have not previously recorded a reserve, our operating results may be materially adversely affected. In addition, to the extent we fail to comply with environmental laws and regulations, or we become subject to costs and requirements not similarly experienced by our competitors, our competitive position may be harmed.

At December 31, 2012, we had a gross accrued liability of $10,355 for environmental matters as well as a receivable of $2,718 for expected recoveries of certain of these estimated future expenditures, resulting in an estimated net amount of $7,637 that we expect to need to fund from future cash flows. We do not have a reserve for unknown current or potential future environmental matters. Accrued liabilities related to environmental matters are recorded on an undiscounted basis because of the uncertainty associated with the timing of the related future payments. We do not precisely know the ultimate costs we will incur in connection with currently known or future potential environmental related violations, corrective actions, investigation and remediation; however, based on our current knowledge we do not expect that our net costs for such matters to be incurred at our travel centers, individually or in the aggregate, would be material to our financial condition or results of operations.

We have insurance of up to $10,000 for certain environmental liabilities at certain of our travel centers that were known at the time the policies were issued, and up to $40,000 for certain environmental liabilities not known by us at the time the policies were issued, subject, in each case, to certain limitations and deductibles. However, we can provide no assurance that we will be able to maintain similar environmental insurance coverage in the future on acceptable terms.

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

17. Commitments and Contingencies (Continued)

The following table sets forth the various amounts regarding environmental matters, as of December 31, 2012 and 2011, recorded in our consolidated balance sheet as either current or noncurrent assets or liabilities.

	December 31,	
	2012	2011
Gross liability for environmental matters:		
Included in other current liabilities	$ 7,988	$ 5,447
Included in other noncurrent liabilities	2,367	3,495
Total recorded liabilities	10,355	8,942
Less-expected recoveries of future expenditures, included in other noncurrent assets	(2,718)	(2,914)
Net estimated environmental costs to be funded by future operating cash flows	$ 7,637	$ 6,028

While the costs of our environmental compliance in the past have not had a material adverse impact on us, it is impossible to predict the ultimate effect changing circumstances and changing environmental laws may have on us in the future or the ultimate outcome of matters currently pending. We cannot be certain that contamination presently unknown to us does not exist at our sites, or that material liability will not be imposed on us in the future. If we discover additional environmental problems, or if government agencies impose additional environmental requirements, increased environmental compliance or remediation expenditures may be required, which could have a material adverse effect on us. In addition, legislation and regulation regarding climate change, including greenhouse gas emissions, and other environmental matters may be adopted or administered and enforced differently in the future, which could require us to expend significant amounts. For instance, federal and state governmental requirements addressing emissions from trucks and other motor vehicles, such as the U.S. Environmental Protection Agency's gasoline and diesel sulfur control requirements that limit the concentration of sulfur in motor vehicle gasoline and diesel fuel, could negatively impact our business. Further, legislation and regulations that limit carbon emissions also may cause our energy costs at our travel centers to increase.

As of December 31, 2012, the estimated gross amounts of the cash outlays by year related to the matters for which we have accrued an environmental liability are $7,988, $2,147, $155 and $65 for the years 2013, 2014, 2015 and 2016, respectively. These cash expenditure amounts do not reflect any amounts for the expected recoveries as we cannot accurately predict the timing of those cash receipts. These estimated future gross cash disbursements are subject to change based on, among other things, changes in the underlying remediation activities and changes in the regulatory environment.

Legal Proceedings

In February 2012, Riverside County in the State of California performed its annual inspection of the underground storage tank systems at one of our sites and subsequently asserted that we were in violation of state laws and regulations governing the operation of those systems. We have demanded indemnification from third parties who we believe may be responsible for these alleged violations and

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

17. Commitments and Contingencies (Continued)

we have reached an agreement in principle to resolve the County's claims and our claim for indemnification from third parties. We have recorded a loss with respect to this matter of $26.

In May 2010, the California Attorney General filed a litigation on behalf of the California State Water Resources Control Board against various defendants, including us, HPT TA Properties Trust, PTP and Tejon Development Corporation, or Tejon, in the Superior Court of California for Alameda County seeking unspecified civil penalties and injunctive relief for alleged violations of underground storage tank laws and regulations at various facilities in Kern and Merced counties. On July 26, 2010, the California Attorney General voluntarily dismissed this litigation against us and the other named defendants, and on September 2, 2010, refiled its complaint against the same defendants in the Superior Court of California for Merced County, seeking unspecified civil penalties and injunctive relief. The parties are presently engaged in discovery and the court has not yet set a date for a trial. We have denied the material allegations in the complaint and asserted various affirmative defenses. We disagree with the Attorney General's allegations and we intend to defend this lawsuit if a settlement is not reached. Under the TA Lease and our expired lease agreement with Tejon for a site that has since been closed, we are liable to indemnify HPT TA Properties Trust and Tejon for any liabilities, costs and expenses they incur in connection with this litigation. We have accrued an estimated loss for this matter, and believe that the additional amount of loss we may realize, if any, upon the ultimate resolution of this matter in excess of the amount we have accrued will not be material.

Beginning in December 2006, a series of class action lawsuits was filed against numerous companies in the petroleum industry, including our predecessor and our subsidiaries, in U.S. district courts in over 20 states. Major petroleum refiners and retailers were named as defendants in one or more of these lawsuits. The plaintiffs in the lawsuits generally allege that they are retail purchasers who purchased motor fuel at temperatures greater than 60 degrees Fahrenheit at the time of sale. One theory alleges that the plaintiffs purchased smaller amounts of motor fuel than the amount for which defendants charged them because the defendants measured the amount of motor fuel they delivered by volumes which, at higher temperatures, contain less energy. A second theory alleges that fuel taxes are calculated in temperature adjusted 60 degree gallons and are collected by governmental agencies from suppliers and wholesalers, who are reimbursed in the amount of the tax by the defendant retailers before the fuel is sold to consumers. These "tax" cases allege that, when the fuel is subsequently sold to consumers at temperatures above 60 degrees, the retailers sell a greater volume of fuel than the amount on which they paid tax, and therefore reap unjust benefit because the customers pay more tax than the retailer pays. A third theory, advanced more recently in connection with plantiffs' request for class certification, alleges that all purchasers of fuel at any temperature are harmed because the defendants do not use equipment that adjusts for temperature or disclose the temperature of fuel being sold, and thereby deprive customers of information they allegedly require to make an informed purchasing decision. We believe that there are substantial factual and legal defenses to the theories alleged in these so called "hot fuel" lawsuits. The "temperature" cases seek nonmonetary relief in the form of an order requiring the defendants to install devices that display the temperature of the fuel and/or temperature correcting equipment on their retail fuel pumps and monetary relief in the form of damages, but the plaintiffs have not quantified the damages they seek. The "tax" cases also seek monetary relief. Plaintiffs have proposed a formula (which we dispute) to measure these damages as the difference between the amount of fuel excise taxes paid by defendants and the amount collected by defendants on motor fuel sales. Plaintiffs have taken the position in filings with the Court that under

TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

17. Commitments and Contingencies (Continued)

this approach, our damages for an eight-year period for one state would be approximately $10,700. We deny liability and disagree with the plaintiffs' positions. All of these cases have been consolidated in the U.S. District Court for the District of Kansas pursuant to multi-district litigation procedures. On May 28, 2010, that Court ruled that, with respect to two cases originally filed in the U.S. District Court for the District of Kansas, it would grant plaintiffs' motion to certify a class of plaintiffs seeking injunctive relief (implementation of fuel temperature equipment and/or posting of notices regarding the effect of temperature on fuel). On January 19, 2012, the Court amended its prior ruling, and certified a class with respect to plaintiffs' claims for damages as well. A TA entity was named in one of those two Kansas cases, but the Court ruled that the named plaintiffs were not sufficient to represent a class as to TA. TA was thereafter dismissed from the Kansas case, and TA entities have been dismissed voluntarily from several other cases as well. Several defendants in the Kansas cases, including major petroleum refiners, have entered into multi-state settlements. Following a September 2012 trial against the remaining defendants in the Kansas cases, the jury returned a unanimous verdict in favor of those Kansas defendants, and the judge likewise ruled in the Kansas defendants' favor on the sole non-jury claim. Recently, the Court announced that it will remand three cases originally filed in federal district courts in California back to their original courts, where they may be combined for trial. A TA entity is named in one of these three California cases. The Court has not issued a decision on class certification or motions for summary judgment with respect to these or other remaining cases that have been consolidated in the multi-district litigation. We cannot estimate our ultimate exposure to loss or liability, if any, related to these lawsuits, but, the continued costs to defend these cases could be significant.

On April 6, 2009, five independent truck stop owners, who are plaintiffs in a purported class action suit against Comdata Network, Inc., or Comdata, in the U.S. District Court for the Eastern District of Pennsylvania, filed a motion to amend their complaint to add us as a defendant, which was allowed on March 25, 2010. The amended complaint also added as defendants Ceridian Corporation, Pilot Travel Centers LLC and Love's Travel Stops & Country Stores, Inc. Comdata markets fuel cards which are used for payments by trucking companies at truck stops. The amended complaint alleged antitrust violations arising out of Comdata's contractual relationships with truck stops in connection with its fuel cards. The plaintiffs have sought unspecified damages and injunctive relief. On March 24, 2011, the Court dismissed the claims against TA in the amended complaint, but granted plaintiffs leave to file a new amended complaint. Four independent truck stop owners, as plaintiffs, filed a new amended complaint against us on April 21, 2011, repleading their claims. On May 6, 2011, we renewed our motion to dismiss the complaint with prejudice while discovery otherwise proceeded. The Court denied our renewed motion to dismiss on March 29, 2012, and we filed an answer to the complaint on April 30, 2012. The Court has set a schedule that provides that fact discovery shall end on May 24, 2013, and trial shall begin on August 18, 2014. We believe that there are substantial factual and legal defenses to the plaintiffs' claims against us. We cannot estimate our ultimate exposure to loss or liability, if any, related to this lawsuit, but the continued costs to defend this case could be significant.

In addition to the legal proceedings referenced above, we are routinely involved in various other legal and administrative proceedings, including tax audits incidental to the ordinary course of our business, none of which we expect, individually or in the aggregate, to have a material adverse effect on our business, financial condition, results of operations or cash flows.

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

18. Other Information

	Years Ended December 31,		
	2012	2011	2010
Operating expenses included the following:			
Repairs and maintenance expenses	$ 38,893	$ 35,871	$ 33,643
Advertising expenses	$ 20,563	$ 18,768	$ 17,095
Taxes other than payroll and income taxes	$ 15,818	$ 16,252	$ 16,920

Interest expense consisted of the following:

	Years Ended December 31,		
	2012	2011	2010
HPT rent classified as interest expense	$ 7,330	$ 7,390	$ 9,900
Interest on deferred rent obligation to HPT			14,100
Amortization of deferred financing costs	352	403	285
Other	2,676	1,212	1,368
Interest expense	$ 10,358	$ 9,005	$ 25,653

19. Subsequent Event

In January 2013, we issued $110,000 of 8.25% Senior Notes that mature on January 15, 2028. The Senior Notes are our senior unsecured obligations. Our net proceeds from this issuance were approximately $105,200 after underwriters' discount and commission and other costs of the offering. No principal payments are due on the Senior Notes until maturity. We will pay interest on the Senior Notes quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, beginning on April 15, 2013. The Senior Notes are redeemable at any time and from time to time at our option in whole or in part on or after January 15, 2016. The redemption price will equal 100% of the principal amount of the Senior Notes being redeemed plus accrued and unpaid interest, if any, to, but not including, the redemption date.

20. Selected Quarterly Financial Data (unaudited)

The following is a summary of our unaudited quarterly results of operations for 2012 and 2011 (dollars in thousands, except per share amounts):

	2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$ 1,994,869	$ 2,041,507	$ 2,034,153	$ 1,925,195
Gross profit (excluding depreciation)	243,352	294,223	288,306	260,119
Income (loss) from operations	(11,309)	32,017	20,933	(171)
Net income (loss)	$ (14,185)	$ 29,852	$ 18,990	$ (2,459)
Net income (loss) per share:				
Basic and diluted	$ (0.49)	$ 1.04	$ 0.66	$ (0.08)

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TravelCenters of America LLC

Notes to Consolidated Financial Statements (Continued)

(in thousands, except share and per share amounts)

20. Selected Quarterly Financial Data (unaudited) (Continued)

	2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$ 1,782,114	$ 2,094,957	$ 2,087,285	$ 1,924,501
Gross profit (excluding depreciation)	229,483	276,376	281,206	251,753
Income (loss) from operations	(14,229)	24,153	22,600	(124)
Net income (loss)	$ (16,572)	$ 21,828	$ 20,793	$ (2,475)
Net income (loss) per share:				
Basic and diluted	$ (0.92)	$ 1.00	$ 0.74	$ (0.09)

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 LLC

March 18, 2013

By: /s/ ANDREW J. REBHOLZ

Name: Andrew J. Rebholz
Title: *Executive Vice President,*
Chief Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ THOMAS M. O'BRIEN Thomas M. O'Brien	Managing Director, President and Chief Executive Officer (Principal Executive Officer)	March 18, 2013
/s/ ANDREW J. REBHOLZ Andrew J. Rebholz	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 18, 2013
/s/ BARRY M. PORTNOY Barry M. Portnoy	Managing Director	March 18, 2013
/s/ PATRICK F. DONELAN Patrick F. Donelan	Independent Director	March 18, 2013
/s/ BARBARA D. GILMORE Barbara D. Gilmore	Independent Director	March 18, 2013
/s/ ARTHUR G. KOUMANTZELIS Arthur G. Koumantzelis	Independent Director	March 18, 2013