FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
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FILER

GETTY REALTY CORP /MD/

CIK:**1052752**| IRS No.: **113412575** | State of Incorp.:**MD** | Fiscal Year End: **0131**
Type: **10-Q** | Act: **34** | File No.: **001-13777** | Film No.: **99709385**
SIC: **5171** Petroleum bulk stations & terminals

Mailing Address
125 JERICHO TURNPIKE
JERICHO NY 11753

Business Address
125 JERICHO TURNPIKE
JERICHO NY 11753
5163382600

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES AND EXCHANGE ACT OF 1934

For quarter ended JULY 31, 1999 Commission file number 001-13777

GETTY REALTY CORP.
(Exact name of registrant as specified in its charter)

MARYLAND	11-3412575
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
125 JERICHO TURNPIKE, JERICHO, NEW YORK	11753
(Address of principal executive offices)	(Zip Code)

(516) 338 - 2600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Registrant had outstanding 13,567,335 shares of Common Stock, par value $.01 per share, and 2,888,798 shares of Series A Participating Convertible Redeemable Preferred Stock, par value $.01 per share, as of July 31, 1999.

GETTY REALTY CORP.

INDEX

GETTY REALTY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

<TABLE>
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	July 31,	January 31,
Assets:	1999	1999
	(unaudited)	
<S>	<C>	<C>
Real Estate		
Land	$ 134,447	$ 131,976
Buildings and improvements	180,789	175,817
	315,236	307,793
Less - accumulated depreciation and amortization	72,262	68,045
Real estate, net	242,974	239,748
Cash and equivalents	554	657
Mortgages and accounts receivable, net	5,819	6,975
Recoveries from state underground storage tank funds	9,921	10,369
Prepaid expenses and other assets	2,433	3,335
Total assets	$ 261,701	$ 261,084

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Liabilities and Stockholders' Equity:		
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Borrowings under credit lines	$ 13,500	$ 4,500
Mortgages payable	31,780	35,242
Accounts payable and accrued expenses	13,633	18,042
Environmental remediation costs	29,202	34,251
Deferred income taxes	33,767	30,210
Income taxes payable	22	808

Total liabilities	121,904	123,053
Stockholders' equity:		
Preferred stock, par value $.01 per share; authorized 20,000,000 shares for issuance in series of which 3,000,000 shares are classified as Series A Participating Convertible Redeemable Preferred; issued 2,888,798 at July 31, 1999 and January 31, 1999	72,220	72,220
Common stock, par value $.01 per share; authorized 50,000,000 shares; issued 13,567,335 at July 31, 1999 and 13,566,233 at January 31, 1999	136	136
Paid-in capital	67,036	67,021
Retained earnings (deficit)	405	(1,346)
Total stockholders' equity	139,797	138,031
Total liabilities and stockholders' equity	$ 261,701	$ 261,084

</TABLE>

See accompanying notes.

GETTY REALTY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

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	Three months ended July 31,		Six months ended July 31,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Revenues:				
Revenues from rental properties	$ 14,666	$ 14,733	$ 29,426	$ 29,528
Other income	1,731	1,224	2,391	1,481
	16,397	15,957	31,817	31,009
Rental property expenses	3,031	3,233	6,099	6,499
Environmental expenses	1,970	4,819	4,179	6,459
General and administrative expenses	1,640	1,438	2,895	2,886
Depreciation and amortization	2,737	2,261	5,242	4,457
Interest expense	669	701	1,293	1,434
	10,047	12,452	19,708	21,735
Earnings from continuing operations before provision for income taxes	6,350	3,505	12,109	9,274
Provision for income taxes	2,664	1,457	5,080	3,920
Net earnings from continuing operations	3,686	2,048	7,029	5,354
Net earnings (loss) from discontinued operations	--	(147)	--	76

Net earnings	3,686	1,901	7,029	5,430
Preferred stock dividends	1,282	1,282	2,564	2,564
Net earnings applicable to common stockholders	$ 2,404	$ 619	$ 4,465	$ 2,866
Basic earnings (loss) per common share:				
Continuing operations	$ .18	$ .06	$ .33	$ .21
Discontinued operations	--	(.01)	--	.01
Net earnings	.18	.05	.33	.21
Diluted earnings (loss) per common share:				
Continuing operations	$ .18	$ .06	$ .33	$ .21
Discontinued operations	--	(.01)	--	.01
Net earnings	.18	.05	.33	.21
Weighted average common shares outstanding:				
Basic	13,567	13,566	13,567	13,565
Diluted	13,570	13,572	13,569	13,574

</TABLE>

See accompanying notes.

GETTY REALTY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

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	Six months ended July 31, 1999	Six months ended July 31, 1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	$ 7,029	$ 5,430
Adjustments to reconcile net earnings to Net cash provided by operating activities:		
Depreciation and amortization	5,242	4,457
Deferred income taxes	3,557	651
Net earnings from discontinued operations	--	(76)
Gain on dispositions of real estate	(884)	(897)
Changes in assets and liabilities, net of effect of acquisitions and dispositions:		
Mortgages and accounts receivable	1,156	(282)
Recoveries from state underground storage tank funds	448	3,251
Prepaid expenses and other assets	820	(1,661)
Accounts payable and accrued expenses	(4,409)	(1,074)
Environmental remediation costs	(5,049)	(3,837)
Income taxes payable	(786)	--
Net cash provided by continuing operating activities	7,124	5,962

Net cash used in discontinued operations	--	(55)
Net cash provided by operating activities	7,124	5,907
Cash flows from investing activities:		
Capital expenditures	(3,557)	(8,802)
Property acquisitions	(6,873)	(535)
Proceeds from dispositions of real estate	2,928	2,203
Net cash used in investing activities	(7,502)	(7,134)
Cash Flows from Financing activities:		
Borrowings under credit lines	9,000	--
Repayment of mortgages payable	(3,462)	(2,671)
Cash dividends	(5,278)	(5,277)
Stock options and common stock	15	43
Net cash provided by (used in) financing activities	275	(7,905)
Net decrease in cash and equivalents	(103)	(9,132)
Cash and equivalents at beginning of period	657	10,032
Cash and equivalents at end of period	$ 554	$ 900
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 1,291	$ 1,453
Income taxes	2,309	4,091

</TABLE>

See accompanying notes.

GETTY REALTY CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General:

The accompanying consolidated financial statements include the accounts of Getty Realty Corp. and its wholly-owned subsidiaries (the "Company"). The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include amounts that are based on management's best estimates and judgments. While all available information has been considered, actual amounts could differ from those estimates. The consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. These statements should be read in conjunction with the consolidated financial statements and related notes which appear in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1999.

Certain reclassifications have been made in the financial statements for 1998 to conform to the presentation for 1999.

2. Discontinued operations:

In December 1998, the Company sold its heating oil and propane business. Summary operating results of the discontinued heating oil operations for the three and six months ended July 31, 1998 are as follows (in thousands):

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	Three Months ended July 31, 1998	Six Months ended July 31, 1998
<S>	<C>	<C>
Revenues	$ 4,578	$11,138
Earnings (loss) before income taxes	$ (259)	$ 131
Provision (credit) for income taxes	(112)	55
Net earnings (loss)	$ (147)	$ 76

</TABLE>

3. Earnings per common share:

Basic earnings per common share is computed by dividing net earnings less preferred dividends by the weighted average number of common shares outstanding during the period. Diluted earnings per common share also gives effect to the potential dilution from the exercise of stock options in the amounts of 3,000 shares and 6,000 shares for the quarters ended July 31, 1999 and 1998, respectively, and 2,000 shares and 9,000 shares for the six months ended

July 31, 1999 and 1998, respectively. For the quarters and six months ended July 31, 1999 and 1998, conversion of the Series A Participating Convertible Redeemable Preferred stock into common stock utilizing the if-converted method would have been anti-dilutive and therefore conversion was not assumed for purposes of computing diluted earnings per common share.

4. Stockholders' equity:

A summary of the changes in stockholders' equity for the six months ended July 31, 1999 is as follows (in thousands, except per share amounts):

<TABLE>
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	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings (Deficit)	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance, January 31, 1999	$72,220	$136	$67,021	($1,346)	$138,031
Net earnings				7,029	7,029
Cash dividends:					
Common - $.20 per share				(2,714)	(2,714)
Preferred - $.8875 per share				(2,564)	(2,564)
Stock options			15		15

Balance, July 31, 1999	$72,220	$136	$67,036	$405	$139,797

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company is a real estate company specializing in the ownership and leasing of service stations, convenience stores and petroleum marketing terminals. The Company leases most of its properties on a long-term net basis to Getty Petroleum Marketing Inc. ("Marketing"), which was spun-off to the Company's stockholders on March 21, 1997. Therefore, the Company's financial results are materially dependent upon the ability of Marketing to meet its lease obligations; however, the Company does not anticipate that Marketing will have difficulty in making all required rental payments in the foreseeable future.

Results of Operations - Quarter ended July 31, 1999 compared with quarter ended July 31, 1998

Revenues from rental properties for the quarters ended July 31, 1999 and 1998 principally represent rental income received from Marketing ($14.1 million for each of the quarters) with the remainder from other lessees and sublessees.

Other income was $1.7 million for the three months ended July 31, 1999 as compared with $1.2 million for the quarter ended July 31, 1998. The increase in other income of $.5 million was principally due to a settlement of a lawsuit resulting in the elimination of a $1.2 million reserve, partially offset by $.5 million of lower gains on the disposition of real estate.

Rental property expenses, which are principally comprised of rent expense and real estate taxes, were $3.0 million and $3.2 million, respectively, for the quarters ended July 31, 1999 and 1998. The decrease was due to a reduction in the number of properties leased from third parties.

Under the lease agreement with Marketing, the Company assumed certain obligations for environmental remediation expense and tank replacement capital expenditures at certain of the leased properties until such properties meet certain established conditions. Environmental expenses for the quarter ended July 31, 1999 were $2.0 million as compared with $4.8 million for the quarter ended July 31, 1998, and the current quarter included a change in estimated environmental costs of $1.0 million as compared to $4.0 million during the prior year quarter. These charges are the result of contamination discovered during work performed to meet certain federal underground storage tank standards and revisions to estimates at other sites. As of July 31, 1999, the Company had an accrual of $29.2 million representing management's best estimate for future environmental remediation costs and had recorded $9.9 million as management's best estimate for recoveries from state underground storage tank remediation funds. Such accruals are reviewed on a regular basis and any revisions thereto are reflected in the Company's financial statements as they become known.

General and administrative expenses for the quarter ended July 31, 1999 amounted to $1.6 million, an increase of $.2 million as compared with the quarter ended July 31, 1998, principally due to a retrospective insurance charge relating to its spun-off petroleum marketing business. Included in general and administrative expenses for each of the respective periods are $.2 million of net fees paid by the Company to Marketing for certain administrative and technical services performed under a services agreement.

Depreciation and amortization was $2.7 million for the quarter ended July 31, 1999, an increase of $.5 million over the quarter ended July 31, 1998 as a result of capital expenditures and property acquisitions.

Interest expense for the three months ended July 31, 1999 amounted to $.7 million, which was comparable to the quarter ended July 31, 1998.

Results of Operations - Six months ended July 31, 1999 compared with six months ended July 31, 1998

Revenues from rental properties for the six months ended July 31, 1999 and 1998 principally represent rental income received from Marketing ($28.2 million and $28.3 million, respectively) with the remainder from other lessees and sublessees.

Other income was $2.4 million for the six months ended July 31, 1999 as compared with $1.5 million for the six months ended July 31, 1998. The increase in other income of $.9 million was principally due to a settlement of a lawsuit resulting in the elimination of a $1.2 million reserve, partially offset by lower investment income.

Rental property expenses, which are principally comprised of rent expense and real estate taxes, were $6.1 million and $6.5 million, respectively, for the six months ended July 31, 1999 and 1998. The decrease was due to a reduction in the number of properties leased from third parties.

Environmental expenses for the six months ended July 31, 1999 were $4.2 million as compared with $6.5 million for the six months ended July 31, 1998. The current six month period included a change in estimated remediation costs of $3.0 million as compared to $5.1 million during the prior year six month period. These charges are the result of contamination discovered during work performed to meet certain federal underground storage tank standards and revisions to estimates at other sites.

General and administrative expenses were $2.9 million for the six months ended July 31, 1999 and 1998.

Depreciation and amortization was $5.2 million for the six months ended July 31 1999, an increase of $.8 million over the six months ended July 31, 1998 as a result of capital expenditures and property acquisitions.

Interest expense for the six months ended July 31, 1999 amounted to $1.3 million as compared with $1.4 million for the six months ended July 31, 1998. The decrease in interest expense was principally due to a reduction in interest rates.

Liquidity and Capital Resources

The Company's principal sources of liquidity are cash flows from operating activities and its short-term uncommitted lines of credit with two banks. Management believes that cash requirements for operations, capital expenditures and debt service can be met by cash flows from operating activities, available cash and equivalents and credit lines. As of July 31, 1999, such lines of credit amounted to $25 million, of which $13.5 million was utilized for short-term borrowings and $5.9 million was utilized in connection with outstanding letters of credit principally relating to prior insurance obligations of its spun-off petroleum marketing business. Borrowings under such lines of credit are unsecured and bear interest at LIBOR plus 1.0% to 1.1%. Such lines of credit are subject to renewal at the discretion of the banks. Although it is expected that the existing sources of liquidity will be sufficient to meet its expected operating and debt service requirements, the Company may be required to obtain additional sources of capital in the future to fund property acquisitions, which capital sources it believes are available.

During the six months ended July 31, 1999 and 1998, the Company declared quarterly preferred stock dividends of $.44375 per share and quarterly cash common stock dividends of $.10 per share. Such dividends aggregated $5.3 million for each of the six months ended July 31, 1999 and 1998.

The Company's capital expenditures, excluding acquisitions, for the six months ended July 31, 1999 amounted to $3.6 million, primarily related to the replacement of underground storage tanks and vapor recovery facilities at gasoline stations. Expenditures with respect to certain tank replacements required to meet federal environmental standards and certain environmental liabilities and obligations have continued to be the responsibility of the Company after the spin-off. As of July 31, 1999, the Company estimates that in connection therewith, it will expend $1.8 million in capital expenditures and $19.3 million, net of estimated recoveries, for environmental remediation obligations.

During the six months ended July 31, 1999, the Company acquired 17 retail service station and convenience store properties in the greater Buffalo, New York area, six properties located in Florida and one property each in Pennsylvania and New Jersey. The properties, except for those located in Florida, are being leased to Marketing pursuant to a long-term triple net master lease.

Year 2000

The Year 2000 issue has arisen because for many years some computer software programs and systems have utilized only two digits to specify the year. As a result, these programs and systems may not be able to recognize and process dates beyond 1999, which

may cause these programs to malfunction or not be able to accurately process information.

Marketing provides the Company with data processing services pursuant to the administrative services agreement. In connection therewith, a Year 2000 program has been implemented for internal systems and equipment relating to information technology systems and non-information technology systems which has four phases: (1) identification; (2) assessment; (3) remediation (including modification, upgrading and replacement); and (4) testing. The identification, assessment and remediation phases for all significant internal business systems and equipment are complete. Testing of systems and programs following remediation was approximately 90% complete as of July 31, 1999 and is expected to be completed during the Company's third fiscal quarter.

The Company is also reviewing the Year 2000 readiness of third parties who provide services which are essential to the Company's operations. The Company has initiated formal communications with material third parties in order to determine the extent to which the Company is vulnerable to any failure by such third parties to remediate their respective Year 2000 problems and resolve such problems to the extent practicable.

The Company is developing a contingency plan to address issues specific to the Year 2000 problem. The Plan is expected to include performing certain processes manually, obtaining replacement systems as well as other appropriate measures.

The Company's senior management and the Board of Directors receive regular updates on the status of the Company's Year 2000 program. The cost of these Year 2000 efforts has not been, nor is expected to be, material since most of the work is being performed by Marketing personnel under the administrative services agreement.

The Year 2000 issue presents a number of risks and uncertainties that could affect the Company or Marketing, which include, but are not limited to, the availability of qualified personnel and other information technology resources; the ability to identify and remediate all date sensitive lines of computer code or to replace embedded computer chips in affected systems or equipment; and the ability of third parties to remediate their respective systems. The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could adversely affect the Company's results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers and customers, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity or financial condition.

Special Factors Regarding Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of

1995. When we use the words "believes", "expects", "plans", "estimates" and similar expressions, we intend to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to: risks associated with owning and leasing real estate generally; dependence on Marketing as a lessee and on rentals from companies engaged in the petroleum marketing and convenience store businesses; competition for locations and tenants; risk of tenant non-renewal; the effects of regulation; the Company's expectations as to the cost of completing environmental remediation; the testing phases of the Year 2000 program as well as its Year 2000 contingency plan; and the Company's belief that the internal systems and equipment will be Year 2000 compliant in a timely manner.

As a result of these and other factors, the Company may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely effect its business, financial condition, operating results and stock prices. An investment in the Company involves various risks, including those mentioned above and elsewhere in this report and those which are detailed from time to time in the Company's other filings with the Securities and Exchange Commission.

Readers should not place undue reliance on forward-looking statements, which reflect the Company's view only as of the date hereof. The Company undertakes no obligation to publicly release revisions to these forward-looking statements that reflect events or circumstances after the date hereof or reflect the occurrence of unanticipated events.

PART II. OTHER INFORMATION

Item 5. Other Information

The date by which proposals of security holders intended to be presented at the next annual meeting, currently scheduled for June 15, 2000, must be received by the Company for inclusion in the proxy statement for such meeting is December 31, 1999.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Designation of Exhibit in this Quarterly Report on Form 10-Q	Description of Exhibit
27	Financial Data Schedule

(b) Reports filed on Form 8-K:

None.

SIGNATURES

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

GETTY REALTY CORP.
(Registrant)

Dated: September 10, 1999 BY: /s/ JOHN J. FITTERON

(Signature)
JOHN J. FITTERON
Senior Vice President, Treasurer
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

Dated: September 10, 1999 BY: /s/ LEO LIEBOWITZ

(Signature)
LEO LIEBOWITZ
President and Chief Executive
Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED FINANCIAL STATEMENTS OF GETTY REALTY CORP. AND SUBSIDIARIES AS OF
JULY 31, 1999 AND FOR THE SIX MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY
BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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