

GETTY REALTY CORP /MD/
Form 10-Q
October 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 001-13777

GETTY REALTY CORP.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)
Two Jericho Plaza, Suite 110
Jericho, New York 11753-1681

11-3412575
(I.R.S. Employer
Identification No.)

(Address of Principal Executive Offices) (Zip Code)
(516) 478-5400

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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 No

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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The registrant had outstanding 33,939,374 shares of common stock as of October 27, 2016

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****GETTY REALTY CORP.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(in thousands, except per share amounts)**

	September 30, 2016	December 31, 2015
ASSETS:		
Real Estate:		
Land	\$ 474,103	\$ 475,784
Buildings and improvements	303,544	304,894
Construction in progress	266	955
	777,913	781,633
Less accumulated depreciation and amortization	(117,379)	(107,109)
Real estate held for use, net	660,534	674,524
Real estate held for sale, net	839	1,339
Real estate, net	661,373	675,863
Investment in direct financing leases, net	92,636	94,098
Notes and mortgages receivable	33,311	48,455
Deferred rent receivable	28,792	25,450
Cash and cash equivalents	10,187	3,942
Restricted cash	215	409
Accounts receivable, net of allowance of \$1,970 and \$2,634, respectively	2,741	2,975
Prepaid expenses and other assets	41,816	45,726
Total assets	\$ 871,071	\$ 896,918
LIABILITIES AND SHAREHOLDERS EQUITY:		
Borrowings under credit agreement, net	\$ 123,626	\$ 142,100
Senior unsecured notes, net	174,730	174,689
Mortgage payable, net		303
Environmental remediation obligations	78,525	84,345
Dividends payable	8,568	15,897
Accounts payable and accrued liabilities	65,787	73,023

Total liabilities	451,236	490,357
Commitments and contingencies (notes 3, 4, 5 and 6)		
Shareholders' equity:		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; unissued		
Common stock, \$0.01 par value; 50,000,000 shares authorized; 33,872,209		
and 33,422,170 shares issued and outstanding, respectively	339	334
Additional paid-in capital	473,168	464,338
Dividends paid in excess of earnings	(53,672)	(58,111)
Total shareholders' equity	419,835	406,561
Total liabilities and shareholders' equity	\$ 871,071	\$ 896,918

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

Table of Contents**GETTY REALTY CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(in thousands, except per share amounts)**

	Three Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Revenues from rental properties	\$ 24,328	\$ 24,840	\$ 72,856	\$ 67,376
Tenant reimbursements	3,397	4,237	9,921	11,095
Interest on notes and mortgages receivable	786	910	2,770	2,472
Total revenues	28,511	29,987	85,547	80,943
Operating expenses:				
Property costs	5,202	6,319	16,166	18,002
Impairments	1,152	1,700	5,210	10,682
Environmental	884	1,647	2,628	5,259
General and administrative	3,257	4,244	11,107	12,867
(Recoveries) allowance for uncollectible accounts	(132)	263	(606)	684
Depreciation and amortization	5,411	4,629	14,649	12,192
Total operating expenses	15,774	18,802	49,154	59,686
Operating income	12,737	11,185	36,393	21,257
Gains on dispositions of real estate	11	1,696	5,376	1,437
Other income, net	644	121	1,418	7,505
Interest expense	(4,156)	(4,479)	(12,526)	(10,214)
Earnings from continuing operations	9,236	8,523	30,661	19,985
Discontinued operations:				
(Loss) from operating activities	(411)	(1,716)	(400)	(2,820)
(Loss) gains on dispositions of real estate	(21)	228	(178)	352
(Loss) from discontinued operations	(432)	(1,488)	(578)	(2,468)
Net earnings	\$ 8,804	\$ 7,035	\$ 30,083	\$ 17,517
Basic and diluted earnings per common share:				
Earnings from continuing operations	\$ 0.27	\$ 0.25	\$ 0.90	\$ 0.59
(Loss) from discontinued operations	(0.01)	(0.04)	(0.02)	(0.07)
Net earnings	\$ 0.26	\$ 0.21	\$ 0.88	\$ 0.52

Weighted average common shares outstanding:

Basic and diluted	33,776	33,422	33,716	33,420
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The accompanying notes are an integral part of these consolidated financial statements.

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	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 30,083	\$ 17,517
Adjustments to reconcile net earnings to net cash flow provided by operating activities:		
Depreciation and amortization expense	14,649	12,192
Impairment charges	6,787	15,256
(Gains) loss on dispositions of real estate		
Continuing operations	(5,376)	(1,437)
Discontinued operations	178	(352)
Deferred rent receivable, net of allowance	(3,342)	(3,378)
(Recoveries) allowance for uncollectible accounts	(606)	720
Accretion expense	3,020	3,519
Other	1,455	1,434
Changes in assets and liabilities:		
Accounts receivable	(272)	(2,028)
Prepaid expenses and other assets	626	(252)
Environmental remediation obligations	(13,652)	(12,336)
Accounts payable and accrued liabilities	(599)	3,500
Net cash flow provided by operating activities	32,951	34,355
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property acquisitions and capital expenditures	(2,155)	(218,618)
Addition to construction in progress	(246)	(242)
Proceeds from dispositions of real estate		
Continuing operations	1,802	4,456
Discontinued operations	68	1,375
Deposits for property acquisitions	(146)	(376)
Change in restricted cash	194	304
Amortization of investment in direct financing leases	1,462	1,215
Collection of notes and mortgages receivable	16,958	2,230
Net cash flow provided by (used in) investing activities	17,937	(209,656)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit agreements	8,000	180,000

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Borrowings under senior unsecured notes		75,000
Repayments under credit agreements	(27,000)	(49,000)
Repayment of mortgage payable	(400)	(50)
Payments of cash dividends	(27,941)	(27,035)
Cash paid in settlement of restricted stock units	(289)	(64)
Proceeds from issuance of common stock, net	2,940	
Other	47	(473)
Net cash flow (used in) provided by financing activities	(44,643)	175,946
Change in cash and cash equivalents	6,245	645
Cash and cash equivalents at beginning of period	3,942	3,111
Cash and cash equivalents at end of period	\$ 10,187	\$ 3,756
Supplemental disclosures of cash flow information		
<i>Cash paid during the period for:</i>		
Interest	\$ 11,884	\$ 8,628
Income taxes	371	339
Environmental remediation obligations	9,846	10,568
<i>Non-cash transactions:</i>		
Issuance of mortgages receivable related to property dispositions	1,814	16,450

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

Getty Realty Corp. (together with its subsidiaries, unless otherwise indicated or except where the context otherwise requires, we, us or our) is the leading publicly-traded real estate investment trust (REIT) in the United States, specializing in the ownership, leasing and financing of convenience store and gasoline station properties. Our 835 properties are located in 23 states across the United States and Washington, D.C. Our properties are operated under a variety of nationally recognized brands including 76, Aloha, BP, Citgo, Conoco, Exxon, Getty, Mobil, Shell and Valero. Our company was originally founded in 1955 and is headquartered in Jericho, New York.

NOTE 2. ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Getty Realty Corp. and its wholly-owned subsidiaries. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). We do not distinguish our principal business or our operations on a geographical basis for purposes of measuring performance. We manage and evaluate our operations as a single segment. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to prior period amounts in order to conform with current period presentation.

Unaudited, Interim Consolidated Financial Statements

The consolidated financial statements are unaudited but, in our opinion, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair statement of the results for the periods presented. These statements should be read in conjunction with the consolidated financial statements and related notes which appear in our Annual Report on Form 10-K for the year ended December 31, 2015.

Use of Estimates, Judgments and Assumptions

The consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the period reported. Estimates, judgments and assumptions underlying the accompanying consolidated financial statements include, but are not limited to, receivables, deferred rent receivable, investment in direct financing leases, environmental remediation costs, real estate, depreciation and amortization, impairment of long-lived assets, litigation, environmental remediation obligations, accrued liabilities, income taxes and the allocation of the purchase price of properties acquired to the assets acquired and liabilities assumed. Application of these estimates and assumptions requires exercise of judgment as to future uncertainties and, as a result, actual results could differ materially from these estimates.

Real Estate

Real estate assets are stated at cost less accumulated depreciation and amortization. Upon acquisition of real estate and leasehold interests, we estimate the fair value of acquired tangible assets (consisting of land, buildings and

improvements) as if vacant and identified intangible assets and liabilities (consisting of leasehold interests, above-market and below-market leases, in-place leases and tenant relationships) and assumed debt. Based on these estimates, we allocate the estimated fair value to the applicable assets and liabilities. Fair value is determined based on an exit price approach, which contemplates the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We expense transaction costs associated with business combinations in the period incurred. See Note 10 for additional information regarding property acquisitions.

We capitalize direct costs, including costs such as construction costs and professional services, and indirect costs associated with the development and construction of real estate assets while substantive activities are ongoing to prepare the assets for their intended use. The capitalizati