Power REIT
Form 10-Q
August 11, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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

For the quarterly period ended June 30, 2016

000-54560

(Commission File Number)

POWER REIT

(Exact name of registrant as specified in its charter)

Maryland	**45-3116572**
(State of Organization)	(I.R.S. Employer Identification No.)

301 Winding Road, Old Bethpage, NY 11804
(Address of principal executive offices) (Zip Code)

(212) 750-0371

(Registrant's telephone number, including area code)

N/A

(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 [X] 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 [X] 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	[ ]	Smaller reporting company	[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

1,784,488 common shares, $0.001 par value, outstanding at August 11, 2016.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

POWER REIT AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015 (See Note 1)
ASSETS		
Land	$6,788,067	$6,788,067
Net investment in capital lease - railroad	9,150,000	9,150,000
Total real estate assets	15,938,067	15,938,067
Cash and cash equivalents	762,533	435,870
Other receivables	5,934	6,142
Prepaid expenses	116,774	55,356
Intangible assets, net of accumulated amortization	4,419,449	4,538,020
Other assets	420,285	339,470
TOTAL ASSETS	$21,663,042	$21,312,925
LIABILITIES AND EQUITY		
Deferred revenue	$428,041	$18,513
Accounts payable	40,294	96,022
Accounts payable, related party	-	1,773
Accrued interest	71,536	74,243
Current portion of long-term debt, net of debt issuance cost	340,951	307,104
Long-term debt, net of debt issuance cost	10,093,371	10,203,297
TOTAL LIABILITIES	10,974,193	10,700,952
Series A 7.75% Cumulative Redeemable Perpetual Preferred Stock Par Value $25.00 (175,000 shares authorized; 144,636 issued and outstanding as of June 30, 2016 and December 31, 2015)	3,492,149	3,492,149
Commitments and Contingencies	-	-
Equity:		
Common Shares, $0.001 par value (100,000,000 shares authorized; 1,784,488 and 1,742,688 shares issued and outstanding as of June 30, 2016 and December 31, 2015)	1,784	1,743
Additional paid-in capital	11,090,030	11,001,843
Accumulated deficit	(3,895,114)	(3,883,762)
Total Equity	7,196,700	7,119,824

TOTAL LIABILITIES AND EQUITY	$21,663,042	$21,312,925

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

POWER REIT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUE				
Lease income from capital lease – railroad, net	$228,750	$228,750	$457,500	$457,500
Rental income	262,851	262,420	525,702	524,428
Misc. income	10,395	4,956	10,468	4,967
TOTAL REVENUE	501,996	496,126	993,670	986,895
EXPENSES				
Amortization of intangible assets	59,286	59,286	118,571	118,571
General and administrative	35,899	63,721	72,434	117,334
Stock-based compensation	52,712	50,364	88,229	103,904
Property tax	2,782	5,463	8,164	10,925
Property acquisition expenses	-	-	-	(1,105)
Litigation expenses (see note 5)	298,504	119,512	346,859	123,952
Interest expense	89,444	160,707	230,829	714,031
Unrealized loss on interest rate swap	-	(244,821)	-	(60,955)
TOTAL EXPENSES	538,627	214,232	865,086	1,126,657
NET INCOME (LOSS)	(36,631)	281,894	128,584	(139,762)
Preferred Stock Dividends	69,968	69,967	139,936	139,935
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHARES	$(106,599)	$211,927	$(11,352)	$(279,697)
Income (Loss) Per Common Share:				
Basic and diluted	$(0.06)	$0.12	$(0.01)	$(0.16)
Weighted Average Number of Shares Outstanding:				
Basic and diluted	1,768,697	1,731,788	1,755,692	1,731,788
Cash dividend per Series A Preferred Share	$0.48	$0.48	$0.97	$0.97

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

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POWER REIT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2016	2015
Operating activities		
Net income (loss)	$128,584	$(139,762)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of intangible assets	118,571	118,571
Change in unrealized loss on interest rate swap	-	(60,955)
Amortization of debt costs	12,590	439,425
Stock-based compensation	88,229	103,904
Changes in operating assets and liabilities		
Decrease in other receivables	208	1,054
Increase in prepaid expense	(61,418)	(4,000)
Increase in deferred revenue	(80,815)	(137,181)
Increase in other assets	-	(36,474)
Increase in prepaid rent	409,528	75,863
Decrease in accounts payable	(57,501)	(219,757)
Decrease in accounts payable, related party	-	(193,314)
Increase (decrease) in accrued interest	(2,707)	40,665
Net cash provided by operating activities	555,269	(11,961)
Financing Activities		
Principal payment on long-term debt	(88,670)	(115,923)
Payment of deferred finance costs	-	(37,992)
Cash dividends paid on preferred stock	(139,936)	(139,935)
Net cash used in financing activities	(228,606)	(293,850)
Net increase (decrease) in cash and cash equivalents	326,663	(305,811)
Cash and cash equivalents, beginning of period	435,870	654,381
Cash and cash equivalents, end of period	$762,533	$348,570
Supplemental disclosure of cash flow information:		
Interest paid	$233,536	$233,579

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

POWER REIT AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

1. GENERAL INFORMATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, and with the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company, as defined below, these unaudited consolidated financial statements include all adjustments necessary to present fairly the information set forth herein. All such adjustments are of a normal recurring nature. Results for interim periods are not necessarily indicative of results to be expected for a full year.

These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes included in our latest Annual Report on Form 10-K filed with the SEC on March 30, 2016.

Power REIT (the “Registrant” or the “Trust”, and together with its consolidated subsidiaries, “we”, “us”, the “Company” or “Power REIT”, unless the context requires otherwise) is a Maryland-domiciled real estate investment trust (a “REIT”) that holds, develops, acquires and manages real estate assets related to transportation and energy infrastructure in the United States. Within the transportation and energy infrastructure sectors, Power REIT is focused on making new acquisitions of real estate that are or will be leased to renewable energy generation projects, such as utility-scale solar farms and wind farms, that have low or minimal technology risk.

The Trust is structured as a holding company and owns its assets through four wholly-owned, special purpose subsidiaries that have been formed in order to hold real estate assets, obtain financing and generate lease revenue. As of June 30, 2016, the Trust’s assets consisted of approximately 112 miles of railroad infrastructure and related real estate which is owned by its subsidiary Pittsburgh & West Virginia Railroad (“P&WV”) and approximately 601 acres of fee simple land leased to a number of solar power generating projects with an aggregate generating capacity of approximately 108 Megawatts (“MW”). Power REIT is actively seeking to expand its portfolio of real estate related to renewable energy generation projects and is pursuing investment opportunities that qualify for REIT ownership within solar, wind, hydroelectric, geothermal, transmission and other infrastructure projects.

During the quarter ended June 30, 2016, the Trust paid a quarterly dividend of approximately $70,000 ($0.48375 per share) on Power REIT's 7.75% Series A Cumulative Redeemable Perpetual Preferred Stock.

The Trust was formed as part of a reorganization and reverse triangular merger of P&WV that closed on December 2, 2011. P&WV survived the reorganization as a wholly-owned subsidiary of the Trust.

The Trust has elected to be treated for tax purposes as a REIT, which means that it is exempt from U.S. federal income tax if a sufficient portion of its annual income is distributed to its shareholders, and if certain other requirements are met. In order for the Trust to maintain its REIT qualification, at least 90% of its ordinary taxable annual income must be distributed to shareholders.

POWER REIT AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared in accordance with GAAP.

Accounting Pronouncement Adopted

As of January 1, 2016, we adopted ASU 2015-3, *Simplifying the Presentation of Debt Issuance Costs,* which requires debt issuance costs to be presented in the balance sheet as a reduction of the associated debt liability. This standard requires retrospective application, and as such, we reclassified approximately $438,000 of debt issuance costs from other assets to a reduction of our current and long-term debt in our Consolidated Balance Sheet as of December 31, 2015.

Other Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No 2016-09 “Compensation - Stock compensation” (Topic 718). The new guidance is intended to simplify some provisions in stock compensation accounting, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This standard is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is permitted. We expect to adopt this standard when effective, and the impact on our financial statements is not currently estimable.

In February 2016, the FASB issued ASU No 2016-02 “Leases” (Topic 842). The standard requires companies that lease valuable assets like aircraft, real estate, and heavy equipment to recognize on their balance sheets the assets and liabilities generated by contracts longer than a year. The standard also requires companies to disclose in the footnotes to their financial statements information about the amount, timing, and uncertainty for the payments they make for the lease agreements. This standard is effective for fiscal years and interim periods beginning after December 15, 2018.

Early adoption is permitted. We expect to adopt this standard when effective, and the impact on our financial statements is not currently estimable.

In January 2016, the FASB issued ASU No 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”, Financial Instruments - Overall (Subtopic 825-10). The new guidance is intended to improve the recognition and measurement of financial instruments. This guidance requires that financial assets and financial liabilities must be separately presented by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. This guidance is effective for fiscal years and interim periods beginning after December 15, 2017. The standard includes a requirement that businesses must report changes in the fair value of their own liabilities in other comprehensive income (loss) instead of earnings, and this is the only provision of the update for which the FASB is permitting early adoption. We expect to adopt this guidance when effective, and do not expect this guidance to have a significant impact on our financial statements.

Principles of Consolidation

The accompanying consolidated financial statements include Power REIT and its wholly-owned subsidiaries. All intercompany balances have been eliminated in consolidation.

Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

POWER REIT AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Fair Value

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Trust measures its financial assets and liabilities in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – valuations for assets and liabilities traded in active exchange markets, or interest in open-end mutual funds that allow a company to sell its ownership interest back at net asset value on a daily basis. Valuations are obtained from readily available pricing sources for market transactions involving identical assets, liabilities or funds.

Level 2 – valuations for assets and liabilities traded in less active dealer, or broker markets, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active. Level 2 includes U.S. Treasury, U.S. government and agency debt securities, and certain corporate obligations. Valuations are usually obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 – valuations for assets and liabilities that are derived from other valuation methodologies, such as option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining fair value, the Trust utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considering counterparty credit risk.

The carrying amounts of Power REIT's financial instruments, including cash and cash equivalents, deposits, and accounts payable approximate fair value because of their relatively short maturity. Long-term debt approximates fair value since the related rates of interest approximate current market rates. The Company does not have any financial instruments that are required to be measured and recorded at fair value on a recurring basis.

3. LONG-TERM DEBT

On November 6, 2015, PWRS completed a financing secured by the real property owned by PWRS (the "PWRS Bonds"). The PWRS Bonds are secured by land owned by PWRS and have a total obligation of $10,150,000. The PWRS Bonds carry a fixed interest rate of 4.34% and mature in 2034. The use of proceeds from the PWRS Bonds was to retire approximately $6,650,000 of existing indebtedness and the associated swap that was entered which are secured by the PWRS property; retire the $1,650,000 million loan to PW Tulare Solar, LLC (a wholly owned subsidiary of Power REIT) from Hudson Bay Partners, LP (an affiliate of David H. Lesser - Chairman and CEO of Power REIT) including accrued interest; pay deferred financing costs of approximately $441,000; pay interest rate swaps of approximately $670,000; pay approximately $180,000 of unpaid fees; and, to pay other accounts payable of Power REIT and its subsidiaries. The balance of the PWRS Bonds as of June 30, 2016 and December 31, 2015 is approximately $9,677,000 (net of approximately $404,000 of capitalized debt costs which are being amortized over the life of the financing) and $10,150,000 respectively.

On July 5, 2013, PWSS borrowed $750,000 from a regional bank (the "PWSS Term Loan") to refinance a bridge loan that had been extended by HBP in connection with PWSS' acquisition of leased property in December 2012. The PWSS Term Loan carries a fixed interest rate of 5.0%, a term of 10-years and amortizes based on a twenty-year principal amortization schedule. In addition to being secured by PWSS' real estate assets, the term loan is secured by a parent guarantee from the Trust. The balance of the PWSS Term Loan as of June 30, 2016 and December 31, 2015 is approximately $661,000 (net of approximately $19,000 of capitalized debt costs which are being amortized over the life of the financing) and $681,000 respectivel