

Power REIT  
Form 10-Q  
August 15, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

333-177802

(Commission File Number)

**POWER REIT**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State of Organization)

**45-3116572**  
(I.R.S. Employer Identification No.)

**301 Winding Road, Old Bethpage, NY**  
(Address of principal executive offices)

**11804**  
(Zip Code)

**(212) 750-0373**

(Registrant's telephone number)

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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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

Yes  No

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

1,623,250 shares of beneficial interest, \$0.001 par value, outstanding at June 30, 2012.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED INCOME STATEMENT****(Dollars in Thousands)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2012</b>	<b>2011</b>	<b>June 30, 2012</b>	<b>2011</b>
Interest Income from capital lease	\$ 229	\$ 229	\$ 458	\$ 458
General & Administrative Expense	186	102	284	162
<u>Non-Recurring Litigation Expense</u>	141	-	224	-
<b>Net Income</b>	<b>(98)</b>	<b>127</b>	<b>(51)</b>	<b>295</b>
<b>Fully Diluted, Per Share:</b>				
Net Income	\$ (0.06)	\$ 0.08	\$ (0.03)	\$ 0.19
Cash Dividends	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20
<b>Weighted Average Number of Shares Outstanding</b>	1,623,250	1,623,250	1,623,250	1,576,623

Amounts may not add due to rounding. The accompanying notes are an integral part of these financial statements.

**CONSOLIDATED BALANCE SHEET****(Dollars in Thousands)****(Unaudited)****(Audited)****June 30,****December 31,**

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	2012	2011
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 723	\$ 982
Deposits	40	-
Prepaid Assets	100	3
Net investment in capital lease	9,150	9,150
<b>TOTAL ASSETS</b>	<b>\$10,013</b>	<b>\$ 10,135</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts Payable	\$ 102	\$ 10
Dividends Payable	162	
Shareholders' equity:		
Shares of beneficial interest, at \$0.001 par value (1,623,250 shares issued and outstanding as of 12/31/2011 and 6/30/2012, respectively)	10,072	10,072
Retained Earnings	(323)	53
Total shareholders' equity	9,749	10,125
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>10,013</b>	<b>10,135</b>
<b>SHARES OF BENEFICIAL INTEREST</b>		
Par Value	\$ 0.001	\$ 0.001
Common shares issued	1,623,250	1,623,250
Common shares outstanding	1,623,250	1,623,250

Amounts may not add due to rounding. The accompanying notes are an integral part of these financial statements.

### CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	<b>Six Months Ended</b>	
	<b>2012</b>	<b>June 30,</b>
		<b>2011</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ (51)	\$ 295
Deposits	(40)	-
Change in Prepaid Assets	(98)	(23)
Change in Accounts Payable	92	-
Change in Accounts Receivable		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$( 97)</b>	<b>\$ 271</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Dividends Paid	(162 )	(313 )
Net Proceeds from Financing	-	952
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ (162)</b>	<b>\$ 638</b>
<b>Net increase (decrease) in Cash</b>	<b>(259)</b>	<b>910</b>
Cash, beginning of period	982	49
Cash, end of period	\$ 723	\$959

Amounts may not add due to rounding. The accompanying notes are an integral part of these financial statements.

#### **Notes to unaudited financial statements:**

##### **1. General Information**

The foregoing interim consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair presentation of the results of operations for the interim periods presented. All adjustments are of a normal recurring nature.

Power REIT ("Registrant" or "Trust") has elected to be treated for tax purposes as a real estate investment trust (REIT). It is the Trust's policy to distribute at least 90% of its ordinary taxable income to its shareholders to maintain its REIT corporate status.

Power REIT's only current income generating asset is its ownership of its wholly-owned subsidiary, Pittsburgh & West Virginia Railroad ("P&WV"), which has leased the entirety of its railroad property to Norfolk Southern Corporation ("NSC") pursuant to a 99-year lease. NSC pays base cash rent of \$915,000 annually, payable in quarterly installments. In addition, in accordance with the terms of the lease, Norfolk Southern Corporation ("NSC") reimburses P&WV, in the form of additional rent, for all taxes and governmental charges imposed upon the leased assets of P&WV, except for taxes relating to base cash rent payments made by the NSC. In addition, the lease requires NSC to reimburse P&WV, in the form of additional rent, for amounts incurred by P&WV to protect its rights and interests under the lease. Due to the treatment of the lease as a direct financing lease for GAAP purposes, the tax basis of the leased property is higher than the GAAP basis in the leased property. Currently, dividends received from P&WV provide Power REIT with its sole source of cash flow.

## 2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Consolidation.* The accompanying unaudited consolidated financial statements include Power REIT and its wholly-owned subsidiary, P&WV. The financial statements have been prepared as if Power REIT had been historically consolidated with P&WV during the prior reporting periods. All intercompany balances and transactions have been eliminated in consolidation.

*Net Investment in Capital Lease.* P&WV's net investment in capital lease, recognizing renewal options in perpetuity, was estimated to have a current value of \$9,150,000 assuming an implicit interest rate of 10%.

*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 considers counterparty credit risk in its assessment of fair value.

The carrying amounts of the Trust's financial instruments, including cash and cash equivalents, approximate fair value because of their relatively short maturity schedules. Financial assets and liabilities carried at fair value on a recurring basis were as follows:

### June 30, 2012

*(\$ in Thousands)*

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash Equivalents <sup>(1)</sup>	\$ 723	\$ -	\$ -	\$ 723
Total Assets at Fair Value	\$ 723	\$ -	\$ -	\$ 723

(1) Comprises money market funds, which are included in Cash & Cash Equivalents in the accompanying balance sheet

### December 31, 2011

*(\$ in Thousands)*

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash Equivalents <sup>(1)</sup>	\$ 982	\$ -	\$ -	\$ 982
Total Assets at Fair Value	\$ 982	\$ -	\$ -	\$ 982

(1) Comprises money market funds, which are included in Cash & Cash Equivalents in the accompanying balance sheet

For financial assets that utilize Level 1 inputs, the Trust utilizes both direct and indirect observable price quotes, including quoted market prices (Level 1 inputs).

*Prepaid Assets.* The Trust records a prepaid asset for expenses that are expect to provide the Trust with benefits over a period of one year or longer. During the second quarter, the Trust recorded a prepaid asset of approximately \$45,000 related to its shelf-offering on Form S-3 and a prepaid asset of \$30,000 related to capitalization of expenses related to a potential line of credit agreement. The costs related to the line of credit, if consummated, will be amortized using the straight-line method, which approximates the effective interest method. The Trust expects to amortize the shelf-offering expenses proportionately upon each draw upon the Form S-3 registration statement (See Footnote 3).

*Deposits.* During the first quarter of 2012, Power REIT placed a \$15,000 deposit on a parcel of land that is intended to be developed as an energy park. If acquired and fully developed, the energy park is expected to increase cash-flow available to the Registrant through additional lease payments. In addition, Power REIT has placed a \$25,000 deposit with a bank to finance acquisitions. Power REIT is in the process of negotiating the final terms and documentation of the line of credit and there can be no assurance that the financing will be consummated.

### 3. Shelf Offering on Form S-3

On May 11, 2012 the Securities and Exchange Commission (SEC) declared effective Power REIT's \$100 million shelf registration statement on Form S-3. Under the Form S-3, the Company may from time to time issue any combination of common equity or common equity linked securities (warrants, options or units) in any amounts up to an aggregate of \$100 million. The net proceeds of offerings are intended to be used to fund working capital and expenses of Power REIT and new acquisitions consistent with Power REIT's business plan. As of the date of this report, the Company has not issued any securities and does not have any immediate plans to issue securities pursuant to the Form S-3. The terms of any offering of securities made pursuant to the shelf registration statement will be determined at the time of the offering and disclosed in a prospectus supplement filed with the SEC and distributed to prospectus investors.

### 4. Long-term Compensation

The company grants awards pursuant to its 2012 Equity Incentive Plan ("Plan"), which was approved at the company's 2012 annual shareholder meeting held on May 24, 2012. The Plan provides for grants of stock options, restricted stock, stock appreciation rights ("SARs") and other equity incentive awards to employees, officers and other persons providing services to us and our subsidiaries, including outside directors. As of June 30, 2012, no equity compensation had been issued under the Plan and 200,000 common shares were authorized and available for issuance under the Plan, subject to periodic adjustment. Common stock may be awarded under the Plan until i