Power REIT
Form 10-Q
May 01, 2018

**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 March 31, 2018

001-36312

(Commission File Number)

**POWER REIT**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Maryland**<br>(State of Organization) | **45-3116572**<br>(I.R.S. Employer Identification No.) |
| **301 Winding Road, Old Bethpage, NY**<br>(Address of principal executive offices) | **11804**<br>(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] |
| Emerging growth company | [  ] | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [  ]

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.

1,827,338 common shares, $0.001 par value, outstanding at May 1, 2018.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**POWER REIT AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | (Unaudited) March 31, 2018 | December 31, 2017 |
|---|---|---|
| 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 | 1,615,943 | 1,146,730 |
| Prepaid expenses | 39,810 | 13,903 |
| Intangible assets, net of accumulated amortization | 4,004,452 | 4,063,737 |
| Other assets | 404,730 | 297,442 |
| TOTAL ASSETS | $22,003,002 | $21,459,879 |
| | | |
| LIABILITIES AND EQUITY | | |
| Deferred revenue | $393,418 | $42,775 |
| Accounts payable | 32,280 | 21,206 |
| Accounts payable - Related party | 1,176 | 1,176 |
| Accrued interest | 88,055 | 91,529 |
| Current portion of long-term debt | 366,876 | 366,520 |
| Long-term debt | 9,519,640 | 9,527,068 |
| TOTAL LIABILITIES | 10,401,445 | 10,050,274 |
| | | |
| Series A 7.75% Cumulative Redeemable Perpetual Preferred Stock Par Value $25.00 (175,000 shares authorized; 144,636 issued and outstanding as of March 31, 2018 and December 31, 2017) | 3,492,149 | 3,492,149 |
| | | |
| Commitments and Contingencies | - | - |
| | | |
| Equity: | | |
| Common Shares, $0.001 par value (100,000,000 shares authorized; 1,827,338 shares issued and outstanding at March 31, 2018 and December 31, 2017) | 1,827 | 1,827 |
| Additional paid-in capital | 11,440,839 | 11,393,476 |
| Accumulated deficit | (3,333,258 ) | (3,477,847 ) |
| Total Equity | 8,109,408 | 7,917,456 |

| | | |
|---|---|---|
| TOTAL LIABILITIES AND EQUITY | $22,003,002 | $21,459,879 |

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

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**POWER REIT AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| REVENUE | | |
| Lease income from capital lease – railroad, net | $228,750 | $228,750 |
| Rental income | 262,527 | 262,527 |
| Misc. income | 1,326 | 33 |
| TOTAL REVENUE | 492,603 | 491,310 |
| | | |
| EXPENSES | | |
| Amortization of intangible assets | 59,285 | 59,286 |
| General and administrative | 92,789 | 108,649 |
| Property tax | 5,487 | 5,906 |
| Litigation expenses (see note 5) | - | 730 |
| Interest expense | 120,395 | 124,521 |
| TOTAL EXPENSES | 277,956 | 299,092 |
| | | |
| NET INCOME | 214,647 | 192,218 |
| | | |
| Preferred Stock Dividends | (70,058) | (69,968) |
| | | |
| NET INCOME ATTRIBUTABLE TO COMMON SHARES | $144,589 | $122,250 |
| | | |
| Income Per Common Share: | | |
| Basic and diluted | $0.08 | $0.07 |
| | | |
| Weighted Average Number of Shares Outstanding: | | |
| Basic and diluted | 1,827,338 | 1,784,938 |
| | | |
| Cash dividend per Series A Preferred Share | $0.48 | $0.48 |

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

**POWER REIT AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Three Months Ended March 31 | |
|---|---|---|
| | 2018 | 2017 |
| Operating activities | | |
| Net Income | $214,647 | $192,218 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of intangible assets | 59,285 | 59,286 |
| Amortization of debt costs | 6,300 | 6,297 |
| Stock-based compensation | 47,363 | 53,801 |
| Changes in operating assets and liabilities | | |
| (Increase) in other receivables | - | (21,020) |
| (Increase) in other assets | (15,799) | (16,975) |
| (Increase) in prepaid expenses | (25,907) | (53,397) |
| Increase (decrease) in accounts payable | 11,074 | (19,895) |
| (Decrease) in accrued interest | (3,474) | (3,379) |
| Increase in prepaid rent | 350,643 | 348,132 |
| (Decrease) in deferred revenue | (91,489) | (108,208) |
| Net cash provided by operating activities | 552,643 | 436,860 |
| Financing Activities | | |
| Principal payment on long-term debt | (13,372) | (13,032) |
| Cash dividends paid on preferred stock | (70,058) | (69,968) |
| Net cash used in financing activities | (83,430) | (83,000) |
| Net increase in cash and cash equivalents | 469,213 | 353,860 |
| Cash and cash equivalents, beginning of period | 1,146,730 | 717,104 |
| Cash and cash equivalents, end of period | $1,615,943 | $1,070,964 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $118,895 | $121,603 |

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

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**POWER REIT AND SU6BSIDIARIES**

**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 23, 2018.

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 March 31, 2018, 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 March 31, 2018, 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP")."

**POWER REIT AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017.

We adopted the new revenue guidance effective January 1, 2018. Our analysis of our contracts under the new revenue recognition standard supports the recognition of revenue over time under the straight-line method for our leases, which is consistent with our historical revenue recognition model. Consequently, the adoption of the new standard did not have a material impact on our consolidated financial statements.

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. This guidance became effective on January 1, 2018 and it did not 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.

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**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-term maturities. The carrying value of long-term debt approximates fair value since the related rates of interest approximate current market rates. There are no financial assets and liabilities carried at fair value on a recurring basis as of March 31, 2018 and 2017.

Reclassifications

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

**3. LONG-TERM DEBT**

On November 6, 2015, PWRS borrowed $10,150,000 pursuant to a bond offering (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 annual interest rate of 4.34% and matures in 2034. During 2015, the Trust capitalized approximately $441,000 of expenses related to the PWRS Bonds of which approximately $97,000 was paid in cash and approximately 344,000 was incurred through issuance of debt. This amount is amortized over the life of the PWRS Bonds. As of March 31, 2018 and December 31 2017, the balance of the PWRS Bonds was approximately $9,184,000 (net of unamortized debt costs of approximately $365,000) and $9,178,000 (net of unamortized debt costs of approximately $370,000), respectively.

**POWER REIT AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

On July 5, 2013, PWSS borrowed $750,000 from a regional bank (the "PWSS Term Loan"). 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 March 31, 2018 and December 31, 2017 is approximately $619,000 (net of approximately $14,000 of capitalized debt costs which are being amortized over the life of the financing) and $626,000 (net of approximately $15,000 of capitalized debt costs which are being amortized over the life of the financing), respectively.

On December 31, 2012, as part of the Salisbury land acquisition, PWSS assumed existing municipal financing ("Municipal Debt"). The Municipal Debt has approximately 15 years remaining. The Municipal Debt has a simple interest rate of 5.0% that is paid annually, with the next payment due February 1, 2019. The balance of the Municipal Debt as of March 31, 2018 and December 31, 2017 is approximately $83,000 and $90,000 respectively.

**4. EQUITY AND LONG-TERM COMPENSATION**

Summary of Stock Based Compensation Activity – Options

The summary of stock based compensation activity for the three months ended March 31, 2018, with respect to the Trust's stock options, was as follows:

**Summary of Activity - Options**

| | Number of Options | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|---|---|---|---|
| Balance as of December 31, 2017 | 106,000 | 7.96 | - |
| Plan Awards | - | - | - |

| | | | |
|---|---|---|---|
| Options Exercised | - | - | - |
| Balance as of March 31, 2018 | 106,000 | 7.96 | - |
| Options vested at March 31, 2018 | 106,000 | 7.96 | - |

The weighted average remaining term of the options is approximately 4.37 years.