

Power REIT
Form 10-Q
May 13, 2016

**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

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

For the quarterly period ended March 31, 2016

000-54560

(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 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 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 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

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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 May 11, 2016.

TABLE OF CONTENTS

| | Page No. |
|---|-----------------|
| <u>PART I – FINANCIAL INFORMATION</u> | |
| <u>Item 1 – Financial Statements (Unaudited)</u> | 3 |
| <u>Consolidated Balance Sheets (Unaudited)</u> | 3 |
| <u>Consolidated Statements of Operations (Unaudited)</u> | 4 |
| <u>Consolidated Statements of Cash Flows (Unaudited)</u> | 5 |
| <u>Notes to Unaudited Consolidated Financial Statements</u> | 6 |
| | |
| <u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 12 |
| | |
| <u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u> | 14 |
| | |
| <u>Item 4 – Controls and Procedures</u> | 14 |
| | |
| <u>PART II – OTHER INFORMATION</u> | |
| | |
| <u>Item 1 – Legal Proceedings</u> | 15 |
| | |
| <u>Item 1A – Risk Factors</u> | 16 |
| | |
| <u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u> | 17 |
| | |
| <u>Item 3 – Defaults Upon Senior Securities</u> | 17 |
| | |
| <u>Item 4 – Mine Safety Disclosures</u> | 17 |
| | |
| <u>Item 5 – Other Information</u> | 17 |
| | |
| <u>Item 6 – Exhibits</u> | 17 |
| | |
| <u>SIGNATURE</u> | 18 |

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.****POWER REIT AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

| | March 31, 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 | 525,452 | 435,870 |
| Other receivables | 126,748 | 6,142 |
| Prepaid expenses | 125,712 | 55,356 |
| Intangible assets, net of accumulated amortization | 4,478,735 | 4,538,020 |
| Other assets | 448,589 | 336,157 |
| TOTAL ASSETS | \$21,643,303 | \$21,309,612 |
| LIABILITIES AND EQUITY | | |
| Deferred revenue | \$134,546 | \$18,513 |
| Accounts payable | 153,794 | 96,022 |
| Accounts payable, related party | - | 1,773 |
| Accrued interest | 91,721 | 74,243 |
| Current portion of long-term debt | 303,431 | 307,104 |
| Long-term debt | 10,217,074 | 10,199,984 |
| TOTAL LIABILITIES | 10,900,566 | 10,697,639 |
| 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, 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; 1,742,688 and 1,742,688 shares issued and outstanding as of March 31, 2016 and December 31, 2015) | 1,743 | 1,743 |
| Additional paid-in capital | 11,037,360 | 11,001,843 |
| Accumulated deficit | (3,788,515) | (3,883,762) |

| | | |
|------------------------------|--------------|--------------|
| <i>Total Equity</i> | 7,250,588 | 7,119,824 |
| TOTAL LIABILITIES AND EQUITY | \$21,643,303 | \$21,309,612 |

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 March 31, | |
|--|---------------------------------|---------------------|
| | 2016 | 2015 |
| REVENUE | | |
| Lease income from capital lease - railroad, net | \$228,750 | \$228,750 |
| Rental income | 262,851 | 262,008 |
| Interest income | 73 | 11 |
| TOTAL REVENUE | 491,674 | 490,769 |
| EXPENSES | | |
| Amortization of intangible assets | 59,285 | 59,285 |
| General and administrative | 36,535 | 53,613 |
| Stock-based compensation | 35,517 | 53,540 |
| Property tax | 5,382 | 5,462 |
| Property acquisition expenses | - | (1,105) |
| Litigation expenses (see note 5) | 48,355 | 4,440 |
| Interest expense | 141,385 | 199,130 |
| Unrealized loss on interest rate swap | - | 183,866 |
| TOTAL EXPENSES | 326,459 | 558,231 |
| NET INCOME (LOSS) | 165,215 | (67,462) |
| Preferred Stock Dividends | 69,968 | 69,968 |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHARES | \$95,247 | \$(137,430) |
| Income (Loss) Per Common Share: | | |
| Basic and diluted | \$0.05 | \$(0.08) |
| Weighted Average Number of Shares Outstanding: | | |
| Basic and diluted | 1,742,688 | 1,731,788 |
| 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, | |
|---|---------------------------------|-------------|
| | 2016 | 2015 |
| Operating activities | | |
| Net Income (loss) | \$ 165,215 | \$(67,462) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Amortization of intangible assets | 59,285 | 59,285 |
| Change in unrealized loss on interest rate swap | - | 183,866 |
| Amortization of debt costs | 23,148 | 62,502 |
| Stock-based compensation | 35,517 | 53,540 |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in other receivables | (120,606) | (157,500) |
| (Increase) decrease in prepaid expense | (70,356) | (63,199) |
| Increase in deferred revenue | (109,119) | (162,946) |
| Increase in Prepaid Rent | 116,033 | 343,442 |
| Increase (decrease) in accounts payable | 55,999 | (114,424) |
| Increase (decrease) in accrued interest | 17,478 | 6,747 |
| Net cash provided by operating activities | 172,594 | 143,851 |
| Financing Activities | | |
| Principal payment on long-term debt | (13,044) | (86,516) |
| Cash dividends paid on preferred stock | (69,968) | (69,968) |
| Net cash used in financing activities | (83,012) | (156,484) |
| Net increase (decrease) in cash and cash equivalents | 89,582 | (12,633) |
| Cash and cash equivalents, beginning of period | 435,870 | 654,381 |
| Cash and cash equivalents, end of period | \$525,452 | \$641,748 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 100,759 | \$56,995 |

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 March 31, 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.

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During the quarter ended March 31st, 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.

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.

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.

POWER REIT AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

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 March 31, 2016 and December 31, 2015 is approximately \$10,150,000 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 March 31, 2016 and December 31, 2015 and is approximately \$687,000 and \$693,000 respectively.

On December 31, 2012, as part of the Salisbury land acquisition, PWSS assumed existing municipal financing (“Municipal Debt”). The Municipal Debt has approximately 16 years remaining. The Municipal Debt has a simple interest rate of 5.0% that is paid annually, with the next payment due February 1, 2017. The balance of the Municipal Debt as of March 31, 2016 and December 31, 2015 is approximately \$96,000 and \$103,000 respectively.

4. EQUITY AND LONG-TERM COMPENSATION

Summary of Plan Activity – Options

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The summary of Plan activity for the three months ended March 31, 2016, with respect to the Trust's stock options, was as follows:

| | Number of Options | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|----------------------------------|-------------------------|--|---------------------------------|
| Balance as of December 31, 2015 | 106,000 | 7.96 | 41,340 |
| Plan Awards | - | | |
| Options Exercised | - | | |
| Balance as of March 31, 2016 | 106,000 | 7.96 | - |
| Options vested at March 31, 2016 | 106,000 | 7.96 | - |

The Aggregate Intrinsic Value is based on the difference between the option exercise price and the closing stock price of \$4.70 and \$8.60 at March 31, 2016 and 2015, respectively. Since the Weighted Average Exercise Price exceeds the closing stock price of \$4.70 at March 31, 2016 the Aggregate Intrinsic Value is zero.

POWER REIT AND SUBSIDIARIES**Notes to Unaudited Consolidated Financial Statements**Summary of Plan Activity – Restricted Stock

The summary of Plan activity for the three months ended March 31, 2016, with respect to the Trust's restricted stock, was as follows:

| | Number of Shares of Restricted Stock | Weighted Average Grant Date Fair Value |
|---------------------------------|--|---|
| Balance as of December 31, 2015 | 24,875 | 7.58 |
| Plan Awards | - | - |
| Restricted Stock Vested | 4,492 | 7.90 |
| Balance as of March 31, 2016 | 20,383 | 7.50 |

Stock-based Compensation

During the first three months of 2016, the Trust recorded approximately \$36,000 of non-cash expense related to restricted stock and options granted under the Plan compared to approximately \$54,000 for the first three months of 2015. As of March 31, 2016 there was approximately \$153,000 of total unrecognized share-based compensation expense, which expense will be recognized through the second quarter of 2018, equating to a weighted average amortization period of approximately 1.5 years from the issuance date. The Trust does not currently have a policy regarding the repurchase of shares on the open market related to equity awards and does not currently intend to acquire shares on the open market.

Preferred Stock Dividends

During the first three months of 2016, the Trust paid a total of approximately \$70,000 of dividends to holders of Power REIT's Series A Preferred Stock.

5. LEGAL PROCEEDINGS

As previously disclosed in its public filings with the SEC, the Trust and its wholly-owned subsidiary P&WV are in litigation with NSC and NSC's sub-lessee, Wheeling & Lake Erie Railroad ("WLE" and, together with NSC, the "Litigants") concerning matters arising under the Railroad Lease. The case is pending in Federal trial court in Pittsburgh (the "Court"). The Litigants initiated the litigation against the Trust and P&WV in December 2011, seeking, among other things, a declaratory judgment that NSC was not in default under the Railroad Lease.

P&WV, as lessor, has asserted counterclaims, seeking determinations that NSC is in default under the Railroad Lease for, among other things, failing to reimburse P&WV for certain legal fees incurred by P&WV, failing to permit P&WV to inspect NSC's books and records as called for under the terms of the Railroad Lease and failing to pay other amounts that P&WV believes are due and owing. P&WV also seeks declarations from the Court (a) that NSC's obligation to repay the indebtedness owed under the Railroad Lease is not indefinite in duration, and (b) that the indebtedness owed to P&WV is due on demand with interest. If P&WV is successful with certain of its counterclaims, it can terminate the Railroad Lease and demand from NSC payment of the indebtedness.

POWER REIT AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

The indebtedness is the cumulative result of amounts received by NSC from its dispositions of P&WV property, additional rental amounts due and other sums that NSC owes to P&WV but which NSC has elected, under its interpretation of the Railroad Lease, to pay by increasing its indebtedness to P&WV rather than by providing P&WV with cash. According to records maintained by NSC pursuant to the Railroad Lease and provided by NSC to P&WV, as of December 31, 2012 the indebtedness owed to P&WV was approximately \$16,600,000. NSC has not provided a more recent update of the indebtedness amount. P&WV believes that the indebtedness amount is understated. The indebtedness has not been included in P&WV's balance sheets prepared under GAAP, because of the dispute as to when it is due. Similarly, certain additional rental amounts that NSC disputes are due on a current basis, and which have historically been treated as indebtedness, have not been included in P&WV's income statements or balance sheets prepared under GAAP; however, these additional rent amounts have historically been recorded as taxable income on P&WV's tax returns.

The Litigants have alleged that the Trust is a successor in interest in respect of the Railroad Lease. If that allegation were to be decided against us in a fact-finding stage of the litigation, it could lead to liability and expenses. The Trust believes that it is not a successor in interest in respect of the Railroad Lease and is not constrained by any of the Railroad Lease restrictions.

The parties have made certain supplements to their respective claims and counterclaims. In August 2013, P&WV filed a second supplement to its counterclaims following the Litigants' disclosure of previously undisclosed dispositions of P&WV property. P&WV believes that additional amounts are owed to it as a result of these dispositions and, accordingly, asserted new counterclaims, including claims of fraud and conversion. Based on the information available at the time P&WV supplemented its claims, P&WV has estimated that the additional amounts owed to it exceed \$8 million, not including potential interest and damages. P&WV also supplemented its counterclaim for additional rental amounts due in order to include the reimbursement of its legal expenses related to the litigation. In response to P&WV's second supplement to its counterclaims, in January 2014 the Litigants amended their pleadings to add additional claims against both P&WV and the Trust. The Litigants' new claims seek additional declarations from the Court that the Litigants have not defaulted on or violated the terms of the Railroad Lease.

On September 13, 2013, the Trust filed a motion for summary judgment seeking dismissal of all of the claims against it primarily based on the fact that the Trust is not a party to the Lease. On January 15, 2014, the Court heard oral arguments from the parties on the Trust's motion. On October 16, 2013, the Litigants filed a motion seeking leave to supplement their claims to include: (i) nominal damages, (ii) enjoinder of Power REIT from taking actions in breach of the Lease Agreement, (iii) the withdrawal of NSC's consent to the additional share by P&WV; and (iv) the undoing of the reverse triangular merger. On June 19, 2014, the court denied the Trust's motion but also denied Plaintiff's motion seeking leave to supplement their claims with the exception of granting the motion to seek nominal damages.

The fact and expert discovery phases of the litigation have been completed. On September 8, 2014, P&WV filed a Motion for Summary Judgment and on October 22, 2014, the Litigants filed an opposition to such motion and on November 5, 2014, P&WV filed a Reply to NSC and WLE's opposition to such motion. On September 8, 2014, the Litigants filed a Motion for Summary Judgment and on October 22, 2014, P&WV filed an opposition to such motion and on November 5, 2014, the Litigants filed a reply to P&WV's opposition to such motion. On December 16, 2014, the court held oral argument on both of the motions for Summary Judgment.

On April 22, 2015, the court denied P&WV's motion for summary judgment and granted the Litigants' summary judgment motion thereby dismissing all of P&WV's claims. During the week of August 3, 2015, a trial was conducted on the two remaining claims of the Litigants against P&WV and Power REIT. On December 29, 2015, the Court issued a ruling with respect to the remaining claims that were the subject of the trial. In the ruling, the Court found in favor of Power REIT on all claims brought against it by NSC and WLE. In addition, the Court also found in favor of P&WV with respect to claims brought against P&WV by WLE. However, the Court did find in favor of NSC against P&WV for certain of its claims (fraud and breach of contract) and awarded nominal damages of \$1.00. In connection with NSC's demand for punitive damages, the Court ruled that NSC was not entitled to punitive damages.

POWER REIT AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

On January 26, 2016, Power REIT and P&WV filed a Notice of Appeal to appeal the matter to the United States Court of Appeals for the Third Circuit. On April 28, 2016, Power REIT and P&WV's filed its appellate brief. Power REIT and P&WV have retained the firm of Kecker & Van Nest LLP as lead counsel related to the appeal.

P&WV has provided key court filings in the litigation on its website (www.pwreit.com) under a tab called "P&WV Litigation Update" which is under the "Investor Relations" tab. The provided documents and accompanying supporting documents are not comprehensive or complete and the full case docket is available from the Public Access to Court Records (PACER) website. Power REIT encourages interested parties to review all the public filings available on PACER and to review the risks and disclosures in Power REIT's Annual Report filed on Form 10-k and other documents filed from time to time with the Securities and Exchange Commission (SEC).

During the quarter ended March 31, 2016, P&WV incurred litigation related expenses of approximately \$48,000. As of March 31, 2016, P&WV had incurred a total of approximately \$3.1 million of cumulative expenses related to the litigation. P&WV believes that the costs associated with the litigation are reimbursable by NSC under the Railroad Lease as additional rent, but NSC has refused to pay such amounts. At this point, in order to collect such amounts, P&WV would need to prevail on the appeal. There can be no assurance that P&WV will prevail in collecting its litigation expenses from NSC; accordingly, the expenses of the litigation are accrued and expensed as incurred.

As of the date of this filing, NSC has continued to make its quarterly base rental payments (\$228,750 per quarter) despite the pendency of the litigation. However, there can be no assurance that NSC will continue to make its base rental payments.

6. RELATED PARTY TRANSACTIONS

The Trust and its subsidiaries have hired Morrison Cohen, LLP ("Morrison Cohen") as their legal counsel with respect to general corporate matters and the litigation with NSC. The spouse of the Trust's Chairman, CEO, Secretary and Treasurer is a partner at Morrison Cohen. During the quarter ended March 31, 2016, Power REIT (on a consolidated basis) paid approximately \$1,800 in legal fees and costs to Morrison Cohen in connection with various legal matters, including the litigation with NSC.

A wholly-owned subsidiary of HBP provides the Trust and its subsidiaries with office space at no cost.

Under the Trust's Declaration of Trust, the Trust may enter into transactions in which trustees, officers or employees have a financial interest, provided however, that in the case of a material financial interest, the transaction is disclosed to the Board of Trustees or the transaction shall be fair and reasonable. After consideration of the terms and conditions of the retention of Morrison Cohen and the bridge loan arrangements described above, the independent trustees approved the hiring of Morrison Cohen as counsel and approved the bridge loans, determining all such arrangements to be fair and reasonable and in the interest of the Trust.

7. SUBSEQUENT EVENTS

On April 12, 2016, the Registrant declared a quarterly dividend of \$0.48375 per share on Power REIT's 7.75% Series A Cumulative Redeemable Perpetual Preferred Stock payable on June 15, 2016 to shareholders of record on May 15, 2016.

On May 5, 2016, the Company issued stock based compensation to the Trustees (other than David Lesser) of 600 shares of common stock which vests quarterly over four quarters beginning with the second quarter of 2016. On May 5, 2016, the Company issued stock based compensation to David Lesser (Chairman and CEO) of 40,000 shares of common stock which vests quarterly over twelve quarters beginning with the second quarter of 2016.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words “believe,” “expect,” “will,” “anticipate,” “intend,” “estimate,” “project,” “plan,” “assume” or other similar expressions, or negatives of the expressions, although not all forward-looking statements contain these identifying words. All statements contained in this report regarding our future strategy, future operations, projected financial position, estimated future revenues, projected costs, future prospects, the future of our industries and results that might be obtained by pursuing management’s current or future plans and objectives are forward-looking statements.

You should not place undue reliance on any forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date of the filing of this report. New risks and uncertainties arise from time to time, and it is impossible for us to predict these matters or how they may affect us. Over time, our actual results, performance, financial condition or achievements may differ from the anticipated results, performance, financial condition or achievements that are expressed or implied by our forward-looking statements, and such differences may be significant and materially adverse to our security holders. Our forward-looking statements contained herein speak only as of the date hereof, and we make no commitment to update or publicly release any revisions to forward-looking statements in order to reflect new information or subsequent events, circumstances or changes in expectations.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Power REIT is a Maryland-domiciled 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.

Power REIT 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. Power REIT 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 Registrant. The Company's investment strategy, which is focused on transportation and energy infrastructure-related real estate, builds upon its subsidiary P&WV's historical ownership of railroad real estate assets, which are currently triple-net leased to NSC.

As of March 31, 2016, the Trust's assets consisted of approximately 112 miles of railroad infrastructure and related real estate leased to a railway company 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 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.

Revenue during the first quarter of 2015 and 2016 was approximately \$492,000 and \$491,000, respectively. Net income attributable to Common Shares during the first quarter of 2016 was approximately \$95,000, whereas a net loss attributable to common shares of approximately \$137,000, was reported during the first quarter of 2015. The difference between our 2016 and 2015 first quarter results were principally attributable to the following: an approximately \$183,000 decrease in unrealized interest rate swap expense; an approximately \$57,000 decrease in interest expense; an approximately \$44,000 increase in litigation expenses related to the NSC litigation; an approximately \$18,000 decrease in stock-based compensation; and, an approximately \$17,000 decrease in general and administrative costs.

The Trust's cash outlays, other than acquisitions and dividend payments, are for general and administrative ("G&A") expenses, which consist principally of legal and other professional fees, consultant fees, trustees' fees, NYSE MKT listing fees, shareholder service company fees and auditing costs. During the three years ended 2014, The Trust (on a consolidated basis) incurred substantial litigation expenses related to its litigation related to P&WV (See Note 5).

To meet its working capital and longer-term capital needs, Power REIT relies on cash provided by its operating activities, proceeds received from the issuance of equity securities and proceeds received from borrowings, which are typically secured by liens on acquired assets.

FUNDS FROM OPERATIONS – NON GAAP FINANCIAL MEASURES

We assess and measure our overall operating results based upon an industry performance measure referred to as Core Funds From Operations ("Core FFO") which management believes is a useful indicator of our operating performance. This report contains supplemental financial measures that are not calculated pursuant to U.S. generally accepted accounting principles ("GAAP"), including the measure identified by us as Core FFO. Following is a definition of this measure, an explanation as to why we present it and, at the end of this section, a reconciliation of Core FFO to the most directly comparable GAAP financial measure.

Core FFO: Management believes that Core FFO is a useful supplemental measure of the Company's operating performance. Management believes that alternative measures of performance, such as net income computed under GAAP, or Funds From Operations computed in accordance with the definition used by the National Association of

Real Estate Investment Trusts (“NAREIT”), include certain financial items that are not indicative of the results provided by the Company’s asset portfolio and inappropriately affect the comparability of the Company’s period-over-period performance. These items include non-recurring expenses, such as those incurred in connection with litigation, one-time upfront acquisition expenses that are not capitalized under ASC-805 and certain non-cash expenses, including stock-based compensation expense amortization and certain up front financing costs. Therefore, management uses Core FFO and defines it as net income excluding such items. Management believes that, for the foregoing reasons, these adjustments to net income are appropriate. The Company believes that Core FFO is a useful supplemental measure for the investing community to employ, including when comparing the Company to other REITs that disclose similarly adjusted FFO figures, and when analyzing changes in the Company’s performance over time. Readers are cautioned that other REITs may use different adjustments to their GAAP financial measures than we do, and that as a result, the Company’s Core FFO may not be comparable to the FFO measures used by other REITs or to other non-GAAP or GAAP financial measures used by REITs or other companies.

CORE FUNDS FROM OPERATIONS (FFO)

(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2016 | 2015 |
| Core FFO Available to Common Shares | \$261,552 | \$224,703 |
| Growth - Core FFO | 16 | % |
| Core FFO per common share | 0.15 | 0.13 |
| Growth - Core FFO per common share | 16 | % |
| Weighted Average shares outstanding (basic) | 1,742,688 | 1,731,788 |

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2016 | 2015 |
| Net income (loss) Attributable to Common Shares | \$95,247 | \$(137,430) |
| Litigation expense | 48,355 | 4,440 |
| Property acquisition expenses | - | (1,105) |
| Stock-based compensation | 35,517 | 53,540 |
| Interest Expense - Unused facility fee | - | 8,355 |
| Interest Expense - Amortization of Debt Costs | 23,148 | 53,752 |
| Amortization of Intangible Asset | 59,285 | 59,285 |
| Unrealized loss on interest rate swap | - | 183,866 |
| Core FFO Available to Common Shares | \$261,552 | \$224,703 |

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, the Trust is not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate disclosure controls and procedures (as defined in Rules 13a- 15(f) of the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Because of the inherent limitations in all control systems, internal controls over financial reporting may not prevent or detect misstatements. The design and operation of a control system must also reflect that there are resource constraints and management is necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls.

Our management assessed the effectiveness of the design and operation of our disclosure controls and procedures. Based on our evaluation, we believe that our disclosure controls and procedures as of March 31, 2016 were effective.

Changes in Internal Control over Financial Reporting:

During the fiscal quarter ended March 31, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

As previously disclosed in its public filings with the SEC, the Trust and its wholly-owned subsidiary P&WV are in litigation with NSC and NSC's sub-lessee, Wheeling & Lake Erie Railroad ("WLE" and, together with NSC, the "Litigants") concerning matters arising under the Railroad Lease. The case is pending in Federal trial court in Pittsburgh (the "Court"). The Litigants initiated the litigation against the Trust and P&WV in December 2011, seeking, among other things, a declaratory judgment that NSC was not in default under the Railroad Lease.

P&WV, as lessor, has asserted counterclaims, seeking determinations that NSC is in default under the Railroad Lease for, among other things, failing to reimburse P&WV for certain legal fees incurred by P&WV, failing to permit P&WV to inspect NSC's books and records as called for under the terms of the Railroad Lease and failing to pay other amounts that P&WV believes are due and owing. P&WV also seeks declarations from the Court (a) that NSC's obligation to repay the indebtedness owed under the Railroad Lease is not indefinite in duration, and (b) that the indebtedness owed to P&WV is due on demand with interest. If P&WV is successful with certain of its counterclaims, it can terminate the Railroad Lease and demand from NSC payment of the indebtedness.

The indebtedness is the cumulative result of amounts received by NSC from its dispositions of P&WV property, additional rental amounts due and other sums that NSC owes to P&WV but which NSC has elected, under its interpretation of the Railroad Lease, to pay by increasing its indebtedness to P&WV rather than by providing P&WV with cash. According to records maintained by NSC pursuant to the Railroad Lease and provided by NSC to P&WV, as of December 31, 2012 the indebtedness owed to P&WV was approximately \$16,600,000. NSC has not provided a more recent update of the indebtedness amount. P&WV believes that the indebtedness amount is understated. The indebtedness has not been included in P&WV's balance sheets prepared under GAAP, because of the dispute as to when it is due. Similarly, certain additional rental amounts that NSC disputes are due on a current basis, and which have historically been treated as indebtedness, have not been included in P&WV's income statements or balance sheets prepared under GAAP; however, these additional rent amounts have historically been recorded as taxable income on P&WV's tax returns.

The Litigants have alleged that the Trust is a successor in interest in respect of the Railroad Lease. If that allegation were to be decided against us in a fact-finding stage of the litigation, it could lead to liability and expenses. The Trust believes that it is not a successor in interest in respect of the Railroad Lease and is not constrained by any of the Railroad Lease restrictions.

The parties have made certain supplements to their respective claims and counterclaims. In August 2013, P&WV filed a second supplement to its counterclaims following the Litigants' disclosure of previously undisclosed dispositions of P&WV property. P&WV believes that additional amounts are owed to it as a result of these dispositions and, accordingly, asserted new counterclaims, including claims of fraud and conversion. Based on the information available at the time P&WV supplemented its claims, P&WV has estimated that the additional amounts owed to it exceed \$8 million, not including potential interest and damages. P&WV also supplemented its counterclaim for additional rental amounts due in order to include the reimbursement of its legal expenses related to the litigation. In response to P&WV's second supplement to its counterclaims, in January 2014 the Litigants amended their pleadings to add additional claims against both P&WV and the Trust. The Litigants' new claims seek additional declarations from the Court that the Litigants have not defaulted on or violated the terms of the Railroad Lease.

On September 13, 2013, the Trust filed a motion for summary judgment seeking dismissal of all of the claims against it primarily based on the fact that the Trust is not a party to the Lease. On January 15, 2014, the Court heard oral arguments from the parties on the Trust's motion. On October 16, 2013, the Litigants filed a motion seeking leave to supplement their claims to include: (i) nominal damages, (ii) enjoinder of Power REIT from taking actions in breach of the Lease Agreement, (iii) the withdrawal of NSC's consent to the additional share by PWV; and (iv) the undoing of the reverse triangular merger. On June 19, 2014, the court denied the Trust's motion but also denied Plaintiff's motion seeking leave to supplement their claims with the exception of granting the motion to seek nominal damages.

The fact and expert discovery phases of the litigation have been completed. On September 8, 2014, P&WV filed a Motion for Summary Judgment and on October 22, 2014, the Litigants filed an opposition to such motion and on November 5, 2014, P&WV filed a Reply to NSC and WLE's opposition to such motion. On September 8, 2014, the Litigants filed a Motion for Summary Judgment and on October 22, 2014, P&WV filed an opposition to such motion and on November 5, 2014, the Litigants filed a reply to P&WV's opposition to such motion. On December 16, 2014, the court held oral argument on both of the motions for Summary Judgment.

On April 22, 2015, the court denied P&WV's motion for summary judgment and granted the Litigants' summary judgment motion thereby dismissing all of P&WV's claims. During the week of August 3, 2015, a trial was conducted on the two remaining claims of the Litigants against P&WV and Power REIT. On December 29, 2015, the Court issued a ruling with respect to the remaining claims that were the subject of the trial. In the ruling, the Court found in favor of Power REIT on all claims brought against it by NSC and WLE. In addition, the Court also found in favor of P&WV with respect to claims brought against P&WV by WLE. However, the Court did find in favor of NSC against P&WV for certain of its claims (fraud and breach of contract) and awarded nominal damages of \$1.00. In connection with NSC's demand for punitive damages, the Court ruled that NSC was not entitled to punitive damages.

On January 26, 2016, Power REIT and P&WV filed a Notice of Appeal to appeal the matter to the United States Court of Appeals for the Third Circuit. On April 28, 2016, Power REIT and P&WV's filed its appellate brief. Power REIT and P&WV have retained the firm of Kecker & Van Nest LLP as lead counsel related to the appeal.

P&WV has provided key court filings in the litigation on its website (www.pwreit.com) under a tab called "P&WV Litigation Update" which is under the "Investor Relations" tab. The provided documents and accompanying supporting documents are not comprehensive or complete and the full case docket is available from the Public Access to Court Records (PACER) website. Power REIT encourages interested parties to review all the public filings available on PACER and to review the risks and disclosures in Power REIT's Annual Report filed on Form 10-k and other documents filed from time to time with the Securities and Exchange Commission (SEC).

During the quarter ended March 31, 2016, P&WV incurred litigation related expenses of approximately \$48,000. As of March 31, 2016, P&WV had incurred a total of approximately \$3.1 million of cumulative expenses related to the litigation. P&WV believes that the costs associated with the litigation are reimbursable by NSC under the Railroad Lease as additional rent, but NSC has refused to pay such amounts. At this point, in order to collect such amounts, P&WV would need to prevail on the appeal. There can be no assurance that P&WV will prevail in collecting its litigation expenses from NSC; accordingly, the expenses of the litigation are accrued and expensed as incurred.

As of the date of this filing, NSC has continued to make its quarterly base rental payments (\$228,750 per quarter) despite the pendency of the litigation. However, there can be no assurance that NSC will continue to make its base rental payments.

Item 1A. Risk Factors.

The Trust's results of operations and financial condition are subject to numerous risks and uncertainties as described in its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2016, which risk factors are incorporated herein by reference. You should carefully consider these risk factors in conjunction with the other information contained in this report. Should any of these risks materialize, the Trust's business, financial condition and future prospects could be negatively impacted.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

Not Applicable.

Item 6. Exhibits.

Exhibit Number

Exhibit
31.1 Section 302 Certification for David H. Lesser

Exhibit
32.1 Section 906 Certification for David H. Lesser

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Exhibit 101 Interactive data files pursuant to Rule 405 of Regulation S-T, for the quarter ended March 31, 2015: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows and (iv) Notes to the Consolidated Financial Statements

17

SIGNATURE

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.

POWER REIT

/s/ David H. Lesser

David H. Lesser
Chairman of the Board & Chief Executive Officer,
Secretary and Treasurer

Date: May 13, 2016

