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PITTSBURGH & WEST VIRGINIA RAILROAD

Form 10-Q

May 12, 2011

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

For the Quarterly period ended March 31, 2011

Commission File Number: 1-5447

PITTSBURGH & WEST VIRGINIA RAILROAD

Pennsylvania
(State of Organization)

25-6002536
(I.R.S. Employer Identification No.)

55 Edison Avenue, West Babylon, NY
(Address of principal executive offices)

11704
(Zip Code)

Telephone (212) 750-0373
(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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.

1,623,250 shares of beneficial interest, without par value.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

STATEMENT OF INCOME
(Dollars in Thousands except Per Share Amounts)
(Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2011 | 2010 |
| INCOME AVAILABLE FOR DISTRIBUTION: | | |
| Interest income from capital lease | \$ 229 | \$ 229 |
| Less general and administrative expense | 60 | 71 |
| NET INCOME | \$ 169 | \$ 158 |
| Weighted Average Shares During Period | 1,528,875 | 1,510,000 |
| Per Share: | | |
| Net Income | \$.11 | \$.10 |
| Cash Dividends | \$.10 | \$.12 |

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

BALANCE SHEET
(Dollars in Thousands)

| | (Unaudited) March 31, 2011 | (Audited) December 31 2010 |
|--|----------------------------------|----------------------------------|
| ASSETS | | |
| Cash | \$ 1,000 | \$ 49 |
| Prepaid Expense | 34 | - |
| Net investment in capital lease | 9,150 | 9,150 |
| TOTAL ASSETS | \$10,184 | \$ 9,199 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts Payable | \$ 12 | - |
| Shareholders' equity: | | |
| Shares of beneficial interest, at no par Value (1,623,250 and 1,510,000 shares issued and outstanding as of 3/31/2011 and 12/31/2010, respectively) | 10,101 | 9,145 |
| Retained earnings | 71 | 54 |
| Total shareholders' equity | 10,172 | 9,199 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$10,184 | \$ 9,199 |

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

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STATEMENT OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2011 | 2010 |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 169 | \$ 158 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Prepaid Expenses | (34) | - |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 135 | \$ 158 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividends paid | (151) | (181) |
| Net Proceeds from Financing | 968 | - |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | \$ 817 | \$ (181) |
| Net increase (decrease) in Cash | 952 | (23) |
| Cash, beginning of period | 49 | 40 |
| Cash, end of period | \$1,000 | \$ 17 |

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

Notes to financial statements:

(1) The foregoing interim 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.

(2) Pittsburgh & West Virginia Railroad ("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. Furthermore, in accordance with the terms of the lease, Norfolk Southern Corporation will reimburse the lessor, in the form of additional rent, for all taxes and governmental charges imposed upon the leased assets of the lessor except for taxes relating to cash rent payments made by the lessee. 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.

(3) Under the terms of the lease, Norfolk Southern Corporation has leased all of Pittsburgh & West Virginia Railroad's real properties, including its railroad lines, for a term of 99 years, renewable by the lessee upon the same terms for additional 99-year terms in perpetuity. The lease provides for a cash rental of \$915,000 per year for the current lease period and all renewal periods. The 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%.

(4) Under the provisions of the lease, the Trust may not issue, without

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the prior written consent of Norfolk Southern, any shares or options to purchase shares or declare any dividends on its shares of beneficial interest in an amount exceeding the value of the assets not covered by the lease plus the annual cash rent of \$915,000 to be received under the lease, less any expenses incurred for the benefit of shareholders. At March 31, 2011, all net assets, other than \$1,000,000 of cash, are covered by the lease. The Trust may not borrow any money or assume any guarantees except with the prior written consent of Norfolk Southern.

(5) With the approval of Norfolk Southern Corporation, on March 16, 2011, the Trust completed a rights offering, pursuant to which the Trust issued 113,250 common shares of beneficial interest, no par value, raising gross proceeds of \$1,019,000.

(6) For interim financial reporting purposes, the accounting policy has changed to record a prepaid expense for certain annual expenses and to allocate these expenses to interim periods based on the benefit received in each interim period. Previously, these amounts were expensed in the interim period in which they were paid. The effect of this change is to reduce expenses by \$21,000 in the quarter ended March 31, 2011.

Item 2. MANAGERMENTS' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NOTE 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 those 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 or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our security holders.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

All of the Registrant's railroad properties are leased to Norfolk and Western Railway Company, now known as Norfolk Southern Corporation (NSC), for 99 years, with unlimited renewals on the same terms. Cash rental is a fixed amount of \$915,000 per year, with no provision for change during the term of the lease and any renewal periods. This cash rental is the only current

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source of funds. Although the lease provides for additional rentals to be recorded, these amounts do not increase cash flow or net income as they are charged to NSC's settlement account with no requirement for payment, except at termination or non renewal of the lease. Due to the indeterminate settlement date, these additional rental amounts are not recorded for financial reporting purposes.

In comparing the first quarter of 2011 with the preceding fourth quarter of 2010 and the first quarter of 2010, revenues totaled \$229,000, \$229,000, and \$229,000, respectively. Net income and income available for distribution was \$169,000, \$214,000 and \$158,000 respectively.

Registrant's cash outlays, other than dividend payments, are for general and administrative (G&A) expenses, which include professional fees, consultants, office rental and director's fees. The existing leased properties are maintained entirely at NSC's expense.

Currently, substantially all of Registrant's income consists of fixed-rate rental payments that it receives pursuant to the lease of its only substantial asset. There are no rent escalations provided for in the lease. The lease has a 99-year term and can be renewed by the lessee for an unlimited number of additional 99-year periods. For all these reasons, Registrant faces substantial constraints on its income. Nevertheless, Registrant's expenses continue to rise, including in particular its costs of complying with the laws, regulations and rules that apply as a result of Registrant's public company status. As a result of the foregoing, the amount of free cash flow available to Registrant's shareholders is expected to decline over time.

Accordingly, in order to justify continuing as a public company and address the projected decline in net income and free cash flow available to shareholders, Registrant is broadening its business to include new investments in transportation and energy infrastructure assets, consistent with its status as an infrastructure-focused real-estate investment trust. The Trust raised approximately \$1,019,000 of gross proceeds in connection with a rights offering that closed on March 16, 2011 and plans to use the proceeds to provide working capital for its business expansion. The Trust expects that G&A expenses will increase in 2011 as it commences activities to further its business expansion. There can be no assurance that the Registrant will be successful in broadening its business. See Note Regarding Forward-Looking Statements and additional risk factors that are more fully disclosed in Registrant's Form S-3/A filed with the SEC on February 25, 2011.

Item 4. CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining effective disclosure controls and procedures. As of the end of the period covered by this report, the Registrant carried out an evaluation under the supervision and with the participation of the Registrant's management, including the Chief Executive Officer and Secretary-Treasurer, of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Rule 13a-15 under the Securities and Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and Secretary-Treasurer have concluded that the Registrant's disclosure controls and procedures are adequate and effective to ensure that information required to be disclosed in the Registrant's required SEC filings is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

There have been no significant changes in the Registrant's internal controls or in other factors that that could significantly affect internal controls

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subsequent to the date the Registrant carried out its evaluation.

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect the transactions of the Registrant and that our policies and procedures are followed. There have been no changes in our internal control over financial reporting during the first quarter that have materially affected, or are reasonable likely to materially affect such controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

None

Item 6. Exhibits

Exhibit 1.1 - The Registrant's Current Reports on Form 8-K filed on July 13, 2010, August 11, 2010, October 5, 2010, December 7, 2010, February 4, 2011, February 15, 2011, March 11, 2011 and March 17, 2011 and April 29, 2011 are incorporated by reference.

Exhibit 1.2 - The Registrant's Current Annual Report on Form 10-K filed on March 28, 2011 is incorporated by reference.

Exhibit 1.3 - The Registrant's Form S-3/A filed with the SEC on February 25, 2011 is incorporated by reference.

Exhibit 31.1 Section 302 Certification for David H. Lesser

Exhibit 31.2 Section 302 Certification for Arun Mittal

Exhibit 99 Section 906 Certification for David H. Lesser and Arun Mittal.

SIGNATURES

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.

PITTSBURGH & WEST VIRGINIA RAILROAD

/s/David H. Lesser
David H. Lesser
CEO & Chairman of the Board

Date: May 12, 2011

/s/Arun Mittal
Arun Mittal
Secretary-Treasurer

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Date: May 12, 2011