

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015.

or

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

For the transition period from _____ to _____

Commission File Number: **001-36605**

PATRIOT TRANSPORTATION HOLDING, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of
incorporation or organization)

47-2482414

(I.R.S. Employer Identification No.)

**200 W. Forsyth St., 7th Floor,
Jacksonville, FL**

(Address of principal executive offices)

32202

(Zip Code)

904-396-5733

(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 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," "non-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

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

Class
Common Stock

Outstanding at June 30, 2015
3,268,804

PATRIOT TRANSPORTATION HOLDING, INC.
FORM 10-Q
QUARTER ENDED JUNE 30, 2015

CONTENTS

	Page No.
Preliminary Note Regarding Forward-Looking Statements	3
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated and combined Balance Sheets	4
Consolidated and combined Statements of Income	5
Consolidated and combined Statements of Cash Flows	6
Condensed Notes to consolidated and combined financial statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risks	29
Item 4. Controls and Procedures	29
Part II. Other Information	
Item 1A. Risk Factors	30
Item 2. Purchase of Equity Securities by the Issuer	30
Item 6. Exhibits	31
Signatures	31
Exhibit 31 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	33
Exhibit 32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	36

Preliminary Note Regarding Forward-Looking Statements.

Certain matters discussed in this report contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those indicated by such forward-looking statements.

These forward-looking statements relate to, among other things, capital expenditures, liquidity, capital resources and competition and may be indicated by words or phrases such as "anticipate", "estimate", "plans", "projects", "continuing", "ongoing", "expects", "management believes", "the Company believes", "the Company intends" and similar words or phrases. The following factors and others discussed in the Company's periodic reports and filings with the Securities and Exchange Commission are among the principal factors that could cause actual results to differ materially from the forward-looking statements: freight demand for petroleum products including recessionary and terrorist impacts on travel in the Company's markets; fuel costs and the Company's ability to recover fuel surcharges; accident severity and frequency; risk insurance markets; driver availability and cost; the impact of future regulations regarding the transportation industry; availability and terms of financing; competition in our markets; interest rates, and inflation and general economic conditions. However, this list is not a complete statement of all potential risks or uncertainties.

These forward-looking statements are made as of the date hereof based on management's current expectations, and the Company does not undertake an obligation to update such statements, whether as a result of new information, future events or otherwise. Additional information regarding these and other risk factors may be found in the Company's other filings made from time to time with the Securities and Exchange Commission.

**PART I. FINANCIAL INFORMATION, ITEM 1. FINANCIAL STATEMENTS
Patriot Transportation Holding, Inc. and Subsidiaries
Consolidated and Combined Balance Sheets**

(Unaudited)

(In thousands)

	<u>June 30,</u> 2015	<u>September 30,</u> 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ —	—
Accounts receivable (net of allowance for doubtful accounts of \$144 and \$155, respectively)	7,772	7,119
Inventory of parts and supplies	920	895
Prepaid tires on equipment	2,086	2,048
Prepaid taxes and licenses	303	754
Prepaid insurance	332	789
Prepaid expenses, other	81	80
Total current assets	<u>11,494</u>	<u>11,685</u>
Property and equipment, at cost	98,695	97,071
Less accumulated depreciation	<u>57,658</u>	<u>54,897</u>
Net property and equipment	<u>41,037</u>	<u>42,174</u>
Goodwill	3,431	3,431
Intangible assets, net	1,532	3,812
Other assets, net	22	32
Total assets	<u>\$ 57,516</u>	<u>61,134</u>
Liabilities and Net Investment		
Current liabilities:		
Accounts payable	\$ 3,689	3,288
Bank overdraft	324	933
Federal and state income taxes payable	206	129
Deferred income taxes	23	345
Accrued payroll and benefits	4,985	3,937
Accrued insurance	1,067	1,186
Accrued liabilities, other	383	518
Total current liabilities	<u>10,677</u>	<u>10,336</u>
Long-term debt	1,430	7,282
Deferred income taxes	7,897	8,579
Accrued insurance	1,317	1,393
Other liabilities	778	822
Total liabilities	<u>22,099</u>	<u>28,412</u>
Commitments and contingencies (Note 8)	—	—
Shareholders' Equity/Net investment:		
Preferred stock, 5,000,000 shares authorized, of which 250,000 shares are designated Series A Junior Participating Preferred Stock; \$0.01 par value; none issued and outstanding	—	—
Common stock, \$.10 par value; (25,000,000 shares authorized; 3,268,804 shares issued and outstanding at June 30, 2015)	327	—
Capital in excess of par value	34,803	—
Net investment by Parent	—	32,669
Retained earnings	234	—
Accumulated other comprehensive income, net	53	53
Total shareholders' equity/net investment	<u>35,417</u>	<u>32,722</u>
Total liabilities and shareholders' equity/net investment	<u>\$ 57,516</u>	<u>61,134</u>

See notes to consolidated and combined financial statements.

PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENTS OF INCOME

(In thousands)

(Unaudited)

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	2015	2014	2015	2014
Revenues:				
Transportation revenues	\$ 28,609	28,124	\$ 82,994	81,414
Fuel surcharges	2,490	5,445	9,559	15,646
Total revenues	31,099	33,569	92,553	97,060
Cost of operations:				
Compensation and benefits	12,552	12,290	36,308	35,702
Fuel expenses	5,095	7,535	15,961	22,465
Repairs & tires	2,019	1,929	5,739	5,806
Other operating	1,090	1,316	3,215	4,042
Insurance and losses	2,681	2,709	8,298	7,747
Depreciation expense	2,098	2,068	6,330	6,099
Rents, tags & utilities	987	973	2,882	2,750
Sales, general & administrative	2,143	2,095	6,779	6,614
Corporate expenses	782	528	2,833	2,072
Intangible asset impairment	-	-	2,074	-
Gain on equipment sales	(21)	(213)	(819)	(304)
Total cost of operations	29,426	31,230	89,600	92,993
Total operating profit	1,673	2,339	2,953	4,067
Interest expense	(29)	(28)	(78)	(86)
Income before income taxes	1,644	2,311	2,875	3,981
Provision for income taxes	641	901	1,121	1,553
Net income	\$ 1,003	1,410	\$ 1,754	2,428
Comprehensive Income	\$ 1,003	1,410	\$ 1,754	2,428
Earnings per common share:				
Net Income-				
Basic	0.31	0.43	0.54	0.75
Diluted	0.31	0.43	0.54	0.75
Number of shares (in thousands) used in computing:				
-basic earnings per common share	3,268	3,243	3,265	3,243
-diluted earnings per common share	3,276	3,243	3,273	3,243

See notes to consolidated and combined financial statements.

PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 2015 AND 2014

(In thousands)
(Unaudited)

	Nine months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 1,754	2,428
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,103	6,910
Intangible asset impairment	2,074	—
Deferred income taxes	(1,004)	(338)
Gain on sale of equipment and property	(838)	(304)
Stock-based compensation	552	526
Net changes in operating assets and liabilities:		
Accounts receivable	(653)	(1,392)
Inventory of parts and supplies	(25)	(22)
Prepaid expenses and other current assets	869	1,031
Other assets	(54)	(5)
Accounts payable and accrued liabilities	1,195	(585)
Income taxes payable and receivable	77	(173)
Long-term insurance liabilities and other long-term liabilities	(120)	(123)
Net cash provided by operating activities	10,930	7,953
Cash flows from investing activities:		
Purchase of property and equipment	(5,929)	(8,476)
Business acquisition	—	(10,023)
Proceeds from the sale of property, plant and equipment	1,071	944
Net cash used in investing activities	(4,858)	(17,555)
Cash flows from financing activities:		
Decrease in bank overdrafts	(609)	—
Proceeds from borrowing on revolving credit facility	33,646	23,528
Payments on revolving credit facility	(39,498)	(13,300)
Excess tax benefits from exercise of stock options	349	—
Proceeds from exercised stock options	141	—
Net distributions to Parent	(101)	(526)
Net cash (used in) provided by financing activities	(6,072)	9,702
Net increase (decrease) in cash and cash equivalents	—	100
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of the period	\$ —	100

The Company recorded non-cash transactions for vacation liability of the Pipeline business acquisition of \$132 in the first nine months of fiscal 2014. The Company recorded a non-cash, impairment charge related to the customer relationship intangible asset recorded resulting from the Pipeline acquisition of \$2,074 during the second quarter of fiscal 2015.

See notes to consolidated and combined financial statements.

PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
JUNE 30, 2015
(Unaudited)

(1) Description of Business and Basis of Presentation.

Description of Business

Spin-off Transaction. On December 30, 2014, the board of directors of FRP Holdings, Inc. ("FRP" or "Parent") approved a plan to separate its real estate and transportation businesses into two independent publicly traded companies through the tax-free spin-off (the "Spin-off") of a newly-formed company that retained FRP's transportation business and the corporate name Patriot Transportation Holding, Inc., (the "Company" or "Patriot"). We filed a registration statement on Form 10 with the U.S. Securities and Exchange Commission ("SEC") that was declared effective on January 12, 2015. The Spin-off was completed on January 30, 2015 when FRP distributed all of the outstanding stock of the Company to FRP's shareholders as of the record date of January 9, 2015. FRP's shareholders received one share of Patriot (stock symbol "PATI") for every three shares of FRP owned on the record date resulting in 3,242,524 of Patriot shares outstanding on the distribution date. Following the separation, Patriot is an independent, publicly traded company, and FRP retains no ownership in Patriot.

Unless otherwise stated or the context otherwise indicates, all references in these consolidated and combined financial statements to "us," "our", "we", "Transportation" or the "Company" mean Patriot subsequent to the Spin-off.

Company's Business. The business of the Company, conducted through our wholly owned subsidiary, Florida Rock & Tank Lines, Inc. is to transport petroleum and other liquids and dry bulk commodities. We do not own any of the products we haul. Approximately 82% of our business consists of hauling liquid petroleum products (mostly gas and diesel fuel) from large scale fuel storage facilities to our customer's retail outlets (e.g. convenience stores, truck stops and fuel depots) where we off-load the product into our Customer's fuel storage tanks for ultimate consumption by the retail consumer. The remaining 18% of our business consists of picking up and delivering our customer's dry bulk commodities such as cement, lime and various industrial powder products and liquid chemicals. As of June 30, 2015, we employed 699 revenue-producing drivers who operated our fleet of 477 tractors and 566 trailers from our 21 terminals and 9 satellite locations in Florida, Georgia, Alabama, South Carolina, North Carolina and Tennessee.

Basis of Presentation

Patriot Transportation Holding, Inc. was incorporated on August 5, 2014. In connection with its organization, Patriot issued 100 shares of common stock to FRP on December 3, 2014 and issued an additional 3,242,424 shares of common stock to FRP on January 28, 2015 in preparation for the Spin-off. Patriot was formed solely in contemplation of the Spin-off and until the separation was completed on January 30, 2015, it had not commenced operations and had no material assets, liabilities, or commitments.

Accordingly, the accompanying consolidated and combined financial statements presented prior to the Spin-off reflect the historical results of operations, financial position and cash flows and certain assets, liabilities and operating expenses of the Company and its subsidiaries on a stand-alone basis, as if such companies and accounts had been consolidated and combined for the historical periods presented prior to the Spin-off. These financial statements were derived from FRP's consolidated financial statements and accounting records. The consolidated and combined statements of income include expense allocations for certain corporate functions performed by FRP during the periods prior to the Spin-off, including general corporate expenses related to executive oversight, accounting, treasury, tax, legal, procurement and information technology. The amounts allocated to the Company for these items are based primarily on specific identification, headcount or computer utilization. Going forward, these functions will be performed by the Company. Additionally, the Company will provide most of these services to FRP under a Transition Services Agreement (see Note 3) initially on an annual basis. This Agreement provides for reimbursement of the costs of those services by FRP to the Company. As a result, corporate expense in our Company's financial statements will be shown net of the reimbursements we receive from FRP for these services. All significant intercompany transactions and accounts within the consolidated and combined financial statements have been eliminated.

We believe the assumptions underlying the consolidated and combined financial statements, including the historical allocated charges for general corporate functions provided by FRP, are reasonable. However, these consolidated and combined financial statements do not include all of the actual expenses that would have been incurred had we actually operated as a stand-alone public company (e.g. NASDAQ listing fees, etc.) during the periods prior to the Spin-off and therefore do not reflect the actual consolidated and combined results of operations, financial position and cash flows had we been operated as a stand-alone public company during those periods.

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (primarily consisting of normal recurring accruals) considered necessary for a fair statement of the results for the interim periods have been included. Operating results for the three and nine months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2015. The accompanying consolidated and combined financial statements and the information included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the audited financial statements and notes for the year ended September 30, 2014 included in the Company's Information Statement dated January 12, 2015 as filed as an exhibit to the Company's registration statement on Form 10.

(2) **Recently Issued Accounting Standards.** In January 2015, the FASB issued ASU 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20) Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." This guidance is effective for annual periods beginning on or after December 15, 2015 and interim periods within those years, with early adoption permitted. We do not expect the adoption of this guidance will have a material impact on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which relates to the financial statement presentation of debt issuance costs. This guidance requires debt issuance costs to be presented in the balance sheet as a reduction of the related debt liability rather than an asset. The guidance is effective for annual and interim periods beginning after December 15, 2015 and early adoption is permitted and will only result in a change in presentation of these costs on our balance sheets.

(3) **Related Party Agreements with FRP.** In order to effect the Spin-off and govern our relationship with FRP Holdings, Inc. after the Spin-off, we entered into an Employee Matters Agreement and a Transition Services Agreement. The Employee Matters Agreement generally allocates responsibilities to each company for liabilities relating to each Company's current and former employees and allocated responsibilities under employee benefit plans. The Transition Services Agreement sets forth the terms on which the Company will provide to FRP certain services that were shared prior

to the Spin-off, including the services of certain shared executive officers, for a period of 12 or more months after the Spin-off.

The consolidated and combined statements of income reflect charges and/or allocation to FRP Holdings, Inc. for these services of \$924,000 and \$525,000 for the three months ended June 30, 2015 and 2014, and \$2,361,000 and \$2,022,000 for the nine months ended June 30, 2015 and 2014, respectively. Included in the charges above are amounts recognized for corporate executive stock-based compensation expense. These charges are reflected as a reduction to corporate expenses.

To determine these allocations between FRP and Patriot, we generally employed the same methodology historically used by the Company pre Spin-off to allocate said expenses and thus we believe that the allocations to FRP are a reasonable approximation of the costs related to FRP's operations but any such related-party transactions cannot be presumed to be carried out on an arm's-length basis as the terms were negotiated while Patriot was still a subsidiary of FRP.

(4) **Long-Term debt.** The Company's long-term debt is summarized as follows (in thousands):

	June 30, 2015	September 30, 2014
Revolving credit (uncollateralized)	<u>\$ 1,430</u>	<u>7,282</u>

Prior to the Spin-off, the Company was permitted to borrow under FRP's credit agreement with Wells Fargo Bank, N.A. (the "FRP Credit Agreement"). On January 30, 2015, the Company entered into a new \$25 million, five year, revolving credit agreement with Wells Fargo Bank, N.A. and assumed and refinanced \$5.1 million then outstanding on the FRP Credit Agreement into this new revolver. As of June 30, 2015, we had \$1,430,000 borrowed on this revolver, \$2,745,000 outstanding under letters of credit and \$20,825,000 available for additional borrowings and the Company was in compliance with all of its loan covenants.

(5) **Earnings per share.** Basic earnings per common share are based on the weighted average number of common shares outstanding during the periods. Diluted earnings per common share are based on the weighted average number of common shares and potential dilution of securities that could share in earnings. The differences between basic and diluted shares used for the calculation are the effect of employee and director stock options.

On January 30, 2015, 3,242,524 shares of our common stock were distributed to the shareholders of FRP in connection with the Spin-off and distribution. For comparative purposes, we have assumed this amount to be outstanding as of the beginning of each period prior to the Spin-off and distribution presented in the calculation of weighted average shares outstanding.

The following details the computations of the basic and diluted earnings per common share (dollars in thousands, except per share amounts):

	Three Months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Weighted average common shares outstanding during the period - shares used for basic earnings per common share	3,268	3,243	3,265	3,243
Common shares issuable under share based payment plans which are potentially dilutive	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>
Common shares used for diluted earnings per common share	<u>3,276</u>	<u>3,243</u>	<u>3,273</u>	<u>3,243</u>
Net income	<u>\$ 1,003</u>	<u>1,410</u>	<u>1,754</u>	<u>2,428</u>
Earnings per common share:				
-basic	<u>\$ 0.31</u>	<u>0.43</u>	<u>0.54</u>	<u>0.75</u>
-diluted	<u>\$ 0.31</u>	<u>0.43</u>	<u>0.54</u>	<u>0.75</u>

For the three and nine months ended June 30, 2015, 19,218 shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For the three months and nine months ended June 30, 2014, all outstanding stock options were included in the calculation of diluted earnings per share because the exercise prices of the stock options were lower than the average price of the common shares, and therefore were dilutive.

(6) Stock-Based Compensation Plans.

Participation in FRP Plans

The Company's directors, officers and key employees are eligible to participate in FRP's 2000 Stock Option Plan and the 2006 Stock Option Plan under which options for shares of common stock were granted to directors, officers and key employees. All related compensation expense has been fully allocated to the Company (rather than FRP) and included in corporate expenses. Corporate expense also reflects an offsetting credit for the Transition Services Agreement allocation to FRP. All outstanding options held

by company directors, officers and key employees on January 30, 2015 were cancelled and replaced by an equal number of FRP options at 75.14% of the previous exercise price based upon the market value of FRP less the when issued market value of the Company on that day.

Patriot Incentive Stock Plan

In January, 2015 the Board of Directors of the Company adopted the Patriot Transportation Holding, Inc. Incentive Stock Plan. Grants were issued based upon all outstanding FRP options held by company directors, officers and key employees on January 30, 2015 with the same remaining terms. The grants were based upon the FRP options outstanding at 24.86% of the previous exercise price based upon the when issued market value of the Company compared to the market value of FRP on that day. Simultaneously, the number of shares were divided by 3 and the exercise price multiplied by 3 to adjust for the Spin-off distribution of 1 for 3 shares of FRP. The number of common shares available for future issuance was 194,405 at June 30, 2015.

Subsequent to Spin-off, the realized tax benefit pertaining to options exercised and the remaining compensation cost of options previously granted prior to the Spin-off will be recognized by FRP or Patriot based on the employment location of the related employee or director.

The Company recorded the following stock compensation expense for FRP and Patriot options (including allocations in periods prior to the Spin-off) in its consolidated and combined statements of income (in thousands):

	Three Months ended		Nine months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Stock option grants	\$ 65	46	209	177
Annual director stock award	—	—	343	349
	<u>\$ 65</u>	<u>46</u>	<u>552</u>	<u>526</u>

A summary of Company stock options is presented below (in thousands, except share and per share amounts):

<u>Options</u>	<u>Number</u> of <u>Shares</u>	<u>Weighted</u> Average <u>Exercise</u> Price	<u>Weighted</u> Average Remaining Term (yrs)	<u>Weighted</u> Average Grant Date Fair Value
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Grants substituted on

January 30, 2015	91,315	\$ 20.31	5.6	\$ 254
Exercised	<u>(12,000)</u>	<u>\$ 11.83</u>		<u>\$ (22)</u>
Outstanding at June 30, 2015	79,315	\$ 21.60	5.8	\$ 232
Exercisable at June 30, 2015	58,398	\$ 20.55	4.9	\$ 156
Vested during nine months ended June 30, 2015	8,807			\$ 25

The aggregate intrinsic value of exercisable Company options was \$269,000 and the aggregate intrinsic value of all outstanding in-the-money options was \$319,000 based on the Company's market closing price of \$24.65 on June 30, 2015 less exercise prices. Gains of \$157,000 were realized by option holders during the nine months ended June 30, 2015.

The realized tax benefit from Patriot option exercises during the nine months ended June 30, 2015 was \$61,000. The unrecognized compensation expense of Patriot options granted as of June 30, 2015 was \$190,000, which is expected to be recognized over a weighted-average period of 3.5 years.

(7) **Fair Value Measurements.** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 means the use of quoted prices in active markets for identical assets or liabilities. Level 2 means the use of values that are derived principally from or corroborated by observable market data. Level 3 means the use of inputs that are unobservable and significant to the overall fair value measurement.

As of June 30, 2015 the Company had no assets or liabilities measured at fair value on a recurring basis or non-recurring basis. We measure certain assets, such as intangible assets, at fair value on a non-recurring basis. These assets are recognized at fair value if they are deemed to be impaired. As disclosed in Note 10, the customer relationship intangible assets acquired from Pipeline were considered partially impaired in the quarter ended March 31, 2015. As of June 30, 2015, there were no other assets required to be recorded at fair value on a non-recurring basis since no impairment indicators were present. The fair value of all Company financial instruments approximates their carrying value due to the short-term nature of such instruments. We believe the fair value of the revolver approximates the carrying value as (i) the related

debt agreement reflects present market terms and (ii) is based on interest rates that reset periodically based on then current market indices.

(8) **Contingent liabilities.** The Company is involved in litigation on a number of matters and is subject to certain claims which arise in the normal course of business. The Company elects to retain certain self-insurance risks with respect to medical and workmen's compensation claims and losses for third party liability and property damage. There is a reasonable possibility that the Company's estimate of liability related to outstanding claims is understated or overstated but the possible range cannot be estimated. The liability at any point in time is determined by independent actuaries based upon the relative ages and amounts of the individual open claims. Management believes that the financial resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(9) **Concentrations.**

Market: The Company primarily serves customers in the petroleum industry in the Southeastern U.S. Significant economic disruption or downturn in this geographic region or within these industries could have an adverse effect on our financial statements.

Customers: During the first nine months of fiscal 2015, the Company's ten largest customers accounted for approximately 59.1% of our revenue and one of these customers accounted for 21.9% of our revenue. During the second quarter, we were informed by one of these customers that we would not be able to retain a sizeable piece of their business going forward at the rates we quoted them during a competitive bid process. Management elected to let this business go in the second quarter and attempt to replace it with new business at better rates rather than to lower our quoted rates to retain that business. Accounts receivable from the ten largest customers was \$4,274,000 and \$4,075,000 at June 30, 2015 and September 30, 2014 respectively. The loss of any one of these ten customers could have a material adverse effect on the Company's revenues and income.

Deposits: The Company places its cash and cash equivalents with high credit quality institutions. At times, such amounts may exceed FDIC limits.

(10) **Pipeline Business Acquisition.** The operations acquired from

Pipeline Transportation, Inc. on November 7, 2013 for \$10,023,000 are included in the Company's consolidated and combined operating results subsequent to the acquisition date. The Company accounted for this acquisition in accordance with the provisions of ASC 805, Business Combinations (ASC 805) and allocated the purchase price of the business based upon the fair value of the assets acquired and liabilities assumed, using a third party valuation expert.

The goodwill recorded resulting from the acquisition amounted to \$2,344,000 and is shown on the consolidated and combined balance sheets under Goodwill, and is amortizable for tax purposes. The other intangible assets acquired in the transaction are reflected in the line Intangible assets, net on the consolidated and combined balance sheets. In connection with the Pipeline acquisition, the Company assumed certain vehicle leases. As of June 30, 2015 these non-cancellable operating leases will require minimum annualized rental payments approximating \$1,389,000 for the next 2.3 fiscal years.

The Company recorded an impairment charge related to the recorded customer relationship intangible asset resulting from the Pipeline acquisition of \$2,074,000, with an after tax impact to net income of \$1,265,000, in its consolidated and combined financial statements for the quarter ended March 31, 2015. The impairment charge was calculated utilizing the assistance of a third party valuation expert. The Company's conclusion that an impairment charge was necessary in second quarter 2015 was a the result of (i) the loss of certain Pipeline customers over the course of the first nine months of calendar 2014, and then (ii) the notification from another customer during the second quarter that we would not be able to retain a sizeable piece of the business we acquired from Pipeline at the rates we quoted them during a competitive bid process.

(11) Unusual or Infrequent Items Impacting Quarterly Results.

An impairment charge of \$2,074,000 was recorded in second quarter 2015 related to the recorded customer relationship intangible asset fair value pertaining to the Pipeline acquisition in November 2013.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial information and related notes that appear in Part I, Item 1 of this Quarterly Report on Form 10-Q. The following discussion also includes certain non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission ("Regulation G") to supplement the financial results as reported in accordance with GAAP. The non-GAAP financial measures discussed below include adjusted net income, adjusted operating profit and adjusted operating ratio. These non-GAAP financial measures exclude the intangible asset impairment charge incurred in the second quarter of this fiscal year. Patriot uses these metrics to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. These measures are not, and should not be viewed as, substitutes for GAAP financial measures. Refer to "Non-GAAP Financial Measures" below in this Quarterly Report on Form 10-Q for a more detailed discussion, including reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

Overview

The business of the Company, conducted through our wholly owned subsidiary, Florida Rock & Tank Lines, Inc., is to transport petroleum and other liquids and dry bulk commodities. We do not own any of the products we haul, rather, we act as a third party carrier to deliver our customer's products from point A to point B predominately using Company employees driving Company owned tractors and tank trailers. Approximately 82% of our business consists of hauling liquid petroleum products (mostly gas and diesel fuel) from large scale fuel storage facilities to our customers' retail outlets (e.g. convenience stores, truck stops and fuel depots) where we off-load the product into our customer's fuel storage tanks for ultimate sale to the retail consumer. The remaining 18% of our business consists of hauling our customer's dry bulk commodities such as cement, lime and various industrial powder products and liquid chemicals. As of June 30, 2015, we employed 699 revenue-producing drivers who operated our fleet of 477 tractors and 566 trailers from our 21 terminals and 9 satellite locations in Florida, Georgia, Alabama, South Carolina, North Carolina and Tennessee. We experience increased seasonal demand in the spring and summer months in most of our markets.

Our industry is characterized by such barriers to entry as the time and cost required to develop the capabilities necessary to handle hazardous material, the resources required to recruit, train and

retain drivers, substantial industry regulatory and insurance requirements and the significant capital investments required to build a fleet of equipment and establish a network of terminals.

Our ability to provide superior customer service at competitive rates and to operate safely and efficiently is important to our success in growing our revenues and increasing profitability. Our focus is to grow our profitability by executing on our key strategies of (i) increasing our business with existing and new customers, particularly hypermarket and large convenience store chains, that are willing to compensate us for our ability to provide superior, safe and reliable service which facilitates their ability to grow their footprint with confidence and market share, (ii) expanding our service offerings with respect to dry bulk and chemical products particularly in markets where we already operate terminals, and (iii) pursuing strategic acquisitions. Our ability to execute this strategy depends on continuing our dedicated commitments to customer service and safety and continuing to recruit and retain qualified drivers.

Our industry is experiencing a severe driver shortage. While we have been able to grow our driver count significantly over the past few years, we saw our average driver count drop from the same quarter last year due in large part to our turnover rate rising to historically high levels. Our management team is keenly focused on continuing to grow our driver count in markets where there are opportunities for us to grow our business and to retain all of our drivers at the levels we have historically achieved. We are working with two national firms to help us improve specifically in the areas of driver hiring and retention.

There are several opportunities available today in our markets that will allow us to execute on our growth strategy so long as we can find, hire and retain qualified drivers to meet the demands of these opportunities. We believe the tighter driver market has and will continue to provide us with opportunities to capture new business. As these opportunities arise, we are willing to let certain lower priced business go in this environment to grow our business with customers willing to pay for our reliability and superior customer service.

We generate both transportation based revenue as well as fuel surcharge revenue. Our transportation revenue consists of base revenue for each delivery which is generally calculated by multiplying a negotiated mileage-based rate by the quantity of product delivered plus any fees for extra stops to load or unload, powered product unloading and toll cost reimbursements. These negotiated transportation rates compensate us both for transporting the products as well as for loading and unloading time.

While our base rates include a fixed amount to cover our cost of fuel using an assumed price for diesel, we have fuel surcharges in place with our customers that allow us to obtain full compensation for any additional fuel expense incurred when the price of diesel rises above that assumed price. There is a time lag between fuel price fluctuations and changes to fuel surcharges to our customers. In a rapidly rising price environment this time lag can negatively impact the Company's financial results and in a rapidly declining price environment this time lag can positively impact the Company's financial results (as was the case in Q1 fiscal 2015 and Q3 fiscal 2014).

In recent years, some customer contracts have been modified to provide for reduced fuel surcharges but have been adjusted such that the base rates factor in a larger fuel expense to the customer. As a result of this trend, and the recent decline in the price of diesel, fuel surcharges have been declining as a percentage of our total revenue. The main factors that affect our total revenue are the number of revenue miles driven, rates per mile, quantity of products hauled and the amount of fuel surcharges.

Our operating costs primarily consist of the following:

- *Compensation and Benefits* - Wages and employee benefits for our drivers and terminal support personnel is the largest component of our operating costs. These costs are impacted by such factors as miles driven, driver pay increases, driver turnover and training costs and additional driver pay due to temporary out-of-town deployments to serve new business;
- *Fuel Expenses* - Our fuel expenses will vary depending on miles driven as well as such factors as fuel prices (which can be highly volatile), the fuel efficiency of our fleet and the average haul length;
- *Repairs and Tires* - This category consists of vehicle maintenance and repairs (excluding shop personnel) and tire expense (including amortization of tire cost and road repairs). These expenses will vary based on such factors as miles driven, the age of our fleet, and tire prices.
- *Other Operating Expenses* - This category consists of tolls, hiring costs, out-of-town driver travel cost, terminal facility maintenance and other operating expenses. These expenses will vary based on such factors as, driver availability and out-of-town driver travel requirements, business growth and inflation among others;

- *Insurance and Losses* - This includes costs associated with insurance premiums, and the self-insured portion of liability, worker's compensation, health insurance and cargo claims and wreck repairs. We work very hard to manage these expenses through our safety and wellness programs, but these expenses will vary depending on the frequency and severity of accident and health claims, insurance markets and deductible levels;
- *Depreciation Expense* - Depreciation expense consists of the depreciation of the cost of fixed assets such as tractors and trailers over the life assigned to those assets. The amount of depreciation expense is impacted by equipment prices and the timing of new equipment purchases. We expect the cost of new tractors and trailers to continue to increase, impacting our future depreciation expense;
- *Rents, Tags and Utilities Expenses* - This category consists of rents payable on leased facilities and leased equipment, federal highway use taxes, vehicle registrations, license and permit fees and personal property taxes assessed against our equipment, communications, utilities and real estate taxes;
- *Sales, General and Administrative Expenses* - This category consists of the wages, bonus accruals, benefits, travel, vehicle and office costs for our administrative personnel as well as professional fees and amortization charges for intangible assets purchased in acquisitions of other businesses;
- *Corporate Expenses* - Corporate expenses consist of wages, bonus accruals, insurance and other benefits, travel, vehicle and office costs for corporate executives, director fees, stock option expense and aircraft expense;
- *Gains/Loss on Equipment* - Our financial results for any period may be impacted by any gain or loss that we realize on the sale of used equipment and losses on wrecked equipment. We periodically sell used equipment as we replace older tractors and trailers. Gains or losses on equipment sales can vary significantly from period to period depending on the timing of our equipment replacement cycle, market prices for used equipment and losses on wrecked equipment.

This quarterly report presents several adjusted financial measures which exclude the effect of a second quarter 2015 \$2,074,000 non-cash, intangible asset impairment charge. The impairment charge will not result in any future cash expenditures or otherwise impact the Company's liquidity, cash flows, compliance with its debt

covenants or any future operations. Management believes these adjusted measures better reflect our operating performance during the quarter and reflect how management evaluates our operational results. These measures are not and should not be viewed as substitutes for GAAP reporting measures.

To measure our performance, management focuses primarily on total revenue growth, transportation revenue growth, revenue miles, our preventable accident frequency rate ("PAFR"), our operating ratio (defined as our operating expenses as a percentage of our operating revenue), turnover rate and average driver count (defined as average number of revenue producing drivers under employment over the specified time period) as compared to the same period in the prior year.

ITEM	Q3 2015 vs. Q3 2014	First nine months FY 2015 vs. first nine months FY 2014
Total Revenue	Down 7%	Down 4.6%
Transportation Revenue	Up 1.7%	Up 1.9%
Revenue Miles	Down by 2.7%	Down by 1.7%
PAFR	Improved 1.6%	Improved 1.8%
GAAP Operating Ratio	1.6% Worse	1% Worse
Adjusted Operating Ratio	N/A	Improved 1.2%
Driver Turnover Rate	Up 17%	Up 20%
Average Number of Drivers	Down 4.8%	Down 2.8%

The Company's operations are influenced by a number of external and internal factors. External factors include levels of economic and industrial activity in the United States and the Southeast, driver availability and cost, government regulations regarding driver qualifications and limitations on the hours drivers can work, petroleum product demand in the Southeast which is driven in part by tourism and commercial aviation, and fuel costs. Internal factors include revenue mix, equipment utilization, Company imposed restrictions on hiring drivers under the age of 25 or drivers without at least two years of driving experience, auto and workers' compensation accident frequencies and severity, administrative costs, and group health claims experience. The financial results of the Company for any individual quarter are not necessarily indicative of results to be expected for the year.

Highlights of the Third Quarter of Fiscal 2015

- Net income declined \$407,000 to \$1,003,000 compared to the same quarter last year.

- Operating profit declined \$666,000 to \$1,673,000 compared to the same quarter last year.
- Transportation revenue increased \$485,000, or 1.7% despite a decrease in revenue miles.
- Fuel cost net of fuel surcharges increased \$515,000.

Comparative Results of Operations for the Three months ended June 30, 2015 and 2014

(dollars in thousands)	Three months ended June 30			
	2015	%	2014	%
Revenue miles (in thousands)	11,075		11,377	
Revenues:				
Transportation revenue	\$ 28,609	92.0%	28,124	83.8%
Fuel surcharges	2,490	8.0%	5,445	16.2%
Total Revenues	31,099	100.0%	33,569	100.0%
Cost of operations:				
Compensation and benefits	12,552	40.4%	12,290	36.6%
Fuel expenses	5,095	16.4%	7,535	22.4%
Repairs & tires	2,019	6.5%	1,929	5.7%
Other operating	1,090	3.5%	1,316	3.9%
Insurance and losses	2,681	8.6%	2,709	8.1%
Depreciation expense	2,098	6.7%	2,068	6.2%
Rents, tags & utilities	987	3.2%	973	2.9%
Sales, general & administrative	2,143	6.9%	2,095	6.2%
Corporate expenses	782	2.5%	528	1.6%
(Gain) Loss on equipment	(21)	-0.1%	(213)	-0.6%
Total cost of operations	29,426	94.6%	31,230	93.0%
Total operating profit	\$ 1,673	5.4%	2,339	7.0%

The Company reported a net income of \$1,003,000 or \$.31 per diluted share in the third quarter of fiscal 2015, a decrease of \$407,000 or \$.12 per diluted share compared to net income of \$1,410,000 or \$.43 per diluted share in the same period last year. Transportation revenue increased \$485,000 or 1.7% on 302,000 (-2.7%) fewer miles but fuel surcharge revenues were down versus the comparable quarter last year \$515,000 more than the decline in fuel costs. Our number of drivers available declined 4.8% from the year ago quarter despite a 1.4% increase in driving pay on the fewer miles. Our actuarial experience in our self-insured medical coverage also worsened by \$284,000 over last year's third quarter. The significant customer loss experienced last quarter for which we took an impairment charge of \$2,074,000 (\$1,265,000 after tax) was

largely overcome with revenue from other customers with better rates than offered by the impairment customer. The availability of fewer drivers year over year hindered management's ability to achieve revenue miles equivalent to last year's third quarter performance. Corporate expenses allocated to the Company were also up \$254,000 quarter over comparable quarter.

Highlights of the First Nine Months of Fiscal 2015

- Net income declined \$674,000 to \$1,754,000 in comparison to the year ago same period. Adjusted net income increased \$591,000 to \$3,019,000 over the same period last year. The Company's adjusted net income excludes the impact of the \$1,265,000 after tax intangible asset impairment charge incurred in the second quarter of this fiscal year.
- Operating profit decreased \$1,114,000 to \$2,953,000 from the first nine months of fiscal 2014. Adjusted operating profit increased \$960,000 to \$5,027,000 compared to the same period last year. The Company's adjusted operating profit excludes the impact of the \$2,074,000 intangible asset impairment charge incurred in the second quarter of this fiscal year.
- Operating ratio diminished by 1.0% from 95.8% in the year ago same period to 96.8% this period. The adjusted operating ratio for the Company in the period was 94.6%, an improvement of 1.2% over the same period last year. The Company's adjusted operating ratio excludes the impact of the \$2,074,000 intangible asset impairment charge incurred in this period.
- One time Spin-off costs of \$327,000 were incurred during the first nine months of fiscal 2015.

Comparative Results of Operations for the Nine months ended June 30, 2015 and 2014

(dollars in thousands)	Nine months ended June 30			
	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>
Revenue miles (in thousands)	32,467		33,044	
Revenues:				
Transportation revenue	\$ 82,994	89.7%	81,414	83.9%
Fuel surcharges	9,559	10.3%	15,646	16.1%
Total Revenues	<u>92,553</u>	<u>100.0%</u>	<u>97,060</u>	<u>100.0%</u>
Cost of operations:				
Compensation and benefits	36,308	39.2%	35,702	36.8%

Fuel expenses	15,961	17.2%	22,465	23.1%
Repairs & tires	5,739	6.2%	5,806	6.0%
Other operating	3,215	3.5%	4,042	4.2%
Insurance and losses	8,298	9.0%	7,747	8.0%
Depreciation expense	6,330	6.9%	6,099	6.3%
Rents, tags & utilities	2,882	3.1%	2,750	2.8%
Sales, general & administrative	6,779	7.3%	6,614	6.8%
Corporate expenses	2,833	3.1%	2,072	2.1%
Intangible asset impairment	2,074	2.2%	—	0.0%
(Gain) Loss on equipment	(819)	-0.9%	(304)	-0.3%
Total cost of operations	<u>89,600</u>	<u>96.8%</u>	<u>92,993</u>	<u>95.8%</u>
Total operating profit	\$ 2,953	3.2%	4,067	4.2%

Net income for the first nine months of fiscal 2015 was \$1,754,000 or \$.54 per share, a decrease of \$674,000 or \$.21 per diluted share compared to net income of \$2,428,000 or \$.75 per diluted share in the same period last year. The Company recorded an intangible asset impairment charge of \$2,074,000, with an after tax impact to net income of \$1,265,000, in its consolidated and combined financial statements for the quarter ended March 31, 2015, relating to the Pipeline Transportation acquisition in November 2013. The Company's conclusion that an impairment charge was necessary is the result of (i) the loss of a significant Pipeline customer over the course of the first six months of calendar 2014, and then (ii) the notification from another customer during the second quarter that the Company would not be able to retain a sizeable piece of the business the Company acquired from Pipeline at the rates the Company quoted them during a competitive bid process. In both cases, management was not willing to lower our rates to retain the business and chose instead to use our assets and manpower to find and service new business.

The following discussion includes certain non-GAAP financial measures ("adjusted") within the meaning of Regulation G promulgated by the Securities and Exchange Commission ("Regulation G") to supplement the financial results as reported in accordance with GAAP. The non-GAAP financial measures discussed below include adjusted net income, adjusted operating profit and adjusted operating ratio. These non-GAAP financial measures exclude the intangible asset impairment charge incurred in the quarter. Patriot uses these metrics to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. These measures are not, and should not be viewed as, substitutes for GAAP financial measures. Refer to "Non-GAAP Financial Measures" below in this press release for a more detailed discussion, including reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

Management believes these adjusted measures better reflect our operating performance during the periods discussed and reflect how management evaluates our operational results. These measures are not, and should not be viewed as, substitutes for GAAP reporting measures. The Company's adjusted net income for the first nine months of fiscal 2015 was \$3,019,000, or \$.92 per diluted share, an improvement of \$591,000 or \$.17 per diluted share as compared to net income of \$2,428,000, or \$.75 per diluted share, in the same period last year. Our adjusted operating profit for the period was up \$960,000 over the same period last year and our adjusted operating ratio improved from 95.8% to 94.6%.

For the nine months our transportation revenue was up \$1,580,000, a 2% improvement over the same period last year and the fuel cost savings for the period were greater than the decrease in fuel surcharge revenue by \$417,000 adding to the positive improvement. On the expense side the Company improved by \$827,000 over the first nine months of last year in reducing out-of-town driver costs, toll charges and rigging expenses. The nine month performance improvement was still lessened by \$327,000 of one-time spin-off costs, a \$551,000 increase in insurance and losses, a \$606,000 increase in driver compensation and benefits as driver turnover worsened, a \$231,000 increase in depreciation and a \$761,000 increase in corporate expenses (most of which occurred in this third quarter).

Liquidity and Capital Resources. The Company maintains its operating accounts with Wells Fargo bank, N.A. and these accounts directly sweep overnight against the Wells Fargo revolver. As of June 30, 2015, we had \$1,430,000 borrowed on this revolver, \$2,745,000 outstanding under letters of credit and \$20,825,000 available for additional borrowings. The Company was in compliance with all of its loan covenants. The Company expects our fiscal year 2015 cash generation to cover the cost of our operations, all of our budgeted capital expenditures and also allow us to reduce the outstanding amount borrowed under the Wells Revolver.

Cash Flows - The following table summarizes our cash flows from operating, investing and financing activities for each of the periods presented (in thousands of dollars):

	Nine months Ended June 30,	
	2015	2014
Total cash provided by (used for):		
Operating activities	\$ 10,930	7,953
Investing activities	(4,858)	(17,555)

Financing activities	(6,072)	9,702
Increase (decrease) in cash and cash equivalents	\$ -	\$ 100
Outstanding debt at the beginning of the period	7,282	-
Outstanding debt at the end of the period	1,430	10,228

Operating Activities - Net cash provided by operating activities (as set forth in the cash flow statement) was \$10,930,000 for the nine months ended June 30, 2015, and \$7,953,000 for the comparable period in 2014. The total of net income plus depreciation and amortization and less gains on sales of property and equipment decreased \$1,015,000 versus the same period last year. These changes are described above under "Comparative Results of Operations." Net cash flow provided by operating activities was negatively impacted in the same period last year by an increase of \$1,392,000 of accounts receivable primarily related to the growth in revenues as a result of the Pipeline acquisition. Accrued liabilities increased \$1,780,000 primarily due to lower bonus compensation accruals in the same period last year. These changes comprise the majority of the increase in net cash provided by operating activities. The \$2,074,000 impairment charge and the related \$809,000 of deferred income taxes are added back to net income as these are non-cash items.

Investing Activities - Investing activities include the purchase of property and equipment, any business acquisitions and proceeds from sales of these assets upon retirement. For the first nine months ended June 30, 2015, we spent \$4,858,000 on equipment net of proceeds from retirements. For the first nine months ended June 30, 2014 we spent \$17,555,000 consisting of \$7,532,000 on equipment net of retirements and \$10,023,000 for the Pipeline acquisition.

Financing Activities - Financing activities primarily include net changes to our outstanding revolving debt. For the first nine months ended June 30, 2015 we used \$6,072,000 of cash to pay down debt. During the nine months ended June 30, 2014, we increased our borrowings by \$9,702,000 primarily due to the purchase of Pipeline, to fund Pipeline receivables and to purchase a larger amount of property and equipment than the usual quarterly expenditures. Our outstanding long-term debt was \$1,430,000 on June 30, 2015 as compared to \$10,228,000 at June 30, 2014.

Credit Facilities - In connection with the Spin-off, on January 30, 2015, the Company entered into a five-year credit agreement with Wells Fargo Bank N.A. which provides a \$25 million revolving line of credit with a \$10 million sublimit for stand-by letters of

credit. In connection with the Spin-off, the Company assumed and refinanced onto this new revolving credit line approximately \$5.1 million of indebtedness from FRP. The amounts outstanding under the credit agreement bear interest at a rate of 1.0% over LIBOR, which rate may change quarterly based on the Company's ratio of consolidated total debt to consolidated total capital. A commitment fee of 0.15% per annum is payable quarterly on the unused portion of the commitment, which fee may change quarterly based on our ratio of consolidated total debt to consolidated total capital. The credit agreement contains certain conditions and financial covenants, including a minimum \$25 million tangible net worth. As of June 30, 2015, the tangible net worth covenant would have limited our ability to pay dividends or repurchase stock with borrowed funds to a maximum of \$5.4 million combined.

In addition to the unsecured revolving facility provided by Wells Fargo, Management determined the Company needed an additional financing source to provide capital for potential growth opportunities. As a result, the Company closed on a loan from Branch Banking and Trust Company (BB&T) for up to \$25 million under a two (2) year revolving facility to be secured by a portion of the Company's equipment. This facility contains a provision which automatically converts any draws under the revolver into five-year term loans with a seven year amortization. Each draw requires the payment of a bank fee equal to .25% of the amount drawn. Any amounts outstanding under this facility bear interest at a rate of 1.5% over LIBOR, which rate may change quarterly based on the Company's leverage ratio. A commitment fee of 0.15% per annum is payable quarterly on the unused portion of the commitment. The credit agreement contains certain conditions and financial covenants, including limitations on the payment of cash dividends that are based on the Company's consolidated retained earnings. As of June, 30, 2015, the Company had not taken any draws against this facility.

Cash Requirements - The Company currently expects its fiscal 2015 capital expenditures to be approximately \$10,041,000 for expansion and replacement equipment which we expect to be fully funded by our cash generated from our operations. The Company does not currently pay any cash dividends on common stock. Any excess cash generated during the fiscal year will be used to pay down the Wells Fargo revolver.

Summary and Outlook.

Management's strategy of letting lower rated business go and replacing it with better rated business resulted in an increase of \$1,580,000 in transportation revenue for our first nine months this

year versus the same period last year on 577,000 fewer revenue miles. While Management is pleased with the positive trends in our transportation revenue we are still challenged to produce better improvement in bottom line results. Headwinds to our improvement are the continuing high costs associated with hiring and training drivers in this very tight driver market in addition to historically higher medical and risk claims costs. Management is continuing to work with two national firms on reducing the high costs associated with driver turnover and to create a more targeted approach to adding company drivers in markets where it believes that both (i) solid new business opportunities are available and (ii) a good driver applicant pool appears to exist. The intent is to focus on better hiring techniques, improved dispatch process and dispatcher interaction with our drivers, and various aspects of driver pay. A hiring module will be added to our application process that will help local management hire the best possible driver at a faster pace. We will roll out a new dispatcher procedure and training plan that is focused on more positive dispatcher interaction with the driver. We also have already announced a driver pay increase effective July 2015. If diesel prices stay as low as presently exist, our earnings will continue to be impacted until we can establish better rates. Management continues to monitor our position with respect to the levels of self-insurance we will carry on medical claims going forward as the national trend of higher medical costs continues to worsen.

Non-GAAP Financial Measures.

To supplement the financial results presented in accordance with GAAP, Patriot presents certain non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. The non-GAAP financial measures included in this Quarterly Report on Form 10-Q are adjusted net income, adjusted operating profit and adjusted operating ratio. Patriot uses these non-GAAP financial measures to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. These measures are not, and should not be viewed as, substitutes for GAAP financial measures.

Adjusted Net Income

Adjusted net income excludes the impact of the intangible asset impairment charge. Adjusted net income is presented to provide additional perspective on underlying trends in Patriot's core operating results. A reconciliation between net income and adjusted net income is as follows:

	Three months ended June 30, 2015	Nine months ended June 30, 2015
Net Income	\$ 1,003	1,754
Adjustments:		
Intangible asset impairment charge	—	1,265
Adjusted net income	<u>\$ 1,003</u>	<u>3,019</u>

Adjusted Operating Ratio

Adjusted operating ratio excludes the impact of the intangible asset impairment charge. Adjusted operating ratio is presented to provide additional perspective on underlying trends in Patriot's core operating results. A reconciliation between operating ratio and adjusted operating ratio is as follows:

	Three months ended June 30, 2015	Nine months ended June 30, 2015
Operating ratio	\$ 94.6%	96.8%
Adjustments:		
Intangible asset impairment charge	0.0%	(2.2%)
Adjusted operating ratio	<u>\$ 94.6%</u>	<u>94.6%</u>

Adjusted Operating Profit

Adjusted operating profit excludes the impact of the intangible asset impairment charge. Adjusted operating profit is presented to provide additional perspective on underlying trends in Patriot's core operating results. A reconciliation between operating profit and adjusted operating profit is as follows:

	Three months ended June 30, 2015	Nine months ended June 30, 2015
Operating profit	\$ 1,673	2,953
Adjustments:		
Intangible asset impairment charge	—	2,074
Adjusted operating profit	<u>\$ 1,673</u>	<u>5,027</u>

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Interest Rate Risk - We are exposed to the impact of interest rate changes through our variable-rate borrowings under the Wells Fargo Credit Agreement. The applicable margin for borrowings at June 30, 2015 was 1.0% which is the lowest margin applicable under the Credit Agreement. The applicable margin for such borrowings will be increased in the event our debt to capitalization ratio as calculated under the Credit Agreement reaches certain target levels. Based upon our indebtedness at June 30, 2015 of \$1,430,000, a 1% increase in interest rate would result in \$14,300 of additional interest expense annually.

Commodity Price Risk - The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil production, seasonality, weather, global politics and other market factors. Historically, we have been able to recover a significant portion of fuel costs from our customers in the form of our base rates plus fuel surcharges.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

The Company also maintains a system of internal accounting controls over financial reporting that are designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving the desired control objectives.

As of June 30, 2015, the Company, under the supervision and with the participation of the Company's management, including the CEO, CFO and CAO, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and

procedures. Based on this evaluation, the Company's CEO, CFO and CAO concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be included in periodic SEC filings.

There have been no changes in the Company's internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the Company's Information Statement dated January 12, 2015 as filed with a Form 8-K on January 13, 2015, which could materially affect our business, financial condition or future results. The risks described in our Information Statement are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. PURCHASES OF EQUITY SECURITIES BY THE ISSUER

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1 Through April 30	—	\$ —	—	\$ 5,000,000
May 1 Through May 31	—	\$ —	—	\$ 5,000,000
June 1 Through June 30	—	\$ —	—	\$ 5,000,000
Total	—	\$ —	—	

(1) On February 4, 2015, the Board of Directors authorized management to expend up to \$5,000,000 to repurchase shares of the Company's common stock from time to time as opportunities arise. To date, the Company has not repurchased any common stock of the Company.

Item 6. EXHIBITS

(a) Exhibits. The response to this item is submitted as a separate Section entitled "Exhibit Index", on page 32.

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.

August 5, 2015

PATRIOT TRANSPORTATION HOLDING, INC.

Thompson S. Baker II
Thompson S. Baker II
President and Chief Executive
Officer

John D. Milton, Jr.
John D. Milton, Jr.
Executive Vice President, Treasurer,
Secretary and Chief
Financial Officer

John D. Klopfenstein
John D. Klopfenstein
Controller and Chief
Accounting Officer

PATRIOT TRANSPORTATION HOLDING, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2015
EXHIBIT INDEX

- (10.6) Credit Agreement, dated May 13, 2015, among Patriot Transportation Holding, Inc. and Branch Banking and Trust Company (BB&T).
- (14) Financial Code of Ethical Conduct between the Company, Chief Executive Officers, and Financial Managers, as adopted on May 6, 2015, which is available on the Company's website at www.patriottrans.com.
- (31)(a) Certification of Thompson S. Baker II.
- (31)(b) Certification of John D. Milton, Jr.
- (31)(c) Certification of John D. Klopfenstein.
- (32) Certification of Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.XSD XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

I, Thompson S. Baker II, certify that:

1. I have reviewed this report on Form 10-Q of Patriot Transportation Holding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosures controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial report; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2015

/s/Thompson S. Baker II
President and Chief Executive
Officer

I, John D. Milton, Jr., certify that:

1. I have reviewed this report on Form 10-Q of Patriot Transportation Holding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosures controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial report; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2015

/s/John D. Milton, Jr.

Executive Vice President, Treasurer,
Secretary and Chief Financial Officer

I, John D. Klopfenstein, certify that:

1. I have reviewed this report on Form 10-Q of Patriot Transportation Holding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosures controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial report; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2015

/s/John D. Klopfenstein
Controller and Chief Accounting
Officer

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Patriot Transportation Holding, Inc.

August 5, 2015

PATRIOT TRANSPORTATION HOLDING, INC.

THOMPSON S. BAKER II
Thompson S. Baker II
President and Chief Executive
Officer

JOHN D. MILTON, JR.
John D. Milton, Jr.
Executive Vice President,
Treasurer, Secretary and
Chief Financial Officer

JOHN D. KLOPFENSTEIN
John D. Klopfenstein
Controller and Chief
Accounting Officer

A signed original of this written statement required by Section 906 has been provided to Patriot Transportation Holding, Inc. and will be retained by Patriot Transportation Holding, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification accompanies the issuer's Quarterly report on Form 10-Q and is not filed as provided in SEC Release Nos. 33-8212, 34-4751 and IC-25967, dated June 30, 2003.