

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, 2016.

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, 2016
3,287,253

PATRIOT TRANSPORTATION HOLDING, INC.
FORM 10-Q
QUARTER ENDED JUNE 30, 2016

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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)

	June 30, 2016	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,639	—
Accounts receivable (net of allowance for doubtful accounts of \$163 and \$144, respectively)	8,340	7,382
Federal and states taxes receivable	—	115
Inventory of parts and supplies	774	780
Prepaid tires on equipment	1,990	2,019
Prepaid taxes and licenses	373	694
Prepaid insurance	306	748
Prepaid expenses, other	83	58
Total current assets	14,505	11,796
Property and equipment, at cost	100,820	99,986
Less accumulated depreciation	60,224	57,366
Net property and equipment	40,596	42,620
Goodwill	3,431	3,431
Intangible assets, net	1,245	1,384
Other assets, net	246	295
Total assets	\$ 60,023	59,526
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,415	4,163
Federal and state taxes payable	145	—
Bank overdraft	—	773
Accrued payroll and benefits	4,110	5,363
Accrued insurance	795	1,102
Accrued liabilities, other	227	393
Total current liabilities	7,692	11,794
Long-term debt	—	—
Deferred income taxes	8,964	8,334
Accrued insurance	680	1,026
Other liabilities	1,130	1,170
Total liabilities	18,466	22,324
Commitments and contingencies (Note 8)		
Shareholders' Equity:		
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; 3,287,253 and 3,272,804 shares issued and outstanding, respectively)	329	327
Capital in excess of par value	35,741	35,005
Retained earnings	5,436	1,819
Accumulated other comprehensive income, net	51	51
Total shareholders' equity	41,557	37,202
Total liabilities and shareholders' equity	\$ 60,023	59,526

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		NINE MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2016	2015	2016	2015
Revenues:				
Transportation revenues	\$ 30,187	28,609	\$ 86,710	82,994
Fuel surcharges	1,175	2,490	3,071	9,559
Total revenues	31,362	31,099	89,781	92,553
Cost of operations:				
Compensation and benefits	13,034	12,552	38,358	36,308
Fuel expenses	4,031	5,095	11,326	15,961
Repairs & tires	2,061	2,019	5,806	5,739
Other operating	1,195	1,090	3,464	3,215
Insurance and losses	2,736	2,681	7,972	8,298
Depreciation expense	2,245	2,098	6,518	6,330
Rents, tags & utilities	949	987	2,853	2,882
Sales, general & administrative	2,404	2,143	7,016	6,779
Corporate expenses	502	782	2,288	2,833
Intangible asset impairment	-	-	-	2,074
Gain on equipment sales	(85)	(21)	(156)	(819)
Total cost of operations	29,072	29,426	85,445	89,600
Total operating profit	2,290	1,673	4,336	2,953
BP claim settlement	-	-	1,687	-
Interest income and other	1	-	4	-
Interest expense	(31)	(29)	(98)	(78)
Income before income taxes	2,260	1,644	5,929	2,875
Provision for income taxes	881	641	2,312	1,121
Net income	\$ 1,379	1,003	\$ 3,617	1,754
Comprehensive income	\$ 1,379	1,003	\$ 3,617	1,754
Earnings per common share:				
Net Income -				
Basic	\$ 0.42	0.31	1.10	0.54
Diluted	\$ 0.42	0.31	1.10	0.54
Number of shares (in thousands) used in computing:				
-basic earnings per common share	3,287	3,268	3,281	3,265
-diluted earnings per common share	3,289	3,276	3,284	3,273

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, 2016 AND 2015

(In thousands)
(Unaudited)

	Nine months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 3,617	1,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,192	7,103
Intangible asset impairment	—	2,074
Deferred income taxes	630	(1,004)
Gain on sale of equipment and property	(404)	(838)
Stock-based compensation	584	552
Net changes in operating assets and liabilities:		
Accounts receivable	(958)	(653)
Inventory of parts and supplies	6	(25)
Prepaid expenses	767	869
Other assets	6	(54)
Accounts payable and accrued liabilities	(3,474)	1,202
Income taxes payable and receivable	260	77
Long-term insurance liabilities and other long-term Liabilities	(386)	(127)
Net cash provided by operating activities	7,840	10,930
Cash flows from investing activities:		
Purchase of property and equipment	(5,431)	(5,929)
Proceeds from the sale of property and equipment	849	1,071
Net cash used in investing activities	(4,582)	(4,858)
Cash flows from financing activities:		
Decrease in bank overdrafts	(773)	(609)
Proceeds from borrowing on revolving credit facility	13,536	33,646
Payments on revolving credit facility	(13,536)	(39,498)
Excess tax benefits from exercise of stock options	154	349
Proceeds from exercised stock options	—	141
Net distributions to FRP prior to spin-off	—	(101)
Net cash used in financing activities	(619)	(6,072)
Net increase in cash and cash equivalents	2,639	—
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of the period	\$ 2,639	—

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, 2016
(Unaudited)

(1) Description of Business and Basis of Presentation.

Description of Business

Spin-off Transaction. On January 30, 2015, FRP Holdings, Inc. ("FRP") completed the tax-free spin-off (the "Spin-off") of Patriot Transportation Holding, Inc., (the "Company" or "Patriot"). In the Spin-off, 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. Patriot now is an independent, publicly traded company, and FRP retains no ownership in Patriot.

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, 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, 2016, we employed 731 revenue-producing drivers who operated our fleet of 490 tractors and 574 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 nine months ended June 30, 2016 are not necessarily

indicative of the results that may be expected for the fiscal year ending September 30, 2016. 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, 2015.

(2) **Recently Issued Accounting Standards.** In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". The guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance becomes effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. The Company adopted this guidance retrospectively as of October 1, 2015 and reclassified \$309,000 of deferred tax liability as of September 30, 2015 from current to long term.

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. The Company adopted this guidance as of October 1, 2015 and the adoption had no effect on our results of operations or financial position.

In February 2016, the FASB issued ASU No. 2016-02, "Leases", which requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, will be required. The new standard will become effective for the Company beginning with the first quarter 2020 and requires a modified retrospective transition approach and includes a number of practical expedients. Early adoption of the standard is permitted. The Company is currently evaluating the impacts the adoption of this accounting guidance will have on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Excess tax benefits for share-based payments will be recorded as a reduction of income taxes and reflected in operating cash flows upon the adoption of this ASU. Excess tax benefits are

currently recorded in equity and as financing activity under the current rules. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating early adoption of this accounting guidance.

(3) **Related Party Agreements.** 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 \$388,000 and \$924,000 for the three months ended June 30, 2016 and 2015, and \$1,180,000 and \$2,361,000 for the nine months ended June 30, 2016 and 2015, respectively. Included in the charges above are amounts recognized for corporate executive stock-based compensation expense. These charges are reflected in the accompanying financial statements as a reduction to corporate expenses.

To determine these allocations between FRP and Patriot as set forth in the Transition Services Agreement, 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.

Patriot provides information technology services and previously subleased office space to Bluegrass Materials Company, LLC ("Bluegrass"). Mr. John D. Baker II, brother of Edward L. Baker and uncle of Thompson S. Baker II, serves as Chairman of Bluegrass, and his son, Edward L. Baker II, serves as its Chief Executive Officer. Messrs. John D. Baker II and Edward L. Baker II have a beneficial ownership interest in Bluegrass. Bluegrass paid \$126,000 and \$127,000 to the Company for the three months ended June 30, 2016 and 2015, and \$414,000 and \$367,000 for the nine months ended June 30, 2016 and 2015, respectively for such information technology services and office space.

On June 30, 2016 the Company sold a 75% interest in the corporate airplane to Messrs. John D. Baker II and Edward L. Baker for \$542,625 which was the average of two appraisals. The Company recorded a gain of \$196,648 on this sale.

(4) **Long-Term debt.** The Company had no long-term debt outstanding at June 30, 2016 and September 30, 2015. The Company has two revolving lines of credit at June 30, 2016 as follows:

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, 2016 and September 30, 2015, we had no debt outstanding on this revolver, \$3,032,000 letters of credit and \$21,968,000 available for additional borrowings.

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. The Company closed on a loan on May 13, 2015 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. As of June 30 2016, the Company had not taken any draws against this facility.

These credit agreements contain certain conditions, affirmative financial covenants and negative covenants including limitations on paying cash dividends. The Company was in compliance with all of its loan covenants as of June 30, 2016.

(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 share and per share amounts):

	Three Months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Weighted average common shares outstanding during the period - shares used for basic earnings per common share	3,287	3,268	3,281	3,265
Common shares issuable under share based payment plans which are potentially dilutive	<u>2</u>	<u>8</u>	<u>3</u>	<u>8</u>
Common shares used for diluted earnings per common share	<u>3,289</u>	<u>3,276</u>	<u>3,284</u>	<u>3,273</u>
Net income	<u>\$ 1,379</u>	<u>1,003</u>	<u>3,617</u>	<u>1,754</u>
Earnings per common share:				
-basic	<u>\$ 0.42</u>	<u>0.31</u>	<u>1.10</u>	<u>0.54</u>
-diluted	<u>\$ 0.42</u>	<u>0.31</u>	<u>1.10</u>	<u>0.54</u>

For the three and nine months ended June 30, 2016, 83,967 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 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.

(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 141,162 at June 30, 2016.

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,	
	2016	2015	2016	2015
Stock option grants	\$ 74	65	269	209
Annual director stock award	—	—	315	343
	<u>\$ 74</u>	<u>65</u>	<u>584</u>	<u>552</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> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Weighted</u> <u>Average</u> <u>Remaining</u> <u>Term</u> <u>(yrs)</u>	<u>Weighted</u> <u>Average</u> <u>Grant</u> <u>Date</u> <u>Fair</u> <u>Value</u>
Outstanding at October 1, 2015	75,315	\$ 21.95	5.8	\$ 666
Granted	<u>38,794</u>	<u>\$ 23.78</u>		<u>\$ 362</u>
Outstanding at June 30, 2016	114,109	\$ 22.57	6.5	\$ 1,028

Exercisable at					
June 30, 2016	68,049	\$	21.43	5.0	\$ 548
Vested during					
nine months ended					
June 30, 2016	13,651			\$	110

The aggregate intrinsic value of exercisable Company options was \$34,000 and the aggregate intrinsic value of all outstanding in-the-money options was \$37,000 based on the Company's market closing price of \$19.45 on June 30, 2016 less exercise prices.

The realized tax benefit from Patriot option exercises during fiscal 2016 was \$323,000 which pertained to FRP options exercised that were granted prior to the Spin-off to persons employed by Patriot. The unrecognized compensation expense of Patriot options granted as of June 30, 2016 was \$739,000, which is expected to be recognized over a weighted-average period of 3.1 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 are those that are unobservable and significant to the overall fair value measurement.

As of June 30, 2016 the Company had no assets or liabilities measured at fair value on a recurring or non-recurring basis.

At June 30, 2016 and September 30, 2015, the carrying amount reported in the consolidated and combined balance sheets for cash and cash equivalents, accounts receivable, accounts payable and other financial instruments approximate their fair value based upon the short-term nature of these items. We believe the fair value of the allocated outstanding debt obligations approximate their carrying value as the related debt agreements reflect present market terms and as certain debt obligations contain certain interest rates that reset periodically based on 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 has retained certain self-insurance risks with respect to losses for third party liability and property damage. There is a reasonable possibility

that the Company's estimate of vehicle and workers' compensation liability may be understated or overstated but the possible range cannot be estimated. The liability at any point in time depends upon the relative ages and amounts of the individual open claims. In the opinion of management none of these matters are expected to 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 2016, the Company's ten largest customers accounted for approximately 59.1% of our revenue and one of these customers accounted for 22.1% of our revenue. Accounts receivable from the ten largest customers were \$4,945,000 and \$4,596,000 at June 30, 2016 and September 30, 2015 respectively. The loss of any one of these customers could have a material adverse effect on the Company's revenues and income.

Deposits: The Company places its cash and cash equivalents with Wells Fargo Bank, N.A. At times, such amounts may exceed FDIC limits.

(10) Unusual or Infrequent Items Impacting Quarterly Results.

On October 20, 2015, the Company received notice from the Claims Administrator for the Deepwater Horizon Economic and Property Damages Settlement Program that the Company's claim in the amount of \$2,106,281 qualifies for payment under the terms of the Economic and Property Damages Settlement Agreement. On December 18, 2015 BP accepted the Company's proposal of \$2,047,651. The Company received payment of \$1,687,085 on January 6, 2016 net of all contingency fees. This amount is included in other income.

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.

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, 2016, we employed 731 revenue-producing drivers who operated our fleet of 490 tractors and 574 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, establish a network of terminals and, in recent years, the cost to build and maintain sufficient information technology resources to allow us to interface with and assist our customers in the day-to-day management of their product inventories.

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 market share and footprint with confidence, (ii) expanding our service offerings with respect to dry bulk and chemical products particularly in markets where we already operate terminals, (iii) earning the reputation as the preferred employer for tank truck drivers in all the markets in which we operate and (iv) 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. As the need to hire drivers has risen across our industry the trend we are seeing is that more and more of the applicants are drivers with little to no experience in the tank truck business. 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 while balancing the aforementioned trends and associated risks of the "new to the industry" driver applicant pool. Through the implementation of a new software program, we have enhanced our ability to quickly identify, communicate with and ultimately hire qualified drivers. We have also implemented programs to help us determine which new driver applicants are less likely to turnover early on in their careers with us thus adding new and valuable information into our hiring decision making process.

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 additional compensation for fuel expense incurred when the price of diesel rises above that assumed price. Likewise, for some customers, the fuel surcharge system allows the customer to receive a lower cost from us when the price of diesel drops below 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 as we must pay the higher fuel cost immediately but in most cases aren't able to adjust fuel surcharges to our customers until the end of the month.

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 category 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.

To measure our performance, management focuses primarily on 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 2016 vs. Q3 2015
Total Revenue	Up .8%
Transportation Revenue	Up 5.5%
Revenue Miles	Up by 1.2%
Fuel net of surcharges	Up by 9.6%
PAFR	Down by 6.1%
Operating Ratio	1.9% improved
Driver Turnover Rate	Down by 13%
Average Number of Drivers	Up 7.2%

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 2016

- Transportation revenue increased \$1,578,000, or 5.5%.
- Fuel cost net of fuel surcharges increased \$251,000.
- Annualized driver turnover rate improved from 83% in the third quarter of last year to 70% this quarter.
- The Company reported net income of \$1,379,000, or \$0.42 per share, compared to net income of \$1,003,000, or \$0.31 per share, in the same quarter last year.

Comparative Results of Operations for the Three months ended June 30, 2016 and 2015

(dollars in thousands)	Three months ended June 30			
	2016	%	2015	%
Revenue miles (in thousands)	11,209		11,075	

Revenues:

Transportation revenue	\$ 30,187	96.3%	28,609	92.0%
Fuel surcharges	1,175	3.7%	2,490	8.0%
Total Revenues	<u>31,362</u>	<u>100%</u>	<u>31,099</u>	<u>100.0%</u>

Cost of operations:

Compensation and benefits	13,034	41.6%	12,552	40.4%
Fuel expenses	4,031	12.8%	5,095	16.4%
Repairs & tires	2,061	6.6%	2,019	6.5%
Other operating	1,195	3.8%	1,090	3.5%
Insurance and losses	2,736	8.7%	2,681	8.6%
Depreciation expense	2,245	7.2%	2,098	6.7%
Rents, tags & utilities	949	3.0%	987	3.2%
Sales, general & administrative	2,404	7.7%	2,143	6.9%
Corporate expenses	502	1.6%	782	2.5%
Gain on equipment sales	(85)	-0.3%	(21)	-0.1%
Total cost of operations	<u>29,072</u>	<u>92.7%</u>	<u>29,426</u>	<u>94.6%</u>
Total operating profit (loss)	<u>\$ 2,290</u>	<u>7.3%</u>	<u>1,673</u>	<u>5.4%</u>

Total revenues for the quarter were \$31,362,000, up \$263,000 from \$31,099,000 in the same quarter last year. Fuel surcharge revenues were lower by \$1,315,000 as the average price of diesel fuel was lower (\$.54 per gallon) this quarter versus the same quarter last year. Transportation revenues (excluding fuel surcharges) were up \$1,578,000 (or 5.5%) to \$30,187,000 on 134,000 more revenue miles and an increase of 4.3% revenue per mile versus the same quarter last year.

Compensation and benefits costs were up \$482,000 (or \$.04 per mile) versus the third quarter of fiscal 2015 due primarily to driver pay enhancements and increased miles.

The Company's gross cost of fuel was down \$1,064,000 over the same quarter last year which was not enough to off-set the \$1,315,000 decline in fuel surcharge revenues resulting in a negative margin impact of \$251,000 (or \$.02 per mile) this quarter. In the first and second quarters of this fiscal year we experienced a negative margin impact of \$883,000 (or \$.09 per mile) and \$719,000 (or \$.07 per mile), respectively, as a result of declining fuel surcharges outpacing the decline in our gross fuel cost. During the fiscal year we were able to negotiate positive adjustments to the fuel surcharge tables of some of our customers and those adjustments have contributed to the positive trend of less margin erosion resulting from lower diesel prices.

SG&A was up \$261,000 as we have increased staff to help better manage and support our people in the field, to resolve issues with

driver hiring and turnover and to support our safety performance.

Corporate expense was \$280,000 lower compared to the same quarter last year due mainly to reduced airplane expenses following the sale of a 75% interest in the corporate airplane last quarter.

Operating profit this quarter was \$2,290,000, an increase of \$617,000 or 37% compared to \$1,673,000 in the same quarter last year. Our operating ratio improved to 92.7% compared to 94.6% in the same quarter last year.

Highlights of the First Nine Months of Fiscal 2016

- Transportation revenue increased \$3,716,000, or 5.1% per mile.
- Fuel cost net of fuel surcharges increased \$1,853,000.
- Annualized driver turnover rate declined from 73% in the first nine months of last year to 65% this year.
- The Company successfully completed negotiations and entered into a settlement agreement with BP Exploration and Production, Inc. resulting in other income of \$1,687,000 as compensation for damages arising out of the Deepwater Horizon event that occurred in 2010.
- The Company reported net income of \$3,617,000, or \$1.10 per share compared to net income of \$1,754,000, or \$0.54 per share in the same period last year. The current year income includes \$1,029,000, or \$0.31 per share, of net income from the settlement of a claim with BP for \$1,687,000 in connection with the 2010 Deepwater Horizon event. The prior year included a \$2,074,000 intangible asset impairment charge with an after tax impact to net income of \$1,265,000 or \$0.39 per share, related to the Pipeline Transportation acquisition.

Comparative Results of Operations for the Nine months ended June 30, 2016 and 2015

(dollars in thousands)	Nine months ended June 30			
	2016	%	2015	%
Revenue miles (in thousands)	32,349		32,467	
Revenues:				
Transportation revenue	\$ 86,710	96.6%	82,994	89.7%

Fuel surcharges	<u>3,071</u>	<u>3.4%</u>	<u>9,559</u>	<u>10.3%</u>
Total Revenues	<u>89,781</u>	<u>100%</u>	<u>92,553</u>	<u>100.0%</u>
Cost of operations:				
Compensation and benefits	38,358	42.7%	36,308	39.2%
Fuel expenses	11,326	12.6%	15,961	17.2%
Repairs & tires	5,806	6.5%	5,739	6.2%
Other operating	3,464	3.9%	3,215	3.5%
Insurance and losses	7,972	8.9%	8,298	9.0%
Depreciation expense	6,518	7.3%	6,330	6.9%
Rents, tags & utilities	2,853	3.2%	2,882	3.1%
Sales, general & administrative	7,016	7.8%	6,779	7.3%
Corporate expenses	2,288	2.5%	2,833	3.1%
Intangible asset impairment	-	0	2,074	2.2%
Gain on equipment sales	(156)	-0.2%	(819)	-0.9%
Total cost of operations	<u>85,445</u>	<u>95.2%</u>	<u>89,600</u>	<u>96.8%</u>
Total operating profit	<u>\$ 4,336</u>	<u>4.8%</u>	<u>2,953</u>	<u>3.2%</u>

Total revenues were \$89,781,000 down from \$92,553,000 last year as a result of \$6,488,000 lower fuel surcharges. Fuel surcharge revenues were down as the average price of diesel fuel was significantly lower this period (\$.78 per gallon) versus the same period last year, plus, the first few months of fiscal 2015 benefited greatly from the time lag involved in reducing fuel surcharges during a rapidly declining diesel fuel price environment. Transportation revenues (excluding fuel surcharges) were up \$3,716,000 to \$86,710,000, on 118,000 fewer miles and an increase of 5.1% revenue per mile versus the same period last year.

The Company's gross cost of fuel was down \$4,635,000 over the same period last year which was not enough to off-set the \$6,488,000 reduction in fuel surcharge revenues resulting in a negative margin impact of \$1,853,000 (or \$.06 per mile) this period versus the same period last year.

Compensation and benefits costs were up \$2,050,000 (or \$.06 per mile) versus the same period last year due primarily to driver pay enhancements and increased driver training.

Insurance and losses were lower by \$326,000 due mostly to lower medical claims and favorable resolutions to some prior year liability claims compared to the actuarial reserve estimates.

Corporate expense was lower by \$545,000 compared to the same period last year due mainly to the sale of a 75% interest in the corporate airplane during the last quarter.

We had \$663,000 less in gains on equipment sales this period versus

the same period last year.

Adjusted operating profit was \$4,336,000 versus adjusted operating profit of \$5,027,000 in the same period last year. Adjusted net income was \$2,588,000 compared to adjusted net income of \$3,019,000 in the same period last year. These non-GAAP financial measures exclude the BP Settlement gain realized in the first quarter of fiscal 2016 and the intangible asset impairment charge incurred in the second quarter of fiscal 2015. Management believes these adjusted measures better reflect our operating performance during the periods discussed and reflect how management evaluates our operational results. Refer to "Non-GAAP Financial Measures" below in this quarterly report for a more detailed discussion, including reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measures".

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, 2016, we had no debt outstanding on this revolver, \$3,032,000 letters of credit and \$21,968,000 available for additional borrowings. During fiscal 2015, the Company closed on a two (2) year revolving credit facility, to be secured by a portion of the Company's equipment at the time of draw, from Branch Banking and Trust Company (BB&T) for up to \$25 million. This facility contains a provision which automatically converts any draws under the revolver into five-year term loans with a seven year amortization. As of June 30, 2016, the Company had not taken any draws against this facility. The Company expects our fiscal year 2016 cash generation to cover the cost of our operations and all of our budgeted capital expenditures.

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,	
	2016	2015
Total cash provided by (used for):		
Operating activities	\$ 7,840	10,930
Investing activities	(4,582)	(4,858)
Financing activities	(619)	(6,072)
Increase in cash and cash equivalents	\$ 2,639	\$ -
Outstanding debt at the beginning of the period	-	7,282
Outstanding debt at the end of the period	-	1,430

Operating Activities - Net cash provided by operating activities (as set forth in the cash flow statement) was \$7,840,000 for the nine months ended June 30, 2016, and \$10,930,000 for the comparable period in 2015. The total of net income plus depreciation, amortization, and impairment and less gains on sales of property and equipment increased \$312,000 versus the same period last year. These changes are described above under "Comparative Results of Operations." Deferred income tax liability increased \$630,000 versus a decrease of \$1,004,000 the same period last year primarily due to bonus depreciation in the current year and the impairment recorded last year. Accrued liabilities decreased \$3,474,000 compared to an increase of \$1,202,000 in the same period last year primarily due to the timing on payments on the purchase of tractors and trailers, differences in the cutoff for funding of weekly payroll, and payment of the annual bonus compensation in December 2015. These changes comprise the majority of the decrease in net cash provided by operating activities.

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, 2016, we spent \$4,582,000 on equipment net of proceeds from retirements. For the first nine months ended June 30, 2015 we spent \$4,858,000 on equipment net of retirements.

Financing Activities - Financing activities primarily include net changes to our outstanding revolving debt. For the first nine months ended June 30, 2016 cash used for financing activities was \$619,000. During the nine months ended June 30, 2015, we used \$6,072,000 to pay down debt. We had no outstanding long-term debt on June 30, 2016 compared to \$1,430,000 at June 30, 2015.

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, 2016, the tangible net worth covenant would have limited our ability to pay dividends or repurchase stock with

borrowed funds to a maximum of \$11.9 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 2016, the Company had not taken any draws against this facility.

Cash Requirements - The Company currently expects its fiscal 2016 capital expenditures to be approximately \$10,750,000 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 held for future requirements.

Summary and Outlook. We have been successful the past several quarters in growing our per mile transportation revenue while adding revenue miles through new business opportunities. We were pleased to see the improvements in our operating margin during the 3rd quarter and are optimistic that we can retain that margin in the 4th quarter. The substantial improvement in net fuel expense this quarter was encouraging and we will continue to work to neutralize the negative margin effects of lower fuel prices but this effort at neutralization will take some time to resolve as it is an industry wide issue.

We operate in many of the best markets in the country and are known in those markets, and beyond, as a top rated carrier for both safety and customer satisfaction. We are committed to continuing our focus on safety and customer satisfaction and are confident that execution of that focus will enable us to continue our growth in our excellent markets. We plan to maintain a strong balance sheet as we work to achieve our targeted operating ratio in the low

nineties and double digit returns on after tax capital employed.

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 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 BP settlement and 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:

	Nine months ended June 30, 2016	Nine months ended June 30, 2015
Net Income	\$ 3,617	1,754
Adjustments:		
Intangible asset impairment charge	-	2,074
Provision for deferred income taxes	-	(809)
BP claim settlement	(1,687)	-
Provision for cash income taxes	658	-
Adjusted net income	<u>\$ 2,588</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:

	Nine months ended June 30, 2016	Nine months ended June 30, 2015
Operating ratio	95.2%	96.8%
Adjustments:		
Intangible asset impairment charge	-	(2.2%)
Adjusted operating ratio	<u>95.2%</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:

	Nine months ended June 30, 2016	Nine months ended June 30, 2015
Operating profit	\$ 4,336	2,953
Adjustments:		
Intangible asset impairment charge	-	2,074
Adjusted operating profit	<u>\$ 4,336</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 credit agreements. Under the Wells Fargo and BB&T revolving credit lines of credit, the applicable margins for borrowings at June 30, 2016 were 1.0% and 1.5%, respectively. The applicable margin for such borrowings will be reduced or increased in the event that our debt to capitalization ratio as calculated under the credit agreement exceeds target levels.

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 price increases from our customers in the form of fuel surcharges. The typical fuel surcharge table provides some margin contribution at higher diesel fuel prices but also results in some margin erosion at the lower diesel fuel prices we have been experiencing the past several quarters. The price and availability of diesel fuel can be unpredictable as well as the extent to which fuel surcharges can be collected to offset such increases.

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, 2016, 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 Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K 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 31	—	\$ —	—	\$ 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 3, 2016

PATRIOT TRANSPORTATION HOLDING, INC.

Thompson S. Baker II
Thompson S. Baker II
Chairman, President and Chief
Executive Officer (Principal
Executive Officer)

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

John D. Klopfenstein
John D. Klopfenstein
Controller and Chief Accounting Officer
(Principal Accounting Officer)

PATRIOT TRANSPORTATION HOLDING, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016
EXHIBIT INDEX

- (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 3, 2016

/s/Thompson S. Baker II
Chairman, 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 3, 2016

/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 3, 2016

/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 3, 2016

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.