

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ [X]

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

For the quarterly period ended June 30, 2020.

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)

Title of each class
Common Stock, \$.10 par value

Trading Symbol
PATI

Name of each exchange on which registered
NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ [x] No ☐ []

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ [x] No ☐ [] Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ []

Accelerated filer ☐ []

Non-accelerated filer ☐ []

Smaller reporting company ☒ [x]

Emerging growth company ☐ []

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ [] No ☒ [x]

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

Class
Common Stock

August 12, 2020
3,377,279

PATRIOT TRANSPORTATION HOLDING, INC.
FORM 10-Q
QUARTER ENDED JUNE 30, 2020

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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 the impact of the COVID-19 pandemic and "stay home" orders, as well as increased vehicle fuel efficiency, other impacts on the COVID-19 pandemic on our operations and financial results; the increased popularity of electric vehicles 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, including regulations regarding the transportation industry and regulations intended to reduce greenhouse gas emissions; cyber-attacks; 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 BALANCE SHEETS

(In thousands)
(Unaudited)

	June 30, 2020	September 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,646	21,216
Accounts receivable (net of allowance for doubtful accounts of \$93 and \$133, respectively)	5,188	6,588
Federal and state taxes receivable	—	290
Inventory of parts and supplies	801	949
Prepaid tires on equipment	1,431	1,616
Prepaid taxes and licenses	156	536
Prepaid insurance	1,578	2,895
Prepaid expenses, other	315	334
Total current assets	<u>23,115</u>	<u>34,424</u>
Property and equipment, at cost	84,842	91,332
Less accumulated depreciation	<u>52,948</u>	<u>57,765</u>
Net property and equipment	<u>31,894</u>	<u>33,567</u>
Operating lease right-of-use assets	3,227	—
Goodwill	3,637	3,431
Intangible assets, net	1,007	701
Other assets, net	176	170
Total assets	<u>\$ 63,056</u>	<u>72,293</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,755	3,184
Federal and state taxes payable	413	—
Accrued payroll and benefits	2,962	3,906
Accrued insurance	1,685	1,339
Accrued liabilities, other	860	398
Operating lease liabilities, current portion	1,166	—
Total current liabilities	<u>8,841</u>	<u>8,827</u>
Operating lease liabilities less current portion	2,249	—
Deferred income taxes	5,280	6,237
Accrued insurance	1,339	1,339
Other liabilities	890	1,093
Total liabilities	<u>18,599</u>	<u>17,496</u>
Commitments and contingencies		
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; 3,377,279 and 3,351,329 shares issued and outstanding, respectively)	338	335
Capital in excess of par value	38,610	38,099
Retained earnings	5,386	16,235
Accumulated other comprehensive income, net	123	128
Total shareholders' equity	<u>44,457</u>	<u>54,797</u>
Total liabilities and shareholders' equity	<u>\$ 63,056</u>	<u>72,293</u>

See notes to consolidated financial statements.

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

(In thousands)
(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2020	2019	2020	2019
Revenues:				
Transportation revenues	\$ 18,032	24,907	\$ 62,191	74,424
Fuel surcharges	979	2,619	5,156	8,164
Total revenues	19,011	27,526	67,347	82,588
Cost of operations:				
Compensation and benefits	8,575	11,985	29,954	35,875
Fuel expenses	1,738	3,988	8,147	12,268
Repairs & tires	1,182	1,901	4,504	5,572
Other operating	768	1,189	2,699	3,510
Insurance and losses	1,443	2,211	6,767	7,155
Depreciation expense	1,815	1,976	5,604	5,922
Rents, tags & utilities	719	833	2,222	2,571
Sales, general & administrative	1,839	2,479	6,929	7,508
Corporate expenses	362	426	1,713	1,825
Loss (gain) on disposition of PP&E	(224)	115	(674)	(1,441)
Total cost of operations	18,217	27,103	67,865	80,765
Total operating profit (loss)	794	423	(518)	1,823
Interest income and other	4	116	131	330
Interest expense	(8)	(8)	(23)	(25)
Income (loss) before income taxes	790	531	(410)	2,128
Provision for (benefit from) income taxes	217	135	(118)	559
Net income (Loss)	\$ 573	396	\$ (292)	1,569
Unrealized investment gains, net	—	7	—	19
Reclassification adjust for net investment gains realized in net income	—	—	(5)	—
Comprehensive income (loss)	\$ 573	403	\$ (297)	1,588
Earnings per common share:				
Net Income (loss) -				
Basic	\$ 0.17	0.12	(0.09)	0.47
Diluted	\$ 0.17	0.12	(0.09)	0.47
Number of shares (in thousands) used in computing:				
-basic earnings per common share	3,377	3,347	3,366	3,339
-diluted earnings per common share	3,377	3,348	3,366	3,340

See notes to consolidated financial statements.

PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 2020 AND 2019

(In thousands)
(Unaudited)

	Nine months ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ (292)	1,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,880	6,373
Non-cash gain of acquisition-related contingent consideration	(150)	—
Deferred income taxes	(957)	77
Gain on asset dispositions	(674)	(1,441)
Stock-based compensation	514	532
Net changes in operating assets and liabilities:		
Accounts receivable	1,400	394
Inventory of parts and supplies	148	(49)
Prepaid expenses	1,926	608
Other assets	136	30
Accounts payable and accrued liabilities	(2,003)	224
Income taxes payable and receivable	703	430
Operating lease assets and liabilities, net	(870)	—
Long-term insurance liabilities and other long-term liabilities	28	(8)
Net cash provided by operating activities	<u>6,789</u>	<u>8,739</u>
Cash flows from investing activities:		
Purchase of property and equipment	(4,537)	(7,603)
Business acquisition	(1,000)	—
Proceeds from the sale of property, plant and equipment	1,735	2,649
Net cash used in investing activities	<u>(3,802)</u>	<u>(4,954)</u>
Cash flows from financing activities:		
Dividends paid	(10,557)	—
Decrease in bank overdrafts	—	(625)
Debt issue costs	—	(9)
Net cash used in financing activities	<u>(10,557)</u>	<u>(634)</u>
Net (decrease) increase in cash and cash equivalents	(7,570)	3,151
Cash and cash equivalents at beginning of period	21,216	17,299
Cash and cash equivalents at end of the period	<u>\$ 13,646</u>	<u>20,450</u>

See notes to consolidated financial statements.

PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
NINE MONTHS ENDED JUNE 30, 2020 AND 2019
(In thousands)
(Unaudited)

	Common Stock		Capital in	Retained	Accumulated	Total
	Shares	Amount	Excess of Par Value	Earnings	Other Comprehensive Income, net	Stockholders' Investment
Balance as of October 1, 2019	3,351,329	\$ 335	\$ 38,099	\$ 16,235	\$ 128	\$ 54,797
Stock-based compensation			179			179
Director grant	25,950	3	332			335
Cash dividends (\$3.15 per share)				(10,557)		(10,557)
Net income (loss)				(292)		(292)
Reclassification adjustment of realized gain, net					(5)	(5)
Balance as of June 30, 2020	<u>3,377,279</u>	<u>\$ 338</u>	<u>\$ 38,610</u>	<u>\$ 5,386</u>	<u>\$ 123</u>	<u>\$ 44,457</u>
Balance as of October 1, 2018	3,328,466	\$ 333	\$ 37,436	\$ 14,472	\$ 165	\$ 52,406
Stock-based compensation			169			169
Director grant	18,863	2	361			363
Net income				1,569		1,569
Unrealized gain on investment, net					19	19
Balance as of June 30, 2019	<u>3,347,329</u>	<u>\$ 335</u>	<u>\$ 37,966</u>	<u>\$ 16,041</u>	<u>\$ 184</u>	<u>\$ 54,526</u>

PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020
(Unaudited)

(1) Description of Business, Basis of Presentation and Accounting Policy Change.

Description of Business

Company's Business. The business of the Company, conducted through our wholly owned subsidiary, Florida Rock & Tank Lines, Inc., is to transport petroleum related products and dry bulk commodities and liquid chemicals. We do not own any of the products we haul; rather, we act as a third party carrier to deliver our customers' products from point A to point B, using predominantly Company employees and Company-owned tractors and tank trailers. Approximately 86% 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 customers' fuel storage tanks for ultimate sale to the retail consumer. The remaining 14% of our business consists of hauling dry bulk commodities such as cement, lime and various industrial powder products and liquid chemicals. As of June 30, 2020, we employed 455 revenue-producing drivers who operated our fleet of 323 company tractors (excluding 1 being placed in service and 2 being prepared for sale), 19 owner operators and 452 trailers from our 18 terminals and 6 satellite locations in Florida, Georgia, Alabama, and Tennessee.

Basis of Presentation

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, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2020. The accompanying consolidated 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, 2019.

Accounting Policy Change

Cash and cash equivalents –The Company considers all Treasury bills available for sale regardless of maturity and other highly liquid debt instruments with maturities of three months or less at time of purchase to be cash equivalents. Bank overdrafts consist of outstanding checks not yet presented to a bank for settlement, net of cash held in accounts with right of offset. Treasury bills of \$5,983,000 at September 30, 2019 have been reclassified as cash equivalents in these financial statements.

(2) Recently Issued Accounting Standards. In February 2016, the FASB issued ASU No. 2016-02, "Leases", which requires lessees to recognize a right-to-use asset and a lease liability for the obligation to make lease payments measured at the present value of the lease payments for all leases

with terms greater than twelve months. The provisions of this update and additional guidance in subsequent ASUs became effective for us beginning October 1, 2019. In July 2018, the FASB issued ASU No. 2018-11, "Leases" which provides an optional transition method allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, with no restatement of comparative prior periods required. We adopted the standard using this optional transition method. Upon adoption as of October 1, 2019, the Company recognized \$3,873,000 in operating lease right-of-use assets, a reduction of \$231,000 of other long-term liabilities related to straight-lined leases and \$4,104,000 in operating lease liabilities. As of June 30, 2020, the Company has 6 property leases with an expected life over 12 months and 30 leased tractors and recognized \$3,227,000 in operating lease right-of-use assets and \$3,415,000 in operating lease obligations.

(3) Related Party Agreements. The Company provides FRP Holdings, Inc. (FRP) certain services including the services of certain shared executive officers. FRP may be considered a related party due to common significant shareholder ownership and shared common officers. A written agreement exists outlining the terms of such services and the boards of the respective companies amended and extended this agreement for one year effective April 1, 2020.

The consolidated statements of income reflect charges and/or allocation to FRP Holdings, Inc. for these services of \$290,000 and \$328,000 for the three months ended June 30, 2020 and 2019, and \$993,000 and \$1,051,000 for the nine months ended June 30, 2020 and 2019, 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.

We employ an allocation method 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.

(4) Long-Term debt. The Company had no long-term debt outstanding at June 30, 2020 and September 30, 2019. On December 28, 2018 the Company entered into a First Amendment to the 2015 Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, N.A. ("Wells Fargo"), effective December 14, 2018. The Credit Agreement modifies the Company's prior Credit Agreement with Wells Fargo, dated January 30, 2015. The Credit Agreement establishes a five year revolving credit facility with a maximum facility amount of \$35 million, with a separate sublimit for standby letters of credit. The credit facility limit may be increased to \$50 million upon request by the Company, subject to the lender's discretion and the satisfaction of certain conditions. The interest rate under the Credit Agreement will be a maximum of 1.50% over LIBOR, which may be reduced quarterly to 1.25% or 1.0% over LIBOR if the Company meets a specified ratio of consolidated total debt to consolidated total capital. A commitment fee of 0.144% per annum is payable quarterly on the unused portion of the commitment but the amount may be reduced to 0.1145% or 0.086% if the Company meets a specified ratio of consolidated total debt to consolidated total capital. As of June 30, 2020, we had no outstanding debt borrowed on this revolver, \$3,073,000 in commitments under letters of credit and \$31,927,000 available for additional borrowings. The letter of credit fee is 1% and the applicable interest rate would have been 1.17825% on June 30, 2020. This credit agreement contains certain conditions, affirmative financial covenants and negative covenants including a minimum tangible net worth. The Company was in compliance with all of its loan covenants as of June 30, 2020.

(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.

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

	Three Months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Weighted average common shares outstanding during the period				
- shares used for basic earnings per common share	3,377	3,347	3,366	3,339
Common shares issuable under share based payment plans which are potentially dilutive	—	1	—	1
Common shares used for diluted earnings per common share	<u>3,377</u>	<u>3,348</u>	<u>3,366</u>	<u>3,340</u>
Net income (loss)	<u>\$ 573</u>	<u>396</u>	<u>(292)</u>	<u>1,569</u>
Earnings (loss) per common share:				
-basic	<u>\$ 0.17</u>	<u>0.12</u>	<u>(0.09)</u>	<u>0.47</u>
-diluted	<u>\$ 0.17</u>	<u>0.12</u>	<u>(0.09)</u>	<u>0.47</u>

For the three and nine months ended June 30, 2020, 400,722 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, 2019, 181,983 and 185,983 shares attributable to outstanding stock options, respectively, 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

Prior to the Company's spin-off from FRP Holdings, Inc. (FRP) in January 2015, the Company's directors, officers and key employees previously were 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.

Post Spin-Off Patriot Incentive Stock Plan

As part of the spin-off transaction, the Board of Directors of the Company adopted the Patriot Transportation Holding, Inc. Incentive Stock Plan ("Patriot Plan") in January, 2015. In exchange for all outstanding FRP options held on January 30, 2015, existing Company directors, officers and key

employees holding option grants in the FRP Stock Option Plan(s) were issued new grants in the Patriot and FRP Plans based upon the relative value of Patriot and FRP immediately following the completion of the spin-off with the same remaining terms. All related compensation expense has been allocated to the Company (rather than FRP) and included in corporate expenses. The number of common shares available for future issuance in the Patriot Plan was 163,400 at June 30, 2020.

On January 30, 2020, the Company paid an extraordinary dividend of \$3.00 per share to all shareholders of record. In accordance with Section 4.2 of the 2006 Stock Incentive Plan, Section 11 of the 2014 Equity Incentive Plan, and Section 409A of the Internal Revenue Code, the Company has adjusted the terms of all stock option grants outstanding and the stock appreciation rights as of the close of business on January 30, 2020.

In December 2016, the Company approved and issued a long-term performance incentive to an officer in the form of stock appreciation rights. As adjusted for the extraordinary dividend the Company granted 132,286 stock appreciation rights. The adjusted market price of the grant was \$16.82, and the executive will get a cash award at age 65 based upon the stock price at that date compared to the stock price at the date of grant but in no event will the award be less than \$500,000. The Company plans to expense the fair value of the award over the 9.1 year vesting period to the officer's attainment of age 65. The accrued liability under this plan as of June 30, 2020 and 2019 was \$320,000 and \$229,000, respectively.

The Company recorded the following stock compensation expense in its consolidated statements of income (in thousands):

	Three Months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Stock option grants	\$ 60	57	179	169
Annual director stock award	—	—	335	363
	<u>\$ 60</u>	<u>57</u>	<u>514</u>	<u>532</u>

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

<u>Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Term (yrs)</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding at October 1, 2019	189,015	\$ 21.49	6.3	\$ 1,531
Term Adjustment	148,877			
Granted	68,865	18.40		275
Forfeited	<u>(6,035)</u>	23.99		<u>(57)</u>
Outstanding at June 30, 2020	400,722	\$ 14.96	6.9	\$ 1,749
Exercisable at June 30, 2020	191,597	\$ 16.09	5.0	\$ 1,002
Vested during nine months ended June 30, 2020	39,070			\$ 204

There were no exercisable or outstanding in-the-money options based on the Company's market closing price of \$8.33 on June 30, 2020.

The realized tax benefit from option exercises during the first nine months of fiscal 2020 was \$11,000 which pertained to FRP options exercised that were granted to persons employed by Patriot. The unrecognized compensation expense of Patriot options granted as of June 30, 2020 was \$600,000, which is expected to be recognized over a weighted-average period of 3.3 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.

During the nine months ending June 30, 2019, the Company invested in treasury bills with maturities at time of purchase of 3 months to 1 year. The unrealized gains on these investments of \$19,000 was recorded as part of comprehensive income and was based on the market value (Level 1). The amortized cost of the investments was \$14,417,000 and the carrying amount and fair value was \$14,430,000 as of June 30, 2019.

At June 30, 2020 and September 30, 2019, the carrying amount reported in the consolidated 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.

(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 2020, the Company's ten largest customers accounted for approximately 62.7% of our revenue and one of these customers accounted for 21.2% of our revenue. Accounts receivable from the ten largest customers was \$3,301,000 and \$4,264,000 at June 30, 2020 and September 30, 2019 respectively. The loss of any one of these customers could have a material adverse effect on the Company's revenues and income.

Deposits: Cash and cash equivalents are comprised of cash at Wells Fargo Bank, N.A. The balances may exceed FDIC limits.

(10) Unusual or Infrequent Items Impacting Quarterly Results.

First quarter 2019 net income included \$634,000, or \$.19 per share, from gains on real estate sales. Second quarter 2019 net income included \$179,000 or \$.05 per share, from a gain of \$247,000 on the insurance settlement for hurricane damages and losses sustained at our Panama City, Florida location in first quarter 2019.

(11) Business Acquisition.

The Company acquired certain assets of Danfair Transport out of Americus, GA on November 4, 2019. Danfair had total revenues of approximately \$2,300,000 in 2018.

The Company has accounted for this acquisition in accordance with the provisions of ASC 805, Business Combinations (ASC 805). The Company has allocated the purchase price of the business based upon the fair value of the assets acquired and liabilities assumed as follows (in thousands):

Consideration:

Fair value of consideration transferred	<u>(1,425)</u>
Acquisition related costs expensed	\$ 38
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property and equipment	\$ 759
Prepaid tires	25
Customer relationships	436
Non-compete agreement	12
Vacation liability assumed	<u>(13)</u>
Total identifiable net assets assumed	\$ 1,219
Goodwill	<u>206</u>
Total	<u>\$ 1,425</u>

The goodwill recorded resulting from the acquisition is tax deductible. The earned payout liability, estimated to be \$425,000 on the date of acquisition, will be determined based upon the total revenues for the 12 months following the acquisition. Changes in the estimated earned payout liability, up to the total contractual amount, are reflected in our results of operations in the periods in which they are identified. During the third quarter of 2020 the Company recorded a gain of \$150,000 on the contingent consideration. The potential range of the earned payout is zero to \$800,000.

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 customers' products from point A to point B predominately using Company employees driving Company owned tractors and tank trailers. Approximately 86% 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 customers' fuel storage tanks for ultimate sale to the retail consumer. The remaining 14% of our business consists of hauling dry bulk commodities such as cement, lime and various industrial powder products and liquid chemicals. As of June 30, 2020, we employed 455 revenue-producing drivers who operated our fleet of 323 company tractors (excluding 1 being placed in service and 2 being prepared for sale), 19 owner operators and 452 trailers from our 18 terminals and 6 satellite locations in Florida, Georgia, Alabama, and Tennessee. We experience increased seasonal demand in Florida in the spring and in most of our other locations during the summer months.

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, (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 shortage of qualified professional drivers with a tenured safe driving career. 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, short driving careers in other lines of trucking, poor safety records and a pattern of job instability in their work history. As a result, in many markets we serve it is difficult to grow the driver count and, in some cases, to even maintain our historical or desired driver counts.

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.

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 23 or drivers without at least one year of driving experience, auto and workers' compensation accident frequencies and severity, administrative costs, and group health claims experience.

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 Disposition of Property, Plant & Equipment* - Our financial results for any period may be impacted by any gain or loss that we realize on the sale of used equipment, losses on wrecked equipment, and disposition of other assets. 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 (excluding drivers related to Charlotte and Wilmington closures) and average driver count (defined as average number of revenue producing drivers including owner operators (O.O.) under employment over the specified time period) as compared to the same period in the prior year.

ITEM	Nine months 2020 vs. 2019
Total Revenue	Down 18.5%
Transportation Revenue	Down 16.4%
Revenue Miles	Down 20.8%
PAFR (incidents per 1M miles) goal of 2.1	Down to 1.86 from 1.91
Operating Ratio	100.8% vs. 97.8%
Driver Turnover Rate	74.1% vs. 72.9%
Avg. Driver Count incl. owner operators	Down 9.3%

Comparative Results of Operations for the Three Months ended June 30, 2020 and 2019

(dollars in thousands)	Three months ended June 30			
	2020	%	2019	%
Revenue miles (in thousands)	6,172		8,947	
Revenues:				
Transportation revenue	\$ 18,032	94.9%	24,907	90.5%
Fuel surcharges	979	5.1%	2,619	9.5%
Total Revenues	19,011	100.0%	27,526	100.0%
Cost of operations:				
Compensation and benefits	8,575	45.1%	11,985	43.6%
Fuel expenses	1,738	9.1%	3,988	14.5%
Repairs & tires	1,182	6.2%	1,901	6.9%
Other operating	768	4.0%	1,189	4.3%
Insurance and losses	1,443	7.6%	2,211	8.0%
Depreciation expense	1,815	9.6%	1,976	7.2%
Rents, tags & utilities	719	3.8%	833	3.0%
Sales, general & administrative	1,839	9.7%	2,479	9.0%
Corporate expenses	362	1.9%	426	1.6%
Gain on disposition of PP&E	(224)	-1.2%	115	0.4%
Total cost of operations	18,217	95.8%	27,103	98.5%
Total operating profit	\$ 794	4.2%	423	1.5%

The Company reported net income of \$573,000, or \$.17 per share, compared to \$396,000, or \$.12 per share, in the same quarter last year.

Transportation revenues (excluding fuel surcharges) were \$18,032,000, down \$6,875,000 due to lower miles versus the same quarter last year. Revenue miles were down 2,775,000 miles, or 31.0%, over the same quarter last year primarily due to the COVID-19 pandemic, the downsizing of certain customer business due to inadequate freight rates earlier this fiscal year, and the closure of our Wilmington terminal on April 25, 2020. Transportation revenue per mile was up \$.14, or 5.0%, which has helped to offset the negative impact of fewer miles. Fuel surcharge revenue was down \$1,640,000, or \$.13 per mile, from the same quarter last year.

Compensation and benefits decreased \$3,410,000, mainly due to lower company miles and reduced driver training expense. Gross fuel expense decreased \$2,250,000, or \$.17 per mile, due to lower company miles and lower cost per gallon. Repair and tire expense decreased \$719,000, or \$.02 per mile, due to lower miles this quarter and several high dollar repairs in the 3rd quarter last year. Insurance and losses decreased \$768,000, or \$.02 per mile, primarily due to favorable closure of prior year worker's compensation claims, lower health care claims, favorable results on prior and current year auto liability claims and lower wreck repair costs. Depreciation expense was down \$161,000 in the quarter as we continue to adjust our fleet size to meet our business levels. Gain on disposition of assets was \$224,000 this quarter versus a loss of \$115,000 in the same quarter last year due primarily to a loss from a single vehicle rollover accident during the same quarter last year.

As a result, operating profit this quarter was \$794,000, compared to \$423,000 in the same quarter last year. Operating ratio was 95.8 this quarter versus 98.5 in the same quarter last year.

Comparative Results of Operations for the Nine Months ended June 30, 2020 and 2019

(dollars in thousands)	Nine months ended June 30			
	2020	%	2019	%
Revenue miles (in thousands)	21,542		27,199	
Revenues:				
Transportation revenue	\$ 62,191	92.3%	74,424	90.1%
Fuel surcharges	5,156	7.7%	8,164	9.9%
Total Revenues	67,347	100.0%	82,588	100.0%
Cost of operations:				
Compensation and benefits	29,954	44.5%	35,875	43.4%
Fuel expenses	8,147	12.1%	12,268	14.9%
Repairs & tires	4,504	6.7%	5,572	6.7%
Other operating	2,699	4.0%	3,510	4.2%
Insurance and losses	6,767	10.0%	7,155	8.7%
Depreciation expense	5,604	8.3%	5,922	7.2%
Rents, tags & utilities	2,222	3.3%	2,571	3.1%
Sales, general & administrative	6,929	10.3%	7,508	9.1%
Corporate expenses	1,713	2.6%	1,825	2.2%
Gain on disposition of PP&E	(674)	-1.0%	(1,441)	-1.7%
Total cost of operations	67,865	100.8%	80,765	97.8%
Total operating profit (loss)	\$ (518)	-0.8%	1,823	2.2%

The Company reported a net loss of (\$292,000), or (\$.09) per share, compared to net income of \$1,569,000, or \$.47 per share, in the same period last year. Net income in the first nine months of 2019 included \$634,000, or \$.19 per share, from gains on real estate sales.

Transportation revenues (excluding fuel surcharges) were \$62,191,000, down \$12,233,000 on 5,657,000 fewer miles primarily due to the COVID-19 pandemic, the downsizing of certain customer business due to freight rates earlier this fiscal year, and the closure of our Charlotte terminal in May, 2019 and our Wilmington terminal on April 25, 2020. Transportation revenue per mile was up \$.15 per mile, or 5.5%, due to increased freight rates which has helped to offset the negative impact of fewer miles. Fuel surcharge revenue was \$5,156,000, down \$3,008,000, or \$.06 per mile, from the same period last year.

Compensation and benefits decreased \$5,921,000 mainly due to lower company miles and lower driver training expense. Gross fuel expenses decreased \$4,121,000, or \$.07 per mile, due to lower company miles and lower cost per gallon. Repair and tire expense decreased \$1,068,000 due to reduced miles in the first nine months of this year. Insurance and losses decreased \$388,000, but were up \$.05 per mile, primarily due to higher health claims in the first six months of this fiscal year. Gain on disposition of assets was \$674,000 this period versus \$1,441,000 in the same period last year which included a gain of \$866,000 on the sale of a prior terminal site in Ocoee, Florida and a

gain of \$231,000 on the insurance settlement for hurricane damages sustained at our Panama City, Florida location.

As a result, operating loss was (\$518,000) compared to operating profit of \$1,823,000 in the same period last year. Operating ratio was 100.8 in the first nine months versus 97.8 in the same period last year.

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, 2020, we had no debt outstanding on this revolver, \$3,073,000 letters of credit and \$31,927,000 available for additional borrowings. The Company expects our fiscal year 2020 cash generation to cover the cost of our operations and 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,	
	2020	2019
Total cash provided by (used for):		
Operating activities	\$ 6,789	8,739
Investing activities	(3,802)	(4,954)
Financing activities	(10,557)	(634)
Increase (decrease) in cash and cash equivalents	\$ (7,570)	3,151
Outstanding debt at the beginning of the period	—	—
Outstanding debt at the end of the period	—	—

Operating Activities - Net cash provided by operating activities (as set forth in the cash flow statement) was \$6,789,000 for the nine months ended June 30, 2020, compared to \$8,739,000 in the same period last year. The total of net income plus depreciation and amortization and less gains on sales of property and equipment decreased \$587,000 versus the same period last year. These changes are described above under "Comparative Results of Operations." This decrease was mostly offset by a decrease in prepaid insurance due to refunds from our captive upon closing out three prior years. 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 property and equipment upon retirement. For the nine months ended June 30, 2020, we spent \$3,802,000 on investing activities which included \$2,802,000 for the purchase of plant, property and equipment net of proceeds from retirements and \$1,000,000 for the acquisition of Danfair Transport. For the nine months ended June 30, 2019, we spent \$4,954,000 on investing activities for the purchase of plant, property and equipment net of proceeds from retirements.

Financing Activities – Financing activities primarily include net changes to our outstanding revolving debt and proceeds from the sale of shares of common stock through employee equity incentive plans. For the nine months ended June 30, 2020, cash used in financing activities was \$10,557,000 due to dividends paid in the second quarter. For the nine months ended June 30, 2019,

cash used in financing activities was \$634,000 due to bank overdrafts and debt issue costs related to a revised and restated revolver credit agreement. We had no outstanding long-term debt on June 30, 2020 or June 30, 2019.

Credit Facilities - The Company has a five-year credit agreement with Wells Fargo Bank N.A. which provides a \$35 million revolving line of credit with a \$10 million sublimit for stand-by letters of credit. The amounts outstanding under the credit agreement bear interest at a rate of 1.0% over LIBOR, which 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 tangible net worth. As of June 30, 2020, the tangible net worth covenant would have limited our ability to pay dividends or repurchase stock with borrowed funds to a maximum of \$11 million combined.

Cash Requirements - The Company currently expects its fiscal 2020 capital expenditures to be approximately \$5 million revised down from \$7 million in the first quarter for replacement equipment which we expect to be fully funded by our cash generated from our operations. The amount of capital expenditures through June 30, 2020 were \$4,537,000, we have no tractors or trailer purchases planned for the remainder of the fiscal year.

In December, we announced that our Board of Directors declared a special cash dividend of \$3.00 per share, or approximately \$10 million in the aggregate, on the Company's outstanding common stock. This one-time, special dividend was paid on January 30, 2020, to shareholders of record at the close of business on January 15, 2020. In December, the Board also declared a quarterly dividend of \$0.15 per share, paid on January 30, 2020, to shareholders of record on January 15, 2020. Due to the negative impact of the COVID-19 pandemic on the financial performance of the company and the uncertainty of when the markets we serve will recover, the Board voted to suspend the quarterly dividend until further notice.

Impact of the COVID-19 Pandemic. The COVID-19 pandemic continues to have an impact on demand for oil and petroleum products. Volume declines due to COVID-19 vary by market but management estimates the range to be ~10-25% down across our network. As an essential business, we have continued to operate throughout the pandemic in accordance with CDC guidance and orders issued by state and local authorities. We anticipate the impacts from social distancing, work/school from home programs and any continued mandatory business closures or reduced patron occupancy levels will adversely affect petroleum sales and therefore the demand for our services as long as they remain in place.

Summary and Outlook. Prior to the outbreak of the COVID-19 pandemic, Management was encouraged about the rate environment. Our intent was to continue to push rates higher to offset the rising costs associated with the on-going driver shortage and rising risk insurance premiums while exiting customer relationships that did not allow us to earn an acceptable profit on our services. During the 1st quarter, the Company renegotiated one of our largest customer contracts resulting in the Company turning back ~\$3.5M of annualized revenue on marginally rated business while receiving a ~4.5% rate increase on a substantially larger volume of business we retained. Those rate increases were fully in effect as of February 1, 2020. We also walked away from some smaller

accounts due to freight rates. As a result, we had capacity in our system as we headed into the typically busier spring and summer months and were heavily focusing our sales efforts to gain meaningful volume with customers with whom we felt we could partner. We were starting to see success on new revenue gains and operating results in early March until the outbreak of COVID-19.

Beginning in late March, due to impacts from COVID-19, our focus shifted to managing the business through the crisis, dealing with reduced volumes and controlling costs. We experienced a very difficult April due to significantly reduced volumes. Volumes improved incrementally during May and June but still remained below our pre-COVID-19 expectations throughout the quarter. The many steps we took to reduce costs early on in the quarter, coupled with strong insurance results and some gains from equipment sales, allowed us to make a profit during the quarter. Some of the expense reductions related to reduced hours for certain employees, the inability for many of our employees to travel overnight and lower costs associated with hiring and training drivers will increase as the impacts from COVID-19 subside. However, we are intent on minimizing those cost increases as we move forward.

Our balance sheet remains solid with \$13.6 million of cash and cash equivalents as of June 30, 2020, versus \$11.3 million on March 31, 2020, and no outstanding debt. We did not order any new equipment during the quarter and will not order additional equipment during the remainder of this fiscal year which reduces our planned capital outlay by ~\$3.5 million for the fiscal year. Today, we are continuing to manage through the day to day impacts of the virus but are also refocusing our efforts back to growing our business with both new and existing customers with whom we feel can partner long term.

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 agreement. Under the Wells Fargo revolving credit line of credit, the applicable spread for borrowings at June 30, 2020 was 1.0% over LIBOR. The applicable margin for such borrowings will be increased in the event that our debt to capitalization ratio as calculated under the credit agreement exceeds a target level.

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. 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, 2020, 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, 2019, as supplemented by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, 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.

The following risk factors set forth below are in addition or changes to the risk factors discussed under Part I, Item 1A (Risk Factors) of our most recent annual report on Form 10-K

Our business will continue to be adversely affected by the ongoing coronavirus pandemic.

The outbreak of the novel coronavirus (“SARS-CoV-2” or “COVID-19”) has evolved into a global pandemic. The coronavirus has spread to many regions of the world, including the areas of the United States where we operate. The extent to which the coronavirus impacts our business and operating results will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning actions or mandates to contain the coronavirus or treat its impact, among others.

Our business relies heavily on the demand for petroleum products. The spread of the coronavirus has had and will continue to have a material economic effect on our business due to government-imposed restrictions on travel and shelter-in-place orders, increased teleworking and a reduction in business travel and tourism. We expect a continued reduction in demand for petroleum products at some level throughout the course of the pandemic.

Should the coronavirus continue to spread, our business operations could be delayed or interrupted. For instance, our operations would be adversely impacted if a number of our administrative personnel, drivers or field personnel are infected and become ill or are quarantined. In response to the pandemic, we have arranged for certain administrative employees to work remotely outside of our offices or to work in shifts. At this time, we believe that our business would generally be exempted from shelter-in-place orders or other mandated local travel restrictions as an essential service but there can be no assurance as to the scope of quarantine orders imposed by local or state governments.

While the potential economic impact brought by and the duration of the pandemic may be difficult to assess or predict, it has already caused, and is likely to result in further, significant disruption of global financial markets, which may reduce our ability to access capital either at all or on favorable terms. In addition, a recession, depression or other sustained adverse market event resulting from the spread of the coronavirus could materially and adversely affect our business and the value of our common stock.

The ultimate impact of the current pandemic, or any other health epidemic, is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, or the economy, as a whole. However, these effects could have a material impact on our operations,

and we will continue to monitor the situation closely.

Our business is subject to general economic and other factors that are largely out of our control and could affect our operations, profitability and cash flow.

Our business is dependent on various economic factors over which we have little control, that include:

- the availability of qualified drivers;
- access to the credit and capital markets;
- rising healthcare costs;
- increases in fuel prices, taxes and tolls;
- increases in costs of equipment;
- interest rate fluctuations;
- excess capacity in the trucking industry
- changes in laws or regulations or changes in license and regulatory fees;
- potential disruptions at U.S. ports of entry and in pipeline operations;
- downturns in customers' business cycles; and
- insurance prices and insurance coverage availability.

As a result, we may experience periods of overcapacity, declining prices, lower profit margins and less availability of cash in the future. The COVID-19 pandemic has had widespread adverse economic impacts, and the ultimate impact of the pandemic on these and other factors affecting our business is highly uncertain. Our revenues and operating income could be materially adversely affected.

We would be adversely affected by a decline in demand for hauling petroleum products in our markets.

We derive approximately 86% of our revenues from the hauling of petroleum products, including gasoline, diesel fuel and ethanol. The demand for these services is determined by motor fuel consumption in our markets, which is affected by general economic conditions, employment levels, consumer confidence, spending patterns and gasoline prices. In response to the spread of COVID-19, businesses and governments have imposed restrictions on travel, quarantine and “shelter-in-place” policies which have caused a decline in demand for petroleum products. Despite relatively low fuel prices, gasoline sales have fallen as a result of these restrictions and a sharp reduction in tourism. While we anticipate that stringent travel restrictions and “stay-at-home” orders will be temporary, a continuing public health crisis or recession could continue to impact the demand for petroleum products.

Demand for our petroleum hauling services is also impacted by vehicle fuel efficiency, the increasing popularity of electric, hybrid or alternative fuel vehicles and government regulation relating to ethanol. The Energy Information Administration of the U.S. Department of Energy projects that U.S. motor gasoline consumption will decline at an average rate of 1.1% per year between 2012 and 2040 as improvements in fuel efficiency are expected to outpace increases in miles driven.

Future legislation or regulations adopted to reduce greenhouse gas emissions, such as a carbon tax,

may increase our operating costs, require unanticipated capital expenditures and reduce the demand for petroleum products. Developments regarding climate change and the effects of greenhouse gas emissions on climate change in recent years has increased the likelihood of such legislation or regulation. Moreover, attitudes toward gasoline and its relationship to the environment may significantly affect our sales and ability to market our products. Reduced consumer demand for gasoline could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Difficulty in attracting and retaining drivers could negatively affect our operations and limit our growth.

There is substantial competition for qualified personnel, particularly drivers, in the trucking industry. We operate in many geographic areas where there is currently a shortage of professional drivers with long tenured, safe driving records. Regulatory requirements, including electronic logging, could continue to reduce the number of eligible drivers in our markets. Any shortage of drivers could result in temporary under-utilization of our equipment, difficulty in meeting our customers' demands and increased compensation levels, each of which could have a material adverse effect on our business, results of operations and financial condition. A decrease in quality drivers could lead to an increased frequency in the number of accidents, potential claims exposure and, indirectly, insurance costs.

Difficulty in attracting qualified drivers could result in our inability to accept or service new business opportunities or could require us to increase the wages we pay in order to attract and retain drivers. If we are unable to hire qualified drivers to service new or existing business, we may have to temporarily send drivers from other terminals to those struggling markets, causing us to incur significant costs relating to out-of-town driver pay and expenses.

We have significant ongoing capital requirements.

Our business requires substantial ongoing capital investment, particularly for tractors, trailers, terminals and technology. Our capital expenditures were approximately \$6.3 million, \$4.7 million and \$9.6 million in 2017, 2018 and 2019, respectively, and we expect to make capital expenditures of approximately \$5.0 million during fiscal 2020. We expect that cash flow from operations and borrowings under our revolving credit facility will be our primary sources of financing for capital expenditures.

We may face difficulty in purchasing new equipment on a timely basis. Any delay in delivery of equipment could impair our ability to serve our customers, and, to the extent that we must obtain equipment from alternative sources at increased prices, could result in a significant increase in our anticipated capital expenditures and, accordingly, have a material adverse effect on our business, results of operations and financial condition.

Financing may not always be available to fund our activities.

We usually must spend and risk a significant amount of capital to fund our activities. Although most capital needs are funded from operating cash flow, the timing of cash flows from operations and capital funding needs may not always coincide, and the levels of cash flow may not fully cover capital funding requirements. Additionally, we anticipate that the broad impacts of the COVID-19 pandemic, including the sharp decline in demand for petroleum products, could materially reduce our cash flow from operations.

From time to time, we may need to supplement our cash generated from operations with proceeds from financing activities. We currently have a revolving credit facility available to us, for up to \$35 million of borrowings, to provide us with available financing for working capital, equipment purchases and other general corporate purposes. This credit facility is intended to meet any ongoing cash needs in excess of internally generated cash flows. The disruption to financial markets caused by the COVID-19 pandemic could adversely impact our ability to obtain financing on terms that are acceptable to us.

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 28.

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.

PATRIOT TRANSPORTATION HOLDING, INC.

Date: August 14, 2020

By ROBERT E. SANDLIN
Robert E. Sandlin
President and Chief Executive Officer
(Principal Executive Officer)

By MATTHEW C. MCNULTY
Matthew C. McNulty
Vice President, Chief Financial Officer and
Secretary
(Principal Financial Officer)

By JOHN D. KLOPFENSTEIN
John D. Klopfenstein
Controller, Chief Accounting Officer and
Treasurer
(Principal Accounting Officer)

PATRIOT TRANSPORTATION HOLDING, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2020
EXHIBIT INDEX

(14)	Financial Code of Ethical Conduct between the Company, Chief Executive Officers, and Financial Managers (incorporated by reference to Form 8-K filed February 2, 2015).
(31)(a)	Certification of Robert E. Sandlin
(31)(b)	Certification of Matthew C. McNulty
(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

CERTIFICATIONS

Exhibit 31(a)

I, Robert E. Sandlin, 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 14, 2020

/s/Robert E. Sandlin
President and Chief
Executive Officer

I, Matthew C. McNulty, 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 14, 2020

/s/Matthew C. McNulty
Vice President, Chief Financial Officer
and Secretary

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 14, 2020

/s/John D. Klopfenstein

Controller, Chief Accounting Officer and
Treasurer

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.

PATRIOT TRANSPORTATION HOLDING, INC.

Date: August 14, 2020

By /s/ROBERT E. SANDLIN
Robert E. Sandlin
President and Chief Executive Officer

By /s/MATTHEW C. MCNULTY
Matthew C. McNulty
Vice President, Chief Financial Officer and
Secretary

By /s/JOHN D. KLOPFENSTEIN
John D. Klopfenstein
Controller, Chief Accounting Officer and Treasurer

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.