

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2007

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: 33-26115

**PATRIOT TRANSPORTATION HOLDING, INC.**

(Exact name of registrant as specified in its charter)

**Florida**  
(State or other jurisdiction of  
incorporation or organization)

**59-2924957**  
(I.R.S. Employer  
Identification No.)

**1801 Art Museum Drive,  
Jacksonville, FL**  
(Address of principal executive  
offices)

**32207**  
(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 [ x ]                      No [   ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [   ]                      Accelerated filer [ x ]                      Non-accelerated filer [   ]

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.

| <u>Class</u>                               |
|--|
| Common Stock, \$.10 par value<br>per share |

| <u>Outstanding at March 31, 2007</u> |
|--------------------------------------|
| 3,043,064 shares                     |

PATRIOT TRANSPORTATION HOLDING, INC.  
FORM 10-Q  
QUARTER ENDED MARCH 31, 2007

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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: driver availability and cost; the impact of future regulations regarding the transportation industry; availability and terms of financing; freight demand for petroleum products including recessionary and terrorist impacts on travel in the Company's markets; freight demand for building and construction materials in the Company's markets; risk insurance markets; competition; general economic conditions; demand for flexible warehouse/office facilities in the Baltimore/Washington area; ability to obtain zoning and entitlements necessary for property development; interest rates; levels of construction activity in Florida Rock Industries, Inc.'s markets; fuel costs; and inflation. 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, except share data)

| (Unaudited)  | March 31,<br><u>2007</u> | September 30,<br><u>2006</u> |
|--|--------------------------|------------------------------|
| <b>Assets</b>  |                          |                              |
| Current assets:  |                          |                              |
| Cash and cash equivalents  | \$ 358                   | 154                          |
| Accounts receivable (including related party of \$563 and \$546 and net of allowance for doubtful accounts of \$271 and \$359, respectively) | 12,157                   | 11,761                       |
| Inventory of parts and supplies  | 744                      | 854                          |
| Deferred income taxes  | 550                      | 870                          |
| Prepaid tires on equipment   | 2,038                    | 2,230                        |
| Prepaid taxes and licenses   | 683                      | 1,216                        |
| Prepaid insurance  | 1,808                    | 260                          |
| Prepaid expenses, other  | 110                      | 67                           |
| Total current assets   | <u>18,448</u>            | <u>17,412</u>                |
| Property, plant and equipment, at cost   | 276,843                  | 277,635                      |
| Less accumulated depreciation and depletion  | (85,102)                 | (85,562)                     |
| Net property, plant and equipment  | <u>191,741</u>           | <u>192,073</u>               |
| Real estate held for investment, at cost   | 1,154                    | 1,093                        |
| Investment in Brooksville Joint Venture  | 5,663                    | -                            |
| Goodwill   | 1,087                    | 1,087                        |
| Unrealized rents   | 2,396                    | 2,201                        |
| Other assets   | <u>5,211</u>             | <u>5,349</u>                 |
| Total assets   | <u>\$225,700</u>         | <u>219,215</u>               |
| <b>Liabilities and Shareholders' Equity</b>  |                          |                              |
| Current liabilities:   |                          |                              |
| Accounts payable   | \$ 4,404                 | 5,670                        |
| Federal and state income taxes payable   | -                        | 20                           |
| Accrued payroll and benefits   | 4,088                    | 5,160                        |
| Accrued insurance reserves   | 4,309                    | 4,297                        |
| Accrued liabilities, other   | 438                      | 469                          |
| Long-term debt due within one year   | 2,655                    | 2,576                        |
| Total current liabilities  | <u>15,894</u>            | <u>18,192</u>                |
| Long-term debt   | 62,472                   | 60,548                       |
| Deferred income taxes  | 15,212                   | 14,968                       |
| Accrued insurance reserves   | 4,746                    | 5,104                        |
| Other liabilities  | 2,501                    | 2,351                        |
| Commitments and contingencies (Note 8)   |                          |                              |
| Shareholders' equity:  |                          |                              |
| Preferred stock, no par value;   |                          |                              |
| 5,000,000 shares authorized; none issued   | -                        | -                            |
| Common stock, \$.10 par value;   |                          |                              |
| 25,000,000 shares authorized,  |                          |                              |
| 3,043,064 and 3,011,629 shares issued  |                          |                              |
| and outstanding, respectively  | 304                      | 301                          |
| Capital in excess of par value   | 31,826                   | 29,169                       |
| Retained earnings  | 92,745                   | 88,582                       |
| Total shareholders' equity   | <u>124,875</u>           | <u>118,052</u>               |
| Total liabilities and shareholders' equity   | <u>\$225,700</u>         | <u>219,215</u>               |
| See accompanying notes.  |                          |                              |

**PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands except per share amounts)  
(Unaudited)

|   | THREE MONTHS<br>ENDED MARCH 31, |                | SIX MONTHS<br>ENDED MARCH 31, |                |
|---|---------------------------------|----------------|-------------------------------|----------------|
|   | <u>2007</u>                     | <u>2006</u>    | <u>2007</u>                   | <u>2006</u>    |
| <b>Revenues:</b>  |                                 |                |                               |                |
| Transportation  | \$ 32,588                       | 30,345         | 64,312                        | 60,645         |
| Real estate   | <u>5,568</u>                    | <u>5,216</u>   | <u>10,968</u>                 | <u>10,339</u>  |
| Total revenues (including revenue from related parties of \$1,990, \$2,066, \$4,087 and \$3,846 respectively)                       | 38,156                          | 35,561         | 75,280                        | 70,984         |
| <b>Cost of operations:</b>  |                                 |                |                               |                |
| Transportation  | 27,010                          | 26,234         | 54,139                        | 52,358         |
| Real estate   | <u>2,723</u>                    | <u>2,490</u>   | <u>5,259</u>                  | <u>5,007</u>   |
| Total cost of operations  | 29,733                          | 28,724         | 59,398                        | 57,365         |
| <b>Gross profit:</b>  |                                 |                |                               |                |
| Transportation  | 5,578                           | 4,111          | 10,173                        | 8,287          |
| Real estate   | <u>2,845</u>                    | <u>2,726</u>   | <u>5,709</u>                  | <u>5,332</u>   |
| Total gross profit  | 8,423                           | 6,837          | 15,882                        | 13,619         |
| Selling, general and administrative expense (including expenses paid to a related party of \$48, \$48, \$96 and \$96, respectively) | <u>3,205</u>                    | <u>3,114</u>   | <u>6,263</u>                  | <u>5,923</u>   |
| <b>Operating profit</b>   | 5,218                           | 3,723          | 9,619                         | 7,696          |
| Interest income and other   | 24                              | 82             | 56                            | 97             |
| Equity in loss of Joint Venture   | (101)                           | -              | (101)                         | -              |
| Interest expense  | <u>(880)</u>                    | <u>(1,055)</u> | <u>(1,771)</u>                | <u>(1,982)</u> |
| Income before income taxes  | 4,261                           | 2,750          | 7,803                         | 5,811          |
| Provision for income taxes  | <u>(1,664)</u>                  | <u>(1,045)</u> | <u>(3,046)</u>                | <u>(2,208)</u> |
| <b>Net income</b>   | \$ <u>2,597</u>                 | <u>1,705</u>   | <u>4,757</u>                  | <u>3,603</u>   |
| <b>Earnings per common share:</b>   |                                 |                |                               |                |
| Basic   | \$ .86                          | .57            | 1.58                          | 1.21           |
| Diluted   | \$ .83                          | .56            | 1.53                          | 1.17           |
| Number of shares (in thousands) used in computing:  |                                 |                |                               |                |
| -basic earnings per common share  | 3,017                           | 2,972          | 3,007                         | 2,969          |
| -diluted earnings per common share  | 3,125                           | 3,070          | 3,117                         | 3,069          |

See accompanying notes.

**PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED MARCH 31, 2007 AND 2006**  
(In thousands)  
(Unaudited)

|   | <u>2007</u>          | <u>2006</u>       |
|---|----------------------|-------------------|
| <b>Cash flows from operating activities:</b>                                      |                      |                   |
| Net income  | \$ 4,757             | 3,603             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                   |
| Depreciation, depletion and amortization  | 7,109                | 6,643             |
| Deferred income taxes   | 564                  | (625)             |
| Equity in loss of Brooksville Joint Venture                                       | 101                  | -                 |
| Gain on sale of property, plant and equipment                                     | (1,042)              | (721)             |
| Stock-based compensation  | 763                  | 586               |
| Net changes in operating assets and liabilities:                                  |                      |                   |
| Accounts receivable   | (396)                | 914               |
| Inventory of parts and supplies   | 110                  | 30                |
| Prepaid expenses and other current assets   | (866)                | (421)             |
| Other assets  | (359)                | (691)             |
| Accounts payable and accrued liabilities  | (2,357)              | (1,515)           |
| Income taxes payable  | (20)                 | 662               |
| Long-term insurance reserves and other long-term liabilities                      | <u>(208)</u>         | <u>113</u>        |
| Net cash provided by operating activities   | <u>-8,156</u>        | <u>8,578</u>      |
| <b>Cash flows from investing activities:</b>                                      |                      |                   |
| Purchase of transportation group property and equipment                           | (5,567)              | (10,121)          |
| Purchase of real estate group property and equipment                              | (3,754)              | (14,427)          |
| Investment in Brooksville Joint Venture   | (3,218)              | -                 |
| Proceeds from sale of property, plant and equipment                               | <u>1,281</u>         | <u>1,108</u>      |
| Net cash used in investing activities   | <u>(11,258)</u>      | <u>(23,440)</u>   |
| <b>Cash flows from financing activities:</b>                                      |                      |                   |
| Proceeds from issuance of long-term debt  | -                    | 2,084             |
| Net increase (decrease) in revolving debt   | 3,268                | 11,003            |
| Repayment of long-term debt   | (1,265)              | (1,068)           |
| Excess tax benefits from exercise of stock options                                | 538                  | 105               |
| Exercise of employee stock options  | <u>765</u>           | <u>253</u>        |
| Net cash provided by financing activities   | <u>3,306</u>         | <u>12,377</u>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                       | <b>204</b>           | <b>(2,485)</b>    |
| Cash and cash equivalents at beginning of period                                  | <u>154</u>           | <u>2,966</u>      |
| Cash and cash equivalents at end of the period                                    | <u>\$ <u>358</u></u> | <u><u>481</u></u> |

See accompanying notes.

**PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2007**  
(Unaudited)

(1) **Basis of Presentation.** The accompanying consolidated financial statements include the accounts of Patriot Transportation Holding, Inc. and its subsidiaries (the "Company"). Investment in the 50% owned Brooksville Joint Venture is accounted for under the equity method of accounting. 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 six months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. 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 Company's consolidated financial statements and related notes included in the Company's Form 10-K for the year ended September 30, 2006.

(2) **Recent Accounting Pronouncements.** In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections ("SFAS 154"). This Statement requires retrospective application for voluntary changes in accounting principles unless it is impracticable to do so. SFAS 154's retrospective application requirement replaces APB Opinion No. 20's, Accounting Changes, requirement to recognize most voluntary changes in accounting principle by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of Statement 154 did not have a material impact on our financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes" which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company beginning October 1, 2007. The Company is in the process of determining the effect, if any, the adoption of FIN 48 will have on its financial statements.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurement (SFAS 157). The Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management believes that the adoption of SFAS 157 will not have a material impact on the consolidated financial results of the Company.

In September 2006, the FASB issued Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). The statement requires employers to recognize on their balance sheets the funded status of pension and other postretirement benefit plans. In addition, employers will recognize actuarial gains and losses, prior service cost and unrecognized transition amounts as a component of accumulated other comprehensive income. Furthermore, SFAS 158 will also require fiscal year end measurements of plan assets and benefit obligations, eliminating the use of earlier measurement dates currently permissible. The disclosure requirements for SFAS 158 are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the fiscal year end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact of SFAS 158, but the adoption of SFAS 158 is not expected to have a material effect on the Company's consolidated financial statements.

(3) **Business Segments.** The Company has identified two business segments, each of which is managed separately along product lines. The Company's operations are substantially in the Southeastern and Mid-Atlantic states.

The transportation segment hauls primarily petroleum related bulk liquids, dry bulk commodities and construction materials by motor carrier. The real estate segment owns real estate of which a substantial portion is under mining royalty agreements or leased. The real estate segment also holds certain other real estate for investment and develops commercial and industrial properties.

Operating results and certain other financial data for the Company's business segments are as follows (in thousands):

|                | Three Months ended<br>March 31, ____ |               | Six Months ended<br>March 31, ____ |               |
|----------------|--------------------------------------|---------------|------------------------------------|---------------|
|                | <u>2007</u>                          | <u>2006</u>   | <u>2007</u>                        | <u>2006</u>   |
| Revenues:      |                                      |               |                                    |               |
| Transportation | \$ 32,588                            | 30,345        | 64,312                             | 60,645        |
| Real estate    | 5,568                                | 5,216         | 10,968                             | 10,339        |
|                | <u>\$ 38,156</u>                     | <u>35,561</u> | <u>75,280</u>                      | <u>70,984</u> |



|                    |                 |              |              |              |
|--------------------|-----------------|--------------|--------------|--------------|
| Operating profit   |                 |              |              |              |
| Transportation     | \$ 3,440        | 1,920        | 5,852        | 3,891        |
| Real estate        | 2,845           | 2,726        | 5,709        | 5,332        |
| Corporate expenses | (1,067)         | (923)        | (1,942)      | (1,527)      |
|                    | \$ <u>5,218</u> | <u>3,723</u> | <u>9,619</u> | <u>7,696</u> |

|                              |                          |                              |
|------------------------------|--------------------------|------------------------------|
| Identifiable assets          | March 31,<br><u>2007</u> | September 30,<br><u>2006</u> |
| Transportation               | \$ 58,347                | 57,715                       |
| Real estate                  | 164,059                  | 159,134                      |
| Cash items                   | 358                      | 154                          |
| Unallocated corporate assets | <u>2,936</u>             | <u>2,212</u>                 |
|                              | <u>\$225,700</u>         | <u>219,215</u>               |

(4) **Long-Term debt.** Long-term debt is summarized as follows (in thousands):

|                                     |                          |                              |
|-------------------------------------|--------------------------|------------------------------|
|                                     | March 31,<br><u>2007</u> | September 30,<br><u>2006</u> |
| Revolving credit (uncollateralized) | \$ 15,721                | 12,452                       |
| 5.7% to 8.6% mortgage notes         |                          |                              |
| due in installments through 2020    | <u>49,406</u>            | <u>50,672</u>                |
|                                     | <u>65,127</u>            | <u>63,124</u>                |
| Less portion due within one year    | <u>2,655</u>             | <u>2,576</u>                 |
|                                     | <u>\$ 62,472</u>         | <u>60,548</u>                |

The Company has a \$37,000,000 uncollateralized Revolving Credit Agreement (the Revolver) with four banks which is scheduled to terminate on December 31, 2009. The Revolver currently bears interest at a rate of 1.00% over the selected LIBOR and may change quarterly based on the Company's ratio of Consolidated Total Debt to Consolidated Total Capital, as defined. A commitment fee of 0.15% per annum is payable quarterly on the unused portion of the commitment. The commitment fee may also change quarterly based upon the ratio described above. The Revolver contains restrictive covenants including limitations on paying cash dividends. The Company is in compliance with all restrictive covenants as of March 31, 2007.

(5) **Related Party Transactions.** The Company, through its transportation subsidiaries, hauls commodities by tank and flatbed trucks for Florida Rock Industries, Inc. (FRI). Charges for these services are based on prevailing market prices. The real estate subsidiaries lease certain construction aggregates mining and other properties to FRI. The Company also outsources certain administrative functions to FRI. The cost of these administrative functions was \$96,000 and \$96,000 for the six months ending March 31, 2007 and 2006, respectively.

On October 4, 2006, a subsidiary of the Company (FRP) entered into a Joint Venture Agreement with Florida Rock Industries, Inc. (FRI) to form Brooksville Quarry, LLC, a real estate joint venture to develop approximately 4,300 acres of land near Brooksville, Florida. Under the terms of the joint venture, FRP has contributed its fee interest

in approximately 3,443 acres formerly leased to FRI under a long-term mining lease which had a net book value of \$2,548,000. FRI will continue to mine the property and pay royalties for the benefit of FRP for as long as mining does not interfere with the development of the property. Real estate revenues included \$72,000 of such royalties in the first six months of fiscal 2007 and \$53,000 in the first six months of fiscal 2006. Allocated depletion expense of \$2,000 was included in real estate cost of operations.

FRP also reimbursed FRI \$3,018,000 for one-half of the acquisition costs of a 288-acre contiguous parcel acquired by FRI in 2006 and contributed by FRI to the Joint Venture. FRI also contributed 553 acres that it owns as well as its leasehold interest in the 3,443 acres that it leased from FRP. The joint venture is jointly controlled by FRI and FRP, and they each have a mandatory obligation to fund additional capital contributions of up to \$2 million. Capital contributions of \$200,000 were made during the first six months of fiscal 2007. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to FRP. Other income for the six months ending March 31, 2007 includes a loss of \$101,000 representing the Company's equity in the loss of the Joint Venture.

The property does not yet have the necessary entitlements for real estate development. Approval to develop real property in Florida entails an extensive entitlements process involving multiple and overlapping regulatory jurisdictions and the outcome is inherently uncertain. The Company currently expects that the entitlement process may take several years to complete.

(6) **Earnings per common share.** The following details the computations of the basic and diluted earnings per common share (In thousands, except per share amounts).

|  | THREE MONTHS<br>ENDED MARCH 31, |              | SIX MONTHS<br>ENDED MARCH 31, |              |
|--|---------------------------------|--------------|-------------------------------|--------------|
|  | <u>2007</u>                     | <u>2006</u>  | <u>2007</u>                   | <u>2006</u>  |
| Weighted average common shares<br>outstanding during the<br>period - shares used for<br>basic earnings per share | 3,017                           | 2,972        | 3,007                         | 2,969        |
| Common shares issuable under<br>Share based payment plans<br>which are potentially dilutive                      | <u>108</u>                      | <u>98</u>    | <u>110</u>                    | <u>100</u>   |
| Common shares used for diluted<br>earnings per share   | <u>3,125</u>                    | <u>3,070</u> | <u>3,117</u>                  | <u>3,069</u> |
| Net income   | \$ <u>2,597</u>                 | <u>1,705</u> | <u>4,757</u>                  | <u>3,603</u> |
| Earnings per common share  |                                 |              |                               |              |
| Basic  | \$ <u>.86</u>                   | <u>.57</u>   | <u>1.58</u>                   | <u>1.21</u>  |
| Diluted  | \$ <u>.83</u>                   | <u>.56</u>   | <u>1.53</u>                   | <u>1.17</u>  |

For the three months ended March 31, 2007 and 2006, all outstanding stock options were included in the calculation of diluted earnings per common share because the sum of the hypothetical amount of future

proceeds from the exercise price, unrecorded compensation, and tax benefits to be credited to capital in excess of par for all grants of stock options were lower than the average price of the common shares, and therefore were dilutive. For the six months ended March 31, 2007, all outstanding restricted shares were included in the calculation of diluted earnings per common share because the unrecorded compensation and tax benefits to be credited to capital in excess of par for all awards of restricted stock were lower than the average price of the common shares, and therefore were dilutive.

(7) **Stock-Based Compensation Plan.** Effective October 1, 2005, the Company adopted SFAS 123R "Share-Based Payment" for its stock-based employee compensation plans. Under SFAS 123R, compensation expense must be measured and recognized for all share-based payments at the grant date based on the fair value of the award and such costs must be included in the statement of operations over the requisite service period. Prior to October 1, 2005 the company followed APB Opinion No. 25, "Accounting for Stock Issued to Employees".

The Company has elected the modified prospective application transition method whereby the provisions of the statement will apply going forward only from the date of adoption to new share based payments, and for the portion of any previously issued and outstanding stock option awards for which the requisite service is rendered after the date of adoption. The Company did not restate prior years for pro forma expense amounts. In addition, compensation expense must be recognized for any awards modified, repurchased or cancelled after the date of adoption. The straight-line attribution model is used to measure compensation expense.

The Company previously awarded stock options to directors, officers and key employees under the 1995 Stock Option Plan and the 2000 Stock Option Plan. The options awarded under these two plans are non-qualified and expire ten years from the date of grant. Options awarded to directors are exercisable immediately and options awarded to officers and employees become exercisable in cumulative annual installments of 20% at the end of each year following the date of grant. When stock options are exercised the Company issues new shares after receipt of exercise proceeds and taxes due from the grantee.

The 2006 Stock Incentive Plan, which replaced the 2000 Stock Option Plan, permits the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock units, or stock awards. In February, 2006, 15,960 shares of restricted stock were granted subject to forfeiture restrictions, tied to continued employment, that lapse 25% annually beginning on January 1, 2007. The number of common shares authorized for future issuance was 276,260 at March 31, 2007.

The Company utilized the Black-Scholes valuation model for estimating fair value of stock compensation for options awarded to officers and employees in prior periods. Each grant was evaluated based upon assumptions at the time of grant. The assumptions were no dividend yield, expected volatility between 41% and 53%, risk-free interest

rate of 3.2% to 4.9% and expected life of 6.2 to 7.0 years.

The dividend yield of zero is used because the Company does not pay cash dividends and has no present intention to pay cash dividends. Expected volatility was estimated based on the Company's historical experience over a period equivalent to the expected life in years. The risk-free interest rate was based on the U.S. Treasury constant maturity interest rate with a term consistent with the expected life of the options granted. The expected life calculation was based on the observed and expected time to exercise options by the employees.

Under provisions of SFAS 123R, the Company recorded the following stock compensation expense in its consolidated statement of income:

|                                | Three Months ended<br>March 31, _____ |                   | Six Months ended<br>March 31, _____ |                   |
|--------------------------------|---------------------------------------|-------------------|-------------------------------------|-------------------|
|                                | <u>2007</u>                           | <u>2006</u>       | <u>2007</u>                         | <u>2006</u>       |
| Issued before 123R adoption    | \$ 131                                | 134               | 262                                 | 261               |
| Restricted stock awards        | 54                                    | 39                | 113                                 | 39                |
| Annual Director stock award    | <u>388</u>                            | <u>286</u>        | <u>388</u>                          | <u>286</u>        |
|                                | 573                                   | 459               | 763                                 | 586               |
| Deferred income tax benefit    | <u>220</u>                            | <u>175</u>        | <u>293</u>                          | <u>223</u>        |
| Stock compensation after tax\$ | <u><u>353</u></u>                     | <u><u>284</u></u> | <u><u>470</u></u>                   | <u><u>363</u></u> |

SFAS 123R also amended FASB Statement No. 95, Statement of Cash Flows, to require that the benefits associated with the tax deduction in excess of recognized compensation cost be reported as financing cash flows, rather than as a reduction of taxes paid. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. Financing cash flows for the six months ended March 31, 2007 included \$538,000 of excess tax benefits from the exercise of stock options.

A summary of changes in outstanding options is presented below (in thousands, except per share amounts):

| <u>Options</u>                                      | <u>Number<br/>Of<br/>Shares</u> | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> | <u>Weighted<br/>Average<br/>Remaining<br/>Term (yrs)</u> | <u>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</u> |
|---|---------------------------------|--|--|---|
| Outstanding at<br>September 30, 2006                | 304,746                         | \$31.03  | 6.9  |   |
| Granted   | 0                               | \$ 0   |  | \$ 0  |
| Exercised   | 27,635                          | \$27.66  |  | \$ 383  |
| Forfeited   | <u>2,200</u>                    | <u>\$37.70</u>                                     |  |   |
| Outstanding at<br>March 31, 2007                    | 274,911                         | \$31.31  | 6.4  | \$ 4,339  |
| Exerciseable at<br>March 31, 2007                   | 210,011                         | \$30.06  | 6.2  | \$ 3,235  |
| Vested during<br>Six months ended<br>March 31, 2007 | 36,100                          |  |  | \$ 532  |

The aggregate intrinsic value of exercisable in-the-money options was \$12,506,000 based on the market closing price of \$89.61 on March 30, 2007 less applicable exercise prices. The aggregate intrinsic value of all outstanding options at March 30, 2007 was \$16,026,000. Gains of \$1,646,000 were realized by option holders during the six months ended March 31, 2007. The realized tax benefit from options exercised for the six months ended March 31, 2007 was \$631,000. Total compensation cost of options granted but not yet vested as of March 31, 2007 was \$898,000, which is expected to be recognized over a weighted-average period of 1.7 years.

A summary of changes in restricted stock awards is presented below (in thousands, except per share amounts):

| <u>Restricted Stock</u>              | <u>Number<br/>Of<br/>Shares</u> | <u>Weighted<br/>Average<br/>Grant<br/>Price</u> | <u>Weighted<br/>Average<br/>Remaining<br/>Term (yrs)</u> | <u>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</u> |
|--------------------------------------|---------------------------------|---|--|---|
| Outstanding at<br>September 30, 2006 | 15,600                          | \$63.64   | 3.3  |   |
| Granted                              | 0                               |   |  | \$ 0  |
| Vested                               | 3,800                           | \$63.65   |  | \$ 242  |
| Forfeited                            | <u>700</u>                      | \$63.54   |  |   |
| Outstanding at<br>March 31, 2007     | 11,100                          | \$63.65   | 2.8  | \$ 707  |

Total compensation cost of restricted stock granted but not yet vested as of March 31, 2007 was \$594,000 which is expected to be recognized over a weighted-average period of 2.8 years.

(8) **Contingent liabilities.** Certain of the Company's subsidiaries are involved in litigation on a number of matters and are 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. In the opinion of management none of these matters are expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

(9) **Customer Concentration.** During the first six months of fiscal 2007 the transportation segment's petroleum customers accounted for approximately 67% and building and construction customers accounted for approximately 33% of transportation segment revenues. During the first six months of fiscal 2007, the transportation segment's ten largest customers accounted for approximately 50.0% of the transportation segment's revenue. One of these customers accounted for 11.7% of the transportation segment's revenue. The loss of any one of these customers could have a material adverse effect on the Company's revenues and income.

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

**Overview** - The Company has two business segments: transportation and real estate.

The Company's transportation business is conducted through two wholly owned subsidiaries, Florida Rock & Tank Lines, Inc. ("Tank Lines"), and SunBelt Transport, Inc. ("SunBelt"). Tank Lines is a Southeastern U.S. based transportation company concentrating in the hauling of primarily petroleum related bulk liquids and dry bulk commodities by tank trailers. SunBelt serves the flatbed portion of the trucking industry primarily in the Southeastern U.S., hauling mainly construction materials.

The Company's real estate activities are conducted through two wholly owned subsidiaries. Florida Rock Properties, Inc. ("Properties") and FRP Development Corp. ("Development"). Properties owns real estate of which a substantial portion is under mining royalty lease agreements or leased to Florida Rock Industries, Inc. ("FRI"), a related party. Properties also owns certain other real estate for investment. Development owns, manages and develops commercial warehouse/office rental properties in the Mid-Atlantic United States.

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, regulations regarding driver qualifications and hours of service, petroleum product usage in the Southeast which is driven in part by tourism and commercial aviation, fuel costs, construction activity in the Southeast, FRI's sales from the Company's mining properties, interest rates, market conditions and attendant prices for casualty insurance, demand for commercial warehouse space in the Mid-Atlantic area, and ability to obtain zoning and entitlements necessary for property development. Internal factors include revenue mix, capacity utilization, auto and workers' compensation accident frequencies and severity, other operating factors, administrative costs, group health claims experience, and construction costs of new projects.

Financial results of the Company for any individual quarter are not necessarily indicative of results to be expected for the year.

### **Comparative Results of Operations for the Three Months Ended March 31, 2007 and 2006**

**Consolidated Results.** - Net income for the second quarter of fiscal 2007 was \$2,597,000, an increase of \$892,000 or 52.3% compared to \$1,705,000 for the same period last year. Diluted earnings per common share for the second quarter of fiscal 2007 were \$0.83 compared to \$0.56 in the second quarter of fiscal 2006.

**Transportation**

| (dollars in thousands)    | Three Months Ended March 31 |            |               |            |
|---------------------------|-----------------------------|------------|---------------|------------|
|                           | <u>2007</u>                 | <u>%</u>   | <u>2006</u>   | <u>%</u>   |
| Transportation revenue    | \$ 28,904                   | 89%        | 26,657        | 88%        |
| Fuel surcharges           | <u>3,684</u>                | <u>11%</u> | <u>3,688</u>  | <u>12%</u> |
| Revenues                  | 32,588                      | 100%       | 30,345        | 100%       |
| Compensation and benefits | 12,632                      | 39%        | 11,797        | 39%        |
| Fuel expenses             | 6,894                       | 21%        | 6,285         | 21%        |
| Insurance and losses      | 2,064                       | 6%         | 2,917         | 10%        |
| Depreciation expense      | 2,277                       | 7%         | 2,111         | 7%         |
| Other, net                | <u>3,143</u>                | <u>10%</u> | <u>3,124</u>  | <u>10%</u> |
| Cost of operations        | <u>27,010</u>               | <u>83%</u> | <u>26,234</u> | <u>87%</u> |
| Gross profit              | <u>\$ 5,578</u>             | <u>17%</u> | <u>4,111</u>  | <u>13%</u> |

Transportation segment revenues were \$32,588,000 in the second quarter of 2007 an increase of \$2,243,000 over the same quarter last year. Excluding fuel surcharges, revenue per mile increased only 1.1% over the same quarter last year primarily reflecting a trend in the Company's flatbed operation of decreasing freight demand and corresponding pricing softness from the housing downturn and attendant lower demand for construction materials. Revenue miles in the current quarter were up 7.2% compared to the second quarter of 2006 primarily from improved driver manning and higher tractor count.

The Transportation segment's cost of operations in the second quarter of 2007 decreased as a percentage of revenue due to lower insurance and losses. Those costs decreased \$853,000 due changes in estimated prior year retained loss reserves as of March 31, 2007 versus estimates as of September 30, 2006 as calculated by a third-party actuary. This is a result of continued trends in recent years of safe operation, lack of severe accidents, and favorable development of prior year claims.

**Real Estate**

| (dollars in thousands)        | Three Months Ended March 31 |            |              |            |
|-------------------------------|-----------------------------|------------|--------------|------------|
|                               | <u>2007</u>                 | <u>%</u>   | <u>2006</u>  | <u>%</u>   |
| Royalties and rent            | \$ 1,526                    | 27%        | 1,648        | 32%        |
| Developed property rentals    | <u>4,042</u>                | <u>73%</u> | <u>3,568</u> | <u>68%</u> |
| Total Revenue                 | 5,568                       | 100%       | 5,216        | 100%       |
| Mining and land rent expenses | 450                         | 8%         | 418          | 8%         |
| Developed property expenses   | <u>2,273</u>                | <u>41%</u> | <u>2,072</u> | <u>40%</u> |
| Cost of Operations            | <u>2,723</u>                | <u>49%</u> | <u>2,490</u> | <u>48%</u> |
| Gross profit                  | <u>\$ 2,845</u>             | <u>51%</u> | <u>2,726</u> | <u>52%</u> |

Real Estate segment revenues for the second quarter of fiscal 2007 were \$5,568,000, an increase of \$352,000 or 6.7% over the same quarter last year. Lease revenue from developed properties increased \$474,000

or 13.3%, due to an increase in occupied square footage, higher rental rates on new leases, and \$213,000 for common area charges for snow removal and repairs. Royalties from mining operations decreased \$122,000 or 7.4% due to lower tons mined.

Real estate segment expenses increased \$233,000 to \$2,723,000 during the second quarter of fiscal 2007 compared to \$2,490,000 for the same quarter last year. Expenses related to development activities increased as a result of new building additions, higher common area charges related to snow removal and repairs, and increased staffing to facilitate continued portfolio expansion.

### **Consolidated Results**

**Gross Profit** - Consolidated gross profit was \$8,423,000 in the second quarter of fiscal 2007 compared to \$6,837,000 in the same period last year, an increase of 23.2%. Gross profit in the transportation segment increased \$1,467,000 or 35.7% due to lower insurance reserves and loss expense as discussed above combined with higher mileages. Gross profit in the real estate segment increased \$119,000 or 4.4% from the second quarter 2006, due to the increased revenues partially offset by costs associated with increased square footage leased and increased staffing to facilitate portfolio expansion.

**Selling, general and administrative expense** - Selling, general and administrative expenses increased \$91,000 over the same quarter last year. The increase was primarily due to \$114,000 increased stock compensation expense as required by SFAS 123R (see Note 9 of Condensed Notes to Consolidated Financial Statements). SG&A expense was 8.4% of revenue for the second quarter of fiscal 2007 compared to 8.8% for the same period last year.

**Interest expense** - Interest expense decreased \$175,000 over the same quarter last year due to interest related to construction activities of \$295,000 that was capitalized in the second quarter of 2007 compared to \$19,000 interest capitalized in the same period last year. This was offset by additional interest expense on increased long-term debt and higher borrowings under the revolving credit agreement.

**Income taxes** - Income tax expense increased \$619,000 over the same quarter last year. This was due to higher earnings before taxes and an increase in the effective tax rate to 39.0% versus 38.0% for the same quarter last year.

**Net income** - Net income for the second quarter of fiscal 2007 was \$2,597,000, an increase of \$892,000 or 52.3% compared to \$1,705,000 for the same period last year. Diluted earnings per common share for the second quarter of fiscal 2007 were \$0.83 compared to \$0.56 in the second quarter of fiscal 2006.



## Comparative Results of Operations for the Six Months Ended March 31, 2007 and 2006

**Consolidated Results.** - Net income for the first six months of fiscal 2007 was \$4,757,000, an increase of \$1,154,000 or 32.0% compared to \$3,603,000 for the same period last year. Diluted earnings per common share for the first six months of fiscal 2007 were \$1.53 compared to \$1.17 for the same period last year.

### Transportation

| (dollars in thousands)    | Six Months Ended March 31 |      |        |      |
|---------------------------|---------------------------|------|--------|------|
|                           | 2007                      | %    | 2006   | %    |
| Transportation revenue    | \$ 56,793                 | 88%  | 52,619 | 87%  |
| Fuel surcharges           | 7,519                     | 12%  | 8,026  | 13%  |
| Revenues                  | 64,312                    | 100% | 60,645 | 100% |
| Compensation and benefits | 24,736                    | 38%  | 23,006 | 38%  |
| Fuel expenses             | 13,638                    | 21%  | 12,679 | 21%  |
| Insurance and losses      | 4,939                     | 8%   | 6,149  | 10%  |
| Depreciation expense      | 4,560                     | 7%   | 4,177  | 7%   |
| Other, net                | 6,266                     | 10%  | 6,347  | 10%  |
| Cost of operations        | 54,139                    | 84%  | 52,358 | 86%  |
| Gross profit              | \$ 10,173                 | 16%  | 8,287  | 14%  |

Transportation segment revenues were \$64,312,000 in the first six months of 2007, an increase of \$3,667,000 over the same period last year. Excluding fuel surcharges, revenue per mile increased only 1.1% reflecting a developing trend of decreasing freight demand and pricing softness from the downturn in housing and attendant lower demand for construction materials. Revenue miles in the first six months were up 7.1% compared to the same period in 2006 primarily from improved driver manning and higher tractor count.

The Transportation segment's cost of operations in the first six months of 2007 decreased as a percentage of revenue due lower insurance and losses of \$1,210,000. Those costs decreased \$853,000 due changes in estimated prior year retained loss reserves as of March 31, 2007 versus estimates as of September 30, 2006 as calculated by third-party actuary along with a \$357,000 recovery of prior year insurance costs recorded in the three months ended December 31, 2006.

### Real Estate

| (dollars in thousands)        | Six Months Ended March 31 |      |        |      |
|-------------------------------|---------------------------|------|--------|------|
|                               | 2007                      | %    | 2006   | %    |
| Royalties and rent            | \$ 3,128                  | 29%  | 3,227  | 31%  |
| Developed property rentals    | 7,840                     | 71%  | 7,112  | 69%  |
| Total Revenue                 | 10,968                    | 100% | 10,339 | 100% |
| Mining and land rent expenses | 846                       | 8%   | 863    | 8%   |
| Developed property expenses   | 4,413                     | 40%  | 4,144  | 40%  |
| Cost of Operations            | 5,259                     | 48%  | 5,007  | 48%  |

|              |          |     |       |     |
|--------------|----------|-----|-------|-----|
| Gross profit | \$ 5,709 | 52% | 5,332 | 52% |
|--------------|----------|-----|-------|-----|

Real Estate segment revenues for the first six months of fiscal 2007 were \$10,968,000, an increase of \$629,000 or 6.1% over the same period last year. Lease revenue from developed properties increased \$728,000 or 10.2%, due to an increase in occupied square footage and higher rental rates on new leases. Royalties from mining operations decreased \$99,000 or 3.1% due to lower tons mined.

Real estate segment expenses increased \$252,000 to \$5,259,000 during the first six months of fiscal 2007 compared to \$5,007,000 for the same period last year. Expenses related to development activities increased as a result of new building additions and increased staffing to facilitate continued portfolio expansion.

### **Consolidated Results**

**Gross Profit** - Consolidated gross profit was \$15,882,000 in the first six months of fiscal 2007 compared to \$13,619,000 in the same period last year, an increase of 16.6%. Gross profit in the transportation segment increased \$1,886,000 or 22.8%, due to lower insurance reserves and loss expense as discussed above combined with higher mileages. Gross profit in the real estate segment increased \$377,000 or 7.1% over the same period last year, due to the increased revenues partially offset by costs associated with increased square footage leased and increased staffing to facilitate continuing portfolio expansion.

**Selling, general and administrative expense** - Selling, general and administrative expenses increased \$340,000 over the same period last year. The increase was primarily due to \$177,000 from stock compensation expense as required by SFAS 123R (see Note 9 of Condensed Notes to Consolidated Financial Statements). SG&A expense was 8.3% of revenue for the first six months of fiscal 2007 compared to 8.3% for the same period last year.

**Interest expense** - Interest expense decreased \$211,000 over the same period last year due to interest related to construction activities of \$553,000 that was capitalized in the first six months of 2007 compared to \$19,000 capitalized in the same period last year. This was offset by additional interest expense on increased long-term debt and higher borrowings under the revolving credit agreement.

**Income taxes** - Income tax expense increased \$838,000 over the same period last year. This is due to higher earnings before taxes and an increase in the effective tax rate to 39.0% versus 38.0% for the same period last year.

**Net income** - Net income for the first six months of fiscal 2007 was \$4,757,000, an increase of \$1,154,000 or 32.0% compared to \$3,603,000 for the same period last year. Diluted earnings per common share for the second quarter of fiscal 2007 were \$1.53 compared to \$1.17 in the

same period of fiscal 2006.

**Liquidity and Capital Resources.** For the first six months of fiscal 2007, the Company used cash provided by operating activities of \$8,156,000, borrowings of \$3,268,000 under its Revolver, \$1,303,000 from exercises of stock options, and \$1,281,000 from sales of equipment to purchase \$9,321,000 in property and equipment, to invest \$3,218,000 in the Brooksville Joint Venture, to make \$1,265,000 scheduled payments on long-term debt and to increase cash \$204,000.

Cash flows from operating activities for the first six months of fiscal 2007 were \$422,000 lower than the same period last year. This was due to growth in receivables from increased revenue combined with lower payables from the completion of an accelerated equipment replacement program.

Cash flows used in investing activities for the first six months of fiscal 2007 were \$12,182,000 lower than the same period last year due to the purchase in fiscal 2006 of property for future development and accelerated equipment replacement in the prior year.

Cash flows from financing activities for the first six months of fiscal 2007 were \$9,071,000 lower than the same period last year due to lower borrowings on the Revolver corresponding to lower cash needed for investing activities.

The Company has a \$37,000,000 revolving credit agreement (the Revolver) of which \$21,279,000 was available at March 31, 2007. The Revolver contains restrictive covenants including limitations on paying cash dividends. The Revolver will expire on December 31, 2009.

The Company had \$16,038,000 of irrevocable letters of credit outstanding as of March 31, 2007. Most of the letters of credit are irrevocable for a period of one year and are automatically extended for additional one-year periods unless notified by the issuing bank not less than thirty days before the expiration date. Substantially all of these are issued for workers' compensation and liability insurance retentions. If these letters of credit are not extended the Company will have to find alternative methods of collateralizing or funding these obligations.

The Board of Directors has authorized Management to repurchase shares of the Company's common stock from time to time as opportunities arise. As of March 31, 2007, \$3,490,000 was authorized to repurchase the Company's common stock. No shares were repurchased during the first six months of fiscal 2007. The Company does not currently pay any dividends on common stock.

The Company has committed to make an additional capital contribution of up to \$1.8 million dollars to Brooksville Quarry, LLC in connection with a joint venture with FRI (see Related Party Transactions).

While the Company is affected by environmental regulations, such regulations are not expected to have a major effect on the Company's capital expenditures or operating results.

Management believes that the Company is financially postured to be able to take advantage of external and internal growth opportunities in both its real estate and transportation segments.

**Recent Accounting Pronouncements.** In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections ("SFAS 154"). This Statement requires retrospective application for voluntary changes in accounting principles unless it is impracticable to do so. SFAS 154's retrospective application requirement replaces APB Opinion No. 20's, Accounting Changes, requirement to recognize most voluntary changes in accounting principle by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of Statement 154 did not have a material impact on our financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes" which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company beginning October 1, 2007. The Company is in the process of determining the effect, if any, the adoption of FIN 48 will have on its financial statements.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurement (SFAS 157). The Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management believes that the adoption of SFAS 157 will not have a material impact on the consolidated financial results of the Company.

In September 2006, the FASB issued Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). The statement requires employers to recognize on their balance sheets the funded status of pension and other postretirement benefit plans. In addition, employers will recognize actuarial gains and losses, prior service cost and unrecognized transition amounts as a component of accumulated other comprehensive income. Furthermore, SFAS 158 will also require fiscal year end measurements of plan assets and benefit obligations, eliminating the use of earlier measurement

dates currently permissible. The disclosure requirements for SFAS 158 are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the fiscal year end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact of SFAS 158, but the adoption of SFAS 158 is not expected to have a material effect on the Company's consolidated financial statements.

**Related Party Transactions.** The Company, through its transportation subsidiaries, hauls commodities by tank and flatbed trucks for Florida Rock Industries, Inc. (FRI). Charges for these services are based on prevailing market prices. The real estate subsidiaries lease certain construction aggregates mining and other properties to FRI. The Company also outsources certain administrative functions to FRI. The cost of these administrative functions was \$96,000 and \$96,000 for the six months ending March 31, 2007 and 2006, respectively.

On October 4, 2006, a subsidiary of the Company (FRP) entered into a Joint Venture Agreement with Florida Rock Industries, Inc. (FRI) to form Brooksville Quarry, LLC, a real estate joint venture to develop approximately 4,300 acres of land near Brooksville, Florida. Under the terms of the joint venture, FRP has contributed its fee interest in approximately 3,443 acres formerly leased to FRI under a long-term mining lease which had a net book value of \$2,548,000. FRI will continue to mine the property and pay royalties for the benefit of FRP for as long as mining does not interfere with the development of the property. Real estate revenues included \$72,000 of such royalties in the first six months of fiscal 2007. Allocated depletion expense of \$2,000 was included in real estate cost of operations.

FRP also reimbursed FRI \$3,018,000 for one-half of the acquisition costs of a 288-acre contiguous parcel acquired by FRI in 2006 and contributed by FRI to the Joint Venture. FRI also contributed 553 acres that it owns as well as its leasehold interest in the 3,443 acres that it leased from FRP. The joint venture is jointly controlled by FRI and FRP, and they each have a mandatory obligation to fund additional capital contributions of up to \$2 million. Capital contributions of \$200,000 were made during the first six months of fiscal 2007. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to FRP. Other income for the six months ending March 31, 2007 includes a loss of \$101,000 representing the Company's equity in the loss of the Joint Venture.

The property does not yet have the necessary entitlements for real estate development. Approval to develop real property in Florida entails an extensive entitlements process involving multiple and overlapping regulatory jurisdictions and the outcome is inherently uncertain. The Company currently expects that the entitlement process may take several years to complete.

**Summary and Outlook.** The Company's results for the first two quarters of fiscal 2007 were assisted by lower expense for transportation

insurance reserves and losses of \$853,000 for the second quarter (\$520,000 net of income taxes) and \$1,210,000 for the first six months (\$738,000 net of income taxes). The flatbed portion of the transportation segment faces negative industry trends and significant profitability challenges due to poor freight demand, utilization disruption and pricing softness resulting from the housing downturn, which may continue throughout calendar 2007.

The Company's real estate development business has benefited from active inquiry from prospective tenants for its warehouse-office product and corresponding favorable occupancy rates. The Company also continues to explore opportunities for development of various properties owned by the Company. The Company expects to continue expanding its portfolio of warehouse-office products.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

The Company is exposed to market risk from changes in interest rates. For its cash and cash equivalents, a change in interest rates affects the amount of interest income that can be earned. For its debt instruments with variable interest rates, changes in interest rates affect the amount of interest expense incurred. The Company prepared a sensitivity analysis of its variable rate borrowings to determine the impact of hypothetical changes in interest rates on the Company's results of operations and cash flows. The interest-rate analysis assumed a 50 basis point adverse change in interest rates on all borrowings under the credit agreement. However, the interest-rate analysis did not consider the effects of the reduced level of economic activity that could exist in such an environment. Based on this analysis, management has concluded that a 50 basis point adverse move in interest rates on the Company's outstanding borrowings under the credit agreement would have an immaterial impact on the Company's results of operations and cash flows.

### **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"), Chief Financial Officer ("CFO"), and Chief Accounting Officer ("CAO"), 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 March 31, 2007, 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 the second 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, 2006, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On February 7, 2007, the Company held its annual shareholders meeting. At the meeting, the shareholders elected the following directors by the vote shown:

|                    | Term<br>Ending | Votes<br>For | Votes<br>Withheld | Broker/<br>Non-Votes |
|--------------------|----------------|--------------|-------------------|----------------------|
| John E. Anderson   | 2011           | 2,866,122    | 80,764            | -                    |
| Robert H. Paul III | 2011           | 2,947,571    | 19,315            | -                    |
| James H. Winston   | 2011           | 2,947,517    | 19,369            | -                    |

The directors whose terms of office as director have continued after the meeting are Edward L. Baker, John D. Baker II, Thompson S. Baker II, Charles E. Commander III, Luke E. Fichthorn III, H. W. Shad III, and Martin E. Stein, Jr.

In addition, the shareholders ratified the appointment by the Audit Committee of Hancock Askew & Co., LLP as the company's independent auditors for fiscal year 2007 by the vote shown:

|                |           |
|----------------|-----------|
| Votes for:     | 2,966,684 |
| Votes against: | 146       |
| Abstaining:    | 56        |

### **Item 6. EXHIBITS**

- (a) Exhibits. The response to this item is submitted as a separate Section entitled "Exhibit Index", starting on page 23.



## **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.

May 1, 2007

PATRIOT TRANSPORTATION HOLDING, INC.

John E. Anderson

John E. Anderson

President and Chief Executive  
Officer

Ray M. Van Landingham

Ray M. Van Landingham

Vice President, Treasurer,  
Secretary and Chief  
Financial Officer

John D. Klopfenstein

John D. Klopfenstein

Controller and Chief  
Accounting Officer

**PATRIOT TRANSPORTATION HOLDING, INC.**  
**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2007**  
**EXHIBIT INDEX**

- (10)(k)            Joint Venture Agreement between Florida Rock Industries, Inc. and Florida Rock Properties, incorporated by reference to an exhibit filed with Form 10-K for the fiscal year ended September 30, 2006. File No. 33-26115.
  
- (14)              Financial Code of Ethical Conduct between the Company, Chief Executive Officers and Financial Managers, adopted December 4, 2002, incorporated by reference to an exhibit filed with Form 10-K for the year ended September 30, 2003. File No. 33-26115.
  
- (31)(a)           Certification of John E. Anderson.
- (31)(b)           Certification of Ray M. Van Landingham.
- (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.

I, John E. Anderson, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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: May 1, 2007

/s/John E. Anderson  
President and Chief Executive  
Officer

I, Ray M. Van Landingham, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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: May 1, 2007

/s/Ray M. Van Landingham  
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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: May 1, 2007

/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.

May 1, 2007

PATRIOT TRANSPORTATION HOLDING, INC.

JOHN E. ANDERSON  
John E. Anderson  
President and Chief Executive  
Officer

RAY M. VAN LANDINGHAM  
Ray M. Van Landingham  
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.