

**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 June 30, 2010

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.)

**501 Riverside Ave., Ste 500,  
Jacksonville, FL**

(Address of principal executive offices)

**32202**

(Zip Code)

**904-396-5733**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ x ]

No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ]

No [ ]

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

Large accelerated filer [ ]

Accelerated filer [ x ]

Non-accelerated filer [ ]

Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]

No [ x ]

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

Class	Outstanding at June 30, 2010
Common Stock, \$.10 par value per share	3,061,696 shares

PATRIOT TRANSPORTATION HOLDING, INC.  
FORM 10-Q  
QUARTER ENDED JUNE 30, 2010

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## Preliminary Note Regarding Forward-Looking Statements.

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

These forward-looking statements relate to, among other things, capital expenditures, liquidity, capital resources and competition and may be indicated by words or phrases such as "anticipate", "estimate", "plans", "projects", "continuing", "ongoing", "expects", "management believes", "the Company believes", "the Company intends" and similar words or phrases. The following factors and others discussed in the Company's periodic reports and filings with the Securities and Exchange Commission are among the principal factors that could cause actual results to differ materially from the forward-looking statements: freight demand for petroleum products including recessionary and terrorist impacts on travel in the Company's markets; levels of construction activity in the markets served by our mining properties; fuel costs and the Company's ability to recover fuel surcharges; accident severity and frequency; risk insurance markets; driver availability and cost; the impact of future regulations regarding the transportation industry; availability and terms of financing; competition in our markets; interest rates, inflation and general economic conditions; demand for flexible warehouse/office facilities in the Baltimore-Washington-Northern Virginia area; and ability to obtain zoning and entitlements necessary for property development. 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**

(Unaudited)	(In thousands, except share data)	June 30, 2010	September 30, 2009
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 15,968	15,803
Accounts receivable (including related party of \$574 and \$336 and net of allowance for doubtful accounts of \$100 and \$110, respectively)		6,475	5,286
Notes receivable		1,217	1,158
Inventory of parts and supplies		676	616
Deferred income taxes		823	104
Prepaid tires on equipment		1,168	1,211
Prepaid taxes and licenses		232	1,703
Prepaid insurance		707	2,390
Prepaid expenses, other		83	93
Assets of discontinued operations		748	1,519
Total current assets		<u>28,097</u>	<u>29,883</u>
Property, plant and equipment, at cost		293,900	289,336
Less accumulated depreciation and depletion		94,260	90,323
Net property, plant and equipment		<u>199,640</u>	<u>199,013</u>
Real estate held for investment, at cost		6,933	6,933
Investment in joint venture		7,296	6,858
Goodwill		1,087	1,087
Notes receivable, less current portion		4,707	5,647
Unrealized rents		3,356	3,346
Other assets		3,803	4,087
Total assets		<u>\$254,919</u>	<u>256,854</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable		\$ 2,618	2,822
Federal and state income taxes payable		795	2,355
Accrued payroll and benefits		4,662	4,945
Accrued insurance		2,658	3,190
Accrued liabilities, other		849	1,102
Long-term debt due within one year		4,512	4,293
Liabilities of discontinued operations		1,726	3,660
Total current liabilities		<u>17,820</u>	<u>22,367</u>
Long-term debt, less current portion		68,448	71,860
Deferred income taxes		15,545	15,679
Accrued insurance		2,774	2,995
Other liabilities		1,553	1,545
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,			
3,061,696 and 3,053,036 shares issued			
and outstanding, respectively		306	305
Capital in excess of par value		36,852	35,858
Retained earnings		111,602	106,226
Accumulated other comprehensive income, net		19	19
Total shareholders' equity		<u>148,779</u>	<u>142,408</u>
Total liabilities and shareholders' equity		<u>\$254,919</u>	<u>256,854</u>
See accompanying notes.			

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

(In thousands except per share amounts)  
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Revenues:</b>				
Transportation	\$23,064	22,604	66,803	69,108
Mining royalty land	1,247	1,161	3,243	3,941
Developed property rentals	<u>4,047</u>	<u>4,325</u>	<u>13,322</u>	<u>13,662</u>
Total revenues (including revenue from related parties of \$1,355, \$1,600, \$4,856 and \$4,809, respectively)	28,358	28,090	83,368	86,711
<b>Cost of operations:</b>				
Transportation	20,349	19,939	60,720	62,690
Mining royalty land	368	403	1,040	1,247
Developed property rentals	3,022	3,191	9,874	9,484
Unallocated corporate	<u>138</u>	<u>270</u>	<u>1,144</u>	<u>1,414</u>
Total cost of operations	23,877	23,803	72,778	74,835
<b>Operating profit:</b>				
Transportation	2,715	2,665	6,083	6,418
Mining royalty land	879	758	2,203	2,694
Developed property rentals	1,025	1,134	3,448	4,178
Unallocated corporate	<u>(138)</u>	<u>(270)</u>	<u>(1,144)</u>	<u>(1,414)</u>
Total operating profit	4,481	4,287	10,590	11,876
Interest income and other	106	2	340	30
Equity in loss of joint venture	-	-	(2)	(5)
Interest expense	<u>(966)</u>	<u>(892)</u>	<u>(2,988)</u>	<u>(2,542)</u>
Income before income taxes	3,621	3,397	7,940	9,359
Provision for income taxes	<u>(1,121)</u>	<u>(1,184)</u>	<u>(2,780)</u>	<u>(3,507)</u>
<b>Income from continuing operations</b>	2,500	2,213	5,160	5,852
Income (loss) from discontinued operations, net	<u>99</u>	<u>(2,615)</u>	<u>217</u>	<u>(3,098)</u>
<b>Net income</b>	<u>\$ 2,599</u>	<u>(402)</u>	<u>5,377</u>	<u>2,754</u>
<b>Earnings per common share:</b>				
Income from continuing operations -				
Basic	\$ .82	.73	1.69	1.93
Diluted	\$ .80	.70	1.64	1.88
Discontinued operations (Note 11) -				
Basic	\$ .03	(.86)	.07	(1.02)
Diluted	\$ .03	(.83)	.07	(1.00)
Net income - basic	\$ .85	(.13)	1.76	.91
Net income - diluted	\$ .83	(.13)	1.71	.88
Number of shares (in thousands) used in computing:				
-basic earnings per common share	3,061	3,044	3,057	3,039
-diluted earnings per common share	3,142	3,123	3,140	3,114
See accompanying notes.				

**PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**NINE MONTHS ENDED JUNE 30, 2010 AND 2009**

(In thousands)

(Unaudited)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,377	2,754
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Depreciation, depletion and amortization	8,647	9,515
Deferred income taxes	(853)	(425)
Equity in loss of joint venture	2	5
(Gain) on sale of equipment	(311)	(718)
(Income) loss from discontinued operations, net	(217)	3,098
Stock-based compensation	737	726
Net changes in operating assets and liabilities:		
Accounts receivable	(1,189)	3,878
Inventory of parts and supplies	(60)	213
Prepaid expenses and other current assets	3,207	3,484
Other assets	(176)	(56)
Accounts payable and accrued liabilities	(1,272)	(5,045)
Income taxes payable	(1,560)	1,075
Long-term insurance liabilities and other long-term liabilities	(213)	(42)
Net cash provided by operating activities of continuing operations	12,119	18,462
Net cash (used in) provided by operating activities of discontinued operations	(946)	1,235
Net cash provided by operating activities	<u>11,173</u>	<u>19,697</u>
<b>Cash flows from investing activities:</b>		
Purchase of transportation group property and equipment	(6,433)	(3,064)
Investments in mining royalty land segment	(41)	-
Investments in developed property rentals segment	(2,843)	(9,762)
Investment in joint venture	(445)	(350)
Proceeds from the sale of property, plant and equipment	809	742
Proceeds received on note for sale of Sunbelt	881	-
Net cash used in investing activities of continuing operations	(8,072)	(12,434)
Net cash used in investing activities of discontinued operations	-	(319)
Net cash used in investing activities	<u>(8,072)</u>	<u>(12,753)</u>
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt	(3,193)	(2,989)
Excess tax benefits from exercises of stock options and vesting of restricted stock	65	77
Exercise of employee stock options	192	371
Net cash used in financing activities	<u>(2,936)</u>	<u>(2,541)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	165	4,403
Cash and cash equivalents at beginning of period	15,803	7,778
Cash and cash equivalents at end of the period	<u>\$ 15,968</u>	<u>12,181</u>

See accompanying notes.

**PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

(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 nine months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010. 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, 2009.

In connection with the presentation adopted in March, 2010 of our real estate operations as two reportable segments, two properties in Washington, D.C. and two properties in Duval County, Florida were reclassified out of the Royalties and rent division and the division was renamed the Mining royalty land segment. Historical results have been reclassified to conform to the new segment presentation.

(2) **Recent Accounting Pronouncements.** On October 1, 2009, the Company adopted fair value measurement standards codified in ASC Topic 820, "Fair Value Measurements and Disclosures" (ASC 820), for non-financial assets and liabilities. ASC 820 defines fair value for accounting purposes, establishes a framework for measuring fair value and expands disclosures about fair value measurements. On October 1, 2008, the Company adopted this standard with respect to financial assets and liabilities and elected to defer our adoption of this standard for non-financial assets and liabilities. The adoption of these standards did not materially affect the consolidated financial results of the Company.

(3) **Business Segments.** The Company operates in three reportable business segments. The Company's operations are substantially in the Southeastern and Mid-Atlantic states. The transportation segment hauls petroleum and other liquids and dry bulk commodities by tank trailers. The Company's real estate operations consist of two reportable segments. The Mining royalty land segment owns real estate including construction aggregate royalty sites and parcels held for

investment. The Developed property rentals segment acquires, constructs, and leases office/warehouse buildings primarily in the Baltimore/Northern Virginia/Washington area and holds real estate for future development or related to its developments.

The Company's transportation and real estate groups operate independently and have minimal shared overhead except for corporate expenses. Corporate expenses are allocated in fixed quarterly amounts based upon budgeted and estimated proportionate cost by segment. Unallocated corporate expenses primarily include stock compensation and corporate aircraft expenses. Reclassifications to prior period amounts have been made to be comparable the current presentation.

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

	Three Months ended June 30,		Nine Months ended June 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:				
Transportation	\$ 23,064	22,604	\$ 66,803	69,108
Mining royalty land	1,247	1,161	3,243	3,941
Developed property rentals	4,047	4,325	13,322	13,662
	<u>\$ 28,358</u>	<u>28,090</u>	<u>83,368</u>	<u>86,711</u>
Operating profit:				
Transportation	\$ 3,062	3,075	7,123	7,648
Mining royalty land	1,021	896	2,628	3,107
Developed property rentals	1,237	1,341	4,085	4,798
Corporate expenses:				
Allocated to transportation	(347)	(410)	(1,040)	(1,230)
Allocated to mining land	(142)	(138)	(425)	(413)
Allocated to developed property	(212)	(207)	(637)	(620)
Unallocated	(138)	(270)	(1,144)	(1,414)
	<u>(839)</u>	<u>(1,025)</u>	<u>(3,246)</u>	<u>(3,677)</u>
	<u>\$ 4,481</u>	<u>4,287</u>	<u>10,590</u>	<u>11,876</u>
Interest expense:				
Mining royalty land	\$ 9	18	30	56
Developed property rentals	957	874	2,958	2,486
	<u>\$ 966</u>	<u>892</u>	<u>2,988</u>	<u>2,542</u>
Capital expenditures:				
Transportation	\$ 790	250	6,433	3,064
Mining royalty land	25	-	41	-
Developed property rentals:				
Capitalized interest	243	396	700	1,374
Internal labor	83	91	201	421
Real estate taxes	288	70	867	691
Other costs	256	812	1,075	7,276
	<u>\$ 1,685</u>	<u>1,619</u>	<u>9,317</u>	<u>12,826</u>
Depreciation, depletion and amortization:				
Transportation	\$ 1,536	1,676	4,605	5,058
Mining royalty land	30	31	77	101
Developed property rentals	1,257	1,279	3,805	3,800
Other	48	185	160	556
	<u>\$ 2,871</u>	<u>3,171</u>	<u>8,647</u>	<u>9,515</u>



Identifiable assets (less depreciation)	June 30, <u>2010</u>	September 30, <u>2009</u>
Transportation	\$ 43,196	43,229
Discontinued Transportation Operations	748	1,519
Mining royalty land	28,634	28,088
Developed property rentals	162,677	164,373
Cash items	15,968	15,803
Unallocated corporate assets	3,696	3,842
	<u>\$254,919</u>	<u>256,854</u>

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

	June 30, <u>2010</u>	September 30, <u>2009</u>
5.6% to 8.6% mortgage notes		
due in installments through 2027	72,960	76,153
Less portion due within one year	4,512	4,293
	<u>\$ 68,448</u>	<u>71,860</u>

The Company has a \$37,000,000 uncollateralized Revolving Credit Agreement with three banks, which matures on December 13, 2013. The Revolver bears interest at a rate of 1.00% over the selected LIBOR, which 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 limitations on availability and restrictive covenants including limitations on paying cash dividends. Letters of credit in the amount of \$13,263,000 were issued under the Revolver. As of June 30, 2010, \$23,737,000 was available for borrowing and \$41,978,000 of consolidated retained earnings would be available for payment of dividends. The Company was in compliance with all covenants as of June 30, 2010.

The fair values of the Company's mortgage notes payable were estimated based on current rates available to the Company for debt of the same remaining maturities. At June 30, 2010, the carrying amount and fair value of such other long-term debt was \$72,960,000 and \$72,679,000, respectively.

(5) **Related Party Transactions.** The Company may be considered a related party to Vulcan Materials Company (Vulcan). One director of the Company is employed by Vulcan and is related to two other Company directors. The Company, through its transportation subsidiaries, hauls commodities by tank trucks for Vulcan. Charges for these services are based on prevailing market prices. The real estate subsidiaries lease certain construction aggregates mining and other properties to Vulcan.

A subsidiary of the Company (FRP) has a Joint Venture Agreement with

Vulcan Materials Company (formerly Florida Rock Industries, Inc.), Brooksville Quarry, LLC, to develop approximately 4,300 acres of land near Brooksville, Florida. The venture is jointly controlled by Vulcan and FRP, and they each have a mandatory obligation to fund additional capital contributions of up to \$2.1 million of which capital contributions of \$1,945,000 have been made by each party as of June 30, 2010. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to FRP. Other income for the nine months ended June 30, 2010 and 2009 includes a loss of \$2,000 and \$5,000, respectively, representing the Company's equity in the loss of the joint venture.

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

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Weighted average common shares outstanding during the period - shares used for basic earnings per common share	3,061	3,044	3,057	3,039
Common shares issuable under share based payment plans which are potentially dilutive	<u>81</u>	<u>79</u>	<u>83</u>	<u>75</u>
Common shares used for diluted earnings per common share	<u>3,142</u>	<u>3,123</u>	<u>3,140</u>	<u>3,114</u>
Net income	\$ <u>2,599</u>	<u>(402)</u>	<u>5,377</u>	<u>2,754</u>
Earnings per common share				
Basic	\$ <u>.85</u>	<u>(.13)</u>	<u>1.76</u>	<u>.91</u>
Diluted	\$ <u>.83</u>	<u>(.13)</u>	<u>1.71</u>	<u>.88</u>

For the three and nine months ended June 30, 2010, 34,570 and 37,070 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 2009, 20,000 shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per common share because their inclusion would have been anti-dilutive.

(7) **Stock-Based Compensation Plans.** As more fully described in Note 7 to the Company's notes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended September 30, 2009, the Company's stock-based compensation plan permits the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock units, and stock awards. The number of common shares available for future issuance was 231,970 at June 30, 2010.

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,	
	2010	2009	2010	2009
Stock option grants	\$ 68	120	335	280
Restricted stock awards granted in 2006	-	51	48	152
Annual director stock award	-	-	354	294
	<u>68</u>	<u>171</u>	<u>737</u>	<u>726</u>

A summary of changes in outstanding 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 September 30, 2009	237,930	\$36.70	4.5	\$ 4,246
Granted	9,070	\$96.48		\$ 349
Exercised	4,700	\$40.79		\$ 90
Forfeited	<u>-</u>	\$ -		\$ -
Outstanding at June 30, 2010	242,300	\$38.86	3.9	\$ 4,505
Exercisable at June 30, 2010	213,730	\$33.09	3.3	\$ 3,529
Vested during nine months ended June 30, 2010	14,400			\$ 384

The aggregate intrinsic value of exercisable in-the-money options was \$10,282,000 and the aggregate intrinsic value of all outstanding in-the-money options was \$10,383,000 based on the market closing price of \$80.91 on June 30, 2010 less exercise prices. Gains of \$233,000 were realized by option holders during the nine months ended June 30, 2010. The realized tax benefit from options exercised for the nine months ended June 30, 2010 was \$89,000. Total compensation cost of options granted but not yet vested as of June 30, 2010 was \$842,000, which is expected to be recognized over a weighted-average period of 3.1 years.

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

<u>Restricted Stock</u>	<u>Number Of Shares</u>	<u>Weighted Average Grant Price</u>	<u>Weighted Average Remaining Term (yrs)</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding at September 30, 2009	2,550	\$63.70	.3	\$ 163
Granted	-	\$ -		\$ -
Vested	2,510	\$63.66		\$ 160
Forfeited	<u>40</u>	\$66.09		\$ 3
Outstanding at June 30, 2010	-	\$ -	-	\$ -

(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. There is a reasonable possibility that the Company's estimate of vehicle and workers' compensation liability for the transportation group or discontinued operations may be understated or overstated but the possible range can not 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 consolidated financial condition, results of operations or cash flows.

(9) **Concentrations.** The transportation segment primarily serves customers in the Southeastern U.S. Significant economic disruption or downturn in this geographic region or these industries could have an adverse effect on our financial statements.

During the first nine months of fiscal 2010, the transportation segment's ten largest customers accounted for approximately 58.2% of the transportation segment's revenue. One of these customers accounted for 21.2% of the transportation segment's revenue. The loss of any one of these customers would have an adverse effect on the Company's revenues and income. Accounts receivable from the transportation segment's ten largest customers was \$2,987,000 and \$2,578,000 at June 30, 2010 and September 30, 2009 respectively.

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

As of June 30, 2010 the Company had no assets or liabilities measured at fair value on a recurring basis and only one asset recorded at fair value on a non-recurring basis as it was deemed to be other-than-temporarily impaired. The fair value of the corporate aircraft of \$1,850,000 is based on level 2 inputs for similar assets in the current market. The fourth quarter of fiscal 2009 included \$900,000 for the impairment to estimated fair value of the corporate aircraft. The Company's decision to discontinue its use required adjustment to the lower values of the current economic environment.

The fair value of note receivable (see Note 11) approximates the unpaid principal balance based upon the interest rate and credit risk

of the note. The fair value of all other financial instruments with the exception of mortgage notes (see Note 4) approximates the carrying value due to the short-term nature of such instruments.

(11) **Discontinued operations.** In August 2009 the Company sold its flatbed trucking company, SunBelt Transport, Inc. ("SunBelt"). Under the agreement, the Buyer purchased all of SunBelt's tractors and trailers, leased the SunBelt terminal facilities in Jacksonville, Florida for 36 months at a rental of \$5,000 per month and leased the terminal facilities in South Pittsburgh, Tennessee for 60 months at a rental of \$5,000 per month with an option to purchase the Tennessee facilities at the end of the lease for payment of an additional \$100,000. The South Pittsburgh lease was recorded as a sale under bargain purchase accounting. The purchase price received for the tractors and trailers and inventories was a \$1 million cash payment and the delivery of a Promissory Note requiring 60 monthly payments of \$130,000 each including interest at 7%, secured by the assets of the business conveyed. In the quarter ending September 30, 2009 the Company recognized \$283,000 in severance costs related to a change-in-control agreement triggered by the sale of SunBelt. The Company retained all pre-closing receivables and liabilities.

SunBelt has been accounted for as discontinued operations in accordance with ASC Topic 205-20 Presentation of Financial Statements - Discontinued Operations. All periods presented have been restated accordingly.

A summary of discontinued operations is as follows (in thousands):

	Three months Ended June 30,		Nine months Ended June 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenue	\$ 15	5,849	70	18,391
Operating expenses	(147)	6,831	(283)	20,158
Loss on sale before taxes	-	(3,263)	-	(3,263)
Income (loss) before taxes	\$ 162	(4,245)	353	(5,030)
Income taxes	(63)	1,630	(136)	1,932
Income (loss) from Discontinued operations	\$ <u>99</u>	<u>(2,615)</u>	<u>217</u>	<u>(3,098)</u>

A summary of the loss on sale before income taxes (in thousands):

Carrying amount of assets disposed:

Petty cash	\$ 4
Inventory of parts and supplies	88
Prepaid tires on equipment	643
Land	103
Buildings	459
Equipment	24,022
Less accumulated depreciation	<u>(14,013)</u>
Net book value of assets disposed	\$ 11,306

<u>Plus liabilities assumed:</u>	
Change in control agreement	283
Real estate taxes of bargain lease	61
Less proceeds from sale:	
Cash Payment Received	1,000
Present value of promissory note	6,565
Present value of bargain lease	<u>325</u>
Loss on sale before taxes	<u>\$ 3,760</u>

The estimated loss on sale of \$3,263,000 was recorded in the quarter ending June 30, 2009. An adjustment to the loss on sale of \$214,000 along with the change in control agreement of \$283,000 was recorded in the quarter ending September 30, 2010.

The components of the balance sheet are as follows:

	June 30, <u>2010</u>	September 30, <u>2009</u>
Accounts receivable	\$ 45	142
Other assets	2	1
Deferred income taxes	582	1,249
Property and equipment, net	119	127
Assets of discontinued operations	<u>\$ 748</u>	<u>1,519</u>
Accounts payable	\$ 165	243
Accrued payroll and benefits	2	140
Accrued liabilities, other	60	73
Insurance liabilities	1,499	3,204
Liabilities of discontinued operations	<u>\$ 1,726</u>	<u>3,660</u>

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

**Overview** - The Company operates in two industries: transportation and real estate.

The Company's transportation business is conducted through Florida Rock & Tank Lines, Inc. ("Tank Lines") which operates in the Southeastern United States. Tank Lines hauls petroleum and other liquids and dry bulk commodities by tank trailers.

The Company's real estate operations consist of two reportable segments. The Mining royalty land segment owns real estate including construction aggregate royalty sites and parcels held for investment. The Developed property rentals segment acquires, constructs, and leases office/warehouse buildings primarily in the Baltimore/Northern Virginia/Washington area and holds real estate for future development or related to its developments. Substantially all of the real estate operations are conducted within the Southeastern and Mid-Atlantic United States.

In prior filings the Company's real estate operations were aggregated and reported as a single segment. The prior filings additionally included results by division. In connection with the new presentation of our real estate operations as two reportable segments, two properties in Washington, D.C. and two properties in Duval County, Florida were reclassified out of the Royalties and rent division and the division was renamed the Mining royalty land segment. Historical results have been reclassified to conform to the new segment presentation.

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, aggregates sales by lessees from the Company's mining properties, interest rates, market conditions and attendant prices for casualty insurance, demand for commercial warehouse space in the Baltimore-Washington-Northern Virginia 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. There is a reasonable possibility that the Company's estimate of vehicle and workers' compensation liability for the transportation group or discontinued operations may be understated or overstated but the possible range can not be estimated. The liability at any point in time depends upon the relative ages and amounts of the individual open claims. Financial results of the Company for any individual quarter are not necessarily indicative of results to be expected for the year.

**Discontinued Operation.** In August 2009 the Company sold its flatbed trucking company, SunBelt Transport, Inc. ("SunBelt"). Under the agreement, the buyer purchased all of SunBelt's tractors and trailers, leased the SunBelt terminal facilities in Jacksonville, Florida for 36 months at a rental of \$5,000 per month and leased the terminal facilities in South Pittsburgh, Tennessee for 60 months at a rental of \$5,000 per month with an option to purchase the Tennessee facilities at the end of the lease for payment of an additional \$100,000. The South Pittsburgh lease was recorded as a sale under bargain purchase accounting. The purchase price received for the tractors and trailers and inventories was a \$1 million cash payment and the delivery of a Promissory Note requiring 60 monthly payments of \$130,000 each including interest at 7%, secured by the assets of the business conveyed. The Company retained all pre-closing receivables and liabilities. SunBelt has been accounted for as discontinued operations in accordance with ASC Topic 205-20 Presentation of Financial Statements - Discontinued Operations. All periods presented have been restated accordingly.

### **Comparative Results of Operations for the Three Months Ended June 30, 2010 and 2009**

**Consolidated Results** - Net income for the third quarter of fiscal 2010 was \$2,599,000 compared to a net loss of \$402,000 for the same period last year. Diluted earnings per common share for the third quarter of fiscal 2010 were \$0.83 compared to (\$0.13) for the same quarter last year. Income from discontinued operations favorably impacted net income due to losses from operations in the prior year and lower than expected retained liabilities. Transportation segment results were slightly higher due to the favorable impact of the falling cost of diesel during the quarter mostly offset by reduced revenue per mile. The mining royalty land segment's results were higher due to an increase in mined tons. The Developed property rentals segment's results were lower due to lower developed property occupancy.

### **Transportation Results**

(dollars in thousands)	Three Months Ended June 30			
	2010	%	2009	%
Transportation revenue	\$ 19,593	85%	20,796	92%
Fuel surcharges	3,471	15%	1,808	8%
Revenues	23,064	100%	22,604	100%
Compensation and benefits	8,573	37%	8,855	39%
Fuel expenses	4,465	19%	3,443	15%
Insurance and losses	1,394	6%	1,447	7%
Depreciation expense	1,499	6%	1,633	7%
Other, net	2,198	10%	2,282	10%
Sales, general & administrative	1,873	8%	1,869	8%
Allocated corporate expenses	347	2%	410	2%
Cost of operations	20,349	88%	19,939	88%
Operating profit	\$ 2,715	12%	2,665	12%



The Company announced on January 6, 2010 that the transportation group had been unsuccessful in renewing contracts with customers that represented approximately 11.0% of transportation group revenue in fiscal 2009. In the third quarter, the Company continued to find replacement business for the non-renewed contracts and accordingly revenue miles were only 0.7% lower than the same quarter last year. Transportation segment revenues were \$23,064,000 in the third quarter of 2010, an increase of \$460,000 over the same quarter last year. Fuel surcharge revenue increased \$1,663,000. Excluding fuel surcharges, revenue per mile decreased 5.3% over the same quarter last year due to a longer average haul length and lower revenue per mile on certain replacement business. The average price paid per gallon of diesel fuel increased by \$.59 or 27.8% over the same quarter in fiscal 2009.

The Transportation segment's cost of operations was \$20,349,000 in the third quarter of 2010, an increase of \$410,000 over the same quarter last year. The Transportation segment's cost of operations in the third quarter of 2010 as a percentage of revenue was 88% consistent with the third quarter of 2009. Compensation and benefits decreased \$282,000 or 3.2% compared to the same quarter last year primarily due to the longer average haul length and decrease in miles driven. Fuel surcharge revenue increased \$1,663,000 while fuel cost increased by only \$1,022,000 leaving a positive impact to operating profit of \$641,000 due to the falling cost of diesel during the quarter. Insurance and losses decreased \$53,000 compared to the same quarter last year due to lower health claims partially offset by a smaller reduction to actuarial projections of risk insurance claims. Depreciation expense decreased \$134,000 due to fewer trucks in service and existing trailers becoming fully depreciated. Other expense decreased \$84,000 primarily due to higher gains on equipment sales. Selling general and administrative costs increased \$4,000 or 0.2% compared to the same quarter last year. Allocated corporate expenses decreased \$63,000 due to reduced allocation to the Transportation segment as a result of the sale of SunBelt.

### **Mining Royalty Land Results**

(dollars in thousands)	Three Months Ended June 30			
	2010	%	2009	%
Mining royalty land revenue	\$ 1,247	100%	1,161	100%
Property operating expenses	155	13%	166	14%
Depreciation and depletion	30	3%	31	3%
Management Company indirect	41	3%	68	6%
Allocated corporate expense	<u>142</u>	<u>11%</u>	<u>138</u>	<u>12%</u>
Cost of operations	<u>368</u>	<u>30%</u>	<u>403</u>	<u>35%</u>
Operating profit	<u>\$ 879</u>	<u>70%</u>	<u>758</u>	<u>65%</u>

Mining royalty land segment revenues for the third quarter of fiscal 2010 were \$1,247,000, an increase of \$86,000 or 7.4% over the same

quarter last year, due to an increase in mined tons offset by an \$11,000 decrease in timber sales.

The mining royalty land segment's cost of operations was \$368,000 in the third quarter of 2010, a decrease of \$35,000 primarily due to lower salaries from staffing adjustments completed during fiscal 2009.

### **Developed Property Rentals Results**

(dollars in thousands)	Three Months Ended June 30			
	2010	%	2009	%
Developed property rentals revenue	\$ 4,047	100%	4,325	100%
Property operating expenses	1,179	29%	1,089	25%
Depreciation and amortization	1,257	32%	1,278	30%
Management Company indirect	374	9%	617	14%
Allocated corporate expense	212	5%	207	5%
Cost of operations	3,022	75%	3,191	74%
Operating profit	<u>\$ 1,025</u>	<u>25%</u>	<u>1,134</u>	<u>26%</u>

Developed property rentals segment revenues for the third quarter of fiscal 2010 were \$4,047,000, a decrease of \$278,000 or 6.4% due to reduced occupancy.

Developed property segment's cost of operations was \$3,022,000 in the third quarter of 2010, a decrease of \$169,000 or 5.3%. Property operating expenses increased \$90,000 due to higher property taxes. Depreciation and amortization decreased \$21,000 due to lower commission amortization. Management Company indirect expenses (excluding internal allocations for lease related property management fees) decreased \$243,000 due to reduced salaries from the staffing level adjustments completed during fiscal 2009. Allocated corporate expenses increased \$5,000 due to increased allocation to the real estate segment resulting from the sale of SunBelt.

### **Consolidated Results**

**Operating Profit** - Consolidated operating profit was \$4,481,000 in the third quarter of fiscal 2010, an increase of \$194,000 or 4.5% compared to \$4,287,000 in the same period last year. Operating profit in the transportation segment increased \$50,000 or 1.9% due to the favorable impact of the falling cost of diesel during the quarter mostly offset by reduced business and revenue per mile. Operating profit in the mining royalty land segment increased \$121,000 or 16.0% due to an increase in mined tons. Operating profit in the Developed property rentals segment decreased \$109,000 or 9.6% due to reduced occupancy of developed properties. Consolidated operating profit includes corporate expenses not allocated to any segment in the amount of \$138,000 in the third quarter of fiscal 2010, a decrease of \$132,000 compared to the same period last year.

**Interest expense** - Interest expense increased \$74,000 over the same quarter last year due to lower capitalized interest.

**Income taxes** - Income tax expense decreased \$63,000 over the same quarter last year due to higher earnings offset by a tax credit of \$116,000 funded by legislative action related to fiscal 2008 expenditures, a reduction in uncertain tax positions related to the expiration of statutes, and lower than estimated state income taxes.

**Income from continuing operations** - Income from continuing operations was \$2,500,000 or \$.80 per diluted share in the third quarter of fiscal 2010, an increase of 13.0% compared to \$2,213,000 or \$.70 per diluted share for the same period last year. The \$287,000 increase was primarily due to the \$194,000 increase in operating profits and lower income taxes.

**Discontinued operations** - The after tax income from discontinued operations for the third quarter of fiscal 2010 was \$99,000 versus a loss of \$2,615,000 for the same period last year. Diluted earnings per share on discontinued operations for the third quarter of fiscal 2010 was \$.03 compared to a diluted loss of \$.83 in the third quarter of fiscal 2009. The third quarter of fiscal 2009 included a loss on the sale of \$2,010,000 after tax or \$.64 per diluted share.

**Net income** - Net income for the third quarter of fiscal 2010 was \$2,599,000 compared to a net loss of \$402,000 for the same period last year. Diluted earnings per common share for the third quarter of fiscal 2010 were \$0.83 compared to (\$0.13) for the same quarter last year. Income from discontinued operations favorably impacted net income due to losses from operations in the prior year and lower than expected retained liabilities. Transportation segment results were slightly higher due to the favorable impact of the falling cost of diesel during the quarter mostly offset by reduced revenue per mile. The mining royalty land segment's results were higher due to an increase in mined tons. The Developed property rentals segment's results were lower due to lower developed property occupancy.

#### **Comparative Results of Operations for the Nine Months Ended June 30, 2010 and 2009**

**Consolidated Results** - Net income for the first nine months of fiscal 2010 increased 95.2% to \$5,377,000 compared to \$2,754,000 for the same period last year. Diluted earnings per common share for the first nine months of fiscal 2010 were \$1.71 compared to \$0.88 in the first nine months of fiscal 2009. Transportation segment results were lower due to reduced miles driven and higher fuel costs net of surcharges. Mining royalty land segment's results were lower due to reduced mining royalties and lower timber sales. Developed property rentals segment's results were lower due to lower developed property occupancy. Income from discontinued operations favorably impacted net

income due to lower than expected retained liabilities and losses in the prior year from operations.

### **Transportation Results**

(dollars in thousands)	Nine Months Ended June 30			
	2010	%	2009	%
Transportation revenue	\$ 57,847	87%	61,661	89%
Fuel surcharges	8,956	13%	7,447	11%
Revenues	66,803	100%	69,108	100%
Compensation and benefits	25,189	38%	27,036	39%
Fuel expenses	12,544	19%	11,156	16%
Insurance and losses	5,230	8%	6,063	9%
Depreciation expense	4,491	7%	4,928	7%
Other, net	6,727	10%	6,399	9%
Sales, general & administrative	5,499	8%	5,878	9%
Allocated corporate expenses	1,040	1%	1,230	2%
Cost of operations	60,720	91%	62,690	91%
Operating profit	\$ 6,083	9%	6,418	9%

The Company announced on January 6, 2010 that the transportation group had been unsuccessful in renewing contracts with customers that represented approximately 11.0% of transportation group revenue in fiscal 2009. The Company successfully replaced the majority of the lost business with new business obtained in the second and third quarters of fiscal 2010. Nevertheless, revenue miles in the first nine months of fiscal 2010 were down 5.2% compared to the first nine months of 2009 due to the time involved in replacing the lost business along with lower demand and a more competitive economic climate. Approximately 4.3% of miles during the first nine months of fiscal 2010 were from services related to the contracts that were not renewed. Transportation segment revenues were \$66,803,000 in the first nine months of 2010, a decrease of \$2,305,000 over the same period last year. Fuel surcharge revenue increased \$1,509,000. Excluding fuel surcharges, revenue per mile decreased 1.2% over the same period last year due to lower revenue per mile on certain replacement business partially offset by a shorter average haul length in the first six months of fiscal 2010. The average price paid per gallon of diesel fuel increased by \$.38 or 16.9% over the same period last year.

The Transportation segment's cost of operations was \$60,720,000 in the first nine months of 2010, a decrease of \$1,970,000 over the same period last year. The Transportation segment's cost of operations in the first nine months of 2010 as a percentage of revenue was 91% consistent with the first nine months of 2009. Compensation and benefits decreased \$1,847,000 or 6.8% compared to the same period last year due to the decrease in miles driven and lower driver turnover related pay. Fuel surcharge revenue increased \$1,509,000 while fuel cost increased by \$1,388,000 leaving a positive impact to operating profit of \$121,000. Insurance and losses decreased \$833,000 compared to the same period last year due to reduced vehicle accident costs,

reduced miles driven, and a \$178,000 decrease in group health expense. Depreciation expense decreased \$437,000 due to fewer trucks in service and existing trailers becoming fully depreciated. Other expense increased \$328,000 primarily due to lower gains on equipment sales partially due to reduced market values of used equipment. Selling general and administrative costs decreased \$379,000 or 6.4% compared to the same period last year due to lower staffing. Allocated corporate expenses decreased \$190,000 due to reduced allocation to the Transportation segment as a result of the sale of SunBelt.

### **Mining Royalty Land Results**

(dollars in thousands)	Nine Months Ended June 30			
	2010	%	2009	%
Mining royalty land revenue	\$ 3,243	100%	3,941	100%
Property operating expenses	413	13%	563	14%
Depreciation and depletion	78	2%	102	3%
Management Company indirect	124	4%	169	4%
Allocated corporate expense	<u>425</u>	<u>13%</u>	<u>413</u>	<u>11%</u>
Cost of operations	<u>1,040</u>	<u>32%</u>	<u>1,247</u>	<u>32%</u>
Operating profit	<u>\$ 2,203</u>	<u>68%</u>	<u>2,694</u>	<u>68%</u>

Mining royalty land segment revenues for the first nine months of fiscal 2010 were \$3,243,000, a decrease of \$698,000 or 17.7% over the same period last year due to decreased demand for mined tons and a \$546,000 decrease in revenues from timber sales.

Mining royalty land segment's cost of operations was \$1,040,000 in the first nine months of fiscal 2010, a decrease of \$207,000 over the same period last year. Property operating expenses decreased \$150,000 due to lower maintenance and other costs. Depreciation and depletion expenses decreased \$24,000 due to reduced tons mined. Management Company indirect expenses (excluding internal allocations for lease related property management fees) decreased \$45,000 due to reduced salaries from the staffing level adjustments completed during fiscal 2009. Allocated corporate expenses increased \$12,000 due to increased allocation to the real estate segment resulting from the sale of SunBelt.

### **Developed Property Rentals Results**

(dollars in thousands)	Nine Months Ended June 30			
	2010	%	2009	%
Developed property rentals revenue	13,322	100%	13,662	100%
Property operating expenses	4,312	32%	3,541	26%
Depreciation and amortization	3,805	29%	3,800	28%
Management Company indirect	1,120	8%	1,523	10%
Allocated corporate expense	<u>637</u>	<u>5%</u>	<u>620</u>	<u>5%</u>
Cost of operations	<u>9,874</u>	<u>74%</u>	<u>9,484</u>	<u>69%</u>
Operating profit	<u>\$ 3,448</u>	<u>26%</u>	<u>4,178</u>	<u>31%</u>

Developed property rentals segment revenues for the first nine months of fiscal 2010 were \$13,322,000, a decrease of \$340,000 or 2.5% over the same period last year due to reduced occupancy partly offset by a \$685,000 increase in tenant reimbursements for snow removal.

Developed property rentals segment's cost of operations was \$9,874,000 for the first nine months of fiscal 2010, an increase of \$390,000 over the same period last year. Property operating expenses increased \$771,000 due to increased snow removal expenses and higher property taxes. Depreciation and amortization increased \$5,000. Management Company indirect expenses (excluding internal allocations for lease related property management fees) decreased \$403,000 due to reduced salaries from the staffing level adjustments completed during fiscal 2009. Allocated corporate expenses increased \$17,000 due to increased allocation to the real estate segment resulting from the sale of SunBelt.

### **Consolidated Results**

**Operating Profit** - Consolidated operating profit was \$10,590,000 in the first nine months of fiscal 2010, a decrease of \$1,286,000 or 10.8% compared to \$11,876,000 in the same period last year. Operating profit in the transportation segment decreased \$335,000 or 5.2% due to reduced miles driven and lower gains on sales of equipment partially offset by lower insurance and losses. Operating profit in the mining royalty land segment decreased \$491,000 or 18.2% due to decreased demand for tons mined and lower timber sales. Operating profit in the Developed property rentals segment decreased \$730,000 or 17.5% due to reduced occupancy of developed properties. Consolidated operating profit includes corporate expenses not allocated to any segment in the amount of \$1,144,000 in the first nine months of fiscal 2010, a decrease of \$270,000 compared to the same period last year. These unallocated corporate expenses primarily include stock compensation and corporate aircraft expenses both of which decreased during the current year versus the same period last year.

**Interest expense** - Interest expense increased \$446,000 over the same period last year due to lower capitalized interest.

**Income taxes** - Income tax expense decreased \$727,000 over the same period last year due to decreased earnings, a tax credit of \$116,000 funded by legislative action related to fiscal 2008 expenditures, a reduction in uncertain tax positions related to the expiration of statutes, and lower than estimated state income taxes.

**Income from continuing operations** - Income from continuing operations was \$5,160,000 or \$1.64 per diluted share in the first nine months of fiscal 2010, a decrease of 11.8% compared to \$5,852,000 or \$1.88 per diluted share for the same period last year.

**Discontinued operations** - The after tax income from discontinued operations for the first nine months of fiscal 2010 was \$217,000 versus a loss of \$3,098,000 for the same period last year. Diluted earnings on discontinued operations for the first nine months of fiscal 2010 was \$0.07 compared to a diluted loss of \$1.00 in the first nine months of fiscal 2009. The first nine months of fiscal 2009 included a loss on the sale of \$2,010,000 after tax or \$.65 per diluted share.

**Net income** - Net income for the first nine months of fiscal 2010 increased 95.2% to \$5,377,000 compared to \$2,754,000 for the same period last year. Diluted earnings per common share for the first nine months of fiscal 2010 were \$1.71 compared to \$0.88 in the first nine months of fiscal 2009. Income from discontinued operations favorably impacted net income due to lower than expected retained liabilities and losses in the prior year from operations. Transportation segment results were lower due to reduced miles driven and lower gains on sales of equipment partially offset by lower insurance and losses. Mining royalty land segment's results were lower due to reduced mining royalties and lower timber sales. Developed property rentals segment's results were lower due to lower developed property occupancy.

**Liquidity and Capital Resources.** For the first nine months of fiscal 2010, the Company used cash provided by operating activities of continuing operations of \$12,119,000, proceeds received on notes of \$881,000, proceeds from the sale of plant, property and equipment of \$809,000, proceeds from the exercise of employee stock options of \$192,000, excess tax benefits from the exercise of stock options of \$65,000 and cash balances to purchase \$6,433,000 in transportation equipment, to expend \$41,000 in mining land development, to expend \$2,843,000 in real estate development, to invest \$445,000 in the Brooksville Joint Venture and to make \$3,193,000 scheduled payments on long-term debt. Cash used in the operating activities of discontinued operations was \$946,000. Cash increased \$165,000.

In August 2009 the Company sold its flatbed trucking company, SunBelt Transport, Inc. ("SunBelt"). The purchase price received for the tractors and trailers and inventories was a \$1 million cash payment and the delivery of a Promissory Note requiring 60 monthly payments of \$130,000 each including 7% interest, secured by the assets of the business conveyed. The Company retained all pre-closing receivables and liabilities. SunBelt has been accounted for as discontinued operations. All periods presented have been restated accordingly.

Cash flows from operating activities for the first nine months of fiscal 2010 were \$8,523,000 lower than the same period last year primarily due to lower revenues, payment of retained SunBelt liabilities, and higher income tax payments related to the sale of SunBelt. Also, the same period last year included an unusually large decrease in accounts receivable both in continuing operations and

discontinued operations resulting from lower fuel surcharge revenues.

Cash flows used in investing activities for the first nine months of fiscal 2010 were \$4,681,000 lower primarily reflecting lower construction levels in the developed property segment.

Cash flows used in financing activities for the first nine months of fiscal 2010 were \$396,000 higher than the same period last year due to decreased stock options exercised by employees and an increase of \$204,000 in mortgage payments.

The Company has a \$37,000,000 uncollateralized Revolving Credit Agreement with three banks, which matures on December 13, 2013. The Revolver contains limitations on availability and restrictive covenants including limitations on paying cash dividends. Letters of credit in the amount of \$13,263,000 were issued under the Revolver. As of June 30, 2010, \$23,737,000 was available for borrowing and \$41,978,000 of consolidated retained earnings would be available for payment of dividends. The Company was in compliance with all covenants as of June 30, 2010.

The Company had \$13,911,000 of irrevocable letters of credit outstanding as of June 30, 2010. Most of the letters of credit are irrevocable for a period of one year and are automatically extended for additional one-year periods until notice of non-renewal is received from the issuing bank not less than thirty days before the expiration date. These were issued for insurance retentions and to guarantee certain obligations to state agencies related to real estate development. The Company issued replacement letters of credit through the Revolver to reduce fees.

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 June 30, 2010, \$5,625,000 was authorized for future repurchases of common stock. The Company does not currently pay any dividends on common stock.

The Company has committed to make additional capital contributions of up to \$155,000 over the next 12 months to Brooksville Quarry, LLC in connection with a joint venture with Vulcan.

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.

**Recent Accounting Pronouncements.** On October 1, 2009, the Company adopted fair value measurement standards codified in ASC Topic 820, "Fair Value Measurements and Disclosures" (ASC 820), for non-financial assets and liabilities. ASC 820 defines fair value for accounting purposes, establishes a framework for measuring fair value and expands disclosures about fair value measurements. On October 1, 2008, the Company adopted this standard with respect to financial assets and liabilities and elected to defer our adoption of this standard for



non-financial assets and liabilities. The adoption of these standards did not materially affect the consolidated financial results of the Company.

**Related Party Transactions.** The Company, through its transportation subsidiary, hauls commodities by tank truck for Vulcan Materials Company (Vulcan). Charges for these services are based on prevailing market prices. The real estate subsidiaries lease certain construction aggregates mining and other properties to Vulcan.

On October 4, 2006, a subsidiary of the Company (FRP) entered into a Joint Venture Agreement with Vulcan Materials Company (formerly Florida Rock Industries, Inc.) to form Brooksville Quarry, LLC, to develop approximately 4,300 acres of land near Brooksville, Florida. The venture is jointly controlled by Vulcan and FRP, and they each have a mandatory obligation to fund additional capital contributions of up to \$2.1 million of which capital contributions of \$1,945,000 have been made by each party as of June 30, 2010. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to FRP. Other income for the nine months ended June 30, 2010 and 2009 includes a loss of \$2,000 and \$5,000, respectively, representing the Company's equity in the loss of the joint venture.

**Summary and Outlook.** Transportation segment miles for this year's third quarter were only 0.7% lower than the same quarter last year which was a large improvement from the March quarter comparison thanks to a 7.7% incremental increase in miles. The Company continues to succeed in replacing customers from the non-renewed contracts announced January 6, 2010 and has basically recovered from new customers substantially all the lost revenue miles, albeit at lower rates per mile for longer average hauls.

Operating profit from the leasing of developed buildings has been unfavorably impacted by three newer buildings brought into service in the past twenty-one months, which are vacant, along with two nearly vacant buildings in Delaware impacted by automobile plant closings and the residential housing downturn. Occupancy decreased from 75.1% to 72.2% during the quarter primarily due to space vacated at lease expiration. However, the market for new tenants appears to have bottomed and traffic for vacant space has increased. The Company is not presently engaged in the construction of any new buildings.

In July 2008, a subsidiary of the Company, FRP Bird River, LLC, entered into an agreement to sell approximately 121 acres of land in Baltimore County, Maryland to Mackenzie Investment Group, LLC. The purchase price for the property is \$25,075,000, subject to certain potential purchase price adjustments. The agreement of sale is subject to certain contingencies including additional government approvals and closing may be one and one half or more years away. The cost of the property of \$5,799,000 is included in Real estate held for investment rather than held for sale because of the original and

current expectation that the sale would not be completed within one year. The purchaser has placed non-refundable deposits of \$1,000,000 under this contract in escrow including \$650,000 in March 2009. Preliminary approval for the development as originally contemplated under the agreement's pricing contingencies has now been received and the time for any appeals from that approval has expired.

In February 2010, a subsidiary of the Company, Florida Rock Properties, Inc., entered into an agreement to sell approximately 1,844 acres of land in Caroline County, Virginia, to the Commonwealth of Virginia, Board of Game and Inland Fisheries. The purchase price for the property is \$5,200,000, subject to certain deductions. The Company is also donating the value of minerals and aggregates. The agreement of sale is subject to certain contingencies including satisfactory completion of the buyer's inspection period, federal government funding and additional government approvals. The contract expires if not completed before September 21, 2010. The Company's book value of the property is \$258,000 and is included in Real estate held for investment rather than held for sale due to open contingencies at June 30, 2010. The Federal Appraisal Review was completed in April, 2010 triggering the 90 day study period. If the sale closes, the Company may use the proceeds in a 1031 exchange for the purchase of real estate. Accordingly in July 2010, the Company agreed to purchase an 82,000 square foot warehouse in Baltimore City, Maryland in a foreclosure sale auction through a qualified intermediary and may use the majority of the proceeds from the Caroline County property sale for this purchase.

In May 2008, the Company received final approval from the Zoning Commission of the District of Columbia of its planned unit development application for the Company's 5.8 acre undeveloped waterfront site on the Anacostia River in Washington, D.C. This site is located adjacent to the recently opened Washington Nationals Baseball Park. The site currently is leased to Vulcan Materials Company on a month-to-month basis. The approved planned unit development permits the Company to develop a four building, mixed use project, containing approximately 545,800 square feet of office and retail space and approximately 569,600 square feet of additional space for residential and hotel uses. The approved development would include numerous publicly accessible open spaces and a waterfront esplanade along the Anacostia River. In November 2009, the Company received a two-year extension for commencement of this project, moving the construction commencement date to June 2013. The Company sought this extension because of negative current market indications.

### **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 cash and cash equivalents 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 cash and cash equivalents. 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 cash and cash equivalents 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 June 30, 2010, 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 first nine months 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, 2009, 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 6. EXHIBITS**

- (a) Exhibits. The response to this item is submitted as a separate Section entitled "Exhibit Index", on page 27.

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

August 4, 2010

PATRIOT TRANSPORTATION HOLDING, INC.

John D. Baker II

John D. Baker II

President and Chief Executive  
Officer

John D. Milton, Jr.

John D. Milton

Executive Vice President, Treasurer,  
Secretary and Chief  
Financial Officer

John D. Klopfenstein

John D. Klopfenstein

Controller and Chief  
Accounting Officer

**PATRIOT TRANSPORTATION HOLDING, INC.**  
**FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010**  
**EXHIBIT INDEX**

- (14) Financial Code of Ethical Conduct between the Company, Chief Executive Officers and Financial Managers, as revised on January 28, 2004, which is available on the Company's website at [www.patriottrans.com](http://www.patriottrans.com).
- (31) (a) Certification of John D. Baker II.
- (31) (b) Certification of John D. Milton, Jr.
- (31) (c) Certification of John D. Klopfenstein.
- (32) Certification of Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

I, John D. Baker II, certify that:

1. I have reviewed this report on Form 10-Q of Patriot Transportation Holding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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, 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) 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: August 4, 2010

/s/John D. Baker II  
President and Chief Executive  
Officer

I, John D. Milton, 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, 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) 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: August 4, 2010

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



I, John D. Klopfenstein, certify that:

1. I have reviewed this report on Form 10-Q of Patriot Transportation Holding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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, 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) 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: August 4, 2010

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

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

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

August 4, 2010

PATRIOT TRANSPORTATION HOLDING, INC.

JOHN D. BAKER II  
John D. Baker II  
President and Chief Executive  
Officer

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

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

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

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