

**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, 2008

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.

Class	Outstanding at March 31, 2008
Common Stock, \$.10 par value per share	3,028,569 shares

PATRIOT TRANSPORTATION HOLDING, INC.  
FORM 10-Q  
QUARTER ENDED MARCH 31, 2008

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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 and our flatbed trucking subsidiary; fuel costs; 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; interest rates, inflation and general economic conditions; demand for flexible warehouse/office facilities in the Baltimore/Washington 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)	March 31, <u>2008</u>	September 30, <u>2007</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,428	26,944
Accounts receivable (including related party of \$405 and \$308 and net of allowance for doubtful accounts of \$237 and \$207, respectively)	12,154	10,983
Accounts receivable from condemnation	5,860	-
Accounts receivable federal & state income taxes	1,161	-
Inventory of parts and supplies	923	743
Deferred income taxes	808	455
Prepaid tires on equipment	2,027	2,028
Prepaid taxes and licenses	683	1,652
Prepaid insurance	1,624	1,601
Prepaid expenses, other	91	80
Total current assets	<u>33,759</u>	<u>44,486</u>
Property, plant and equipment, at cost	296,972	282,277
Less accumulated depreciation and depletion	<u>94,189</u>	<u>89,754</u>
Net property, plant and equipment	<u>202,783</u>	<u>192,523</u>
Real estate held for investment, at cost	1,274	1,274
Investment in joint venture	6,238	5,904
Goodwill	1,087	1,087
Unrealized rents	3,043	2,589
Other assets	<u>4,573</u>	<u>5,667</u>
Total assets	<u>\$252,757</u>	<u>253,530</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 6,783	5,408
Federal and state income taxes payable	-	702
Accrued payroll and benefits	4,416	5,202
Accrued insurance reserves	4,389	4,119
Accrued liabilities, other	1,187	1,035
Long-term debt due within one year	<u>3,888</u>	<u>3,762</u>
Total current liabilities	<u>20,663</u>	<u>20,228</u>
Long-term debt	78,196	80,172
Deferred income taxes	17,154	15,274
Accrued insurance reserves	4,562	4,562
Other liabilities	1,586	2,833
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,		
3,028,569 and 3,051,064 shares issued		
and outstanding, respectively	303	305
Capital in excess of par value	33,731	32,154
Retained earnings	96,536	98,087
Accum. other comprehensive income (loss), net	<u>26</u>	<u>(85)</u>
Total shareholders' equity	<u>130,596</u>	<u>130,461</u>
Total liabilities and shareholders' equity	<u>\$252,757</u>	<u>253,530</u>
See accompanying notes.		

**PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

(In thousands except per share amounts)

(Unaudited)

	THREE MONTHS		SIX MONTHS	
	ENDED MARCH 31,		ENDED MARCH 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenues:</b>				
Transportation	\$34,738	32,588	\$67,657	64,312
Real estate	<u>6,350</u>	<u>5,568</u>	<u>12,631</u>	<u>10,968</u>
Total revenues (including revenue from related parties of \$2,046, 1,990, 4,234 and \$4,087, respectively)	41,088	38,156	80,288	75,280
<b>Cost of operations:</b>				
Transportation	31,533	27,010	61,669	54,139
Real estate	<u>3,502</u>	<u>2,723</u>	<u>6,343</u>	<u>5,259</u>
Total cost of operations	<u>35,035</u>	<u>29,733</u>	<u>68,012</u>	<u>59,398</u>
<b>Gross profit:</b>				
Transportation	3,205	5,578	5,988	10,173
Real estate	<u>2,848</u>	<u>2,845</u>	<u>6,288</u>	<u>5,709</u>
Total gross profit	<u>6,053</u>	<u>8,423</u>	<u>12,276</u>	<u>15,882</u>
Selling, general and administrative expense (including expenses paid to a related party of \$8, \$48, \$44, and \$96, respectively)	<u>3,655</u>	<u>3,205</u>	<u>9,042</u>	<u>6,263</u>
<b>Operating profit</b>	2,398	5,218	3,234	9,619
Gain on condemnation of land	-	-	2,507	-
Interest income and other	166	24	492	56
Equity in loss of joint venture	(4)	(101)	(14)	(101)
Interest expense	<u>(1,368)</u>	<u>(880)</u>	<u>(2,748)</u>	<u>(1,771)</u>
Income before income taxes	1,192	4,261	3,471	7,803
Provision for income taxes	<u>(566)</u>	<u>(1,664)</u>	<u>(1,440)</u>	<u>(3,046)</u>
<b>Net income</b>	\$ <u>626</u>	<u>2,597</u>	\$ <u>2,031</u>	<u>4,757</u>
<b>Earnings per common share:</b>				
Basic	\$ .21	.86	\$ .67	1.58
Diluted	\$ .20	.83	\$ .65	1.53
Number of shares (in thousands) used in computing:				
-basic earnings per common share	3,037	3,017	3,039	3,007
-diluted earnings per common share	3,128	3,125	3,138	3,117

See accompanying notes.

**PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED MARCH 31, 2008 AND 2007**  
(In thousands)  
(Unaudited)

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,031	4,757
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	7,146	7,109
Deferred income taxes	1,527	564
Equity in loss of joint venture	14	101
Gain on sale of equipment and real estate	(257)	(1,042)
Gain on condemnation of land	(2,507)	-
Stock-based compensation	828	763
Net changes in operating assets and liabilities:		
Accounts receivable	(1,171)	(396)
Income taxes receivable	(1,161)	-
Inventory of parts and supplies	(180)	110
Prepaid expenses and other current assets	936	(866)
Other assets	397	(359)
Accounts payable and accrued liabilities	1,011	(2,357)
Income taxes payable	(486)	(20)
Long-term insurance reserves and other long-term liabilities	(1,247)	(208)
Net cash provided by operating activities	<u>6,881</u>	<u>8,156</u>
<b>Cash flows from investing activities:</b>		
Purchase of transportation group property and equipment	(9,157)	(5,567)
Purchase of real estate group property and equipment	(11,449)	(3,754)
Investment in joint venture	(350)	(3,218)
Proceeds from the sale of property, plant and equipment	<u>460</u>	<u>1,281</u>
Net cash used in investing activities	<u>(20,496)</u>	<u>(11,258)</u>
<b>Cash flows from financing activities:</b>		
Net increase in revolving debt	-	3,268
Repayment of long-term debt	(1,850)	(1,265)
Repurchase of Company stock	(4,388)	-
Excess tax benefits from exercises of stock options and vesting of restricted stock	527	538
Exercise of employee stock options	<u>810</u>	<u>765</u>
Net cash (used in) provided by financing activities	<u>(4,901)</u>	<u>3,306</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(18,516)</b>	<b>204</b>
Cash and cash equivalents at beginning of period	<u>26,944</u>	<u>154</u>
Cash and cash equivalents at end of the period	<u>\$ 8,428</u>	<u>358</u>

During the quarter ended December 31, 2007 the Company recorded a non-cash transaction for accounts receivable from condemnation in the amount of \$5,860. The condemnation proceeds were received in April 2008.

See accompanying notes.

**PATRIOT TRANSPORTATION HOLDING, INC. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2008**  
(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, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008. 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, 2007.

(2) **Recent Accounting Pronouncements.** 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 Company adopted the provisions of FIN 48 on October 1, 2007. As a result of the adoption of FIN 48, the Company recognized a \$216,000 reduction in the liability for unrecognized tax benefits, which was accounted for as an increase to retained earnings. As of October 1, the Company had a liability for unrecognized tax benefits of \$537,000, which is included in income taxes receivable, net. If recognized, \$337,000 of unrecognized tax benefits would impact the Company's effective tax rate. Interest and penalties of \$200,000 has been reflected as a component of the total liability. It is the Company's policy to recognize as additional income tax expense the items of interest and penalties directly related to income taxes. For the six months ended March 31, 2008, there were no material changes to the total amount of unrecognized tax benefits. The Company expects a decrease in the liability of up to \$165,000 for uncertain tax positions during the next 12 months. The Company files income tax returns in the U.S. and various states which are subject to audit for up to five years after filing.

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 require additional disclosure on the fair value of its goodwill, asset retirement obligations, and long-term mortgage notes payable but will not have a material impact on the consolidated financial results of the Company.

(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		Six Months ended	
	March 31, _____		March 31, _____	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:				
Transportation	\$ 34,738	32,588	67,657	64,312
Real estate	<u>6,350</u>	<u>5,568</u>	<u>12,631</u>	<u>10,968</u>
	\$ <u>41,088</u>	<u>38,156</u>	<u>80,288</u>	<u>75,280</u>
Operating profit				
Transportation	\$ 976	3,440	1,622	5,852
Real estate	2,848	2,845	6,288	5,709
Corporate expenses	<u>(1,426)</u>	<u>(1,067)</u>	<u>(4,676)</u>	<u>(1,942)</u>
	\$ <u>2,398</u>	<u>5,218</u>	<u>3,234</u>	<u>9,619</u>

Identifiable assets	March 31,	September 30,
	<u>2008</u>	<u>2007</u>
Transportation	\$ 57,539	56,101
Real estate	180,802	168,587
Cash items	8,428	26,944
Unallocated corporate assets	<u>5,988</u>	<u>1,898</u>
	\$ <u>252,757</u>	<u>253,530</u>



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

	March 31, <u>2008</u>	September 30, <u>2007</u>
5.6% to 8.6% mortgage notes		
due in installments through 2027	82,084	83,934
Less portion due within one year	<u>3,888</u>	<u>3,762</u>
	\$ <u>78,196</u>	<u>80,172</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 1.25% over the selected LIBOR and may change quarterly based on the Company's ratio of Consolidated Total Debt to Consolidated Total Capital, as defined in the Revolver. A commitment fee of 0.2% 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 borrowing ability and on paying cash dividends. Under these restrictions, as of March 31, 2008, approximately \$20,500,000 was available for borrowing. The Company is in compliance with all restrictive covenants as of March 31, 2008. No amounts were outstanding as of March 31, 2008 and September 30, 2007.

(5) **Related Party Transactions.** The Company was a related party to Florida Rock Industries, Inc. (FRI) because four of the Company's directors also served until November 16, 2007, as directors of FRI and such directors owned approximately 24% of the stock of FRI and 47% of the stock of the Company. The Company derived 5.4% of its consolidated revenue from FRI in fiscal 2007. FRI merged with Vulcan Materials Company ("Vulcan") in November 2007.

The Company, through its transportation subsidiaries, hauls commodities by tank and flatbed trucks for the Florida Rock Division of 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. The Company also outsourced certain administrative functions to Vulcan. The cost of these administrative functions was \$44,000 and \$96,000 for the six months ended March 31, 2008 and 2007, respectively.

On October 4, 2006, a subsidiary of the Company (FRP) entered into a Joint Venture Agreement with Florida Rock Industries, Inc. (now Vulcan) to form Brooksville Quarry, LLC, a real estate joint venture to develop approximately 4,300 acres of land near Brooksville, Florida. The venture is jointly controlled by Vulcan and FRP which both have an obligation to fund capital contributions of up to \$2 million. Capital contributions of \$850,000 have been made by each party as of March 31, 2008. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to FRP. Other income for the six months ended March 31, 2008 includes a loss of \$14,000 representing the Company's equity in the loss of the joint venture.

(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 ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	2008	2007	2008	2007
Weighted average common shares outstanding during the period - shares used for basic earnings per share	3,037	3,017	3,039	3,007
Common shares issuable under share based payment plans which are potentially dilutive	91	108	99	110
Common shares used for diluted earnings per share	<u>3,128</u>	<u>3,125</u>	<u>3,138</u>	<u>3,117</u>
Net income	\$ <u>626</u>	<u>2,597</u>	<u>2,031</u>	<u>4,757</u>
Earnings per common share				
Basic	\$ <u>.21</u>	<u>.86</u>	<u>.67</u>	<u>1.58</u>
Diluted	\$ <u>.20</u>	<u>.83</u>	<u>.65</u>	<u>1.53</u>

For the three and six months ended March 31, 2008 and 2007, 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 three and six months ended March 31, 2008 and 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 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, 2007, the Company's stock-based compensation plans permit 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 272,100 at March 31, 2008.

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

	Three Months ended March 31, __		Six Months ended March 31, __	
	2008	2007	2008	2007
Stock options issued prior to 123R adoption	\$ 61	131	166	262
Restricted stock awards				

granted in 2006	51	54	105	113
Annual Director stock award	395	388	395	388
Shares repurchased in connection with previous CEO retirement	162	-	162	-
Modification to accelerate prior awards made in connection with CEO retirement	(3)	-	216	-
	<u>666</u>	<u>573</u>	<u>1,044</u>	<u>763</u>
Deferred income tax benefit	255	220	400	293
Stock compensation net of tax	<u>\$ 411</u>	<u>353</u>	<u>644</u>	<u>470</u>

A summary of changes in outstanding options is presented below (in thousands, except 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, 2007	266,611	\$31.42	5.9	
Granted	0	\$ 0		\$ 0
Exercised	28,714	\$28.16		\$ 403
Forfeited	<u>5,000</u>	\$43.50		
Outstanding at March 31, 2008	232,897	\$31.56	5.4	\$ 3,716
Exercisable at March 31, 2008	209,497	\$30.40	5.2	\$ 3,256
Vested during six months ended March 31, 2008	35,500			\$ 510

The aggregate intrinsic value of exercisable in-the-money options was \$10,063,000 and the aggregate intrinsic value of all outstanding options was \$10,919,000 based on the market closing price of \$78.44 on March 31, 2008 less exercise prices. Gains of \$1,733,000 were realized by option holders during the six months ended March 31, 2008. The realized tax benefit from options exercised for the six months ended March 31, 2008 was \$664,000. Total compensation cost of options granted but not yet vested as of March 31, 2008 was \$389,000, which is expected to be recognized over a weighted-average period of 1.6 years. The first quarter of fiscal 2008 includes stock compensation expense of \$183,000 related to the modification to accelerate the vesting of 4,000 shares in connection with the retirement benefits for John E. Anderson, the Company's previous President and CEO, whose retirement was effective February 6, 2008.

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

	<u>Number Of</u>	<u>Weighted Average Grant</u>	<u>Weighted Average Remaining</u>	<u>Weighted Average Grant Date</u>
--	------------------	-------------------------------	-----------------------------------	------------------------------------

<u>Restricted Stock</u>	<u>Shares</u>	<u>Price</u>	<u>Term (yrs)</u>	<u>Fair Value</u>
Outstanding at				
September 30, 2007	10,800	\$63.65	2.3	
Granted	0			\$ 0
Vested	3,600	\$63.65		\$ 229
Forfeited	<u>700</u>	\$63.54		
Outstanding at				
March 31, 2008	6,500	\$63.67	1.8	\$ 414

Total compensation cost of restricted stock granted but not yet vested as of March 31, 2008 was \$355,000 which is expected to be recognized over a weighted-average period of 1.8 years. The first quarter of fiscal 2008 includes stock compensation expense of \$36,000 related to the modification to accelerate the vesting of 400 shares in connection with retirement benefits for John E. Anderson, the Company's previous President and CEO, whose retirement was effective February 6, 2008.

(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.** The transportation segment primarily serves customers in the petroleum and building and construction industries. Petroleum customers accounted for approximately 71% and building and construction customers accounted for approximately 29% of transportation segment revenues for the six months ended March 31, 2008.

During the first six months of fiscal 2008, the transportation segment's ten largest customers accounted for approximately 53.7% of the transportation segment's revenue. One of these customers accounted for 15.7% 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 \$5,854,000 and \$4,682,000 at March 31, 2008 and 2007 respectively.

(10) **CEO Retirement.** On December 5, 2007, the board of directors approved certain retirement benefits for John E. Anderson, the Company's President and Chief Executive Officer effective February 6, 2008. Upon Mr. Anderson's retirement, the Company paid him \$4,851,000 for his accrued benefit under the Management Security Plan, the fair value of his outstanding stock options and restricted stock and an additional bonus. The total impact of these payments on the Company's earnings for fiscal 2008 was \$2,503,000 before taxes which is included in selling, general, and administrative expense primarily in the three months ending December 31, 2007. On December 5, 2007, the Company's

Board of Directors elected John D. Baker II to succeed Mr. Anderson as President and Chief Executive Officer.

The following tables detail the expense incurred and payments made (in thousands):

<u>Expenses</u>	
Additional bonus paid	\$2,125
Repurchase of vested options and stock at 20 day average market value per agreement which exceeded the closing price on the date of repurchase	162
Accelerated vesting of options	180
Accelerated vesting of restricted stock	36
Total expense (\$2,371 in quarter ending 12/31/07)	<u>\$2,503</u>

<u>Payments</u>	
Total expense	\$2,503
Previously accrued benefit MSP Retirement Plan	1,331
Gain on vested stock options repurchased	999
Restricted shares vested 1/1/08 repurchased	18
Total payments	<u>\$4,851</u>

## **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 a number of mining and other properties that are leased to Vulcan Materials Company ("Vulcan"). 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 results during the second quarter and first half of fiscal 2008 were adversely affected by higher fuel expenses and decreased demand for hauling of construction materials.

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, Vulcan'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, 2008 and 2007**

**Consolidated Results.** - Net income for the second quarter of fiscal 2008 was \$626,000, a decrease of \$1,971,000 compared to net income of \$2,597,000 for the same period last year. Diluted earnings per common share for the second quarter of fiscal 2008 were \$0.20 compared to \$0.83 in the second quarter of fiscal 2007. The transportation segment was negatively impacted in the second quarter of fiscal 2008 from continuing adverse demand, fuel expense and operating disruptions for the flatbed trucking operations. The second quarter of fiscal 2007 benefited from gains on equipment sales and reductions of estimated prior year retained loss reserves.

#### **Transportation Results**

(dollars in thousands)	<u>Three Months Ended March</u>			
	<u>2008</u>	<u>%</u>	<u>2007</u>	<u>%</u>
Transportation revenue	\$ 28,716	83%	28,904	89%
Fuel surcharges	<u>6,022</u>	<u>17%</u>	<u>3,684</u>	<u>11%</u>
Revenues	34,738	100%	32,588	100%
Compensation and benefits	12,662	36%	12,632	39%
Fuel expenses	9,563	28%	6,894	21%
Insurance and losses	3,246	9%	2,064	6%
Depreciation expense	2,249	7%	2,277	7%
Other, net	<u>3,813</u>	<u>11%</u>	<u>3,143</u>	<u>10%</u>
Cost of operations	<u>31,533</u>	<u>91%</u>	<u>27,010</u>	<u>83%</u>
Gross profit	<u>\$ 3,205</u>	<u>9%</u>	<u>5,578</u>	<u>17%</u>

Transportation segment revenues were \$34,738,000 in the second quarter of 2008, an increase of \$2,150,000 over the same quarter last year. Excluding fuel surcharges, revenue per mile increased 3.2% over the same quarter last year. Decreased construction material freight demand and pricing softness from the downturn in housing pushed revenues down in the flatbed operation compared to the same quarter

last year. Revenue miles in the current quarter were down 3.7% compared to the second quarter of 2007 due to reduced loads in the flatbed portion of the transportation segment.

The Transportation segment's cost of operations in the second quarter of 2008 increased as a percentage of revenue compared to the same quarter last year. Average fuel cost per gallon in the second quarter of 2008 increased 43% over the same period last year. This resulted in an increase in fuel cost of \$331,000 in excess of the increase in fuel surcharge revenue in the flatbed portion. Insurance and losses increased \$1,182,000 primarily due the same quarter last year including a reduction of expense for 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. Other expense increased \$670,000 due to \$295,000 higher gains on equipment sales the same quarter last year along with an increase of \$344,000 in vehicle tires and maintenance.

### **Real Estate Results**

(dollars in thousands)	<u>Three Months Ended March 31</u>			
	<u>2008</u>	<u>%</u>	<u>2007</u>	<u>%</u>
Royalties and rent	\$ 2,001	32%	1,526	27%
Developed property rentals	<u>4,349</u>	<u>68%</u>	<u>4,042</u>	<u>73%</u>
Total Revenue	6,350	100%	5,568	100%
Mining and land rent expenses	959	15%	450	8%
Developed property expenses	<u>2,543</u>	<u>40%</u>	<u>2,273</u>	<u>41%</u>
Cost of Operations	<u>3,502</u>	<u>55%</u>	<u>2,723</u>	<u>49%</u>
Gross profit	<u>\$ 2,848</u>	<u>45%</u>	<u>2,845</u>	<u>51%</u>

Real Estate segment revenues for the second quarter of fiscal 2008 were \$6,350,000, an increase of \$782,000 or 14.0% over the same quarter last year. Lease revenue from developed properties increased \$307,000 or 7.6%, due to an increase in occupied square footage, higher rental rates on new leases, and increased revenue from reimbursed real estate taxes. Royalties and rent increased \$475,000 or 31.1% despite reduced tons mined because of an increase of \$54,000 in revenues from timber harvesting, revenue of \$262,000 for reimbursement of higher real estate taxes, and increases in minimum rent requirements effective in August 2007 and October 2007 pursuant to terms contained in several mining leases.

Real estate segment expenses increased \$779,000 to \$3,502,000 during the second quarter of fiscal 2008 compared to \$2,723,000 for the same quarter last year. Expenses related to developed properties increased as a result of new building additions, increased real estate tax assessments, and increased staffing to facilitate continuing portfolio expansion. Expenses related to mining properties increased \$509,000 primarily due to increased real estate tax assessments.

## **Consolidated Results**

**Gross Profit** - Consolidated gross profit was \$6,053,000 in the second quarter of fiscal 2008, a decrease of \$2,370,000 or 28.1% compared to \$8,423,000 in the same period last year. Gross profit in the transportation segment decreased \$2,373,000 or 42.5% due to the increase in cost of operations along with decreased freight demand, resulting in reduced revenue miles and lower pricing in the flatbed portion. Gross profit in the real estate segment increased \$3,000 or 0.1% from the second quarter 2007, due to higher rental rates on new leases and \$54,000 increased gross profit from timber harvesting offset by increased real estate taxes that could not be billed to tenants.

**Selling, general and administrative expense** - Selling, general and administrative expenses increased \$450,000 over the same quarter last year. The current quarter includes a \$132,000 accrual of retirement benefits for the Company's previous President and CEO. Estimated allowance for doubtful accounts expense increased \$85,000 primarily due to inclusion in the prior year of a reversal of prior accruals. Audit and legal fees increased \$93,000 due to various projects. Stock compensation expense excluding amounts associated with the Company's prior President and CEO decreased \$66,000. During the quarter a corporate aircraft was purchased increasing expense \$62,000. Donations increased \$65,000 due to donations made earlier than the same donations were made in the prior year. Payroll taxes increased \$44,000 due to stock option exercises.

**Interest expense** - Interest expense increased \$488,000 over the same quarter last year due to interest on new mortgage debt and \$295,000 of capitalized interest in the prior year quarter.

**Income taxes** - Income tax expense decreased \$1,098,000 over the same quarter last year due to reduced earnings partially offset by \$70,000 of tax expense related to a permanent tax difference on surrender of a policy on the life of the previous CEO that the Company owned.

**Net income** - Net income for the second quarter of fiscal 2008 was \$626,000, a decrease of \$1,971,000 compared to net income of \$2,597,000 for the same period last year. Diluted earnings per common share for the second quarter of fiscal 2008 were \$0.20 compared to \$0.83 in the second quarter of fiscal 2007. The transportation segment was negatively impacted in the second quarter of fiscal 2008 from continuing adverse demand, fuel expense and operating disruptions for the flatbed trucking operations. The second quarter of fiscal 2007 benefited from gains on equipment sales and reductions of estimated prior year retained loss reserves.



**Comparative Results of Operations for the Six Months Ended March 31, 2008 and 2007**

**Consolidated Results.** - Net income for the first six months of fiscal 2008 was \$2,031,000, a decrease of \$2,726,000 compared to net income of \$4,757,000 for the same period last year. Diluted earnings per common share for the first six months of fiscal 2008 were \$0.65 compared to \$1.53 in the first six months of fiscal 2007. Net income for the first six months of fiscal 2008 benefited from a gain on condemnation of land of \$1,544,000, net of income taxes but was adversely impacted by the accrual of retirement benefits of \$1,460,000, net of income tax benefits, for the Company's previous President and CEO, whose retirement was effective February 6, 2008. The transportation segment was negatively impacted in the first six months of fiscal 2008 from continuing adverse demand, fuel expense and operating disruptions for the flatbed trucking operations. The first six months of fiscal 2007 benefited from gains on equipment sales and reductions of estimated prior year retained loss reserves.

**Transportation Results**

(dollars in thousands)	<u>Six Months Ended March 31</u>			
	<u>2008</u>	<u>%</u>	<u>2007</u>	<u>%</u>
Transportation revenue	\$ 56,477	83%	56,793	88%
Fuel surcharges	<u>11,180</u>	<u>17%</u>	<u>7,519</u>	<u>12%</u>
Revenues	67,657	100%	64,312	100%
Compensation and benefits	25,285	37%	24,736	38%
Fuel expenses	17,910	26%	13,638	21%
Insurance and losses	6,519	10%	4,939	8%
Depreciation expense	4,470	7%	4,560	7%
Other, net	<u>7,485</u>	<u>11%</u>	<u>6,266</u>	<u>10%</u>
Cost of operations	<u>61,669</u>	<u>91%</u>	<u>54,139</u>	<u>84%</u>
Gross profit	<u>\$ 5,988</u>	<u>9%</u>	<u>10,173</u>	<u>16%</u>

Transportation segment revenues were \$67,657,000 in the first six months of 2008, an increase of \$3,345,000 over the same period last year. Excluding fuel surcharges, revenue per mile increased 2.6% over the same period last year. Decreased construction material freight demand and pricing softness from the downturn in housing pushed revenues down in the flatbed operation compared to the same period last year. Revenue miles in the first six months of fiscal 2008 were down 3.4% compared to the first six months of fiscal 2007 due to reduced loads in the flatbed portion of the transportation segment.

The Transportation segment's cost of operations in the first six months of 2008 increased as a percentage of revenue compared to the same period last year. Average fuel cost per gallon in the first six months of 2008 increased 38% over the same period last year. This resulted in an increase in fuel cost of \$611,000 in excess of the increase in fuel surcharge revenue in the flatbed portion. Insurance

and losses increased \$1,580,000 primarily due to the same period last year including a reduction of expense for 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 along with a \$357,000 of prior year insurance costs recorded in the three months ended December 31, 2006. Other expense increased \$1,219,000 due to \$750,000 higher gains on equipment sales over the same period last year along with an increase of \$501,000 in vehicle tires and maintenance.

### **Real Estate Results**

(dollars in thousands)	Six Months Ended March 31			
	<u>2008</u>	<u>%</u>	<u>2007</u>	<u>%</u>
Royalties and rent	\$ 3,977	31%	3,128	29%
Developed property rentals	<u>8,654</u>	<u>69%</u>	<u>7,840</u>	<u>71%</u>
Total Revenue	12,631	100%	10,968	100%
Mining and land rent expenses	1,524	12%	846	8%
Developed property expenses	<u>4,819</u>	<u>38%</u>	<u>4,413</u>	<u>40%</u>
Cost of Operations	<u>6,343</u>	<u>50%</u>	<u>5,259</u>	<u>48%</u>
Gross profit	<u>\$ 6,288</u>	<u>50%</u>	<u>5,709</u>	<u>52%</u>

Real Estate segment revenues for the first six months of fiscal 2008 were \$12,631,000, an increase of \$1,663,000 or 15.2% over the same period last year. Lease revenue from developed properties increased \$814,000 or 10.4%, due to an increase in occupied square footage along with higher rental rates on new leases. Royalties and rent increased \$849,000 or 27.1% despite reduced tons mined because of an increase of \$365,000 in revenues from timber harvesting, revenue of \$262,000 for reimbursement of higher real estate taxes, and increases in minimum rent requirements effective in August 2007 and October 2007 pursuant to terms contained in several mining leases.

Real estate segment expenses increased \$1,084,000 to \$6,343,000 during the first six months of fiscal 2008 compared to \$5,259,000 for the same period last year. Expenses related to developed properties increased as a result of new building additions, increased real estate tax assessments, and increased staffing to facilitate continuing portfolio expansion. Expenses related to mining properties increased \$678,000 primarily due to increased real estate tax assessments.

### **Consolidated Results**

**Gross Profit** - Consolidated gross profit was \$12,276,000 in the first six months of fiscal 2008, a decrease of \$3,606,000 or 22.7% compared to \$15,882,000 in the same period last year. Gross profit in the transportation segment decreased \$4,185,000 or 41.1% due to the increase in cost of operations along with decreased freight demand, resulting in reduced revenue miles and lower pricing in the flatbed portion. Gross profit in the real estate segment increased \$579,000 or 10.1% from the first six months 2007, due to higher rental rates on

new leases and \$365,000 increased gross profit from timber harvesting offset by increased real estate taxes that could not be billed to tenants.

**Selling, general and administrative expense** - Selling, general and administrative expenses increased \$2,779,000 over the same period last year. The current year includes \$2,503,000 accrual of retirement benefits for the Company's previous President and Chief Executive Officer. Estimated allowance for doubtful accounts expense increased \$89,000 primarily due to the inclusion in the prior year of a reversal of prior accruals. Audit and legal fees increased \$100,000 due to various projects. Stock compensation expense excluding amounts associated with the Company's prior President and CEO decreased \$97,000. During the quarter a corporate aircraft was purchased increasing expense \$62,000. Donations increased \$65,000 due to donations made earlier than the same donations were made in the prior year. Payroll taxes increased \$45,000 due to stock option exercises.

**Gain from condemnation of land** - Gain from condemnation of land was \$2,507,000 in the first six months of fiscal 2008 resulting from the taking by the Virginia Department of Transportation ("VDOT") of 28 acres on December 13, 2007 by filing a Certificate of Take and depositing with the Court \$5,860,000, representing VDOT's estimate of the fair market value of the property. The Prince William County Property was purchased in December 2005 and the cost of the 28 acres taken by VDOT was \$3,353,000.

**Interest expense** - Interest expense increased \$977,000 over the same period last year due to interest on new mortgage debt and \$553,000 of capitalized interest in the same period last year.

**Income taxes** - Income tax expense decreased \$1,606,000 over the same period last year due to reduced earnings partially offset by \$70,000 of tax expense related to a permanent tax difference on surrender of a policy on the life of the previous CEO that the Company owned.

**Net income** - Net income for the first six months of fiscal 2008 was \$2,031,000, a decrease of \$2,726,000 compared to net income of \$4,757,000 for the same period last year. Diluted earnings per common share for the first six months of fiscal 2008 were \$0.65 compared to \$1.53 in the first six months of fiscal 2007. Net income for the first six months of fiscal 2008 benefited from a gain on condemnation of land of \$1,544,000, net of income taxes but was adversely impacted by the accrual of retirement benefits of \$1,541,000, net of income tax benefits, for the Company's previous President and CEO, whose retirement is effective February 6, 2008. The transportation segment was negatively impacted in the first six months of fiscal 2008 from continuing adverse demand, fuel expense and operating disruptions for the flatbed trucking operations. The first six months of fiscal 2007 benefited from gains on equipment sales and prior period insurance recoveries.

**Liquidity and Capital Resources.** For the first six months of fiscal

2008, the Company used cash provided by operating activities of \$6,881,000, proceeds from the sale of plant, property and equipment of \$460,000, proceeds from the exercise of employee stock options of \$810,000, excess tax benefits from the exercise of stock options of \$527,000 and cash balances to purchase \$20,606,000 in property and equipment, to invest \$350,000 in the Brooksville Joint Venture, to make \$1,850,000 scheduled payments on long-term debt and to repurchase Company stock for \$4,388,000. Cash decreased \$18,516,000.

Cash flows from operating activities for the first six months of fiscal 2008 were \$1,275,000 lower than the same period last year. The Company made cash payments of retirement benefits to the Company's prior President and CEO of \$4,851,000 during the second quarter of fiscal 2008. Cash payments on accounts payable and other current liabilities were \$3,368,000 lower than the same period last year primarily due to the timing of payment of equipment and materials. The transportation segment was negatively impacted in the second quarter of fiscal 2008 from continuing adverse demand, fuel expense and operating disruptions for the flatbed trucking operations.

Cash flows used in investing activities for the first six months of fiscal 2008 were \$9,238,000 higher than the same period last year primarily due to \$3,395,000 for the purchase of a corporate aircraft and \$4,333,000 for the purchase of 118 acres in Carroll County, Maryland for future warehouse/office development along with higher construction levels on the on the remainder of the portfolio.

Cash flows from financing activities for the first six months of fiscal 2008 were \$8,207,000 lower than the same period last year due to repurchase of Company stock of \$4,388,000, an increase of \$585,000 in mortgage payments, and the prior year including \$3,268,000 of borrowings under the revolving credit agreement.

The Company has a \$37,000,000 revolving credit agreement (the Revolver) which had a zero balance as of March 31, 2008. The Revolver contains restrictive covenants including limitations on paying cash dividends. Under these restrictions, as of March 31, 2008, approximately \$20,500,000 was available for borrowing. The Revolver will expire on December 31, 2009.

On July 31, 2007, the Company borrowed \$36,000,000 from Prudential Insurance Company of America. The non-recourse mortgage loans fully amortize on a level term over 20 years and bear interest at a fixed rate of 5.74%. The loans are secured by seven developed properties with an aggregate net book value of \$31,074,000 at June 30, 2007. A portion of the proceeds were used to repay balances outstanding under the Company's Revolver and the remaining proceeds will be used to fund new construction, purchase land for future development, and for general corporate purposes. Net interest expense for fiscal 2008 is expected to increase versus fiscal 2007 by approximately \$1,000,000 due to lower capitalized interest and interest rates on mortgage debt exceeding short-term cash investments.

The Company had \$17,181,000 of irrevocable letters of credit outstanding as of March 31, 2008. 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. During the first six months of fiscal 2008 the Company repurchased 55,509 shares for \$4,388,000. As of March 31, 2008, \$5,625,000 was authorized to repurchase the Company's 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 \$1,150,000 to Brooksville Quarry, LLC in connection with a joint venture with Vulcan.

The Virginia Department of Transportation took title to 28 acres of the Company's land on December 13, 2007 by filing a Certificate of Take and depositing with the Court \$5,860,000. The Company received these funds in April 2008. A portion of these funds that were receivable were used to purchase replacement property in March and the Company intends to use the balance of the funds for general corporate purposes until the Company identifies and purchases replacement property under IRS involuntary conversion rules.

On May 07, 2008, the Company's tank line subsidiary entered into an agreement to sell approximately 1.5 acres of land located in Escambia County, Florida for \$2,375,000. The contract is subject to a 120 day due diligence period during which the buyer may cancel the contract for any reason. If the contract closes in accordance with its terms, the Company would recognize a gain of approximately \$2,327,000 before income taxes. The Company estimates the after-tax gain from the sale would be \$1,433,000, or approximately \$.46 per diluted share. The sale would not affect the Company's tank line operations as the Company would relocate its truck terminal to another site in the area.

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.** 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 Company adopted the provisions of FIN 48 on October 1, 2007. As a result of the adoption of FIN 48, the Company recognized a \$216,000 reduction in the net liability for unrecognized tax benefits, which was accounted for as an increase to retained earnings. As of October 1, the Company had a liability for unrecognized tax benefits of \$537,000, which is included in income taxes payable. If recognized, \$337,000 of unrecognized tax benefits would impact the Company's effective tax rate. Interest and penalties of \$200,000 has been reflected as a component of the total liability. It is the Company's policy to recognize as additional income tax expense the items of interest and penalties directly related to income taxes. For the six months ended March 31, 2008, there were no material changes to the total amount of unrecognized tax benefits. The Company does not expect any significant increases or decreases for uncertain tax positions during the next 12 months. The Company files income tax returns in the U.S. and various states which are subject to audit for up to five years after filing.

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 require additional disclosure on the fair value of its goodwill, asset retirement obligations, and long-term mortgage notes payable but will not have a material impact on the consolidated financial results of the Company.

**Related Party Transactions.** The Company was a related party to Florida Rock Industries, Inc. (FRI) because four of the Company's directors also served until November 16, 2007, as directors of FRI and such directors owned approximately 24% of the stock of FRI and 47% of the stock of the Company. The Company derived 5.4% of its consolidated revenue from FRI in fiscal 2007. FRI merged with Vulcan Materials Company ("Vulcan") in November 2007.

The Company, through its transportation subsidiaries, hauls commodities by tank and flatbed trucks for the Florida Rock Division of 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. In April 2008, Vulcan divested two aggregate mining properties leased from the Company to a competitor. Those properties represented \$209,000 in royalties for the six months ended March 31, 2008. The Company also outsourced certain administrative functions to Vulcan. The cost of these administrative functions was \$44,000 and \$96,000 for the six months ended March 31, 2008 and 2007, respectively.

On October 4, 2006, a subsidiary of the Company (FRP) entered into a Joint Venture Agreement with Florida Rock Industries, Inc. (now

Vulcan) to form Brooksville Quarry, LLC, a real estate joint venture to develop approximately 4,300 acres of land near Brooksville, Florida. The venture is jointly controlled by Vulcan and FRP, and they each have an obligation to fund capital contributions of up to \$2 million. Capital contributions of \$850,000 have been made by each party as of March 31, 2008. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to FRP. Other income for the six months ended March 31, 2008 includes a loss of \$14,000 representing the Company's equity in the loss of the joint venture.

**Summary and Outlook.** The flatbed portion of the transportation segment continues to face severe industry over capacity and significant disruptions to profitability from poor freight demand, utilization disruption and pricing softness resulting from the housing downturn as well as high fuel expenses. This downturn is expected to continue to impact the operations of the flatbed portion of our transportation business throughout calendar 2008.

The Company's real estate development business continues to expand its portfolio of warehouse-office products consistent with maintaining a watchful eye on national and regional economic health. The Company is evaluating alternative proposals from residential developers in an effort to obtain a Planned Unit Development and Record Plat along with the eventual disposition of the 62 developable acre residential portion of Windlass Run, located in southeastern Baltimore County, Maryland.

The Company has a rezoning application before the Zoning Commission of the District of Columbia for its 5.8 acre undeveloped site currently leased on the Anacostia River in Washington, D.C. This tract is adjacent to the new Washington Nationals Baseball Stadium. If the rezoning application is granted, the Company would be permitted to develop up to 545,800 square feet of commercial use and an additional 569,600 square feet for residential use. At a March 20, 2008 hearing, the Company received approval for Proposed Action subject to a review by the National Capital Planning Commission (NCPC) and final approval by the Zoning Commission. The NCPC reviewed the proposed development plan at its meeting on May 1, 2008 and agreed that the proposed project was not inconsistent with the Federal interests there by finding no objection to the Zoning Commission taking Final Action to approve the zoning application at a meeting expected in the third or fourth quarter of Fiscal year 2008.

### **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 March 31, 2008, 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.

During the second quarter of fiscal 2008, management implemented measures to enhance its disclosure controls and procedures by expanding the scope of its disclosure committee meetings.

Subject to the foregoing, 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, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### Item 2. PURCHASES OF EQUITY SECURITIES BY THE ISSUER

<u>Period</u>	(a) <u>Total Number of Shares Purchased</u>	(b) <u>Average Price Paid per Share</u>	(c) <u>Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs</u>	(d) <u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)</u>
January 1 through January 31	0	\$ 0	0	\$ 3,490,000
February 1 through February 29	55,509	\$ 79.05	38,309	\$ 5,625,000
March 1 through March 31	<u>0</u>	\$ 0	<u>0</u>	\$ 5,625,000
Total	55,509	\$ 79.05	38,309	

(1) In December, 2003, the Board of Directors authorized management to expend up to \$6,000,000 to repurchase shares of the Company's common stock from time to time as opportunities arise. On February 19, 2008, the Board of Directors authorized management to expend up to an additional \$5,000,000 to repurchase shares of the Company's common stock from time to time as opportunities arise.

(2) In addition to the purchases under the authorizations in December, 2003 and February 19, 2007 there was a repurchase of 17,200 shares underlying vested stock options and stock from the Company's previous President and Chief Executive Officer in connection with his retirement.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On February 6, 2008, the Company held its annual shareholders meeting. At the meeting, the shareholders elected the following directors by the vote shown:

	Term Ending	Votes For	Votes Withheld	Broker/ Non-Votes
John D. Baker II	2012	2,758,818	185,126	-
Luke E. Fichthorn III	2012	2,760,275	183,669	-
H.W. Shad III	2012	2,928,136	15,808	-

The directors whose terms of office as director have continued after the meeting are John E. Anderson, Edward L. Baker, Thompson S. Baker II, Charles E. Commander III, Robert H. Paul III, Martin E. Stein, Jr., and James H. Winston.

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 2008 by the vote shown:

Votes for:	2,943,018
Votes against:	455
Abstaining:	470

**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.

May 8, 2008

PATRIOT TRANSPORTATION HOLDING, INC.

John D. Baker II

John D. Baker II

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, 2008**  
**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.
- (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 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, 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 8, 2008

/s/John D. Baker II  
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 8, 2008

/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 8, 2008

/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 8, 2008

PATRIOT TRANSPORTATION HOLDING, INC.

JOHN D. BAKER II  
John D. Baker II  
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.