**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-K**

(Mark One)

[**X**] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2008

OR

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

Commission file number 33-26115

**PATRIOT TRANSPORTATION HOLDING, INC.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **FLORIDA** | **59-2924957** |
| State or other jurisdiction of incorporation or organization | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| **1801 Art Museum Drive, Jacksonville, Florida** | **32207** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code **904/396-5733**

Securities registered pursuant to Section 12(b) of the Act:

| | |
|---|---|
| **Common Stock $.10 par value** | **NASDAQ** |
| Title of class | Name of each exchange on which registered |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ No **X**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes __ No **X**

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **[ ]**

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 "large accelerated filer," "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 Act). Yes _____ No **X**

The number of shares of the registrant's stock outstanding as of November 28, 2008 was 3,039,086. The aggregate market value of the shares of Common

Stock held by non-affiliates of the registrant as of March 31, 2008, the last day of business of our most recently completed second fiscal quarter, was $98,071,063. Solely for purposes of this calculation, the registrant has assumed that all directors, officers and ten percent (10%) shareholders of the Company are affiliates of the registrant.

**Documents Incorporated by Reference**

Portions of the Patriot Transportation Holding, Inc. 2008 Annual Report to Shareholders are incorporated by reference in Parts I and II.

Portions of the Patriot Transportation Holding, Inc. Proxy Statement which will be filed with the Securities and Exchange Commission not later than December 31, 2008 are incorporated by reference in Part III.

**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 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; 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

### Item 1. BUSINESS.

Patriot Transportation Holding, Inc., which was incorporated in Florida in 1988, and its subsidiaries (the "Company") are engaged in the transportation and real estate businesses.

Our transportation business is conducted through two wholly owned subsidiaries, Florida Rock & Tank Lines, Inc. ("Tank Lines"), and SunBelt Transport, Inc. ("SunBelt"), both of which operate in the Southeastern United States. Tank Lines hauls petroleum and other bulk liquids and dry bulk commodities by tank trailers. SunBelt serves the flatbed portion of the trucking industry, hauling primarily 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 mining properties and other properties held for investment or future development. Development owns, manages and develops commercial warehouse/office rental properties in the Baltimore-Washington-Northern Virginia area. Substantially all of the real estate operations are conducted within the Southeastern and Mid-Atlantic United States.

Revenues from royalties and from a portion of our trucking operations are subject to factors affecting the level of general construction activity. In fiscal 2008, our transportation revenues were adversely affected by the significant decline in residential construction in our markets.

**Transportation.** The transportation segment primarily serves customers in the petroleum and building and construction industries in the Southeastern U.S. Petroleum customers accounted for approximately 71% and building and construction customers accounted for approximately 29% of transportation segment revenues during fiscal 2008.

During fiscal 2008, Tank Lines operated from terminals in Jacksonville, Orlando, Panama City, Pensacola, Tampa and White Springs, Florida; Albany, Atlanta, Augusta, Bainbridge, Columbus, Dalton, Macon and Savannah, Georgia; Knoxville, Tennessee; Montgomery, Alabama; and Wilmington, North Carolina. SunBelt's flatbed fleet is based in Jacksonville, Florida; Savannah, Georgia; South Pittsburg, Tennessee; Tuscaloosa, Alabama and operated primarily in the Southeastern U.S.

Tank Lines has from two to six major tank truck competitors in each of its markets. There are at least ten major competitors in SunBelt's market area and numerous small competitors in the various states served. Price, service, and location are the major factors which affect competition in the transportation segment within a given market.

During fiscal 2008, the transportation segment's ten largest customers accounted for approximately 53.5% of the transportation segment's revenue. One of these customers, Murphy Oil Corporation, accounted for 16.5% of the transportation segment's revenue. The loss of any one of these customers could have a material adverse effect on the Company's revenues and income.

During fiscal 2008, the transportation group purchased 78 new tractors and 67 new trailers. In fiscal 2006 and 2007, the Company purchased 261 new tractors accelerating its normal tractor replacement cycle in response to stricter engine emission standards on new trucks.

Our fiscal 2009 capital budget includes 54 new tractors and 3 new trailers including binding commitments to purchase 24 tractors at September 30, 2008. Maintaining a modern fleet has resulted in reduced maintenance expenses, improved operating efficiencies and enhanced driver recruitment and retention. At September 30, 2008, the Company owned and operated a fleet of 637 trucks and 1,043 trailers plus 39 additional trucks that were either being prepared for sale or being placed into service.

**Real Estate.** We own real estate in Florida, Georgia, Virginia, Maryland, Delaware and Washington, D.C. The real estate owned generally falls into one of three categories: (i) land and/or buildings leased under rental agreements or being developed for rental; (ii) land with construction aggregates deposits, substantially all of which is leased to Vulcan Materials Company under long-term mining royalty agreements, (iii) land held for future appreciation or development. Real estate revenues in fiscal 2008 were divided approximately 69% from rentals on developed properties and 31% from mining royalties.

A significant part of our real estate strategy has been to develop high quality, flexible warehouse/office space. Average occupancy for the fiscal year for buildings in service more than 12 months was 96.4%. At September 30, 2008, 94.2% of the total warehouse/office portfolio of approximately 2.5 million square feet was occupied.

Price, location, rental space availability, flexibility of design, and property management services are the major factors that affect competition in the flexible warehouse/office rental market. The Company experiences considerable competition in all of its markets.

Tenants of flexible warehouse/office properties are not concentrated in any one particular industry.

**Relationship with Vulcan Materials Company.** The Company was spun off from Florida Rock Industries, Inc. ("FRI") in 1988. FRI merged with Vulcan Materials Company ("Vulcan") in November 2007. Nearly all of our mining properties are leased to Vulcan under long-term mining leases entered into in the 1980s. We haul diesel fuel and cement for the Florida Rock Division of Vulcan. We also are a party to a joint venture agreement with Vulcan to develop approximately 4,300 acres of property located near Brooksville, Florida. We have outsourced some administrative services to Vulcan.

Vulcan accounted for approximately 24% of our real estate revenues and 1.3% of our transportation revenues for fiscal 2008. On a consolidated basis, Vulcan accounted for 4.7% of our fiscal 2008 revenues.

**Segment Information.** The Company has two business segments: transportation and real estate. Industry segment information is presented in Notes 2 and 10 to the consolidated financial statements included in the accompanying 2008 Annual Report to Shareholders and is incorporated herein by reference.

**Environmental Matters.** 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. Starting in January 2007, more stringent engine emissions standards mandated by the Environmental Protection Agency became effective for all newly manufactured trucks. The engines produced under the 2007 standards have a higher acquisition cost than the previous engines. The Company's mining leases contain a provision making the lessee responsible for reclamation of mining sites at least to the extent required by law.

**Seasonality.** The Company's business is subject to limited seasonality due to the cyclical nature of our customers' businesses, with revenues generally declining slightly during winter months.

**Employees.** The Company employed 1,005 people in its transportation group, 25 people in its real estate group and 9 people in its corporate offices at September 30, 2008.

**Company Website.** The Company's website may be accessed at www.patriottrans.com. All of our filings with the Securities and Exchange Commission can be accessed through our website promptly after filing. This includes annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports filed or furnished on Form 8-K and all related amendments.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

| Name | Age | Office | Position Since |
|---|---|---|---|
| Edward L. Baker | 73 | Chairman of the Board | May 3, 1989 |
| John D. Baker II | 60 | President & Chief Executive Officer | Feb. 7, 2008 |
| David H. deVilliers, Jr. | 57 | Vice President of the Company and President of the Company's Real Estate Group | Feb. 28, 1994 |
| John D. Milton, Jr. | 63 | Exec. Vice President, Treasurer, Secretary and Chief Financial Officer | June 16, 2008 |

| | | | |
|---|---|---|---|
| John D. Klopfenstein | 45 | Controller and Chief Accounting Officer | Feb. 16, 2005 |
| Terry S. Phipps | 44 | President of SunBelt Transport, Inc. | April 5, 2004 |
| Robert E. Sandlin | 47 | President of Florida Rock & Tank Lines, Inc. | March 1, 2003 |

All of the above officers have been employed in their respective positions for the past five years except as follows: John D. Baker II served as President and Chief Executive Officer of Florida Rock Industries, Inc. from 1996 to November 2007; John D. Milton, Jr. served as Executive Vice President and Chief Financial Officer of Florida Rock Industries, Inc. from 2001 to November 2007; John D. Klopfenstein served as Director, Business Development and Planning of the Company, from June 2003 to February 2005, and as Manager, Corporate Development of the Company, from July 1996 to May 2003; and Terry S. Phipps was a Vice President of SunBelt from May 2003 to April 2004, and was employed with Coastal Transport, Inc. from 1990 to May 2003.

John D. Baker II, who is the brother of Edward L. Baker, and Thompson S. Baker II, who is the son of Edward L. Baker, are directors of the Company.

All executive officers of the Company are elected by the Board of Directors annually and serve until their resignation or removal.

**Item 1A. RISK FACTORS.**

Our future results may be affected by a number of factors over which we have little or no control. The following issues, uncertainties, and risks, among others, should be considered in evaluating our business and outlook. Also, note that additional risks not currently identified or known to us could also negatively impact our business or financial results.

**We face significant uncertainty regarding the continued demand for our transportation services during the current economic crisis.**
The transportation segment produces approximately 86% of our gross revenues and 58% of our gross profit. The current economic climate could adversely affect the demand for our transportation services. The continued decline in construction activity continues to impact the operations of our flatbed trucking company. These adverse economic conditions may result in reductions in our revenue, increased price competition and increased operating costs, which could have an adverse effect our business, results of operation and financial condition.

**We would be adversely affected by a decline in demand for hauling ethanol.**
In addition to other products, our tank lines subsidiary hauls ethanol which is blended with other petroleum products. The ethanol industry is highly dependent upon federal and state

legislation and changes in such legislation could adversely affect the demand for ethanol products and the resulting demand for our transportation services. In addition, we would be adversely affected by the future construction of pipelines to transport ethanol, which also would reduce demand for our transportation services.

**Our operating results may be adversely impacted by volatility in fuel costs or by fuel shortages.**
The crude oil and petroleum products markets are extremely volatile. Fuel prices are affected by a number of economic and political factors, including general political conditions, acts of war or terrorism, political instability in oil producing regions and capacity at United States oil refineries. Our operating results are impacted by our ability to recover fuel surcharges from customers. In light of the volatility of fuel prices, it may be difficult for us to recover fuel surcharges from customers at levels that will allow us to maintain current levels of profitability. In addition, increased fuel prices reduce consumer demand for the petroleum products hauled by our tank lines subsidiary, adversely impacting revenues. Our operations may also be adversely affected by any limit on the availability of fuel.

**Our business may be adversely affected by seasonal factors and harsh weather conditions.**
Our business is subject to seasonal trends common in the refined petroleum products delivery industry. We typically face increased demand for fuels delivery services in Florida during the spring months. Our real estate group and our flatbed trucking subsidiary are adversely affected by reduced construction activity during periods of inclement weather. These factors can cause our operating results to fluctuate from quarter to quarter. An occurrence of unusually harsh or long-lasting inclement weather such as hurricanes, tornadoes and heavy snowfalls could have an adverse effect on our operations and profitability.

**Our revenues depend in part on construction sector activity levels, which tend to be cyclical.**
One of our transportation subsidiaries hauls construction materials. This subsidiary continues to be significantly affected by the decline in construction activity in our market. Our real estate group receives part of its revenues from royalties on construction aggregates mined on our properties. Thus, our results depend in part on residential, commercial and infrastructure construction activity and spending levels. The construction industry in our markets tends to be cyclical. Construction activity and spending levels vary across our markets and are influenced by interest rates, inflation, consumer spending habits, demographic shifts, environmental laws and regulations, employment levels and the availability of funds for public infrastructure projects. Economic downturns may lead to recessions in the construction industry, either in individual markets or nationally.

**We face difficulty in recruiting and retaining qualified drivers.** In recent years the transportation industry has had difficulty attracting and retaining qualified drivers (including independent contractors), and competition for drivers can be intense. To compete for drivers, we may be forced to increase driver compensation. We cannot be certain that we could pass along the increased compensation costs to our customers. If we are unable to continue to attract drivers and contract with independent contractors, we could be required to suffer downtime and lost revenue miles.

**New tractors are more expensive and less fuel efficient.** New tractors are more expensive, primarily due to higher commodity prices, better pricing power among equipment manufacturers, and government regulations applicable to newly manufactured tractors and diesel engines. Revised EPA regulations decrease the amount of permitted air emissions that can be released by tractor engines and affect tractors produced after the effective date of the regulations. Compliance with these regulations has increased the cost of our new tractors and lowered fuel mileage. This will increase our capital expenses and our operating expenses. These adverse effects combined with the uncertainty as to the reliability of the vehicles equipped with the newly designed diesel engines and the residual values that will be realized from the disposition of these vehicles could increase our costs or otherwise adversely affect our business or operations.

**We have significant ongoing capital requirements.** Our transportation business requires substantial ongoing capital investment, particularly for tractors, trailers, terminals and technology. For the past few years, we have depended on cash from operations and our credit facilities to fund our revenue equipment. We expect to continue to pay for projected capital expenditures with cash flows from operations and borrowings under our line of credit. If we are unable to generate sufficient cash from operations and obtain financing on favorable terms in the future, we may have to limit our growth, enter into less favorable financing arrangements, or operate our revenue equipment for longer periods, any of which could have a material adverse effect on our profitability.

**The loss of one of our major transportation customers could have a materially adverse effect on our business.** A significant portion of our transportation revenue is generated from our major customers. For 2008, our top 10 customers, based on revenue, accounted for approximately 53.5% of our revenue. A reduction in or termination of our services by one or more of our major customers could have a materially adverse effect on our business and operating results.

**The trucking industry is extremely competitive and fragmented.** The trucking industry is extremely competitive and fragmented. No single truckload carrier has a significant market share. We compete with many other truckload carriers of varying sizes, customers' private fleets, and, to a lesser extent, with railroads which may limit our growth opportunities and reduce profitability. Some of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase freight rates or maintain our profit margins. Many customers reduce the number of carriers they use by selecting so-called "core carriers" as approved transportation service providers, and in some instances we may not be selected. Historically, competition has created downward pressure on the truckload industry's pricing structure.

**Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.**
We are subject to various environmental laws and regulations dealing with the handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, and engine idling. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. We also maintain bulk fuel storage and fuel islands at several of our facilities. Although we have instituted programs to monitor and control environmental risks and promote compliance with applicable environmental laws and regulations, the failure to comply with applicable laws or regulations could subject us to liabilities, including substantial fines or penalties or civil and criminal liability, that could have a materially adverse effect on our business and operating results.

**Uninsured losses could significantly reduce our earnings.**
We self-insure for a portion of our claims exposure resulting from workers' compensation, auto liability, general liability, cargo and property damage claims, as well as employees' health insurance. We also are responsible for our legal expenses relating to such claims. We maintain insurance above the amounts for which we self-insure with licensed insurance carriers. Although we believe the aggregate insurance limits should be sufficient to cover reasonably expected claims, it is possible that one or more claims could exceed our aggregate coverage limits. Also, there are some types of losses such as from hurricanes, terrorism, wars, or earthquakes where insurance is limited and/or not economically justifiable. If an uninsured loss occurs, we could lose both the invested capital and anticipated revenues. We reserve currently for anticipated losses and expenses. We periodically evaluate and adjust our claims reserves to reflect our experience. However, ultimate results may differ from our estimates, which could result in losses over our reserved amounts.

**Rising insurance costs could significantly reduce our earnings.**
Insurance carriers sometimes raise premiums for many businesses, including trucking companies. As a result, our insurance and claims expense could increase, or we could raise our self-insured

retention when our policies are renewed. If we are unable to pass along this cost increase to customers, our earnings may be significantly reduced.

**Compliance with new or future transportation regulations may significantly reduce earnings.**
Our transportation operations are regulated and licensed by various U.S. agencies. While the costs of compliance with existing regulations generally is reflected in our prior results, new regulations (such as the new tractor air emissions regulations) and future laws and regulations may be more stringent and require changes in our operating practices, influence the demand for transportation services, or require us to incur significant additional costs. Higher costs incurred by us could adversely affect our results of operations.

**We may be unable to renew leases or relet space as leases expire.**
When a lease expires, a tenant may elect not to renew it. We may not be able to relet the property on similar terms. The terms of renewal or re-lease (including the cost of required renovations and/or concessions to tenants) may be less favorable than the prior lease. If we are unable to relet all or a substantial portion of our properties, or if the rental rates upon such reletting are significantly lower than expected rates, our cash generated before debt repayments and capital expenditures may be adversely affected. As of September 30, 2008, leases at our properties representing approximately 12% of the total square footage of buildings completed prior to September 2008 were scheduled to expire in each fiscal year 2009 and 2010.

**We may be unable to lease newly constructed space.**
We completed two buildings in September 2008 comprising 135,872 square feet. There is a building under construction scheduled for completion in the spring of 2009 with 148,995 square feet. If we are unable to obtain leases sufficient to cover carrying costs then our cash flows may be adversely affected.

**The bankruptcy or insolvency of significant tenants with long-term leases may adversely affect income produced by our properties.**
We have ten buildings in our business parks that are single-tenant occupied representing 48% of developed property rentals under long-term leases. We have seven other tenants with leases in excess of five years. Should tenants default on their obligations, our cash flow would be adversely affected and we may not be able to find another tenant to occupy the space under similar terms or have to make expenditures to retrofit and/or divide the space. In addition we may have to incur a non-cash expense for a significant amount of deferred rent revenue generated from the accounting requirement to straight-line rental revenues. The bankruptcy or insolvency of a major tenant may also adversely affect the income produced by a property. If any of our tenants becomes a debtor in a case under the U.S. Bankruptcy Code, we cannot evict that tenant solely because of its bankruptcy. The bankruptcy court may authorize the

tenant to reject and terminate its lease with us. Our claim against such a tenant for unpaid future rent would be subject to a statutory limitation that might be substantially less than the remaining rent actually owed to us under the tenant's lease. Any shortfall in rent payments could adversely affect our cash flow.

**A decline in the economic conditions in Baltimore-Washington-Northern Virginia area could adversely affect our business.**
All of our office/warehouse properties are located in the Baltimore-Washington-Northern Virginia area. As a result of our geographic concentration, we depend upon the local conditions in these markets, including local real estate conditions. We are, therefore, subject to increased exposure (positive or negative) to economic and other competitive factors specific to markets in confined geographic areas. Our operations may also be affected if too many competing properties are built in these markets. An economic downturn in these markets could adversely affect our operation. We cannot assure you that these markets will continue to grow or will continue to provide favorable demand for our office/warehouse product.

**Our inability to obtain necessary approvals for property development could adversely affect our profitability.**
We may be unable to obtain, or incur delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased costs or abandonment of these projects. Before we can develop a property, we must obtain a variety of approvals from local and state governments with respect to such matters as zoning, density, parking, subdivision, site planning and environmental issues. Legislation could impose moratoriums on new real estate development and/or land-use conversions from mining to development. These factors may reduce our profit or growth and may limit the value of these properties.

**Real estate investments are not as liquid as other types of assets.**
The illiquid nature of real estate investments may limit our ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. Thus, the illiquid nature of our real estate investments could adversely affect our profitability under certain economic conditions.

**Our debt service obligations may have adverse consequences on our business operations.**
We use debt to finance our operations, including acquisitions of properties. Our use of debt may have adverse consequences, including the following:

- Our cash flows from operations may not be sufficient to meet required payments of principal and interest.

- We may be forced to dispose of one or more of our properties, possibly on disadvantageous terms, to make payments on our debt.
- We may default on our debt obligations, and the lenders may foreclose on our properties that collateralize those loans.
- A foreclosure on one of our properties could create taxable income without any accompanying cash proceeds to pay the tax.
- A default under a mortgage loan that has cross default provisions may cause us to automatically default on another loan.
- We may not be able to refinance or extend our existing debt.
- The terms of any refinancing or extension may not be as favorable as the terms of our existing debt.
- We may not be able to issue debt on unencumbered properties under reasonable terms to finance growth of our portfolio of properties.
- We may be subject to a significant increase in the variable interest rates on our unsecured line of credit or unsecured term loan, which could adversely impact our operations.

As of September 30, 2008, we had outstanding non-recourse mortgage indebtedness of $80,172,000, secured by developed real estate properties having a carrying value of $83,584,000.

**Our uncollateralized revolving credit agreement restricts our ability to engage in some business activities.**
Our uncollateralized revolving credit agreement contains customary negative covenants and other financial and operating covenants that, among other things:

- restricts our ability to incur certain additional indebtedness;
- restricts our ability to make certain investments;
- restricts our ability to merge with another company;
- restricts our ability to pay dividends;
- requires us to maintain financial coverage ratios; and
- requires us to not encumber certain assets except as approved by the lenders.

These restrictions could cause us to default on our unsecured line of credit or negatively affect our operations.

**Our real estate segment faces competition from numerous sources.**
As a developer of flexible warehouse/office space, we compete with numerous developers, owners and operators of real estate, many of which own properties similar to ours in the same submarkets in

which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire. As a result, our financial condition, results of operations, cash flow and ability to satisfy our debt service obligations could be materially adversely affected.

**Construction costs may be higher than anticipated.**
Our business plan includes a number of construction projects. The construction costs of these projects may exceed original estimates and possibly make the completion of a property uneconomical. Building material commodity shortages, construction delays/stoppages and/or rapidly escalating construction costs may out-pace market rents, adversely affecting profits. The market environment and existing lease commitments may not allow us to raise rents to cover these higher costs.

**Certain shareholders have effective control of nearly a majority of our common stock and likely will control the outcome of any shareholder vote.**
As of November 28, 2008, three of our directors, Edward L. Baker, John D. Baker II and Thompson S. Baker II, beneficially own approximately 46.8% of the outstanding shares of our common stock. As a result, these individuals effectively may have the ability to direct the election of all members of our Board of Directors and to exercise a controlling influence over our business and affairs, including any determinations with respect to mergers or other business combinations involving us, our acquisition or disposition of assets, our borrowing of monies, our issuance of any additional securities, our repurchase of common stock and our payment of dividends.

**Our charter, bylaws and shareholder rights agreement contain anti-takeover provisions that may hinder a takeover or negatively affect our stock price.**
Our articles of incorporation, bylaws and shareholder rights agreement contain several provisions that may make it more difficult and expensive for a third party to acquire control of us without the approval of our board of directors. Our articles of incorporation and bylaws contain provisions dividing our board of directors into four classes of directors serving four-year terms and providing that directors may only be removed for cause. Our articles of incorporation also provide that our shareholders can take action only at a duly called annual or special meeting of shareholders and require a supermajority vote to approve certain matters. In addition, our board of directors is authorized to issue additional shares of common stock or preferred stock and to determine the rights and preferences of any shares of preferred stock to be issued. Our shareholder rights plan is designed to guard against coercive or unfair tactics to gain control of us. The rights will cause substantial dilution to any person or group

who attempts to acquire a significant amount of common stock without approval of our board of directors. Because we can redeem the rights, the rights will not interfere with a merger or other business combination approved by our board.

**Item 2. PROPERTIES.**

The Company's principal properties are located in Florida, Georgia, Virginia, Washington, D.C., Delaware and Maryland.

**Real Estate Segment Properties.** Principal properties held by the Real Estate segment are discussed below under the captions Developed Properties, Future Planned Development, Construction Aggregates Properties, and Other Properties.

At September 30, 2008 certain developed real estate properties having a carrying value of $83,584,000 were pledged on long-term non-recourse notes with an outstanding principal balance totaling $80,172,000. In addition, certain other properties having a carrying value at September 30, 2008 of $98,000 were encumbered by $1,300,000 of industrial revenue bonds that are the liability of Vulcan. Vulcan has agreed to pay such debt when due (or sooner if Vulcan cancels its lease of such property), and further has agreed to indemnify and hold harmless the Company on account of such debt.

**Developed Properties.** At September 30, 2008, the Company owned 11 developed parcels of land containing 261 usable acres in the Mid-Atlantic region of the United States as follows:

1) Hillside Business Park in Anne Arundel County, Maryland consists of 49 usable acres. A total of 504,740 square feet existed on the property at the beginning of 2008 and it is 97% occupied. Construction of the final building with 66,398 square feet of office space was completed in September 2008. The addition of this as yet unoccupied building results in a decline in average occupancy from 97% to 86%.

2) Lakeside Business Park in Harford County, Maryland consists of 84 usable acres. Eight warehouse/office buildings, totaling 745,297 square feet, have been constructed and are 100% occupied. Construction of a 148,995 square foot building commenced in March 2008. The remaining 14 acres are available for future development and have the potential to offer an additional 210,230 square feet of comparable product.

3) 6920 Tudsbury Road in Baltimore County, Maryland contains 5.3 acres with 86,100 square feet of warehouse/office space that is 100% leased.

4) 8620 Dorsey Run Road in Howard County, Maryland contains 5.8 acres with 85,100 square feet of warehouse/office space that is 100% leased.

5) Rossville Business Center in Baltimore County, Maryland contains approximately 10 acres with 190,517 square feet of warehouse/office space and is 100% leased.

6) 34 Loveton Circle in suburban Baltimore County, Maryland contains 8.5 acres with 30,006 square feet of office space, which is 76% leased including 23% of the space occupied by the Company.

7) Oregon Business Center in Anne Arundel County, Maryland contains approximately 17 acres with 195,615 square feet of warehouse/office space, which is 68% leased. Following occupancy by an additional 17,796 square foot tenant in November 2008 this park is 76% occupied.

8) Arundel Business Center in Howard County, Maryland contains approximately 11 acres with 162,796 square feet of warehouse/office space, which is 78% leased.

9) 100-400 Interchange Boulevard in New Castle County, Delaware contains approximately 17 acres with 303,006 square feet of warehouse/office space, which is 92% leased. The remaining 8.8 acres are available for future development and have the potential to offer an additional 93,600 square feet of comparable product.

10) 1187 Azalea Garden Road in Norfolk, Virginia contains approximately 12 acres with 188,093 square feet of warehouse/office space, which is 100% leased.

11) Windlass Run Business Park in Baltimore County, Maryland contains 69,474 square feet of warehouse/office space newly completed in September 2008. The building is as yet unoccupied. This building is contained within a larger parcel containing approximately 42 acres when complete is estimated to include 519,824 square feet of total build-out

**Future Planned Developments.** At September 30, 2008 the Company owned the following future development parcels:

1) Windlass Run Residential, located in southeastern Baltimore County, Maryland, is a 121 acre tract of land adjacent to and west of our Windlass Run Business Park. The property was rezoned in September 2007 to allow for additional density and plans are being pursued to obtain a Planned Unit Development. In July 2008, the Company entered into an agreement to sell the property. The purchase price for the property is $25,265,000, subject to certain potential purchase price adjustments. The agreement of sale is subject to certain contingencies, including the satisfactory completion of the buyer's inspection period and additional government approvals, and the closing may be two or more years away.

2) Patriot Business Park, located in Prince William County, Virginia, is a 73 acre tract of land which is immediately adjacent to the Prince William Parkway providing access to I-66. The Company plans to develop and lease approximately 733,650 square feet of warehouse/office buildings on the property. Land development efforts commenced in the summer of 2008.

3) Brooksville Quarry LLC. 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, a real estate joint venture to develop approximately 4,300 acres of land near Brooksville, Florida. The property does not yet have the necessary entitlements for real estate development. Approval to develop real property in Florida entails an extensive entitlements process involving multiple and overlapping regulatory jurisdictions and the outcome is inherently uncertain. The Company currently expects that the entitlement process will be completed within the next two years.

4) Anacostia River. The Company owns a 5.8 acre parcel of undeveloped real estate in Washington D.C. that fronts the Anacostia River and is adjacent to the new Washington Nationals Baseball Stadium which was completed in March, 2008. The Company also owns a nearby 2.1 acre tract on the same bank of the Anacostia River. Currently, the 5.8 acre tract is leased to Vulcan Materials Company on a month-to-month basis.

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. 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.

5) Commonwealth Avenue in Jacksonville, Florida is a 50 acre, rail accessible site near the western beltway of Interstate-295 capable of supporting approximately 500,000 square feet of warehouse/office build-out.

6) Leister property in Hampstead, Carroll County, Maryland is a 117 acre parcel located adjacent to State Route 30 bypass. The parcel was acquired for future commercial development and is projected to contain 900,000 square feet of space when complete. This parcel is currently in a predevelopment planning stage.

**Construction Aggregates Properties.** The following table summarizes the Company's principal construction aggregates locations and estimated reserves at September 30, 2008, substantially all of which are leased to FRI.

| | Tons Sold in Year Ended 9/30/08 (000's) | Tons of Estimated Reserves at 9/30/08 (000's) | Approximate Acres Owned |
|---|---|---|---|
| The Company owns ten locations currently being mined in Grandin, Gulf Hammock, Keuka, Newberry and Airgrove/ Lake County, Florida; | | | |

| | | | |
|---|---|---|---|
| Columbus, Macon, and Tyrone, Georgia; and Manassas, Virginia. | 7,964(1) | 362,587 | 12,994 |
| The Company owns three locations not currently being mined in Ft. Myers, Marion County, Astatula/Lake County, and Forest Park, Georgia. | - | 88,931 | 2,881 |

(1) Tons sold in year ended 9/30/08 include Brooksville tons of 289,000. Tons of estimated reserves and acres owned do not include Brooksville as the property was transferred October 4, 2006 to a joint venture with Vulcan for development.

**Other Properties.** In addition to the development, mining and rental sites, the Company owns approximately 2,222 acres of investment and other real estate. This includes a 1,844-acre timberland site located in Caroline County, Virginia.

The Company owns an office building with approximately 69,000 square feet situated on approximately 6 acres in Jacksonville, Florida, which is leased to Vulcan.

**Transportation Segment Properties.** The Company has 20 sites for its trucking terminals in Alabama, Florida, Georgia, North Carolina, and Tennessee. The Company owns 13 of these sites and leases 7.

## Item 3. LEGAL PROCEEDINGS.

Note 13 to the Consolidated Financial Statements included in the accompanying 2008 Annual Report to Shareholders is incorporated herein by reference.

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

No reportable events.

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

There were approximately 549 holders of record of Patriot Transportation Holding, Inc. common stock, $.10 par value, as of September 30, 2008. The Company's common stock is traded on the Nasdaq Stock Market (Symbol PATR). Information concerning stock prices is included under the caption "Quarterly Results" on page 6 of the Company's 2008 Annual Report to Shareholders, and such information is incorporated herein by reference. The Company has not paid a cash dividend in the past and it is the present policy of the Board of Directors not to pay cash dividends. Information concerning restrictions on the payment of cash dividends is included in Note 3 to the consolidated financial statements included in the accompanying 2008 Annual Report to Shareholders and such information is incorporated herein by reference. Information regarding securities authorized for issuance under equity compensation plans is included in Item 12 of Part III of this Annual Report on Form 10-K and such information is incorporated herein by reference.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| July 1 through July 31 | 0 | $ 0 | 0 | $ 5,625,000 |
| August 1 through August 31 | 0 | $ 0 | 0 | $ 5,625,000 |
| September 1 through September 30 | 0 | $ 0 | 0 | $ 5,625,000 |
| Total | 0 | $ 0 | 0 | |

(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.

## Item 6. SELECTED FINANCIAL DATA.

Information required in response to this Item 6 is included under the caption "Five Year Summary" on page 6 of the Company's 2008 Annual Report to Shareholders and such information is incorporated herein by reference.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

Information required in response to Item 7 is included under the caption "Management Analysis" on pages 7 through 11 of the Company’s 2008 Annual Report to Shareholders and such information is incorporated herein by reference.

## Item 7.A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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. 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.

For its debt instruments with variable interest rates, changes in interest rates affect the amount of interest expense incurred. The Company did not have any variable rate debt outstanding at September 30, 2008. The following table provides information about the Company’s long-term debt (dollars in thousands):

| Liabilities: | 2009 | 2010 | 2011 | 2012 | 2013 | There after | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| Scheduled maturities of long-term debt: | | | | | | | | |
| Fixed Rate | $ 4,019 | $4,294 | $4,587 | $4,902 | $5,239 | $57,131 | $80,172 | $78,839 |
| Average interest rate | 6.4% | 6.4% | 6.3% | 6.3% | 6.3% | 6.3% | | |

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Information required in response to this Item 8 is included under the caption "Quarterly Results" on page 6 and on pages 12 through 23 of the Company's 2008 Annual Report to Shareholders. Such information is incorporated herein by reference.

**Item 9A. CONTROLS AND PROCEDURES.**

**CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our principal executive officer, principal financial officer and chief accounting officer, we conducted an evaluation of our disclosure controls and procedures, as such terms is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer, our principal financial officer and our chief accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of September 30, 2008.

Hancock Askew & Co., LLP, the independent registered certified public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of September 30, 2008, as stated in their report which appears in Item 8.

**INHERENT LIMITATIONS OVER INTERNAL CONTROLS**

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

## PART III

### Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information regarding the Company’s executive officers is set forth under the caption "Executive Officers of the Registrant" in Part I of this Form 10-K. Information concerning directors (including the disclosure regarding audit committee financial experts), required in response to this Item 10, is included under the captions "Election of Directors", "Board Structure and Committee Membership – Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement and such information is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission not later than December 31, 2008.

The Company has adopted a Financial Code of Ethical Conduct applicable to its principal executive officers, principal financial officers and principal accounting officers. A copy of this Financial Code of Ethical Conduct is filed as Exhibit 14 to this Form 10-K. The Financial Code of Ethical Conduct is available on our web site at www.patriottrans.com under the heading *Investor Relations – Corporate Governance*.

**Item 11. EXECUTIVE COMPENSATION.**

Information required in response to this Item 11 is included under the captions "Executive Compensation," "Compensation Committee Report," "Board Structure and Committee Membership – Compensation Committee," and "Shareholder Return Performance" in the Company's Proxy Statement and such information is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission not later than December 31, 2008.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Information required in response to this Item 12 is included under the captions "Common Stock Ownership of Certain Beneficial Owners" and "Common Stock Ownership by Directors and Executive Officers" in the Company's Proxy Statement and such information is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission not later than December 31, 2008.

Equity Compensation Plan Information

| Plan Category | Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted Average exercise price of outstanding options, warrants and rights (b) | Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 232,080 | $33.73 | 262,400 |
| Equity compensation plans not approved by security holders | 0 | 0 | 0 |
| Total | 232,080 | $33.73 | 262,400 |

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

Information required in response to this Item 13 is included under the caption “Related Party Transactions" in the Company's Proxy Statement and such information is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission not later than December 31, 2008.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

Information required in response to this Item 14 is included under the captions “Independent Auditor” and “Ratification of Independent Registered Certified Public Accounting Firm” in the Company’s Proxy Statement and such information is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission not later than December 31, 2008.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a) (1) and (2) Financial Statements and Financial Statement Schedules.

The response to this item is submitted as a separate section. See Index to Financial Statements and Financial Statement Schedules on page 29 of this Form 10-K.

(3) Exhibits.

The response to this item is submitted as a separate section. See Exhibit Index on pages 26 through 28 of this Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Patriot Transportation Holding, Inc.

Date: December 3, 2008

By JOHN D. BAKER II
John D. Baker II
President and Chief Executive Officer (Principal Executive Officer)

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

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on December 03, 2008.

JOHN D. BAKER II
John D. Baker II
Director, President, and Chief Executive Officer
(Principal Executive Officer)

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

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

EDWARD L. BAKER
Edward L. Baker
Chairman of the Board

JOHN E. ANDERSON
John E. Anderson
Director

JOHN D. BAKER II
John D. Baker II
Director

THOMPSON S. BAKER II
Thompson S. Baker II
Director

LUKE E. FICHTHORN III
Luke E. Fichthorn III
Director

CHARLES E. COMMANDER III
Charles E. Commander III
Director

ROBERT H. PAUL III
Robert H. Paul III
Director

H. W. SHAD III
H. W. Shad III
Director

MARTIN E. STEIN, JR.
Martin E. Stein, Jr.
Director

JAMES H. WINSTON
James H. Winston
Director

**PATRIOT TRANSPORTATION HOLDING, INC.**
**FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**
**EXHIBIT INDEX**
**[Item 14(a)(3)]**

| | |
|---|---|
| (3)(a)(1) | Articles of Incorporation of Patriot Transportation Holding, Inc., incorporated by reference to the corresponding exhibit filed with Form S-4 dated December 13, 1988. File No. 33-26115. |
| (3)(a)(2) | Amendment to the Articles of Incorporation of Patriot Transportation Holding, Inc. filed with the Secretary of State of Florida on February 19, 1991 incorporated by reference to the corresponding exhibit filed with Form 10-K for the fiscal year ended September 30, 1993. File No. 33-26115. |
| (3)(a)(3) | Amendments to the Articles of Incorporation of Patriot Transportation Holding, Inc. filed with the Secretary of State of Florida on February 7, 1995, incorporated by reference to an appendix to the Company’s Proxy Statement dated December 15, 1994. File No. 33-26115. |
| (3)(a)(4) | Amendment to the Articles of Incorporation of Patriot Transportation Holding, Inc., filed with the Florida Secretary of State on May 6, 1999 incorporated by reference to a form of such amendment filed as Exhibit 4 to the Company’s Form 8-K dated May 5, 1999. File No. 33-26115. |
| (3)(a)(5) | Amendment to the Articles of Incorporation of Patriot Transportation Holding, Inc. filed with the Secretary of State of Florida on February 21, 2000, incorporated by reference to the corresponding exhibit filed with Form 10-Q for the quarter ended March 31, 2000. File No. 33-26115. |
| (3)(b)(1) | Amended and Restated Bylaws of Patriot Transportation Holding, Inc. adopted August 3, 2005, incorporated by reference to Exhibit 3.1 to the Company’s Form 8-K dated August 3, 2005. File No. 33-26115. |
| (4)(a) | Articles III, VII and XII of the Articles of Incorporation of Patriot Transportation Holding, Inc, incorporated by reference to an exhibit filed with Form S-4 dated December 13, 1988. And amended Article III, incorporated by reference to an exhibit filed with Form 10-K for the fiscal year ended September 30, 1993. And Articles XIII and XIV, incorporated by reference to an appendix filed with the Company’s Proxy Statement dated December 15, 1994. File No. 33-26115. |
| (4)(b) | Specimen stock certificate of Patriot Transportation Holding, Inc, incorporated by reference to an exhibit filed with Form S-4 dated December 13, 1988. File No. 33-26115. |
| (4)(c) | Rights Agreement, dated as May 5, 1999 between the Company and First Union National Bank, incorporated by reference to Exhibit 4 to the Company’s Form 8-K dated May 5, 1999. File No. 33-26115. |
| (10)(a) | Various lease backs and mining royalty agreements with Florida Rock Industries, Inc., none of which are presently believed to be material individually, except for the Mining Lease Agreement dated September 1, 1986, between Florida Rock Industries Inc. and Florida Rock Properties, Inc., successor by merger to Grandin Land, Inc. (see Exhibit (10)(c)), but all of which may be material in the aggregate, incorporated by |

reference to an exhibit filed with Form S-4 dated December 13, 1988. File No. 33-26115.

| | |
|---|---|
| (10)(b) | License Agreement, dated June 30, 1986, from Florida Rock Industries, Inc. to Florida Rock & Tank Lines, Inc. to use "Florida Rock" in corporate names, incorporated by reference to an exhibit filed with Form S-4 dated December 13, 1988. File No. 33-26115. |
| (10)(c) | Mining Lease Agreement, dated September 1, 1986, between Florida Rock Industries, Inc. and Florida Rock Properties, Inc., successor by merger to Grandin Land, Inc., incorporated by reference to an exhibit previously filed with Form S-4 dated December 13, 1988. File No. 33-26115. |
| (10)(d) | Summary of Medical Reimbursement Plan of Patriot Transportation Holding, Inc., incorporated by reference to an exhibit filed with Form 10-K for the fiscal year ended September 30, 1993. File No. 33-26115. |
| (10)(e) | Summary of Management Incentive Compensation Plans, incorporated by reference to an exhibit filed with Form 10-K for the fiscal year ended September 30, 1994. File No. 33-26115. |
| (10)(f) | Management Security Agreements between the Company and certain officers, incorporated by reference to a form of agreement previously filed (as Exhibit (10)(I)) with Form S-4 dated December 13, 1988. File No. 33-26115. |
| (10)(g)(1) | Patriot Transportation Holding, Inc. 1995 Stock Option Plan, incorporated by reference to an appendix to the Company’s Proxy Statement dated December 15, 1994. File No. 33-26115. |
| (10)(g)(2) | Patriot Transportation Holding, Inc. 2000 Stock Option Plan, incorporated by reference to an appendix to the Company’s Proxy Statement dated December 15, 1999. File No. 33-26115. |
| (10)(g)(3) | Patriot Transportation Holding, Inc. 2006 Stock Incentive Plan, incorporated by reference to an appendix to the Company’s Proxy Statement dated December 29, 2005. File No. 33-26115. |
| (10)(h) | Amended and Restated Revolving Credit Agreement dated September 30, 2008 among Patriot Transportation Holding, Inc. as Borrower, the Lenders from time to time party hereto and Wachovia Bank, National Association as Administrative Agent, incorporated by reference to the Company’s Form 8-K dated October 7, 2008. File No. 33-26115. |
| (10)(i) | The Company and its consolidated subsidiaries have other long-term debt agreements, none of which exceed 10% of the total consolidated assets of the Company and its subsidiaries, and the Company agrees to furnish copies of such agreements and constituent documents to the Commission upon request. |
| (10)(j) | Letter of Credit Facility between Patriot Transportation Holding, Inc. and SunTrust Bank, N.A. dated February 16, 2005, incorporated by reference to the Company’s Form 8-K dated February 16, 2005. File No. 33-26115. |
| (10)(k) | Joint Venture Agreement between Florida Rock Industries, Inc. and Florida Rock Properties, incorporated by reference to an exhibit filed with Form 10-K for the fiscal year ended September 30, 2006. File No. 33-26115. |

(10)(l) Letter Agreement between the Company and John E. Anderson, incorporated by reference to an exhibit filed with Form 10-Q for the quarter ended December 31, 2007. File No. 33-26115.

(10)(m) Letter Agreement between the Company and David H. deVilliers, Jr., incorporated by reference to an exhibit filed with Form 10-Q for the quarter ended December 31, 2007. File No. 33-26115.

(10)(n) Letter Agreement between the Company and Robert E. Sandlin, incorporated by reference to an exhibit filed with Form 10-Q for the quarter ended December 31, 2007. File No. 33-26115.

(10)(o) Letter Agreement between the Company and Terry S. Phipps, incorporated by reference to an exhibit filed with Form 10-Q for the quarter ended December 31, 2007. File No. 33-26115.

(10)(p) Letter Agreement between the Company and John D. Klopfenstein, incorporated by reference to an exhibit filed with Form 10-Q for the quarter ended December 31, 2007. File No. 33-26115.

(10)(q) Agreement of Sale between FRP Bird River, LLC. and Mackenzie Investment Group, LLC. and related amendments. Filed herein.

(13) The Company's 2008 Annual Report to shareholders, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2008 Annual Report to Shareholders which are not incorporated by reference shall not be deemed to be filed as part of this Form 10-K.

(14) Financial Code of Ethical Conduct between the Company, Chief Executive Officers and Financial Managers, adopted December 4, 2002, incorporated by reference to an exhibit filed with Form 10-K for the year ended September 30, 2003. File No. 33-26115.

(21) Subsidiaries of Registrant at September 30, 2007: Florida Rock & Tank Lines, Inc. (a Florida corporation); Florida Rock Properties, Inc. (a Florida corporation); FRP Development Corp. (a Maryland corporation); FRP Maryland, Inc. (a Maryland corporation); 34 Loveton Center LLC (a Maryland limited liability company); FRTL, Inc. (a Florida corporation); SunBelt Transport, Inc. (a Florida Corporation); Oz LLC(a Maryland limited liability company); 1502 Quarry, LLC(a Maryland limited liability company); FRP Lakeside LLC #1 (a Maryland limited company); FRP Lakeside LLC #2 (a Maryland limited liability company); FRP Lakeside LLC #3 (a Maryland limited liability company); FRP Lakeside LLC #4 (a Maryland limited liability company); FRP Lakeside LLC #5 (a Maryland limited liability company); FRP Hillside LLC (a Maryland limited liability company); FRP Hillside LLC #2 (a Maryland limited liability company); FRP Hillside LLC #3 (a Maryland limited liability company); FRP Hillside LLC #4 (a Maryland limited liability company); FRP Windsor LLC (a Maryland limited liability company); FRP Dorsey LLC (a Maryland limited liability company); FRP Bird River LLC (a Maryland limited liability company); FRP Interchange LLC (a Maryland limited liability company); FRP Azalea LLC (a Maryland limited liability company); FRP Manassas LLC (a Maryland limited liability company); FRP Hampstead LLC (a Maryland limited liability company).

| | |
|---|---|
| (23)(a) | Consent of Hancock Askew & Co., Inc., Independent Registered Certified Public Accounting Firm, appears on page 30 of this Form 10-K. |
| (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. |

**PATRIOT TRANSPORTATION HOLDING, INC.**
**INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES**
**(Item 15(a) (1) and 2))**



(a) Refers to the page number in the Company's 2008 Annual Report to Shareholders. Such information is incorporated by reference in Item 8 of this Form 10-K.

(b) Refers to the page number in this Form 10-K.

All other schedules have been omitted, as they are not required under the related instructions, are inapplicable, or because the information required is included in the consolidated financial statements.

**Exhibit 23**

**CONSENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-18875, 333-55132, 333-125099 and 333-131475) of Patriot Transportation Holding, Inc. of our report dated December 03, 2008 relating to the consolidated financial statements and the effectiveness of Patriot Transportation Holding, Inc's internal control over financial reporting which appears in the Annual Report to Shareholders incorporated by reference. We also consent to the incorporation by reference of our report dated December 3, 2008, relating to the financial statement schedules, which appear in this Form 10-K.

Hancock Askew & Co., LLP

Savannah, Georgia
December 3, 2008

**REPORTS OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULES**

To the Board of Directors of
Patriot Transportation Holding, Inc.:

Our audit of the consolidated financial statements referred to in our report dated December 3, 2008 appearing in the 2008 Annual Report to Shareholders of Patriot Transportation Holding, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audit. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

Hancock Askew & Co., LLP

Savannah, Georgia
December 3, 2008

**PATRIOT TRANSPORTATION HOLDING, INC.**
**SCHEDULE II (CONSOLIDATED) - VALUATION**
**AND QUALIFYING ACCOUNTS**
**YEARS ENDED SEPTEMBER 30, 2008, 2007 AND 2006**

| | BALANCE AT BEGIN. OF YEAR | ADDITIONS CHARGED TO COST AND EXPENSES | ADDITIONS CHARGED TO OTHER ACCOUNTS | DEDUCTIONS | BALANCE AT END OF YEAR |
|---|---|---|---|---|---|
| **Year Ended September 30, 2008:** | | | | | |
| Allowance for doubtful accounts | $ 206,868 | $ 146,375 | $ - | $ 88,244(a) | $ 264,999 |
| Accrued risk insurance | $7,611,683 | $ 3,914,380 | $ - | $ 3,310,999(b) | $8,215,064 |
| Accrued health insurance | 1,071,216 | 3,742,041 | (8,727)(c) | 3,679,370(b) | 1,125,160 |
| Totals - insurance | $8,682,899 | $ 7,656,421 | $ (8,727) | $ 6,990,369 | $9,340,224 |
| **Year Ended September 30, 2007:** | | | | | |
| Allowance for doubtful accounts | $ 359,227 | $ (22,155) | $ - | $ 130,204(a) | $ 206,868 |
| Accrued risk insurance | $8,208,570 | $ 2,319,782 | $ - | $ 2,916,669(b) | $7,611,683 |
| Accrued health insurance | 1,192,939 | 3,662,082 | (142,628)(c) | 3,641,177(b) | 1,071,216 |
| Totals - insurance | $9,401,509 | $ 5,981,864 | $(142,628) | $ 6,557,846 | $8,682,899 |
| **Year Ended September 30, 2006:** | | | | | |
| Allowance for doubtful accounts | $ 525,255 | $ (39,910) | $ - | $ 126,118(a) | $ 359,227 |
| Accrued risk insurance | $7,576,789 | $ 2,381,943 | $ - | $ 1,750,162(b) | $8,208,570 |
| Accrued health insurance | 1,196,162 | 3,100,234 | - | 3,103,457(b) | 1,192,939 |
| Totals - insurance | $8,772,951 | $ 5,482,177 | $ 0 | $ 4,853,619 | $9,401,509 |

(a) Accounts written off less recoveries
(b) Payments
(c) Other comprehensive income (FAS 158).

**PATRIOT TRANSPORTATION HOLDING, INC.**
**SCHEDULE III (CONSOLIDATED)-REAL ESTATE & ACCUMULATED DEPRECIATION AND DEPLETION** (dollars in thousands)
**SEPTEMBER 30, 2008**

| County | Encumb-rances | Initial cost to Company | Cost capitalized subsequent to acquisition | Gross amount at which carried at end of period (a) | Accumulated Depreciation | Year Of Construction | Date Acquired | Depreciation Life Computed on: |
|---|---|---|---|---|---|---|---|---|
| Construction Aggregates | | | | | | | | |
| Alachua, FL | | $ 1,442 | $ 0 | $ 1,442 | $ 113 | n/a | 4/86 | unit |
| Clayton, GA | | 369 | 0 | 369 | 5 | n/a | 4/86 | unit |
| Fayette, GA | | 685 | 0 | 685 | 60 | n/a | 4/86 | unit |
| Lake, FL | | 403 | 0 | 403 | 146 | n/a | 4/86 | unit |
| Lee, FL | | 4,690 | 6 | 4,696 | 6 | n/a | 4/86 | unit |
| Monroe, GA | | 792 | 0 | 792 | 267 | n/a | 4/86 | unit |
| Muscogee, GA | | 369 | 0 | 369 | 225 | n/a | 4/86 | unit |
| Prince Wil. VA | | 299 | 0 | 299 | 299 | n/a | 4/86 | unit |
| Putnam, FL | | 15,002 | 19 | 15,021 | 3,955 | n/a | 4/86 | unit |
| | 0 | 24,051 | 25 | 24,076 | 5,074 | | | |
| Other Rental Property | | | | | | | | |
| Wash D.C. | | 2,956 | 9,939 | 12,895 | 2,454 | n/a | 4/86 | 15 yr. |
| Wash D.C. | | 3,811 | 0 | 3,811 | 0 | n/a | 10/97 | |
| Putnam, FL | | 302 | 19 | 321 | 300 | n/a | 4/86 | 5 yr. |
| Spalding, GA | | 20 | 0 | 20 | 0 | n/a | 4/86 | |
| Lake, FL | | 1,083 | 0 | 1,083 | 968 | n/a | 4/86 | unit |
| Marion, FL | | 1,180 | 4 | 1,184 | 599 | n/a | 4/86 | unit |
| | 0 | 9,352 | 9,962 | 19,314 | 4,321 | | | |
| Commercial Property | | | | | | | | |
| Baltimore, MD | 2,424 | 439 | 3,813 | 4,252 | 2,010 | 2008 | 10/89 | 39 yr. |
| Baltimore, MD | 6,164 | 950 | 6,412 | 7,362 | 3,208 | 2006 | 12/91 | 39 yr. |
| Baltimore, MD | 2,111 | 690 | 2,837 | 3,527 | 849 | 2000 | 7/99 | 39 yr. |
| Baltimore, MD | 0 | 5,634 | 11,037 | 16,671 | 11 | 2008 | 12/02 | 39 yr. |
| Duval, FL | 0 | 2,416 | 529 | 2,945 | 2,625 | n/a | 4/86 | 25 yr. |
| Harford, MD | 2,092 | 31 | 3,826 | 3,857 | 1,315 | 1998 | 8/95 | 39 yr. |
| Harford, MD | 3,670 | 50 | 5,552 | 5,602 | 1,471 | 1999 | 8/95 | 39 yr. |
| Harford, MD | 5,217 | 85 | 6,665 | 6,750 | 2,030 | 2001 | 8/95 | 39 yr. |
| Harford, MD | 0 | 92 | 1,568 | 1,660 | 0 | n/a | 8/95 | 39 yr. |
| Harford, MD | 3,841 | 88 | 10,133 | 10,221 | 1,754 | 2007 | 8/95 | 39 yr. |
| Harford, MD | 2,970 | 155 | 9,248 | 9,403 | 1,393 | 2001 | 8/95 | 39 yr. |
| Howard, MD | 3,123 | 2,859 | 4,356 | 7,215 | 2,840 | 2008 | 9/88 | 39 yr. |
| Howard, MD | 1,908 | 2,473 | 922 | 3,395 | 826 | 2006 | 3/00 | 39 yr. |
| Anne Arun, MD | 2,153 | 715 | 7,339 | 8,054 | 4,170 | 2008 | 9/88 | 39 yr. |
| Anne Arun, MD | 10,904 | 950 | 13,055 | 14,005 | 2,144 | n/a | 5/98 | 39 yr. |
| Anne Arun, MD | 10,354 | 1,525 | 10,762 | 12,287 | 1,078 | 2005 | 8/04 | 39 yr. |
| Anne Arun, MD | 4,839 | 737 | 5,163 | 5,900 | 376 | 2006 | 1/03 | 39 yr. |
| Anne Arun, MD | 0 | 667 | 6,798 | 7,465 | 20 | 2008 | 7/07 | 39 yr. |
| Norfolk, VA | 6,726 | 7,512 | 0 | 7,512 | 889 | n/a | 10/04 | 39 yr. |
| Prince Wil. VA | 0 | 7,324 | 1,539 | 8,863 | 0 | n/a | 12/05 | 39 yr. |
| Newcastle Co. DE | 11,676 | 11,559 | 1,192 | 12,751 | 1,536 | 2006 | 4/04 | 39 yr. |
| Carroll, MD | 0 | 4,720 | 360 | 5,080 | 0 | n/a | 3/08 | n/a |
| | 80,172 | 51,671 | 113,106 | 164,777 | 30,545 | | | |
| Investment Property | | 2,451 | 301 | 2,752 | 638 | n/a | 4/86 | n/a |
| GRAND TOTALS | $80,172 | $87,525 | $123,394 | $210,919 | $40,578 | | | |

(a) The aggregate cost for Federal income tax purposes is $194,542.

**PATRIOT TRANSPORTATION HOLDING, INC.**
**SCHEDULE III (CONSOLIDATED) - REAL ESTATE AND ACCUMULATED DEPRECIATION AND DEPLETION**
**YEARS ENDED SEPTEMBER 30, 2008, 2007 AND 2006**
(In thousands)

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Gross Carrying Cost of Real Estate: | | | |
| Balance at beginning of period | $190,030 | 184,735 | 164,233 |
| Additions during period: | | | |
| Amounts capitalized | 24,221 | 5,295 | 20,502 |
| Deductions during period: | | | |
| Cost of real estate sold | (3,326) | - | - |
| Other (abandonments) | (6) | - | - |
| Balance at close of period | $210,919 | 190,030 | 184,735 |
| Accumulated Depreciation & Depletion: | | | |
| Balance at beginning of period | $ 36,539 | 33,671 | 29,816 |
| Additions during period: | | | |
| Charged to cost & expense | 4,045 | 2,868 | 3,855 |
| Deductions during period: | | | |
| Real estate sold | (6) | - | - |
| Balance at close of period | $40,578 | 36,539 | 33,671 |

**CONSOLIDATED FINANCIAL HIGHLIGHTS**
Years ended September 30
(Amounts in thousands except per share amounts)

| | 2008 | 2007 | % Change |
|---|---|---|---|
| Revenues | $172,049 | 154,282 | 11.5 |
| Gross profit | $ 29,096 | 30,407 | (4.3) |
| Operating profit | $ 13,484 | 18,352 | (26.5) |
| Income before income taxes | $ 12,898 | 14,616 | (11.8) |
| Net income | $ 7,968 | 9,505 | (16.2) |
| Per common share: | | | |
| Basic | $ 2.63 | 3.15 | (16.5) |
| Diluted | $ 2.55 | 3.04 | (16.1) |
| Total Assets | $262,040 | 253,530 | 3.4 |
| Total Debt | $ 80,172 | 83,934 | (4.5) |
| Shareholders' Equity | $137,355 | 130,461 | 5.3 |
| Common Shares Outstanding | 3,039 | 3,051 | (0.4) |
| Book Value Per Common Share | $ 45.20 | 42.76 | 5.7 |

**BUSINESS.** The Company is engaged in the transportation and real estate businesses. The Company's transportation business is conducted through two wholly owned subsidiaries. Florida Rock & Tank Lines, Inc. (Tank Lines) is a Southeastern U.S. based tank truck company concentrating in the hauling of primarily petroleum products and other liquid and dry bulk commodities. SunBelt Transport, Inc. (SunBelt) serves the flatbed portion of the trucking industry in the Southeastern U.S., hauling primarily construction materials. The Company's real estate group, comprised of FRP Development Corp. and Florida Rock Properties, Inc., acquires, constructs, leases, operates and manages land and buildings to generate both current cash flows and long-term capital appreciation. The real estate group also owns real estate which is leased under mining royalty agreements or held for investment.

**OBJECTIVES.** The Company's dual objectives are to continue building a substantial transportation company and a real estate company providing sound long-term growth, cash generation and asset appreciation.

**TRANSPORTATION**

Internal growth is accomplished by a dedicated and competent work force emphasizing superior service to customers in existing markets, developing new transportation services for customers in current market areas and expanding into new market areas.

External growth is designed to broaden the Company's geographic market area and delivery services by acquiring related businesses.

**REAL ESTATE**

The growth plan is based on the acquisition, development and management of commercial warehouse/office rental properties located in appropriate sub-markets in order to provide long-term positive cash flows and capital appreciation.

## To Our Shareholders

Fiscal 2008 was a transition year for your Company in its Executive Suite. Our CEO of 19 years, John E. Anderson, retired in February followed by the retirement of our CFO of the past eight years, Ray M. Van Landingham in June. Their accomplishments over these past years have been nothing short of impressive and on behalf of all shareholders, we express our sincere gratitude for their many accomplishments on our behalf!

As 2008 unfolded we began to see some of the most challenging events of a lifetime confront our markets. The housing crisis continued to worsen and with it the demand for the construction products transported by Sunbelt Transport. Fuel costs escalated rapidly, hitting all time records this summer. Then the financial markets began to experience a liquidity crisis of serious proportions that brought on one after another failure of a number of our oldest financial institutions. At year end we feel fortunate to have a strong balance sheet with long term debt encumbering only our improved real estate properties, all of which debt is amortizing evenly over specified terms and is non-recourse to the Company. We begin FY 2009 with no debt on any of our transportation assets and cash on deposit in excess of seven-and-a-half million dollars.

While net income for FY 2008 was down some 16.2% from FY 2007, both our third and fourth quarters showed improved net income over the same periods in 2007. For the entire year, shareholders’ equity improved some 5.28%.

## Transportation Group

For the 2008 fiscal year, both our operating subsidiaries, Florida Rock & Tank Lines (“Tank Lines”) and SunBelt Transport, Inc. “SunBelt”) achieved enviable safety records. Fuel costs were the most significant change from FY 2007 in this segment, with average fuel cost per gallon rising 46% in FY 2008. Thankfully these increases were fully offset with our fuel surcharge revenue. Driver recruitment and retention improved during the year almost in direct correlation to the downturn in the economy. Tank Lines continued to enjoy strong demand from its customers throughout the year while SunBelt experienced significant lulls in demand for transportation of construction materials. All in all our people deserve real credit for persevering through some very difficult times to provide excellent service to our customers and a continued profit to our shareholders.

Looking forward to FY 2009, challenges remain high for this segment as demand for construction materials continues to decline and fuel consumption in consumer markets shrinks. We will have to focus on our safety, customer service and operational efficiencies to support our earnings for 2009.

**Real Estate Group**

While our gross profit in this segment for FY2008 was up just slightly over FY 2008, a more exciting accomplishment was the addition of one additional warehouse and one additional office building to our portfolio of developed rental properties in the Baltimore/Washington area. Even more promising for our future was the achievement of the zoning approval in May from the Zoning Commission of the District of Columbia for our Planned Unit Development on the 5.8 Acre Anacostia Riverfront site adjacent to the Washington Nationals stadium in Washington, D.C. 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.

This segment also benefited in FY 2008 from a gain on the condemnation by the Virginia DOT of a portion of the land acquired for our Patriot Business Park near Manassas, Virginia. The after tax gain on this condemnation was $1,916,000. The Company is continuing with the land development phase of the balance of the parcel of property.

In July 2008, the Company entered into an agreement to sell a 62 acre, residentially-zoned tract of land adjacent to our Windlass Run Business Park in Baltimore County for $25,265,000. The contract is still subject to certain contingencies and is not expected to close for more than two years but is still a future bright spot for this segment of our business.

Finally, with the completion of the additional office building and warehouse in late September, we ended the year with 2,627,142 square feet of rentable space, an increase of 5.45% in our portfolio of developed properties. A 148,000 square foot warehouse north of Baltimore in our Lakeside Business Park came out of the ground last summer and is scheduled for completion in June, 2009.

Our mining and rental properties turned in a solid performance for FY 2008 with revenue increases coming from timber harvesting, increased royalties (despite fewer tons mined) and reimbursements for higher real estate taxes. The favorable trend in aggregate pricing is a promising aspect of this portion of our real estate segment for the time when demand for additional tonnages improves.

**Conclusion**

At year end, despite significant turmoil in our financial markets and a burgeoning credit crisis in the country, we were fortunate to be able to renew our revolving credit facility for an additional term extending to December 31, 2013, and to remove from it one covenant that prevented us from borrowing the full $37,000,000 amount of the facility. As of October 1, 2008, the full amount of the facility is now available to us. And while this facility and the extra cash on our balance sheet gives us comfort that our business can survive these challenging times and perhaps be able to take advantages of additional opportunities in the future, our first priority will remain to provide unequaled service to our customers and produce for our shareholders continually improving returns on our capital over time.

Once again we express our gratitude to you as our customers and shareholders for your continuing loyalty and confidence and to our talented and dedicated people for enabling all of our accomplishments.

Respectively yours,

Edward L. Baker
Chairman

John D. Baker II
President & Chief Executive Officer

**OPERATING PROPERTIES**

**Transportation.** During fiscal 2008, the Company's transportation group operated through two wholly owned subsidiaries. Florida Rock & Tank Lines, Inc. (Tank Lines) is engaged in hauling petroleum and other liquid and dry bulk commodities in tank trucks. SunBelt Transport, Inc. (SunBelt) is engaged primarily in hauling building and construction materials on flatbed trailers.

Tank Lines operates from terminals in Jacksonville, Orlando, Panama City, Pensacola, Tampa and White Springs, Florida; Albany, Atlanta, Augusta, Bainbridge, Columbus, Dalton, Macon and Savannah, Georgia; Knoxville, Tennessee; Montgomery, Alabama; and Wilmington, North Carolina. SunBelt's flatbed fleet is based in Jacksonville, Florida; Savannah, Georgia; South Pittsburg, Tennessee; Tuscaloosa, Alabama and operates primarily in the Southeastern U.S.

At September 30, 2008, the transportation group owned and operated a fleet of 637 trucks and 1,043 trailers plus 39 additional trucks that were either being prepared for sale or being placed into service.

During fiscal 2008, the transportation group purchased 78 new tractors and 67 new trailers. In fiscal 2006 and 2007, the Company purchased 261 new tractors accelerating its normal tractor replacement cycle in response to stricter engine emission standards on new trucks. The fiscal 2009 capital budget includes 54 new tractors and 3 new trailers including binding commitments to purchase 24 tractors at September 30, 2008. Maintaining a modern fleet has resulted in reduced maintenance expenses, improved operating efficiencies and enhanced driver recruitment and retention.

**Real Estate**. The real estate group operates the Company's real estate and property development activities.

The Company owns real estate in Florida, Georgia, Virginia, Maryland, Delaware and Washington, D.C. The real estate owned generally falls into one of three categories: (i) land and/or buildings leased under rental agreements or being developed for rental; (ii) land with construction aggregates deposits, substantially all of which is leased to Vulcan Materials Company under long-term mining royalty agreements, whereby the Company is paid a percentage of the revenues generated or annual minimums; and, (iii) land held for future appreciation or development.

At September 30, 2008, the Company owned 11 parcels of land containing 261 usable acres in the Mid-Atlantic region of the United States as follows:

1) Hillside Business Park in Anne Arundel County, Maryland consists of 49 usable acres. A total of 504,740 square feet existed on the property at the beginning of 2008 and it is 97% occupied. Construction of the final building with 66,398 square feet of office space was completed in September 2008. The addition of this as yet unoccupied building results in a decline in average occupancy from 97% to 86%.

2) Lakeside Business Park in Harford County, Maryland consists of 84 usable acres. Eight warehouse/office buildings, totaling 745,297 square

feet, have been constructed and are 100% occupied. Construction of a 148,995 square foot building commenced in March 2008. The remaining 14 acres are available for future development and have the potential to offer an additional 210,230 square feet of comparable product.

3) 6920 Tudsbury Road in Baltimore County, Maryland contains 5.3 acres with 86,100 square feet of warehouse/office space that is 100% leased.

4) 8620 Dorsey Run Road in Howard County, Maryland contains 5.8 acres with 85,100 square feet of warehouse/office space that is 100% leased.

5) Rossville Business Center in Baltimore County, Maryland contains approximately 10 acres with 190,517 square feet of warehouse/office space and is 100% leased.

6) 34 Loveton Circle in suburban Baltimore County, Maryland contains 8.5 acres with 30,006 square feet of office space, which is 76% leased including 23% of the space occupied by the Company.

7) Oregon Business Center in Anne Arundel County, Maryland contains approximately 17 acres with 195,615 square feet of warehouse/office space, which is 68% leased. Following occupancy by an additional 17,796 square foot tenant in November 2008 this park is 76% occupied.

8) Arundel Business Center in Howard County, Maryland contains approximately 11 acres with 162,796 square feet of warehouse/office space, which is 78% leased.

9) 100-400 Interchange Boulevard in New Castle County, Delaware contains approximately 17 acres with 303,006 square feet of warehouse/office space, which is 92% leased. The remaining 8.8 acres are available for future development and have the potential to offer an additional 93,600 square feet of comparable product.

10) 1187 Azalea Garden Road in Norfolk, Virginia contains approximately 12 acres with 188,093 square feet of warehouse/office space, which is 100% leased.

11) Windlass Run Business Park in Baltimore County, Maryland contains 69,474 square feet of warehouse/office space newly completed in September 2008. The building is as yet unoccupied. This building is contained within a larger parcel containing approximately 42 acres when complete is estimated to include 519,824 square feet of total build-out

**Future Planned Developments.** At September 30, 2008 the Company owned the following future development parcels:

1) Windlass Run Residential, located in southeastern Baltimore County, Maryland, is a 121 acre tract of land adjacent to and west of our Windlass Run Business Park. The property was rezoned in September 2007 to allow for additional density and plans are being pursued to obtain a Planned Unit Development. In July 2008, the Company entered into an agreement to sell the property. The purchase price for the property is $25,265,000, subject to certain potential purchase price adjustments. The agreement of sale is subject to certain contingencies, including the satisfactory completion of the buyer's inspection period and additional

government approvals, and the closing may be two or more years away.

2) Patriot Business Park, located in Prince William County, Virginia, is a 73 acre tract of land which is immediately adjacent to the Prince William Parkway providing access to I-66. The Company plans to develop and lease approximately 733,650 square feet of warehouse/office buildings on the property. Land development efforts commenced in the summer of 2008.

3) Brooksville Quarry LLC. 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, a real estate joint venture to develop approximately 4,300 acres of land near Brooksville, Florida. The property does not yet have the necessary entitlements for real estate development. Approval to develop real property in Florida entails an extensive entitlements process involving multiple and overlapping regulatory jurisdictions and the outcome is inherently uncertain. The Company currently expects that the entitlement process will be completed within the next two years.

4) Anacostia River. The Company owns a 5.8 acre parcel of undeveloped real estate in Washington D.C. that fronts the Anacostia River and is adjacent to the new Washington Nationals Baseball Stadium which was completed in March, 2008. The Company also owns a nearby 2.1 acre tract on the same bank of the Anacostia River. Currently, the 5.8 acre tract is leased to Vulcan Materials Company on a month-to-month basis.

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. 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.

5) Commonwealth Avenue in Jacksonville, Florida is a 50 acre, rail accessible site near the western beltway of Interstate-295 capable of supporting approximately 500,000 square feet of warehouse/office build-out.

6) Leister property in Hampstead, Carroll County, Maryland is a 117 acre parcel located adjacent to State Route 30 bypass. The parcel was acquired for future commercial development and is projected to contain 900,000 square feet of space when complete. This parcel is currently in a predevelopment planning stage.

**Five Year Summary-Years ended September 30**
(Amounts in thousands except per share amounts)

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Summary of Operations: | | | | | |
| Revenues | $172,049 | 154,282 | 147,374 | 131,036 | 115,789 |
| Gross profit | $ 29,096 | 30,407 | 29,152 | 24,993 | 22,482 |
| Operating profit | $ 13,484 | 18,352 | 17,055 | 15,191 | 13,430 |
| Interest expense | $ 4,551 | 3,878 | 3,955 | 3,276 | 3,907 |
| Income from continuing operations | $ 7,968 | 9,505 | 8,078 | 7,609 | 6,096 |
| Per Common Share: | | | | | |
| Basic | $ 2.63 | 3.15 | 2.71 | 2.58 | 2.08 |
| Diluted | $ 2.55 | 3.04 | 2.62 | 2.50 | 2.05 |
| Discontinued operations | $ - | - | - | - | 14,644 |
| Net income | $ 7,968 | 9,505 | 8,078 | 7,609 | 20,740 |
| Per Common Share: | | | | | |
| Basic | $ 2.63 | 3.15 | 2.71 | 2.58 | 7.08 |
| Diluted | $ 2.55 | 3.04 | 2.62 | 2.50 | 6.97 |
| Financial Summary: | | | | | |
| Current assets | $ 28,863 | 44,486 | 17,412 | 19,569 | 30,066 |
| Current liabilities | $ 23,263 | 20,228 | 18,192 | 16,221 | 23,099 |
| Property and equipment, net | $210,760 | 192,523 | 192,073 | 164,936 | 149,011 |
| Total assets | $262,040 | 253,530 | 219,215 | 193,715 | 186,821 |
| Long-term debt | $ 76,153 | 80,172 | 60,548 | 48,468 | 41,185 |
| Shareholders' equity | $137,355 | 130,461 | 118,052 | 107,901 | 98,972 |
| Net Book Value Per common Share | $ 45.20 | 42.76 | 39.20 | 36.39 | 33.79 |
| Other Data: | | | | | |
| Weighted average common shares - basic | 3,033 | 3,022 | 2,980 | 2,950 | 2,931 |
| Weighted average common shares - diluted | 3,126 | 3,131 | 3,087 | 3,039 | 2,976 |
| Number of employees | 1,039 | 1,019 | 981 | 925 | 908 |
| Shareholders of record | 549 | 573 | 634 | 679 | 702 |

**Quarterly Results** (unaudited)
(Dollars in thousands except per share amounts)

| | First | | Second | | Third | | Fourth | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues | $39,200 | 37,124 | 41,088 | 38,156 | 46,061 | 39,631 | 45,700 | 39,371 |
| Gross profit | $ 6,223 | 7,459 | 6,053 | 8,423 | 8,628 | 7,794 | 8,192 | 6,731 |
| Net income | $ 1,405 | 2,160 | 626 | 2,597 | 2,774 | 2,426 | 3,163 | 2,322 |
| Earnings per common share: | | | | | | | | |
| Basic | $ .46 | .72 | .21 | .86 | .92 | .80 | 1.04 | .76 |
| Diluted | $ .45 | .69 | .20 | .83 | .89 | .77 | 1.02 | .74 |
| Market price per common share(a): | | | | | | | | |
| High | $ 98.57 | 100.08 | 93.00 | 94.00 | 92.00 | 91.66 | 83.16 | 98.34 |
| Low | $ 89.03 | 69.95 | 75.05 | 78.23 | 78.41 | 84.70 | 75.30 | 85.23 |

(a) All prices represent high and low daily closing prices as reported by The Nasdaq Stock Market.

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

**Executive Overview**

Patriot Transportation Holding, Inc. (the Company) is a holding company engaged in the transportation and real estate businesses.

The Company's transportation business operates through two subsidiaries: Florida Rock & Tank Lines, Inc. (Tank Lines) is engaged in hauling primarily petroleum and other liquid and dry bulk commodities in tank trailers. SunBelt Transport, Inc. (SunBelt) is engaged in hauling primarily building and construction materials on flatbed trailers.

The Company's real estate business is operated through two subsidiaries: Florida Rock Properties, Inc. and FRP Development Corp. The Company owns real estate in Florida, Georgia, Virginia, Maryland, Delaware and Washington, D.C. The real estate owned generally falls into one of three categories: (i) land and/or buildings leased under rental agreements or being developed for rental; (ii) land with construction aggregates deposits, substantially all of which is leased to Vulcan Materials Company (Vulcan) under mining royalty agreements; and, (iii) land held for future appreciation or development.

The Company was considered 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 at the time of the merger of FRI and Vulcan in November 2007. The Company derived 4.7% of its consolidated revenue from Vulcan in fiscal 2008.

Net income was $7,968,000 or $2.55 per diluted share in fiscal 2008, a decrease of 16.2% compared to $9,505,000 or $3.04 per diluted share in fiscal 2007. Net income for 2008 benefited from a gain on condemnation of land of $1,916,000, net of income taxes but was adversely impacted by the retirement benefits expense of $1,541,000, 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 fiscal 2008 by reduced demand for flatbed trucking services. Results for fiscal 2008 included a higher effective tax rate of 38.2% versus 35.0% in 2007. Insurance and losses increased $1,847,000 primarily due to 2007 including a reduction of expense for changes in estimated prior year retained loss reserves along with a $357,000 of prior year insurance recoveries. Gains on sales of transportation equipment in fiscal 2008 were $515,000 lower than gains in fiscal 2007.

**Transportation**. The Company generates transportation revenue by providing over the road hauling services for customers primarily in the petroleum products (Tank Lines) and building construction materials industries (SunBelt). The majority of our petroleum products customers are major oil companies and convenience store chains, who sell gasoline or diesel fuel directly to the retail market. Our customers in the building construction industries are generally the manufacturer of the products who contract with us to deliver goods to their customers or within their distribution systems, primarily serving residential markets.

Our customers generally pay for services based on miles driven. We also bill for other services that may include stop-offs, pump-offs, and load tarping. Additionally, we generally bill customers a fuel surcharge that relates to the fluctuations in diesel fuel costs.

Miles hauled and rates per mile are the primary factors impacting transportation revenue. Changes in miles or rates will affect revenue. Operating results are impacted by our ability to recover fuel surcharges from customers. In light of the volatility of fuel prices, it may be difficult for us to recover fuel surcharges from customers at levels that will allow us to maintain current levels of profitability.

On long-haul trips we generally bill for miles driven while under load. We calculate and monitor weekly a loaded mile factor, which is the ratio of loaded miles to total miles. A decrease in the loaded mile factor will have a negative effect on operating profit. SunBelt is acutely affected by the loaded mile factors, as the majority of its trips are medium-haul (approximately 300 miles loaded). Tank Lines, on the other hand, primarily engages in short-haul out-and-back deliveries and generally is paid for round trip miles (approximately 100 miles).

Operating safely, efficient equipment utilization, appropriate freight rates, and driver retention are the most critical factors in maintaining profitable operations. Statistics related to these factors are monitored weekly and monthly. Operating expenses are generally split evenly between variable (driver pay, fuel, and maintenance) and fixed costs (overhead, insurance and depreciation). As a result, increases in revenue will generally improve our operating profit ratio.

SunBelt continues to face negative construction materials industry trends and significant profitability challenges due to poor freight demand, utilization disruption and pricing softness. These negative factors will continue into 2009.

**Real Estate.** The Company owns real estate in Florida, Georgia, Virginia, Maryland, Delaware, and Washington, D.C. The real estate owned generally falls into one of three categories: (i) land and/or buildings leased under rental agreements or being developed for rental; (ii) land with construction aggregates deposits; and (iii) land held for future appreciation or development.

Revenue from land and/or buildings is generated primarily from leasing our portfolio of flex office/warehouse buildings. Our flex office/warehouse product is a functional warehouse with the ability to configure portions as office space as required by our tenants. We lease space to tenants who generally sign multiple year agreements. Growth is achieved by increasing occupancy and lease rates in existing buildings and by developing or acquiring new warehouses. We attempt to develop or purchase properties in areas that have high growth potential and are accessible to major interstates or other distribution lanes.

The following table shows the total developed square footage and occupancy rates of our flex office/warehouse and office parks at September 30, 2008:

| Development | Location | Total Sq. feet | % Occupied |
|---|---|---|---|
| Hillside | Anne Arundel Co., MD | 504,740 | 97.0% |
| Lakeside | Harford Co., MD | 745,297 | 100.0% |
| Tudsbury | Baltimore Co., MD | 86,100 | 100.0% |
| Dorsey Run | Howard Co., MD | 85,100 | 100.0% |
| Rossville | Baltimore Co., MD | 190,517 | 100.0% |
| Loveton | Baltimore Co., MD | 30,006 | 76.3% |
| Oregon (1) | Anne Arundel Co., MD | 195,615 | 67.9% |
| Arundel | Howard Co., MD | 162,796 | 78.1% |
| Interchange | New Castle Co., DE | 303,006 | 91.9% |
| Azalea Garden | Norfolk, VA | 188,093 | 100.0% |
| | | 2,491,270 | 94.2% |
| Buildings completed in September 2008 : | | | |
| Hillside | Anne Arundel Co., MD | 66,398 | 0.0% |
| Windlass Run | Baltimore Co., MD | 69,474 | 0.0% |
| | | 2,627,142 | 89.3% |

(1) A lease agreement has been executed for 17,796 square feet to commence on or around November 1, 2008.

In addition to the completed buildings, construction of a 148,995 square foot building at Lakeside commenced in March 2008. Land is available at these parks to construct additional buildings at Lakeside Business Park (210,230 square feet), Windlass Run (450,300 square feet), and Interchange (93,600 square feet).

As of September 30, 2008, leases at our properties representing approximately 12% of the total square footage of buildings completed prior to September 2008 were scheduled to expire in each fiscal year 2009 and 2010. There is currently vacant space in the portfolio and a building under construction. Leasing or renewing these spaces will be critical to future financial results.

We also own a portfolio of mineable land, substantially all of which is leased to Vulcan under long-term mining royalty agreements, whereby we are paid a percentage of the revenues generated from mined product sold or annual minimum rents. The mines primarily consist of construction aggregates, such as stone and sand, and calcium deposits.

Properties held for future development include:

Windlass Run Residential, located in southeastern Baltimore County, Maryland, is a 121 acre tract of land adjacent to and west of our Windlass Run Business Park. The property was rezoned in September 2007 to allow for additional density and plans are being pursued to obtain a Planned Unit Development. In July 2008, the Company entered into an agreement to sell the property. The purchase price for the property is $25,265,000, subject to certain potential purchase price adjustments. The agreement of sale is subject to certain contingencies, including the satisfactory completion of the buyer's inspection period and additional government approvals, and closing may be two or more years away.

Patriot Business Park, located in Prince William County, Virginia, is a 73-acre tract of land, which is immediately adjacent to the Prince William Parkway providing access to I-66. The Company plans to develop and lease approximately 733,650 square feet of warehouse/office buildings on the property. Land development efforts commenced in the spring of 2008.

Brooksville Quarry LLC. 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, a real estate joint venture to develop approximately 4,300 acres of land near Brooksville, Florida. Under the terms of the joint venture, FRP contributed its fee interest in approximately 3,443 acres formerly leased to Vulcan under a long-term mining lease which had a net book value of $2,548,000. Vulcan is entitled to mine the property until 2018 and pay royalties for the benefit of FRP for as long as mining does not interfere with the development of the property. Real estate revenues included $148,000 of such royalties in fiscal 2008 and $149,000 in fiscal 2007. Allocated depletion expense of $5,000 was included in real estate cost of operations for fiscal 2008. FRP also contributed $3,018,000 for one-half of the acquisition costs of a 288-acre contiguous parcel. Vulcan also contributed 553 acres that it owned as well as its leasehold interest in the 3,443 acres that it leased from FRP. The joint venture is jointly controlled by Vulcan and FRP, and they each have a mandatory obligation to fund additional capital contributions of up to $2 million. Capital contributions of $1,025,000 have been made by each party as of September 30, 2008. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to FRP. Other income for fiscal 2008 includes a loss of $29,000 representing the Company’s equity in the loss of the joint venture. The property does not yet have the necessary entitlements for real estate development. Approval to develop real property in Florida entails an extensive entitlements process involving multiple and overlapping regulatory jurisdictions and the outcome is inherently uncertain. The Company currently expects that the entitlement process will be done within the next two years.

The Company owns a 5.8 acre parcel of undeveloped real estate in Washington D.C. that fronts the Anacostia River and is adjacent to the new Washington Nationals Baseball Stadium which was completed in March, 2008. The Company also owns a nearby 2.1 acre tract on the same bank of the Anacostia River. Currently, the 5.8 acre tract is leased to Vulcan Materials Company on a month-to-month basis. 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. 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 development would include numerous publicly accessible open spaces and a waterfront esplanade along the river.

Commonwealth Avenue is a 50-acre, rail accessible site in Jacksonville, Florida near the western beltway of Interstate-295 capable of supporting approximately 500,000 square feet of warehouse/office build-out.

Leister property in Hampstead, Carroll County, Maryland is a 117 acre parcel located adjacent to State Route 30 bypass. The parcel was acquired for future commercial development and is projected to contain 900,000 square feet of space when complete. This parcel is currently in a predevelopment planning stage.

## COMPARATIVE RESULTS OF OPERATIONS

### Transportation

| (dollars in thousands) | Fiscal Years ended September 30 2008 | % | 2007 | % | 2006 | % |
|---|---|---|---|---|---|---|
| Transportation revenue | $118,166 | 80% | 115,404 | 87% | 108,800 | 86% |
| Fuel surcharges | 29,070 | 20% | 16,538 | 13% | 17,452 | 14% |
| Revenues | 147,236 | 100% | 131,942 | 100% | 126,252 | 100% |
| Compensation and benefits | 51,273 | 35% | 50,293 | 38% | 48,281 | 38% |
| Fuel expenses | 41,249 | 28% | 28,944 | 22% | 27,444 | 22% |
| Insurance and losses | 13,116 | 9% | 11,269 | 8% | 11,107 | 9% |
| Depreciation expense | 9,122 | 6% | 9,032 | 7% | 8,563 | 7% |
| Other, net | 15,668 | 11% | 14,102 | 11% | 13,338 | 10% |
| Cost of operations | 130,428 | 89% | 113,640 | 86% | 108,733 | 86% |
| Gross profit | $ 16,808 | 11% | 18,302 | 14% | 17,519 | 14% |

The Transportation group’s goals for 2008 were to operate safely, improve freight rates, recruit and retain qualified drivers and maximize equipment utilization.

Revenues 2008 vs 2007 – Transportation revenues were $147,236,000, an increase of $15,294,000 or 11.6%. Revenue miles in the current year were down 3.2% due to reduced loads in the flatbed portion of the transportation segment. Decreased construction material freight demand from the downturn in housing pushed revenues miles down in the flatbed operation compared to last year. Excluding fuel surcharges, revenue per mile increased 5.8%. The average price paid per gallon of diesel fuel increased by $1.16 or 46% over 2007 and fuel surcharge revenue increased $12,532,000.

Revenues 2007 vs 2006 – Transportation segment revenues were $131,942,000, an increase of $5,690,000 or 4.5% over 2006. Revenue miles in the current year were up 5.2% primarily from improved driver manning and higher tractor count. Excluding fuel surcharges, revenue per mile increased 1.1% reflecting a trend of decreasing freight demand and pricing softness from the downturn in housing and attendant lower demand for construction materials. The average price paid per gallon of diesel fuel increased slightly by $0.02 over 2006 and fuel surcharge revenue decreased $914,000.

Expenses 2008 vs 2007 – Transportation's cost of operations increased $16,788,000 to $130,428,000 in 2008, compared to $113,640,000 in 2007. Cost of operations in 2008 increased as a percent of revenue compared to 2007. Compensation and benefits increased $980,000 or 1.9% in 2008 due to pay increases and lower use of owner operators. Average fuel cost per gallon in 2008 increased 46% over 2007. This resulted in an increase in fuel cost which was fully offset by increased fuel surcharge revenue. Insurance and losses increased $1,847,000 primarily due to 2007 including a reduction of expense for changes in estimated prior year retained loss reserves along with $357,000 of prior year insurance recoveries. Other expense increased $1,566,000 due to $515,000 higher gains on equipment in 2007 along with an increase of $1,146,000 in vehicle tires and maintenance.

Expenses 2007 vs 2006 – Transportation's cost of operations increased $4,907,000 to $113,640,000 in 2007, compared to $108,733,000 in 2006. As a percent of revenue cost of operations remained constant. As a percent of revenue cost of operations remained constant. Compensation and benefits were higher as a result of increased revenue miles and an increase in the number of drivers offset by lower vacation expense. Fuel expenses increased due to an increase in revenue miles.

**Real Estate**

| | Fiscal Years ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | 2008 | % | 2007 | % | 2006 | % |
| Royalties and rent | $ 7,812 | 31% | 6,680 | 30% | 6,643 | 31% |
| Developed property rentals | 17,001 | 69% | 15,660 | 70% | 14,479 | 69% |
| Total revenue | 24,813 | 100% | 22,340 | 100% | 21,122 | 100% |
| Mining and land rent expenses | 3,065 | 12% | 1,731 | 8% | 1,633 | 8% |
| Developed property management | 9,460 | 38% | 8,504 | 38% | 7,856 | 37% |
| Cost of operations | 12,525 | 50% | 10,235 | 46% | 9,489 | 45% |
| Gross profit | $ 12,288 | 50% | 12,105 | 54% | 11,633 | 55% |

Revenues 2008 vs 2007 – Real estate revenues increased $2,473,000 or 11.1% in 2008 to $24,813,000. Lease revenue from developed properties increased $1,341,000 or 8.6%, due to an increase in occupied square footage along with higher rental rates on new leases. Royalties and rent increased $1,132,000 or 16.9% despite reduced tons mined because of an increase of $284,000 in revenues from timber harvesting, revenue of $575,000 for reimbursement of higher real estate taxes and increases in royalties per ton.

Revenues 2007 vs 2006 – Real estate revenues increased $1,218,000 or 5.8% in 2007 to $22,340,000. Lease revenues from developed properties increased $1,181,000 or 8.2% due to an increase in occupied square footage along with higher rental rates on new leases. Royalties and rent from mining operations increased despite reduced tons mined because of revenues from timber harvesting and increases in minimum rent requirements pursuant to terms contained in several mining leases that became effective in April 2006 and August 2007.

Expenses 2008 vs 2007 – Real estate segment expenses increased to $12,525,000 in 2008, compared to $10,235,000 in 2007. Expenses related to developed properties increased $956,000 as a result of new building additions, increased real estate tax assessments, and increased staffing to facilitate continuing portfolio expansion. Mining and land rent expenses increased $1,334,000 primarily due to increased real estate tax assessments.

Expenses 2007 vs 2006 – Real Estate segment expenses increased to $10,235,000 in 2007, compared to $9,489,000 in 2006. Expenses related to development activities increased as a result of new building additions, increased staffing and professional fees to facilitate continuing portfolio expansion.

**Consolidated Results**

Gross Profit **-** Consolidated gross profit was $29,096,000 in 2008 compared to $30,407,000 in 2007, a decrease of 4.3%. Gross profit in the transportation segment decreased $1,494,000 or 8.2% due to the increase in cost of operations partially offset by increased revenue per mile. Gross profit in the real estate segment increased $183,000 or 1.5% due to higher rental rates on new leases and $284,000 increased gross profit from timber harvesting offset by increased real estate taxes that could not be billed to tenants. Consolidated gross profit was $30,407,000 in 2007 compared to $29,152,000 in 2006, an increase of 4.3%.

Selling, general and administrative expense – Selling, general and administrative expenses for 2008 increased $3,557,000 to $15,612,000. The current year includes $2,503,000 accrual of retirement benefits for the Company’s previous President and CEO. In March 2008, a corporate aircraft was purchased increasing expense $548,000 in fiscal 2008. Payroll and payroll taxes increased $114,000 due to amounts paid to the Company’s prior CFO who retired June 16, 2008 along with additional staffing and payroll taxes on stock option exercises. Estimated bad debt expense increased $106,000 primarily due to an increase in the estimate of the allowance for doubtful accounts. Audit and legal fees increased $40,000 due to various projects. Stock compensation expense excluding amounts associated with the Company’s prior President and CEO decreased $219,000 due to reduced stock based compensation grants in recent years. SG&A expense was 9.1% of revenue for fiscal 2008 compared to 7.8% for fiscal 2007.

Selling, general and administrative expenses for 2007 decreased $42,000 to $12,055,000. The costs decreased due to a $241,000 reduction in vacation expense, a $284,000 reduction in audit fees and Sarbanes-Oxley compliance costs, offset by a $165,000 increase in stock compensation expense, a $130,000 increase in legal costs and a $183,000 increase in salaries. SG&A expense was 7.8% of revenue for fiscal 2007 compared to 8.2% for fiscal 2006.

Gain from condemnation of land – Gain from condemnation of land was $3,111,000 in 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. On October 15, 2008 the Company agreed with VDOT to total compensation for the condemnation of $6,414,000 resulting in an additional amount of $554,000 recorded as a receivable as of September 30, 2008. The Prince William County Property was purchased in December 2005 and the cost of the 28 acres taken by VDOT was $3,282,000.

Interest expense – Interest expense for 2008 increased $673,000 due to interest on mortgage debt incurred in July 2007 offset in part by higher capitalized interest costs. Even though debt increased, interest expense for 2007 decreased $77,000 as compared to 2006 to $3,878,000 due to higher capitalized interest costs.

Income taxes – Income tax expense for 2008 decreased $181,000 due to lower earnings offset by a higher effective tax rate of 38.2% versus 35.0%. Income tax expense for 2007 decreased $60,000 due to higher earnings offset by a lower effective tax rate of 35.0% versus 39.0%. The lower effective rate in 2007 was due to larger reductions in income tax reserves from the expiration of the statutes of limitations related to certain tax positions and finalization of a Federal income tax audit during the fourth quarter of fiscal 2007.

Net income – Net income was $7,968,000 or $2.55 per diluted share in fiscal 2008, a decrease of 16.2% compared to $9,505,000 or $3.04 per diluted share in fiscal 2007. Net income for 2008 benefited from a gain on condemnation of land of $1,916,000, net of income taxes but was adversely impacted by the retirement benefits expense of $1,541,000 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 fiscal 2008 by reduced demand for flatbed trucking services. Results for fiscal 2008 included a higher effective tax rate of 38.2% versus 35.0% in 2007. Insurance and losses increased $1,847,000 primarily due to 2007 including a reduction of expense for changes in estimated prior year retained loss reserves along with a $357,000 of prior year insurance recoveries. Gains on sales of transportation equipment in fiscal 2008 were $515,000 lower than gains in fiscal 2007. Net income for fiscal 2006 was adversely impacted by $787,000 ($.25 per diluted common share) of vacation expense, net of income tax benefits, that was not previously accrued. Diluted earnings per share decreased to $2.55 in fiscal 2008 from $3.04 in 2007, and were $2.62 in 2006.

**LIQUIDITY AND CAPITAL RESOURCES**

For fiscal 2008, the Company used cash provided by operating activities of $22,299,000, proceeds from the sale of plant, property and equipment of $6,849,000, proceeds from the exercise of employee stock options of $1,193,000, excess tax benefits from the exercise of stock options of $704,000 and cash balances to purchase $41,536,000 in property and equipment, to invest $525,000 in the Brooksville Joint Venture, to make $3,762,000 scheduled principal payments on long-term debt and to repurchase Company stock for $4,388,000. Cash decreased $19,166,000.

Cash flows from operating activities for fiscal 2008 were $1,023,000 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 $3,265,000 lower than fiscal 2007 primarily due to the timing of payments for equipment and materials. The transportation segment was negatively impacted in fiscal 2008 from continuing adverse demand, fuel expense and operating disruptions for the flatbed trucking operations.

Cash flows used in investing activities for fiscal 2008 were $16,012,000 higher than fiscal 2007 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 remainder of the portfolio.

Cash flows from financing activities for fiscal 2008 were $28,921,000 lower than fiscal 2007 due to repurchase of Company stock of $4,388,000, an increase of $1,846,000 in mortgage payments, and the prior year including $35,178,000 issuance of long-term debt and $12,452,000 of payments under the revolving credit agreement.

For fiscal 2007, the Company used cash provided by operating activities of $23,322,000, $35,178,000 from the issuance of long-term debt, $1,672,000 from the proceeds of sales of equipment and $1,858,000 from the exercise of stock options to purchase $17,354,000 in property and equipment, to invest $3,518,000 in the Brooksville Joint Venture, to reduce borrowings under its Revolver by $12,452,000 and to make $1,916,000 in scheduled principal payments on long-term debt. Cash increased $26,790,000. Cash flows from operating activities were $550,000 higher than 2006 primarily due to lower income tax payments. Cash flows used in investing activities were $19,713,000 lower than 2006 due to the purchase in 2006 of property for future development and accelerated transportation equipment replacement in fiscal 2006. Cash flows from financing activities were $9,339,000 higher due to issuance of long-term debt offset by reduced borrowings under the Revolver.

For fiscal 2006, the Company used cash provided by operating activities of $22,772,000, borrowings of $12,452,000 under its Revolver, additional long-term debt of $2,084,000 and proceeds of $1,688,000 from the sales of property and equipment to purchase $40,601,000 in property and equipment and to make scheduled payments of $2,312,000 of long-term debt.

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 have been used to fund new construction and purchase land for future development.

During fiscal 2006 the Company converted a construction loan into a 15-year non-recourse mortgage of $11,800,000 with an interest rate of 6.12%. The construction loan was used to develop a 145,000 square foot build-to-suit warehouse/office building pursuant to a 15-year triple net lease.

The Company has a $37,000,000 revolving credit agreement (the Revolver) which had a zero balance at September 30, 2008 and 2007. The Revolver contains limitations on borrowing and restrictive covenants including limitations on paying cash dividends. Under these restrictions, as of September 30, 2008, $32,000,000 was available for borrowing and $35,897,000 of consolidated retained earnings was available for payment of dividends. On October 1, 2008 the Company modified the Revolver extending the term until December 31, 2013 and amending loan covenants such that the full amount would have been available at September 30, 2008.

The Company had $17,909,000 of irrevocable letters of credit outstanding at September 30, 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 were issued for workers' compensation and automobile 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 may arise. During fiscal 2008 the Company repurchased 55,509 shares for $4,388,000. No shares were repurchased during fiscal 2007. At September 30, 2008 the Company had $5,625,000 authorized for future repurchases of common stock.

The Company has committed to make an additional capital contribution of up to $975,000 to Brooksville Quarry, LLC in connection with a joint venture with Vulcan (see Transactions with Related Parties).

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 2008 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 October 15, 2008 the Company agreed to total compensation for the condemnation of $6,414,000 resulting in an additional amount of $554,000 receivable.

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 was subject to a 120 day due diligence period during which the buyer may cancel the contract for any reason. Through a series of Contract Amendments, the study period has been extended until December 15, 2008, during which the buyer may cancel the contract for any reason, and the Purchase Price has been reduced to $2,100,000. If the contract closes in accordance with its terms, the Company would recognize a gain of approximately $2,052,000 before income taxes. The Company estimates the after-tax gain from the sale would be $1,264,000, or approximately $.41 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.

The Company currently expects its fiscal 2009 capital expenditures to be approximately $27,800,000 ($18,648,000 for real estate development expansion, $9,152,000 for transportation segment expansion and replacement equipment). Depreciation and depletion expense is expected to be approximately $15,027,000.

The Company expects that cash flows from operating activities, secured financing on existing and planned real estate projects, cash on hand and the funds available under its revolving credit agreement will be adequate to finance these capital expenditures and its working capital needs for the next 12 months and the foreseeable future.

In the current financial crisis environment, the Company is monitoring the financial stability of its lending banks as well as its depository institutions. At present the Company does not foresee the necessity for changing any of these relationships but will continue to monitor conditions particularly with respect to the depository for its liquid funds. The Company places its cash and cash equivalents with high credit quality institutions. At times such amounts may exceed FDIC limits.

## OFF-BALANCE SHEET ARRANGEMENTS

Except for the letters of credit described above under “Liquidity and Capital Resources,” the Company does not have any off balance sheet arrangements that either have, or are reasonably likely to have, a current or future material effect on its financial condition.

## CRITICAL ACCOUNTING POLICIES

Management of the Company considers the following accounting policies critical to the reported operations of the Company:

**Accounts Receivable and Unrealized Rents Valuation**. The Company is subject to customer credit risk that could affect the collection of outstanding accounts receivable and unrealized rents, that is rents recorded on a straight-lined basis. To mitigate these risks, the Company performs credit reviews on all new customers and periodic credit reviews on existing customers. A detailed analysis of late and slow pay customers is prepared monthly and reviewed by senior management. The overall collectibility of outstanding receivables and straight-lined rents is evaluated and allowances are recorded as appropriate. Significant changes in customer credit could require increased allowances and affect cash flows.

**Property and Equipment**. Property and equipment is recorded at cost less accumulated depreciation and depletion. Provision for depreciation of property, plant and equipment is computed using the straight-line method based on the following estimated useful lives:

| | Years |
|---|---|
| Buildings and improvements | 7-39 |
| Revenue equipment | 7-10 |
| Other equipment | 3-10 |

Depletion of sand and stone deposits is computed on the basis of units of production in relation to estimated reserves.

The Company periodically reviews property and equipment and intangible assets for potential impairment. If this review indicated that the carrying amount of the asset may not be recoverable, the Company would estimate the future cash flows expected with regards to the asset and its eventual disposition. If the sum of these future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, the Company would record an impairment loss based on the fair value of the asset. The Company performs an annual impairment test on goodwill. Changes in estimates or assumptions could have an impact on the Company's financials.

All direct and indirect costs, including interest and real estate taxes, associated with the development, construction, leasing or expansion of real estate investments are capitalized as a cost of the property. Included in indirect costs is an estimate of internal costs associated with development and rental of real estate investments. Changes in estimates or assumptions could have an impact on the Company's financials.

**Risk Insurance.** The nature of the Transportation business subjects the Company to risks arising from workers' compensation, automobile liability, and general liability claims. The Company retains the exposure on certain claims of $250,000 to $500,000 and has third party coverage for amounts exceeding the retention up to the amount of the policy limits. The Company expenses during the year an estimate of risk insurance losses. Periodically, an analysis is performed, using historical and projected data, to determine exposure for claims incurred and reported but not yet settled and for claims incurred but not reported. On at least an annual basis the Company obtains an independent actuarial analysis to assist in estimating the losses expected on such claims. The Company attempts to mitigate losses from insurance claims by maintaining safe operations and providing mandatory safety training. Significant changes in assumptions or claims history could have a material impact on our operations.

**Income Taxes.** The Company accounts for income taxes under the asset-and-liability method in accordance with current accounting standards. Deferred tax assets and liabilities represent items that will result in taxable income or a tax deduction in future years for which the related tax expense or benefit has already been recorded in our statement of earnings. Deferred tax accounts arise as a result of timing differences between when items are recognized in the Consolidated Financial Statements compared with when they are recognized in the tax returns. The Company assesses the likelihood that deferred tax assets will be recovered from future taxable income. To the extent recovery is not probable, a valuation allowance is established and included as an expense as part of our income tax provision. No valuation allowance was recorded at September 30, 2008, as all deferred tax assets are considered more likely than not to be realized. Significant judgment is required in determining and assessing the impact of complex tax laws and certain tax-related contingencies on the provision for income taxes. As part of the calculation of the provision for income taxes, we assess whether the benefits of our tax positions are at least more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we accrue the largest amount of the benefit that is more likely than not of being sustained in our consolidated financial statements. Such accruals require estimates and judgments, whereby actual results could vary materially from these estimates. Further, a number of years may elapse before a particular matter, for which an established accrual was made, is audited and resolved.

## CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of September 30, 2008:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Mortgages Including Interest | $122,252 | 8,997 | 17,994 | 17,994 | 77,267 |
| Operating Leases | 248 | 241 | 7 | - | - |
| Purchase Commitments | 9,297 | 9,297 | - | - | - |
| Other Long-Term Liabilities | 776 | 70 | 160 | 160 | 386 |
| Total obligations | $132,573 | 18,605 | 18,161 | 18,154 | 77,653 |

The Company has committed to make an additional capital contribution of up to $975,000 dollars to Brooksville Quarry, LLC in connection with a joint venture with Vulcan (see Transactions with Related Parties). The current plan forecasts $291,000 in fiscal 2009 which is not included in the table above. The additional commitment of $684,000 is not included in the forecast but may be spent as required.

## INFLATION

Historically, the Company has been able to recover inflationary cost increases in the transportation group through increased freight rates and fuel surcharges. It is expected that over time, justifiable and necessary rate increases will be obtained. Substantially all of the Company’s royalty agreements are based on a percentage of the sales price of the related mined items. Minimum royalties and substantially all lease agreements provide escalation provisions.

## 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 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; 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 Annual Report on Form 10-K and other filings made from time to time with the Securities and Exchange Commission.

**CONSOLIDATED STATEMENTS OF INCOME** - Years ended September 30
(In thousands except per share amounts)

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| **Revenues**: | | | |
| Transportation | $147,236 | 131,942 | 126,252 |
| Real estate | 24,813 | 22,340 | 21,122 |
| Total revenues (including revenue from related parties of $8,021, $8,349, and $8,321, respectively) | 172,049 | 154,282 | 147,374 |
| **Cost of operations:** | | | |
| Transportation | 130,428 | 113,640 | 108,733 |
| Real estate | 12,525 | 10,235 | 9,489 |
| Total cost of operations | 142,953 | 123,875 | 118,222 |
| **Gross profit:** | | | |
| Transportation | 16,808 | 18,302 | 17,519 |
| Real estate | 12,288 | 12,105 | 11,633 |
| Total gross profit | 29,096 | 30,407 | 29,152 |
| Selling, general and administrative expense (including expenses paid to related party of $45, $191, and $191, respectively) | 15,612 | 12,055 | 12,097 |
| **Operating profit** | 13,484 | 18,352 | 17,055 |
| Gain on condemnation of land | 3,111 | - | - |
| Interest income and other | 883 | 298 | 149 |
| Equity in loss of joint venture | (29) | (156) | - |
| Interest expense | (4,551) | (3,878) | (3,955) |
| Income before income taxes | 12,898 | 14,616 | 13,249 |
| Provision for income taxes | 4,930 | 5,111 | 5,171 |
| **Net income** | $ 7,968 | 9,505 | 8,078 |
| **Earnings per common share:** | | | |
| Basic | $ 2.63 | 3.15 | 2.71 |
| Diluted | $ 2.55 | 3.04 | 2.62 |

Number of weighted average shares (in thousands) used in computing:

| | | | |
|---|---|---|---|
| - basic earnings per common share | 3,033 | 3,022 | 2,980 |
| - diluted earnings per common share | 3,126 | 3,131 | 3,087 |

See accompanying notes.

**CONSOLIDATED BALANCE SHEETS -** As of September 30
(In thousands, except share data)

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 7,778 | 26,944 |
| Accounts receivable (including related party of $358 and $308 and net of allowance for doubtful accounts of $265 and $207, respectively) | 11,774 | 10,983 |
| Accounts receivable from condemnation | 554 | - |
| Federal and state income taxes receivable | 590 | - |
| Inventory of parts and supplies | 891 | 743 |
| Deferred income taxes | - | 455 |
| Prepaid tires on equipment | 2,102 | 2,028 |
| Prepaid taxes and licenses | 1,859 | 1,652 |
| Prepaid insurance | 3,224 | 1,601 |
| Prepaid expenses, other | 91 | 80 |
| Total current assets | 28,863 | 44,486 |
| Property and equipment, at cost: | | |
| Land | 83,506 | 82,644 |
| Buildings | 120,269 | 108,031 |
| Equipment | 102,148 | 89,099 |
| Construction in progress | 4,595 | 2,503 |
| | 310,518 | 282,277 |
| Less accumulated depreciation and depletion | 99,758 | 89,754 |
| | 210,760 | 192,523 |
| Real estate held for investment, at cost | 6,918 | 1,274 |
| Investment in joint venture | 6,395 | 5,904 |
| Goodwill | 1,087 | 1,087 |
| Unrealized rents | 3,208 | 2,589 |
| Other assets | 4,809 | 5,667 |
| Total assets | $262,040 | 253,530 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 7,663 | 5,408 |
| Federal and state income taxes payable | - | 702 |
| Accrued payroll and benefits | 5,861 | 5,202 |
| Accrued insurance reserves | 4,494 | 4,119 |
| Accrued liabilities, other | 1,226 | 1,035 |
| Long-term debt due within one year | 4,019 | 3,762 |
| Total current liabilities | 23,263 | 20,228 |
| Long-term debt, less current portion | 76,153 | 80,172 |
| Deferred income taxes | 18,885 | 15,274 |
| Accrued insurance reserves | 4,848 | 4,562 |
| Other liabilities | 1,536 | 2,833 |
| Commitments and contingencies (Notes 13 and 14) | | |
| Shareholders' equity: | | |
| Preferred stock, no par value; 5,000,000 shares authorized; none issued | - | - |
| Common stock, $.10 par value; 25,000,000 shares authorized; 3,039,086 and 3,051,064 shares issued and outstanding, respectively | 304 | 305 |
| Capital in excess of par value | 34,540 | 32,154 |
| Retained earnings | 102,473 | 98,087 |
| Accumulated other comprehensive inc (loss), net of tax | 38 | (85) |
| Total shareholders' equity | 137,355 | 130,461 |
| Total liabilities and shareholders' equity | $262,040 | 253,530 |

See accompanying notes.

**CONSOLIDATED STATEMENTS OF CASH FLOWS -** Years ended September 30
(In thousands)

| **Cash flows from operating activities:** | 2008 | 2007 | 2006 |
|---|---|---|---|
| Net income | $ 7,968 | 9,505 | 8,078 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 14,735 | 14,160 | 13,510 |
| Deferred income taxes | 4,113 | 721 | 96 |
| Equity in loss of joint venture | 29 | 156 | - |
| Gain on sale of equipment and real estate | (663) | (1,036) | (1,172) |
| Gain on condemnation of land | (3,111) | - | - |
| Stock-based compensation | 1,078 | 1,131 | 968 |
| Net changes in operating assets and liabilities: | | | |
| Accounts receivable | (791) | 778 | (30) |
| Inventory of parts and supplies | (148) | 111 | (55) |
| Prepaid expenses and other current assets | (1,915) | (1,588) | (92) |
| Other assets | (342) | (1,406) | (1,082) |
| Accounts payable and accrued liabilities | 3,433 | 168 | 2,449 |
| Income taxes payable and receivable | (1,076) | 682 | (622) |
| Long-term insurance reserves and other long-term liabilities | (1,011) | (60) | 724 |
| Net cash provided by operating activities | 22,299 | 23,322 | 22,772 |
| **Cash flows from investing activities:** | | | |
| Purchase of transportation group property and equipment | (17,344) | (8,201) | (19,806) |
| Purchase of real estate group property and equipment | (24,192) | (9,153) | (20,795) |
| Investment in joint venture | (525) | (3,518) | - |
| Proceeds from the disposal of property, plant and equipment | 6,849 | 1,672 | 1,688 |
| Net cash used in investing activities | (35,212) | (19,200) | (38,913) |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of long-term debt | - | 35,178 | 2,084 |
| Net (decrease) increase in revolving debt | - | (12,452) | 12,452 |
| Repayment of long-term debt | (3,762) | (1,916) | (2,312) |
| Repurchase of Company stock | (4,388) | - | - |
| Excess tax benefits from exercises of stock options and vesting of restricted stock | 704 | 857 | 406 |
| Exercise of employee stock options | 1,193 | 1,001 | 699 |
| Net cash (used in) provided by financing activities | (6,253) | 22,668 | 13,329 |
| **Net (decrease) increase in cash and cash equivalents** | (19,166) | 26,790 | (2,812) |
| Cash and cash equivalents at beginning of year | 26,944 | 154 | 2,966 |
| Cash and cash equivalents at end of year | $ 7,778 | 26,944 | 154 |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid during the year for: | | | |
| Interest | $ 4,565 | 3,908 | 3,916 |
| Income taxes | $ 2,274 | 3,760 | 5,941 |

The Company recorded a non-cash transaction for accounts receivable from condemnation in the amount of $554 in fourth quarter of fiscal 2008. See accompanying notes.

**CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY -** Years ended September 30
(In thousands, except share amounts)

| | Common Stock Shares | Common Stock Amount | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss, net of tax | Total Share Holders Equity |
|---|---|---|---|---|---|---|
| Balance at October 1, 2005 | 2,965,075 | $297 | $27,100 | $80,504 | | $107,901 |
| Exercise of stock options | 26,454 | 3 | 696 | | | 699 |
| Excess tax benefits from exercises of stock options | | | 406 | | | 406 |
| Stock option compensation | | | 525 | | | 525 |
| Shares granted to Directors | 4,500 | | 286 | | | 286 |
| Restricted stock awards | 15,960 | 1 | (1) | | | - |
| Restricted stock forfeitures | (360) | | | | | - |
| Restricted stock expense | | | 157 | | | 157 |
| Net income | | | | 8,078 | | 8,078 |
| Balance at September 30, 2006 | 3,011,629 | 301 | 29,169 | 88,582 | | 118,052 |
| Exercise of stock options | 35,935 | 4 | 994 | | | 998 |
| Excess tax benefits from exercises of stock options and vesting of restricted stock | | | 857 | | | 857 |
| Stock option compensation | | | 526 | | | 526 |
| Shares granted to Directors | 4,500 | | 387 | | | 387 |
| Restricted stock forfeitures | (1,000) | | | | | |
| Restricted stock expense | | | 221 | | | 221 |
| Net income | | | | 9,505 | | 9,505 |
| Minimum pension liability, net of $108 tax | | | | | (173) | (173) |
| Net actuarial gain retiree health net of $55 tax | | | | | 88 | 88 |
| Balance at September 30, 2007 | 3,051,064 | 305 | 32,154 | $98,087 | $ (85) | 130,461 |
| Exercise of stock options | 39,531 | 4 | 1,189 | | | 1,193 |
| Excess tax benefits from exercises of stock options and vesting of restricted stock | | | 704 | | | 704 |
| Stock option compensation | | | 477 | | | 477 |
| Restricted stock expense | | | 206 | | | 206 |
| Shares granted to Directors | 5,000 | 1 | 395 | | | 396 |
| Restricted stock forfeitures | (1,000) | | | | | |
| Shares purchased and cancelled | (55,509) | (6) | (585) | (3,798) | | (4,389) |
| Adoption of FIN48 | | | | 216 | | 216 |
| Net income | | | | 7,968 | | 7,968 |
| Minimum pension liability, net of $74 tax | | | | | 118 | 118 |
| Net actuarial gain retiree health net of $3 tax | | | | | 5 | 5 |
| Balance at September 30, 2008 | 3,039,086 | $304 | $34,540 | $102,473 | $38 | $137,355 |

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME -** Years ended September 30
(In thousands)

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Net income | $ 7,968 | 9,505 | 8,078 |
| Other comprehensive income, net of tax: | | | |
| Actuarial gain retiree health | 5 | - | - |
| Minimum pension liability | 118 | ( 173) | - |
| Comprehensive income | $ 8,091 | 9,332 | 8,078 |

See accompanying notes.

**NOTES TO CONSOLDIATED FINANCIAL STATEMENTS**

**1. Accounting Policies.**

ORGANIZATION - Patriot Transportation Holding, Inc. (Company) is engaged in the transportation and real estate businesses. The Company's transportation business is conducted through two wholly owned subsidiaries. Florida Rock & Tank Lines, Inc. (Tank Lines) is a Southeastern transportation company concentrating in the hauling by motor carrier of primarily petroleum related bulk liquids and dry bulk commodities. SunBelt Transport, Inc. (SunBelt) serves the flatbed portion of the trucking industry in the Southeastern U.S., hauling primarily construction materials. The Company's real estate group, through subsidiaries, acquires, constructs, leases, operates and manages land and buildings to generate both current cash flows and long-term capital appreciation. The real estate group also owns real estate that is leased under mining royalty agreements or held for investment.

CONSOLIDATION - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Investment in the 50% owned Brooksville joint venture is accounted for under the equity method. All significant intercompany transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid debt instruments with maturities of three months or less at time of purchase to be cash equivalents.

INVENTORY - Inventory of parts and supplies is valued at the lower of cost (first-in, first-out) or market.

TIRES ON EQUIPMENT - The value of tires on tractors and trailers is accounted for as a prepaid expense and amortized over the life of the tires as a function of miles driven.

REVENUE AND EXPENSE RECOGNITION - Transportation revenue, including fuel surcharges, is recognized when the services have been rendered to customers or delivery has occurred, the pricing is fixed or determinable and collectibility is reasonably assured. Transportation expenses are recognized as incurred.

Real estate rental revenue and mining royalties are generally recognized when earned under the leases. Rental income from leases with scheduled increases during their term is recognized on a straight-line basis over the term of the lease. Reimbursements of expenses, when provided in the lease, are recognized in the period that the expenses are incurred.

Sales of real estate are recognized when the collection of the sales price is reasonably assured and when the Company has fulfilled substantially all of its obligations, which are typically as of the closing date.

Accounts receivable are recorded net of discounts and provisions for estimated allowances. We estimate allowances on an ongoing basis by considering historical and current trends. We record estimated bad debts expense as a selling, general and administrative expense. We estimate the net collectibility of our accounts receivable and establish an allowance for doubtful accounts based upon this assessment. Specifically, we analyze the aging of accounts receivable balances, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms.

PROPERTY AND EQUIPMENT - Property and equipment is recorded at cost less accumulated depreciation and depletion. Provision for depreciation of property, plant and equipment is computed using the straight-line method based on the following estimated useful lives:

| | Years |
|---|---|

| | |
|---|---|
| Buildings and improvements | 7-39 |
| Revenue equipment | 7-10 |
| Other equipment | 3-10 |

Depletion of sand and stone deposits is computed on the basis of units of production in relation to estimated reserves.

The Company recorded depreciation and depletion expenses for 2008, 2007 and 2006 of $14,031,000, $13,545,000, and $12,948,000, respectively.

At least annually, the Company reviews property and equipment and intangible assets for potential impairment. If this review indicated that the carrying amount of the asset might not be recoverable, the Company would estimate the future cash flows expected with regards to the asset and its eventual disposition. If the sum of these future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, the Company would record an impairment loss based on the fair value of the asset.

All direct and indirect costs, including interest and real estate taxes, associated with the development, construction, leasing or expansion of real estate investments are capitalized as a cost of the property. Included in indirect costs is an estimate of internal costs associated with development and rental of real estate investments. The cost of routine repairs and maintenance to property and equipment is expensed as incurred.

INVESTMENTS - The Company uses the equity method to account for investments in which it has a voting interest of 20% to 50% or in which it otherwise has the ability to exercise significant influence. Under the equity method, the investment is originally recorded at cost and adjusted to recognize the Company’s share of net earnings or losses of the investee, limited to the extent of the Company’s investment in and advances to the investee and financial guarantees on behalf of the investee that create additional basis. The Company regularly monitors and evaluates the realizable value of its investments. When assessing an investment for an other-than-temporary decline in value, the Company considers such factors as, the performance of the investee in relation to its own operating targets and its business plan, the investee’s revenue and cost trends, as well as liquidity and cash position, and the outlook for the overall industry in which the investee operates. From time to time, the Company may consider third party evaluations or valuation reports. If events and circumstances indicate that a decline in the value of these assets has occurred and is other-than-temporary, the Company records a charge to investment income (expense).

INSURANCE - The Company has a $250,000 to $500,000 self-insured retention per occurrence in connection with certain of its workers’ compensation, automobile liability, and general liability insurance programs ("risk insurance"). The Company is also self-insured for its employee health insurance benefits and carries stop loss coverage of $200,000 per covered participant per year. The Company has established an accrual reserve of the estimated cost in connection with its portion of its risk and health insurance losses. Claims paid by the Company are charged against the reserve. Additionally, the Company maintains a reserve for incurred but not reported claims based on historical analysis of such claims. The method of calculating the accrual liability is subject to inherent uncertainty. If actual results are less favorable than the estimates used to calculate the liabilities, the Company would have to record expenses in excess of what has been accrued.

INCOME TAXES - Deferred tax assets and liabilities are recognized based on differences between financial statement and tax bases of assets and liabilities using presently enacted tax rates. Deferred income taxes result from temporary differences between pre-tax income reported in the financial statements and taxable income. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit. The second step is to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as the amounts rely upon the determination of the probability of various possible outcomes. The Company reevaluates these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law and expiration of statutes of limitations, effectively settled issues under audit, and audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision. It is the Company's policy to recognize as additional income tax expense the items of interest and penalties directly related to income taxes.

STOCK BASED COMPENSATION – The Company accounts for compensation related to share based plans under Financial Accounting Standards Board (FASB) SFAS 123R, Share-Based Payments. SFAS 123R requires companies to recognize the grant date fair value of stock options and other equity-based compensation issued to employees in its income statement over the requisite employee service period. In addition, compensation expense must be recognized for any awards modified, repurchased or cancelled after the date of adoption. The straight-line attribution model is used to measure compensation expense. The Company adopted this statement effective October 1, 2005 using the modified prospective approach. The fair value of each grant was estimated on the date of grant using the Black-Scholes option-pricing model. The assumptions used in the model and current year impact is discussed in Footnote 7.

PENSION PLAN - The Company accounts for its pension plan following the requirements of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"). SFAS 158 requires an employer to: (a) recognize in its statement of financial position the funded status of a benefit plan; (b) measure defined benefit plan assets and obligations as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise but are not recognized as components of net periodic benefit costs pursuant to prior existing guidance.

EARNINGS PER COMMON SHARE - Basic earnings per common share are based on the weighted average number of common shares outstanding during the periods. Diluted earnings per common share are based on the weighted average number of common shares and potential dilution of securities that could share in earnings. The differences between basic and diluted shares used for the calculation are the effect of employee and director stock options and restricted stock.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United State requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain accounting policies and estimates are of more significance in the financial statement preparation process than others. The most critical accounting policies and estimates include the economic useful lives and salvage values of our vehicles and equipment, provisions for uncollectible accounts receivable and collectibility of unrealized rents, estimates of exposures related to our insurance claims plans, and estimates for taxes. To the extent that actual, final outcomes are different than these estimates, or that additional facts and circumstances in a revision to these estimates, earnings during that accounting period will be affected.

ENVIRONMENTAL - Environmental expenditures that benefit future periods are capitalized. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded for the estimated amount of expected environmental assessments and/or remedial efforts. Estimation of such liabilities includes an assessment of engineering estimates, continually evolving governmental laws and standards, and potential involvement of other potentially responsible parties.

COMPREHENSIVE INCOME - Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) refers to expenses, gains, and losses that are not included in net income, but rather are recorded directly in shareholder's equity.

NEW ACCOUNTING PRONOUNCEMENTS – In 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 which is further described in Note 8.

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. In February 2008, the FASB agreed to a one-year delay of FAS 157 for certain nonfinancial assets and liabilities. Accordingly, adoption of this standard is limited to financial assets and liabilities, which primarily applies to the valuation of our long term mortgage debt. Management believes that the adoption of SFAS 157 will only require additional disclosure on the fair value of its goodwill, asset retirement obligations, and long-term mortgages and as such will not have a material impact on the consolidated financial results of the Company.

In February 2007, the FASB issued Statement No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No 115." This Statement permits an entity to choose to measure many financial instruments and certain other items at fair value. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings. The fair value option (a) may be applied instrument by instrument, (b) is irrevocable, and (c) is applied to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company believes the adoption of SFAS No. 159 will have no material impact on its consolidated financial statements.

In December 2007 the FASB issued Statement No. 141(R) "Business Combinations" ("FAS 141(R)"). FAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of FAS No. 141R on the consolidated financial statements will depend upon the nature, terms and size of the acquisitions consummated after the effective date.

**2. Transactions with Related Parties.**

The Company was considered 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 at the time of the merger of FRI and Vulcan in November 2007. Vulcan currently continues to operate under substantially the same mining royalty agreements and leases.

The Company, through its transportation subsidiaries, hauls commodities by tank and flatbed 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 summary of revenues derived from Vulcan follows (in thousands):

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Transportation | $ 1,969 | 2,263 | 1,976 |
| Real estate | 6,052 | 6,086 | 6,345 |
| | $ 8,021 | 8,349 | 8,321 |

The Company outsources certain functions to Vulcan, including some administrative, and property management functions. The cost of these administrative services were $45,000 in 2008, $191,000 in 2007, and $191,000 in 2006.

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, a real estate joint venture to develop approximately 4,300 acres of land near Brooksville, Florida. Under the terms of the joint venture, FRP contributed its fee interest in approximately 3,443 acres formerly leased to Vulcan under a long-term mining lease which had a net book value of $2,548,000. Vulcan is entitled to mine the property until 2018 and pay royalties for the benefit of FRP for as long as mining does not interfere with the development of the property. Real estate revenues included $148,000 of such royalties in fiscal 2008 and $149,000 in fiscal 2007. Allocated depletion expense of $5,000 was included in real estate cost of operations for fiscal 2008. FRP also contributed $3,018,000 for one-half of the acquisition costs of a 288-acre contiguous parcel. Vulcan also contributed 553 acres that it owned as well as its leasehold interest in the 3,443 acres that it leased from FRP. The joint venture is jointly controlled by Vulcan and FRP, and they each have a mandatory obligation to fund additional capital contributions of up to $2 million. Capital contributions of $1,025,000 have been made by each party as of September 30, 2008. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to FRP. Other income for fiscal 2008 includes a loss of $29,000 representing the Company's equity in the loss of the joint venture. The property does not yet have the necessary entitlements for real estate development. Approval to develop real property in Florida entails an extensive entitlements process involving multiple and overlapping regulatory jurisdictions and the outcome is inherently uncertain. The Company currently expects that the entitlement process will be done within the next two years.

In connection with the Joint Venture, the independent directors of the Company also approved certain extensions of lease agreements between FRP and FRI on FRI’s corporate headquarters in Jacksonville, Florida, the Astatula and Marion Sand mining properties, also in Florida. The Company and FRI also agreed that a 2,500 acre tract of the Grandin mining property, in Florida, due to be released will remain subject to the lease and available for future mining.

**3. Debt.**

Debt at September 30 is summarized as follows (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Revolving credit (uncollateralized) | $ - | - |
| 5.6% to 8.6% mortgage notes, | | |
| due in installments through 2027 | 80,172 | 83,934 |
| | 80,172 | 83,934 |
| Less portion due within one year | 4,019 | 3,762 |
| | $76,153 | 80,172 |

The aggregate amount of principal payments, excluding the revolving credit, due subsequent to September 30, 2008 is: 2009 - $4,019,000; 2010 – $4,294,000; 2011 - $4,587,000; 2012 - $4,902,000; 2013 - $5,239,000; 2014 and subsequent years - $57,131,000.

The Company has a $37,000,000 uncollaterized Revolving Credit Agreement which had a zero balance at September 30, 2008 and 2007 and no advances were made under this facility during fiscal year 2008. The Revolver bears interest at a rate of 1.25% 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 0.2% 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 limitations on availability and restrictive covenants including limitations on paying cash dividends. Under these restrictions, as of September 30, 2008, $32,000,000 was available for borrowing and $35,897,000 of consolidated retained earnings would be available for payment of dividends. The Company was in compliance with all covenants as of September 30, 2008. The Revolver was amended and restated on October 1, 2008 to remove one of the four banks, extend the termination date to from December 31, 2009 to December 31, 2013, delete the loan covenant requiring the Company to comply with a Consolidated Total Debt to EBITDA ratio and amend the loan covenant relating to the Fixed Charge Coverage. Under the terms of this amended Revolver agreement the full amount would have been available at September 30, 2008.

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.

During fiscal 2006 the Company converted a construction loan into a 15-year non-recourse mortgage of $11,800,000 with an interest rate of 6.12%. The construction loan was used to develop a 145,000 square foot build-to-suit warehouse/office building pursuant to a 15-year triple net lease.

The non-recourse fully amortizing mortgage notes payable are collateralized by real estate having a carrying value of approximately $83,584,000 at September 30, 2008. Certain properties having a carrying value at September 30, 2008 of $98,000 are encumbered by $1,300,000 of industrial revenue bonds that are the liability of Vulcan. Vulcan has agreed to pay such debt when due (or sooner if

Vulcan cancels its lease of such property) and further has agreed to indemnify and hold harmless the Company.

During fiscal 2008, 2007 and 2006 the Company capitalized interest costs of $890,000, $849,000 and $219,000, respectively. The amount in fiscal 2008 includes a $409,000 fourth quarter adjustment.

The Company had $17,909,000 of irrevocable letters of credit outstanding at September 30, 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 were issued for workers' compensation and automobile liability insurance retentions.

**4. Leases.**

At September 30, 2008, the total carrying value of property owned by the Company which is leased or held for lease to others is summarized as follows (in thousands):

| | |
|---|---|
| Construction aggregates property | $ 24,076 |
| Commercial property | 183,914 |
| | 207,990 |
| Less accumulated depreciation and depletion | 39,940 |
| | $168,050 |

The minimum future straight-lined rentals due the Company on noncancelable leases as of September 30, 2008 are as follows: 2009 - $14,934,000; 2010 - $13,049,000; 2011 - $10,916,000; 2012 - $9,504,000; 2013 - $7,852,000; 2014 and subsequent years $34,152,000.

**5. Preferred Shareholder Rights Plan.**

On May 5, 1999, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock. The dividend was payable on June 2, 1999. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company, par value $.01 per share (the "Preferred Shares"), at a price of $96 per one one-hundredth of a Preferred Share, subject to adjustment.

In the event that any Person or group of affiliated or associated Persons (an "Acquiring Person") acquires beneficial ownership of 15% or more of the Company's outstanding common stock, each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereafter be void), will thereafter have the right to receive upon exercise that number of Common Shares having a market value of two times the exercise price of the Right. An Acquiring Person excludes any Person or group of affiliated or associated Persons who were beneficial owners, individually or collectively, of 15% or more of the Company's Common Shares on May 4, 1999.

The Rights initially trade together with the Company's common stock and are not exercisable. However, if an Acquiring Person acquires 15% or more of the Company's common stock, the Rights may become exercisable and trade separately in the absence of future board action. The Board of Directors may, at its option, redeem all Rights for $.01 per right, at any time prior to the Rights becoming exercisable. The Rights will expire September 30, 2009 unless earlier redeemed, exchanged or amended by the Board.

## 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.)

| | Years Ended September 30 | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Common shares: | | | |
| Weighted average common shares outstanding during the period - shares used for basic earnings per common share | 3,033 | 3,022 | 2,980 |
| Common shares issuable under share based payment plans which are potentially dilutive | 93 | 109 | 107 |
| Common shares used for diluted earnings per common share | 3,126 | 3,131 | 3,087 |
| Net income | $ 7,968 | 9,505 | 8,078 |
| Earnings per common share | | | |
| Basic | $2.63 | 3.15 | 2.71 |
| Diluted | $2.55 | 3.04 | 2.62 |

For 2008, 10,000 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 2007 and 2006, all outstanding stock options were included in the calculation of diluted earnings per common share because the sum of the hypothetical amount of future proceeds from the exercise price, unrecorded compensation, and tax benefits to be credited to capital in excess of par for all grants of stock options were lower than the average price of the common shares, and therefore were dilutive. For 2008, 2007 and 2006, 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.

Prior to February 2006, the Company had two Stock Option Plans (the 1995 Stock Option Plan and the 2000 Stock Option Plan) under which options for shares of common stock were granted to directors, officers and key employees. The options awarded under the two plans have similar characteristics. All stock options are non-qualified and expire ten years from the date of grant. Options awarded to directors are exercisable immediately and options awarded to officers and employees become exercisable in cumulative installments of 20% at the end of each year following the date of grant. When stock options are exercised the Company issues new shares after receipt of exercise proceeds and taxes due, if any, from the grantee.

In February 2006, the shareholders approved the 2006 Stock Incentive Plan which replaced the 2000 Stock Option Plan. The 2006 plan permits the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock units, or stock awards. In February 2006, 15,960 shares of restricted stock were granted subject to forfeiture restrictions, tied to continued employment, that lapse 25% annually beginning on January 1, 2007. The number of common shares available for future issuance was 262,400 at September 30, 2008.

The Company utilizes the Black-Scholes valuation model for estimating fair value of stock compensation for options awarded to officers and employees. Each grant is evaluated based upon assumptions at the time of grant. The assumptions were no dividend yield, expected volatility between 37% and 53%, risk-free interest rate of 3.2% to 4.9% and expected life of 6.0 to 7.0 years.

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

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

| | Years Ended September 30 | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Stock options issued prior to 123R adoption | $ 288 | 525 | 525 |
| Stock options issued after 123R adoption | 27 | - | - |
| Restricted stock awards granted in 2006 | 206 | 221 | 157 |
| Annual non-employee Director stock award | 395 | 388 | 286 |
| Shares purchased in connection with previous CEO retirement | 162 | - | - |
| Modification to accelerate prior awards made in connection with CEO retirement | 216 | - | - |
| | 1,294 | 1,134 | 968 |
| Deferred income tax benefit | 497 | 436 | 378 |
| Stock compensation net of tax expense | $ 797 | 698 | 590 |

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

| Options | Number Of Shares | Weighted Average Exercise Price | Weighted Average Remaining Term (yrs) | Weighted Average Grant Date Fair Value |
|---|---|---|---|---|
| Outstanding at September 30, 2005 | 337,900 | $30.72 | 7.8 | |
| Granted | 0 | $ 0 | | $ 0 |
| Exercised | (26,454) | $26.41 | | $ 359 |
| Forfeited | (6,700) | $33.53 | | |
| Outstanding at September 30, 2006 | 304,746 | $31.03 | 6.9 | $ 4,760 |
| Granted | 0 | $ 0 | | $ 0 |
| Exercised | (35,935) | $27.76 | | $ 500 |
| Forfeited | (2,200) | $37.70 | | |
| Outstanding at September 30, 2007 | 266,611 | $31.42 | 5.9 | $ 4,221 |
| Granted | 10,000 | $86.24 | | $ 369 |
| Exercised | (39,531) | $30.17 | | $ 588 |
| Forfeited | (5,000) | $43.50 | | |
| Outstanding at September 30, 2008 | 232,080 | $33.73 | 5.0 | $ 3,900 |
| Exercisable at September 30, 2008 | 201,980 | $30.29 | 4.7 | $ 3,134 |

| | | |
|---|---|---|
| Vested during Twelve months ended September 30, 2008 | 38,500 | $ 582 |

The following table summarizes information concerning stock options outstanding at September 30, 2008:

| Range of Exercise Prices per Share | Shares under Option | Weighted Average Exercise Price | Weighted Average Remaining Life |
|---|---|---|---|
| Non-exercisable: | | | |
| $23.01 - $34.00 | 2,000 | $30.32 | 5.3 |
| $34.01 – $51.00 | 18,100 | 43.50 | 6.3 |
| $76.01 - $87.00 | 10,000 | 86.24 | 9.7 |
| | 30,100 | $56.82 | 7.3 years |
| Exercisable: | | | |
| $15.00 - $23.00 | 72,980 | 19.78 | 3.4 |
| $23.01 - $34.00 | 81,600 | 29.70 | 4.9 |
| $34.01 - $51.00 | 38,400 | 44.43 | 6.3 |
| $51.01 - $76.00 | 9,000 | 60.40 | 6.8 |
| | 201,980 | $30.29 | 4.7 years |
| Total | 232,080 | $33.73 | 5.0 years |

The aggregate intrinsic value of exercisable in-the-money options was $9,839,000 and the aggregate intrinsic value of all outstanding options was $10,506,000 based on the market closing price of $79.00 on September 30, 2008 less exercise prices. Gains of $2,270,000 were realized by option holders during the twelve months ended September 30, 2008. The realized tax benefit from options exercised for the twelve months ended September 30, 2008 was $871,000. Total compensation cost of options granted but not yet vested as of September 30, 2008 was $610,000, which is expected to be recognized over a weighted-average period of 2.0 years. Fiscal 2008 included stock compensation expense of $180,000 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):

| Restricted Stock | Number Of Shares | Weighted Average Grant Price | Weighted Average Remaining Term (yrs) | Weighted Average Grant Date Fair Value |
|---|---|---|---|---|
| Outstanding at October 1, 2005 | 0 | | | |
| Granted | 15,960 | $63.64 | | $ 1,016 |
| Vested | 0 | | | |
| Forfeited | (360) | $63.54 | | |
| Outstanding at September 30, 2006 | 15,600 | $63.64 | 3.3 | $ 993 |
| Granted | 0 | | | $ 0 |
| Vested | (3,800) | $63.65 | | $ 242 |
| Forfeited | (1,000) | $63.54 | | |
| Outstanding at September 30, 2007 | 10,800 | $63.65 | 2.3 | $ 687 |
| Granted | 0 | | | $ 0 |
| Vested | (3,600) | $63.65 | | $ 229 |
| Forfeited | (1,000) | $63.54 | | |

| | | | | |
|---|---|---|---|---|
| Outstanding at September 30, 2008 | 6,200 | $63.67 | 1.3 | $ 395 |

Total compensation cost of restricted stock granted but not yet vested as of September 30, 2008 was $254,000 which is expected to be recognized over a weighted-average period of 1.3 years. Fiscal 2008 included 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. Income Taxes.**

The provision for income taxes for continuing operations for fiscal years ended September 30 consists of the following (in thousands):

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 498 | 3,480 | 4,234 |
| State | 396 | 857 | 841 |
| | 894 | 4,337 | 5,075 |
| Deferred | 4,036 | 774 | 96 |
| Total | $4,930 | 5,111 | 5,171 |

A reconciliation between the amount of tax shown above and the amount computed at the statutory Federal income tax rate follows (in thousands):

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Amount computed at statutory Federal rate | $4,412 | 4,970 | 4,528 |
| State income taxes (net of Federal income tax benefit) | 542 | 645 | 553 |
| Other, net | (24) | (504) | 90 |
| Provision for income taxes | $4,930 | 5,111 | 5,171 |

In this reconciliation, the category “Other, net” consists of changes in unrecognized tax benefits, permanent tax differences related to non-deductible expenses, special tax rates and tax credits, interest and penalties, and adjustments to prior year estimates.

The types of temporary differences and their related tax effects that give rise to deferred tax assets and deferred tax liabilities at September 30, are presented below (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Deferred tax liabilities: | | |
| Property and equipment | $19,746 | 16,835 |
| Depletion | 417 | 413 |
| Unrealized rents | 1,232 | 995 |
| Prepaid expenses | 2,452 | 1,742 |
| Gross deferred tax liabilities | 23,847 | 19,985 |
| Deferred tax assets: | | |
| Insurance reserves | 3,430 | 3,177 |
| Employee benefits and other | 1,485 | 1,989 |
| Gross deferred tax assets | 4,915 | 5,166 |
| Net deferred tax liability | $18,932 | 14,819 |

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, 2007 there was $337,000 of unrecognized tax benefits that, if recognized, would impact the Company's effective tax rate. Interest and penalties of $200,000 was reflected as a component of the total liability at October 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

| | |
|---|---|
| Balance at October 1, 2007 | $ 537 |
| Reductions due to lapse of statute of limitations | (165) |
| Balance at September 30, 2008 | $ 372 |

As of September 30, 2008 there was $249,000 of unrecognized tax benefits that, if recognized, would impact the Company's effective tax rate. Interest and penalties of $123,000 was reflected as a component of the total liability at September 30, 2008. The Company expects a decrease in the liability of up to $135,000 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.

**9. Employee Benefits.**

The Company and certain subsidiaries have a savings/profit sharing plan for the benefit of qualified employees. The savings feature of the plan incorporates the provisions of Section 401(k) of the Internal Revenue Code under which an eligible employee may elect to save a portion (within limits) of their compensation on a tax deferred basis. The Company contributes to a participant's account an amount equal to 50% (with certain limits) of the participant's contribution. Additionally, the Company may make an annual discretionary contribution to the plan as determined by the Board of Directors, with certain limitations. The plan provides for deferred vesting with benefits payable upon retirement or earlier termination of employment. The Company's cost was $828,000 in 2008, $843,000 in 2007 and $735,000 in 2006.

The Company has a Management Security Plan (MSP) for certain officers and key employees. The accruals for future benefits are based upon the remaining years to retirement of the participating employees and other actuarial assumptions. Life insurance on the lives of some of the participants has been purchased to partially fund this benefit and the Company is the owner and beneficiary of such policies. The expense for fiscal 2008, 2007 and 2006 was $191,000, $365,000 and $347,000, respectively. The accrued benefit under this plan as of September 30, 2008 and 2007 was $952,000 and $2,340,000 respectively. On December 5, 2007, the board of directors approved certain retirement benefits for John E. Anderson, the Company's previous President and Chief Executive Officer who retired effective February 6, 2008. Upon Mr. Anderson's retirement, the Company paid him $1,331,000 for his GAAP accrued benefit under the MSP.

The Company provides certain health benefits for retired employees. Employees may become eligible for those benefits if they were employed by the Company prior to December 10, 1992, meet the service requirements and reach retirement age while working for the Company. The plan is contributory and unfunded. The Company accrues the estimated cost of retiree health benefits over the years that the employees render service. The accrued postretirement benefit obligation for this plan as of September 30, 2008 and 2007 was $333,000 and $362,000, respectively. The net periodic postretirement benefit cost was $13,000, $16,000 and $27,000 for fiscal 2008, 2007, and 2006, respectively. The discount rate used in determining the Net Periodic Postretirement Benefit Cost was 6.0% for 2008, 6.0% for 2007 and 5.0% for 2006. The discount rate used in determining the Accumulated Postretirement Benefit Obligation (APBO) was 6.75 for 2008, 6.0% for 2007 and 6.0% for 2006. No medical trend is applicable because the Company's share of the cost is frozen.

**10. 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 is developing commercial and industrial properties.

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Revenues: | | | |
| Transportation | $147,236 | 131,942 | 126,252 |
| Real estate | 24,813 | 22,340 | 21,122 |
| | $172,049 | 154,282 | 147,374 |
| Operating profit: | | | |
| Transportation | $ 7,934 | 9,693 | 8,875 |
| Real estate | 12,288 | 12,105 | 11,633 |
| Corporate expenses | (6,738) | (3,446) | (3,453) |
| | $ 13,484 | 18,352 | 17,055 |
| Capital expenditures: | | | |
| Transportation | $ 17,344 | 8,201 | 19,806 |
| Real estate | 24,263 | 9,153 | 20,795 |
| | $ 41,607 | 17,354 | 40,601 |
| Depreciation, depletion and amortization: | | | |
| Transportation | $ 9,359 | 9,246 | 8,769 |
| Real estate | 4,881 | 4,677 | 4,506 |
| Other | 504 | 237 | 235 |
| | $ 14,744 | 14,160 | 13,510 |
| Identifiable assets at September 30: | | | |
| Transportation | $ 62,511 | 56,101 | 57,715 |
| Real estate | 187,239 | 168,587 | 159,134 |
| Cash | 7,778 | 26,944 | 154 |
| Unallocated corporate assets | 4,512 | 1,898 | 2,212 |
| | $262,040 | 253,530 | 219,215 |

**11. Accrued Vacation Liability.**

Prior to the third quarter of fiscal 2006, the Company did not accrue for compensated absences based on management's determination that the accrual was not material to the Company's financial statements. Instead, the Company expensed payments of vacation pay when paid. Prior to the third quarter of fiscal 2006 and the subsequent adoption of Staff Accounting Bulletin No. 108, the Company used the rollover method to evaluate the materiality of the accrued vacation liability.

During the third quarter of fiscal 2006, the Company reevaluated the materiality of such accrual and recorded a liability of $1,055,000 to reflect the Company's obligation for vacation pay. At that time, the Company determined that it was not necessary to restate its financial statements for periods prior to June 30, 2006 as the amount was not material to any prior period financial position or results of operations.

As part of its materiality analysis, the Company estimated accrued vacation liability for prior periods assuming the liability was a consistent percentage of total payroll since accurate historical records were not available. Based on these estimates, vacation expenses constituted approximately 0.75% of pretax income for fiscal 2005, 0.46% of pretax income for the first quarter of fiscal 2006, and 0.51% of pretax income for the second quarter of fiscal 2006. In addition, the total vacation liability, net of income taxes, had an impact of less than 1% of total equity at the end of each of these periods. Accordingly, the Company determined that the accrual was not material to prior periods from a quantitative perspective.

In addition to this quantitative analysis, management also considered the qualitative factors detailed in Section M of Topic 1, Financial Statements, of the Staff Accounting Bulletin Series. Applying these factors, the Company determined that the misstatement was not material from a qualitative perspective because (i) the vacation accrual for prior periods represents an estimate with inherent uncertainty, (ii) the misstatement did not mask any change in earnings or other trends, (iii) the misstatement did not hide any failure to meet analyst consensus expectations and did not change a loss into income or vice versa, (iv) the misstatement applied to both of the Company's business segments proportionately based on the total payroll of each segment, (v) no regulatory requirements, loan covenants or contractual requirements were affected by the misstatement, (vi) the misstatement did not result in material changes to management compensation plans, and (vii) the misstatement did not conceal any unlawful transactions.

**12. Fair Values of Financial Instruments.**

At September 30, 2008 and 2007, the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, short-term notes payable and revolving credit approximate their fair value based upon the short-term nature of these items. The fair values of the Company's other mortgage notes payable were estimated based on current rates available to the Company for debt of the same remaining maturities. At September 30, 2008, the carrying amount and fair value of such other long-term debt was $80,172,000 and $78,839,000, respectively. At September 30, 2007, the carrying amount and fair value of other long-term debt was $83,934,000 and $82,579,000, respectively.

**13. 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.

**14. Commitments.**

The Company, at September 30, 2008, had entered into various contracts to develop real estate with remaining commitments totaling $6,570,000, and to purchase transportation equipment for approximately $2,727,000. The Company has committed to make an additional capital contribution of up to $975,000 dollars to Brooksville Quarry, LLC in connection with a joint venture with Vulcan.

In July 2008, the Company entered into an agreement to sell the Windlass Run Residential property. Windlass Run Residential, located in southeastern Baltimore County, Maryland, is a 121 acre tract of land adjacent to and west of our Windlass Run Business Park. The property was rezoned in September 2007 to allow for additional density and plans are being pursued to obtain a Planned Unit Development. The purchase price for the property is $25,265,000, subject to certain potential purchase price adjustments. The agreement of sale is subject to certain contingencies, including the satisfactory completion of the buyer's inspection period and additional government approvals, and closing may be two or more years away. The cost of the property of $5,674,000 was reclassified on the balance sheet from Land to Real estate held for investment in fiscal 2008.

**15. Concentrations.**

The transportation segment primarily serves customers in the petroleum and building and construction industries in the Southeastern U.S. Petroleum customers accounted for approximately 71% and building and construction customers accounted for approximately 29% of transportation segment revenues for the year ended September 30, 2008. Significant economic disruption or downturn in this geographic region or these industries could have an adverse effect on our financial statements.

During fiscal 2008, the transportation segment's ten largest customers accounted for approximately 53.5% of the transportation segment's revenue. One of these customers accounted for 16.5% 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 $5,255,000 and $4,724,000 at September 30 2008 and 2007 respectively.

The Company places its cash and cash equivalents with high credit quality institutions. At times such amounts may exceed FDIC limits.

**16. Previous CEO Retirement.**

On December 5, 2007, the board of directors approved certain retirement benefits for John E. Anderson, the Company's previous 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):

| | |
|---|---|
| Expenses | |
| Additional bonus paid in cash | $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) | $2,503 |

| | |
|---|---|
| Payments | |
| 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 | $4,851 |

**Management's Report on Internal Control Over Financial Reporting**

The management of Patriot is responsible for establishing and maintaining adequate internal control over financial reporting. Patriot's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Patriot's management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2008 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of September 30, 2008, the Company's internal control over financial reporting is effective.

**Report of Independent Registered Certified Public Accounting Firm**

The Shareholders and Board of Directors
Patriot Transportation Holding, Inc.

We have audited the accompanying consolidated balance sheets of Patriot Transportation Holding, Inc. as of September 30, 2008, and 2007, and the related consolidated statements of income, shareholder’s equity and comprehensive income, and cash flows for years ended September 30, 2008, 2007 and 2006. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Patriot Transportation Holding, Inc. as of September 30, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years ended September 30, 2008, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Patriot Transportation Holding, Inc.’s internal control over financial reporting as of September 30, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Patriot Transportation Holding, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Hancock Askew & Co., LLP**

December 3, 2008
Savannah, Georgia

## DIRECTORS AND OFFICERS

### Directors

John D. Baker II (1)
President and Chief Executive
Officer of the Company

Edward L. Baker (1)
Chairman of the Board of the Company
and Former Chairman of the Board of
Florida Rock Industries, Inc.

John E. Anderson (1)
Former President and Chief Executive
Officer of Patriot Transportation Holding, Inc.

Thompson S. Baker II
President of Florida Rock Division
of Vulcan Materials Company

Charles E. Commander III (2)(4)
Partner, Jacksonville office
Foley & Lardner

Luke E. Fichthorn III
Private Investment Banker,
Twain Associates

Robert H. Paul III (2)(3)(4)
Chairman of the Board of
Southeast Atlantic Capital, LLC

H. W. Shad III (2)
Owner, Bozard Ford Company

Martin E. Stein, Jr. (3)(4)
Chairman and Chief Executive Officer of
Regency Centers Corporation

James H. Winston (3)
President of LPMC of Jax, Inc.,
Omega Insurance Company and Citadel
Life & Health Insurance Co.

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(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Compensation Committee
(4) Member of the Nominating Committee

**Officers**

Edward L. Baker
Chairman of the Board

John D. Baker II
President and Chief Executive Officer

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

David H. deVilliers, Jr.
Vice President
President, FRP Development Corp. and
Florida Rock Properties, Inc.

John D. Klopfenstein
Controller and Chief Accounting Officer

Terry S. Phipps
President, SunBelt Transport, Inc.

Robert E. Sandlin
President, Florida Rock & Tank Lines, Inc.

**Patriot Transportation Holding, Inc.**

501 Riverside Avenue, Suite 500
Jacksonville, Florida, 32202
Telephone: (904) 396-5733

**Annual Meeting**

Shareholders are cordially invited to attend the Annual Shareholders Meeting which will be held at 10 a.m. local time, on Wednesday, February 4, 2009, 155 East 21st Street, Jacksonville, Florida, 32206.

**Transfer Agent**

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038

Telephone: 1-800-937-5449

**General Counsel**

McGuireWoods LLP
Jacksonville, Florida

**Independent Registered Certified Public Accounting Firm**

Hancock Askew & Co., LLP
Savannah, Georgia

**Common Stock Listed**

The Nasdaq Stock Market
(Symbol: PATR)

**Form 10-K**

Shareholders may receive without charge a copy of Patriot Transportation Holding, Inc.'s annual report on Form 10-K for the fiscal year ended September 30, 2008 as filed with the Securities and Exchange Commission by writing to the Treasurer at 501 Riverside Avenue, Suite 500, Jacksonville, Florida 32202. The most recent certifications by our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K.

**Company Website**

The Company's website may be accessed at www.patriottrans.com. All of our filings with the Securities and Exchange Commission can be accessed through our website promptly after filing. This includes annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports filed or furnished on Form 8-K and all related amendments.

CERTIFICATIONS Exhibit 31(a)

I, John D. Baker II, certify that:

1. I have reviewed this annual report on Form 10-K of Patriot Transportation Holding, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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: December 3, 2008

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

CERTIFICATIONS Exhibit 31(b)

I, John D. Milton, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Patriot Transportation Holding, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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: December 3, 2008

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

CERTIFICATIONS Exhibit 31(c)

I, John D. Klopfenstein, certify that:

1. I have reviewed this annual report on Form 10-K of Patriot Transportation Holding, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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: December 3, 2008

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

Exhibit 32

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

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

PATRIOT TRANSPORTATION HOLDING, INC.

December 3, 2008

JOHN D. BAKER II

John D. Baker II
President and Chief Executive Officer

JOHN D. MILTON, JR.

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

JOHN D. KLOPFENSTEIN

John D. Klopfenstein
Controller and Chief Accounting Officer

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

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