



2021 ANNUAL REPORT





CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended September 30

(Amounts in thousands except per share amounts)

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Revenues	\$ 81,268	88,713	(8.4)
Operating profit	\$ 880	243	262.1
Income before income taxes	\$ 858	347	147.3
Net income	\$ 625	257	143.2
Per common share:			
Basic	\$.18	.08	125.0
Diluted	\$.18	.08	125.0
Total Assets	\$ 52,560	64,669	(18.7)
Total Debt	\$ —	—	—
Shareholders' Equity	\$ 36,116	45,048	(19.8)
Common Shares Outstanding	3,415	3,377	1.1
Book Value Per Common Share	\$ 10.58	13.34	(20.7)

BUSINESS. The business of the Company, conducted through our wholly owned subsidiary, Florida Rock & Tank Lines, Inc. (Tank Lines), which is a Southeastern U.S. based tank truck company, is to transport petroleum and other liquids and dry bulk commodities.

OBJECTIVES. The Company's objectives are to continue building a substantial transportation company providing acceptable returns on capital employed and cash generation.

Fiscal year 2021 was very similar to fiscal year 2020 in that we continued to see our driver count decrease in the face of the on-going driver shortage in the US. The year began with the Company making the decision to downsize an additional ~\$6 million of annualized revenue with one customer due to low pricing. From October through March, our driver count dropped by ~50 drivers and we spent the early part of the year making cost reductions in headcount and equipment due to the continued decrease in driver count. In late February and early March, most of our markets experienced an unexpected surge in gasoline demand presumably from pent up travel following COVID and the release of the vaccines. Shortly thereafter, we experienced the Colonial Pipeline cyber-attack which had a short lived, but severe, impact on fuel supply in the eastern United States. These two events quickly highlighted the severity of the lack of driver capacity in our industry and changed the conversation amongst carriers and customers. In April, we were able to announce a 15% increase in driver pay and all but one small customer agreed to absorb the cost of that increase into their freight rates plus an additional 3-5% on average. The result of that pay increase was that we saw our voluntary turnover rate improve and our drivers in training modestly increase. From April through the end of the fiscal year in September, our driver count did decline by ~20 drivers (compared to ~50 in the prior six months). That improvement trend is continuing and we have recently seen more of a flat line in driver count week to week.

We continue to focus on our driver compensation program to remain competitive and attractive in the marketplace. In October 2021, we announced additional significant pay increases in two of our most challenging urban markets and are partnering with a small group of customers on longer term agreements to run more of a dedicated fleet model. Those customers have agreed to cover the cost of that additional driver pay as well. This is a strategy we will be exploring market by market during fiscal 2022 and beyond as it allows us to be more nimble on driver pay/rate increases and provide a higher level of service to fewer customer partners in challenging markets. We will focus on customers that understand the supply chain challenges and our need for a reasonable

return as we move forward while seeking new opportunities for diversification. We continue to see growth in our product diversification efforts, we expanded successfully into the water hauling business in late 2020 and foresee additional growth opportunities as this customer is in the midst of expanding their operations in Florida in 2022. We also added a new piece of dry bulk business with an annualized revenue opportunity of ~\$1.5 million. We also added business with two new petroleum customers in Florida to help us backfill a portion of the revenue we turned back earlier in the year. We acquired an existing customer's private fleet of 4 trucks, 5 trailers and hired five drivers in October 2021. We signed a three year agreement to haul 100% of their freight (~\$2 million). This acquisition fits nicely into the existing Georgia operations and will add almost no additional overhead to manage.

The auto liability insurance market continued the upward trend on premium expense and resulted in another meaningful increase in our annual premium cost for fiscal 2022. While we were fully able to absorb the cost increase and maintain liability insurance in excess of our customers' minimum requirements, we believe some of our competitors will struggle to do the same.

Our recent technology investments are paying large dividends. The new mobile capture platform that allows us to deliver bills of lading to our customers within minutes of delivering the load has been a big customer satisfaction success. The SmartDrive on-board camera system installed near the end of 2020 has already paid for itself. We had several incidents in 2021 where the video exonerated us in accidents where the at fault party claimed our driver was at fault, saving us cost of defense and potential settlement money. The camera system is also helping us improve driving habits across the network with the daily driving score and live video coaching platform. Our plan was to implement a new automated dispatch module in FY 2021. However, that project was delayed and we are just now starting that project with a plan to complete during fiscal 2022. This technology should bring significant efficiencies to our operations and customers. We believe these projects are critical to our future success

as they provide significant benefits to our drivers, employees and customers.

We are very proud to say that the company beat our preventable accident frequency target for the 3rd straight year in a row. We set a very high standard for ourselves each year and achieving this goal speaks volumes about our drivers as well as our dedicated managers and staff. Achieving this target allows us to hold the annual drawing for a new Chevy Silverado pickup truck to be awarded to one of our accident-free drivers later this year.

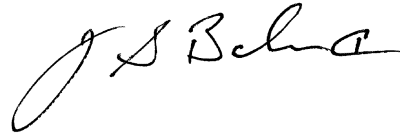
Early in fiscal 2022 we sold the Tampa property for \$9,600,000 and declared a third special dividend to our shareholders of \$3.75 per share. Cumulatively, we have declared and paid \$9.90 in dividends to our shareholders in just under two years. Immediately after paying the most recent dividend, our balance sheet remains strong with over \$6 million in cash and no debt. With the changing perspective we are seeing from many of our customers as it relates to driver pay and rate increases, we are cautiously optimistic as we look to the future

and our ability to start achieving an acceptable return on investment for our shareholders. As always, we do not take your investment in our Company lightly and we want to thank you for your continued interest and support.

Respectfully,



Robert E. Sandlin
President & Chief Executive Officer



Thompson S. Baker II
Chairman

Our business consists of hauling petroleum related products, dry bulk commodities and liquid chemicals. We are one of the largest regional tank truck carriers in North America. We operate terminals in Florida, Georgia, Alabama, and Tennessee. We do not own any of the products we haul; rather, we act as a third-party carrier to deliver our customers' products from point A to point B, using predominately Company employees and Company-owned tractors and tank trailers. Approximately 86% of our business consists of hauling liquid petroleum products (mostly gas and diesel fuel) from large scale fuel storage facilities to our customers' retail outlets (e.g. convenience stores, truck stops and fuel depots) where we off-load the product into our customers' fuel storage tanks for ultimate sale to the retail consumer. The remaining 14% of our business consists of hauling dry bulk commodities such as cement, lime and various industrial powder products, water and liquid chemicals. As of September 30, 2021, we employed 341 revenue-producing drivers who operated our fleet of 282 Company tractors, 22 owner operators and 420 trailers from our 18 terminals and 6 satellite locations.

During fiscal 2021, the Company did not purchase any new tractors. Our fiscal 2022 capital budget includes 30 new tractors. We believe maintaining a modern fleet will result in reduced maintenance expenses, improved operating efficiencies and enhanced driver recruitment and retention. The Company owns all of the tank trailers and tractors used to conduct our business, except for 22 tractors owned by owner-operators and 29 full-service leased 2019 model year tractors.

Approximately 86% of our business consists of hauling petroleum related products. Our petroleum clients include major convenience store and hypermarket accounts, fuel wholesalers and major oil companies. We strive to build long-term relationships with major customers by providing outstanding customer service. During fiscal 2021, the Company's ten largest customers accounted for approximately 59.8% of revenue. One of these customers accounted for 21.4% of revenue. The loss of any one of these customers could have a material adverse effect on the Company's revenues and income. Nine of our top 10 accounts have been

customers for at least 6 years. Our dry bulk and chemical customers include large industrial companies including cement and concrete accounts and product distribution companies. Our customer relationships are long-standing and have grown over time as a result of consistently high safety and service levels.

Financial information about the company is presented in the financial statements included in this Annual Report.

(Amounts in thousands except per share amounts)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Summary of Operations:					
Revenues	\$ 81,268	88,713	108,716	114,065	112,165
Operating profit	\$ 880	243	1,979	2,046	2,372
Interest expense	\$ 27	31	32	39	80
Net income	\$ 625	257	1,763	5,119	1,829
Per Common Share (a):					
Basic	\$.18	.08	.53	1.54	.55
Diluted	\$.18	.08	.53	1.54	.55
Financial Summary:					
Current assets	\$ 23,378	26,541	34,424	31,444	23,721
Current liabilities	\$ 9,293	9,675	8,827	10,163	10,028
Property and equipment, net	\$ 22,684	30,399	33,567	33,911	39,592
Total assets	\$ 52,560	64,669	72,293	69,817	67,954
Long-term debt	\$ —	—	—	—	—
Shareholders' equity	\$ 36,116	45,048	54,797	52,406	46,583
Net Book Value Per common share	\$ 10.58	13.34	16.35	15.75	14.10
Other Data:					
Weighted average common shares:					
Basic (a)	3,395	3,369	3,342	3,318	3,299
Diluted (a)	3,408	3,370	3,343	3,320	3,302
Number of employees	508	607	761	783	857
Shareholders of record	343	348	358	383	406

Quarterly Results *unaudited*

(Dollars in thousands except per share amounts)

	<u>First</u>		<u>Second</u>		<u>Third</u>		<u>Fourth</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues	\$ 20,228	24,809	19,728	23,527	20,855	19,011	20,457	21,366
Operating profit (loss)	\$ (301)	(724)	671	(588)	452	794	58	761
Income (loss) before income taxes	\$ (307)	(647)	665	(553)	445	790	55	757
Net income (loss)	\$ (222)	(464)	484	(401)	323	573	40	549
Earnings per common share (a):								
Net income (loss)-								
Basic	\$ (.07)	(.14)	.14	(.12)	.09	.17	.01	.16
Diluted	\$ (.07)	(.14)	.14	(.12)	.09	.17	.01	.16
Market price per common share (b):								
High	\$ 10.35	20.00	9.86	20.51	11.79	10.50	12.02	9.45
Low	\$ 8.60	17.25	8.61	8.61	10.53	8.20	11.20	8.25

(a) Earnings per share of common stock is computed independently for each quarter presented. The sum of the quarterly net earnings per share of common stock for a year may not equal the total for the year due to rounding differences.

(b) All prices represent Nasdaq reported high and low daily closing prices.

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

Executive Overview. The business of the Company, conducted through our wholly owned subsidiary, Florida Rock & Tank Lines, Inc., is to transport petroleum and other liquids and dry bulk commodities. We do not own any of the products we haul, rather, we act as a third-party carrier to deliver our customers' products from point A to point B predominately using Company employees driving Company owned tractors and tank trailers. Approximately 86% of our business consists of hauling liquid petroleum products (mostly gas and diesel fuel) from large scale fuel storage facilities to our customers' retail outlets (e.g. convenience stores, truck stops and fuel depots) where we off-load the product into our customers' fuel storage tanks for ultimate sale to the retail consumer. The remaining 14% of our business consists of hauling dry bulk commodities such as cement, lime and various industrial powder products, water and liquid chemicals. As of September 30, 2021, we employed 341 revenue-producing drivers who operated our fleet of 282 Company tractors, 22 owner operators and 420 trailers from our 18 terminals and 6 satellite locations in Florida, Georgia, Alabama, and Tennessee. We experience increased seasonal demand in Florida during the spring and in most of our other locations during the summer months.

Our industry is characterized by such barriers to entry as the time and cost required to develop the capabilities necessary to handle hazardous material, the resources required to recruit, train and retain drivers, substantial industry regulatory and insurance requirements and the significant capital investments required to build a fleet of equipment, establish a network of terminals and, in recent years, the cost to build and maintain sufficient information technology resources to allow us to interface with and assist our customers in the day-to-day management of their product inventories.

Our ability to provide superior customer service at competitive rates and to operate safely and efficiently is important to our success in growing our revenues and increasing profitability. Our focus is to grow our profitability by executing on our key strategies of (i) increasing our business with existing and new customers, particularly hypermarket and large convenience store chains, that are willing to compensate us for our ability to provide superior, safe and reliable service, (ii) expanding our service offerings with respect to dry bulk, liquid and chemical products particularly in markets where we already operate terminals, (iii) earning the reputation as the preferred employer for tank truck drivers in all the markets in which we operate and (iv) pursuing strategic acquisitions. Our ability to execute this strategy depends on continuing our dedicated commitments to customer service and safety and continuing to recruit and retain qualified drivers.

Our industry is experiencing a severe shortage of qualified professional drivers with a tenured safe driving career. The trend we are seeing is that more and more of the applicants are drivers with little to no experience in the tank truck business, short driving careers in other lines of trucking, poor safety records and a pattern of job instability in their work history. As a result, in many markets we serve it is difficult to grow the driver count and, in some cases, to even maintain our historical or desired driver counts.

There are several opportunities available today in our markets that will allow us to execute on our strategy so long as we can find, hire and retain qualified drivers to meet the demands of these opportunities.

We generate both transportation based revenue as well as fuel surcharge revenue. Our transportation revenue consists of base revenue for each delivery which is generally calculated by multiplying a negotiated mileage-based rate by the quantity of product delivered plus any fees for extra stops to load or unload, powered product unloading and toll cost reimbursements. These negotiated transportation rates compensate us both for transporting the products as well as for loading and unloading time.

While our base rates include a fixed amount to cover our cost of fuel using an assumed price for diesel, we have fuel surcharges in place with our customers that allow us to obtain additional compensation for fuel expense incurred when the price of diesel rises above that assumed price. Likewise, for some customers, the fuel surcharge system allows the customer to receive a lower cost from us when the price of diesel drops below that assumed price. There is a time lag between fuel price fluctuations and changes to fuel surcharges to our customers. In a rapidly rising price environment this time lag can negatively impact the Company's financial results as we must pay the higher fuel cost immediately but in most cases aren't able to adjust fuel surcharges to our customers until the end of the month. The main factors that affect our total revenue are the number of revenue miles driven, rates per mile, quantity of products hauled and the amount of fuel surcharges.

The Company's operations are influenced by a number of external and internal factors. External factors include levels of economic and industrial activity, driver availability and cost, government regulations regarding driver qualifications and limitations on the hours drivers can work, petroleum product demand in the Southeast which is driven in part by tourism and commercial aviation, and fuel costs. Internal factors include revenue mix, equipment utilization, Company imposed restrictions on hiring drivers under the age of 21 or drivers without at least one year of driving experience, auto and workers' compensation accident frequencies and severity, administrative costs, and group health claims experience.

Our operating costs primarily consist of the following:

- Compensation and Benefits - Wages and employee benefits for our drivers and terminal support personnel is the largest component of our operating costs. These costs are impacted by such factors as miles driven, driver pay increases, driver turnover and training costs and additional driver pay due to temporary out-of-town deployments to cover business.
- Fuel Expenses - Our fuel expenses will vary depending on miles driven as well as such factors as fuel prices (which can be highly volatile), the fuel efficiency of our fleet and the average haul length.

- Repairs and Tires – This category consists of vehicle maintenance and repairs (excluding shop personnel) and tire expense (including amortization of tire cost and road repairs). These expenses will vary based on such factors as miles driven, the age of our fleet, and tire prices.

- Other Operating Expenses – This category consists of tolls, hiring costs, out-of-town driver travel cost, terminal facility maintenance and other operating expenses. These expenses will vary based on such factors as, driver availability and out-of-town driver travel requirements, business growth and inflation among others.

- Insurance and Losses – This includes costs associated with insurance premiums, and the self-insured portion of liability, worker’s compensation, health insurance and cargo claims and wreck repairs. We work very hard to manage these expenses through our safety and wellness programs, but these expenses will vary depending on the frequency and severity of accident and health claims, insurance markets and deductible levels.

- Depreciation Expense – Depreciation expense consists of the depreciation of the cost of fixed assets such as tractors and trailers over the life assigned to those assets. The amount of depreciation expense is impacted by equipment prices and the timing of new equipment purchases. We expect the cost of new tractors and trailers to continue to increase, impacting our future depreciation expense.

- Rents, Tags and Utilities Expenses – This category consists of rents payable on leased facilities and leased equipment, federal highway use taxes, vehicle registrations, license and permit fees and personal property taxes assessed against our equipment, communications, utilities and real estate taxes.

- Sales, General and Administrative Expenses – This category consists of the wages, bonus accruals, benefits, travel, vehicle and office costs for our administrative personnel as well as professional fees and amortization charges for intangible assets purchased in acquisitions of other businesses.

- Corporate Expenses – Corporate expenses consist of wages, bonus accruals, insurance and other benefits, travel, vehicle and office costs for corporate executives, director fees, stock option expense and aircraft expense.

- Gains/Loss on Disposition of Property, Plant & Equipment – Our financial results for any period may be impacted by any gain or loss that we realize on the sale of used equipment, losses on wrecked equipment, and disposition of other assets. We periodically sell used equipment as we replace older tractors and trailers. Gains or losses on equipment sales can vary significantly from period to period depending on the timing of our equipment replacement cycle, market prices for used equipment and losses on wrecked equipment.

To measure our performance, management focuses primarily on transportation revenue growth, revenue miles, our preventable accident frequency rate (“PAFR”), our operating ratio (defined as our operating expenses as a percentage of our operating revenue), turnover rate (excluding drivers related to terminal closures) and average driver count (defined as average number of revenue producing drivers including owner operators (O.O.)

under employment over the specified time period) as compared to the same period in the prior year.

ITEM	FY 2021 vs. FY 2020
Total Revenue	Down 8.4%
Transportation Revenue	Down 9.8%
Revenue Miles	Down by 16.2%
Transportation Revenue Per Mile	Up 7.6%
PAFR (incidents per 1M miles) goal of 2.1	Down to 1.68 from 2.00
Operating Ratio	98.9% vs. 99.7%
Driver Turnover Rate	105.2% vs. 82.3%
Avg. Driver Count incl. owner oper.	Down 12%

COMPARATIVE RESULTS OF OPERATIONS

Fiscal Years ended September 30

(dollars in thousands)	2021	%	2020	%	2019	%
Revenue miles (in thousands)	23,832		28,430		35,666	
Revenues:						
Transportation revenue	\$74,431	91.6%	82,503	93.0%	98,279	90.4%
Fuel surcharges	6,837	8.4%	6,210	7.0%	10,437	9.6%
Total Revenues	81,268	100%	88,713	100.0%	108,716	100.0%
Cost of operations:						
Compensation and benefits	36,198	44.5%	39,426	44.5%	47,549	43.7%
Fuel expenses	9,630	11.9%	10,297	11.6%	15,805	14.5%
Repairs & tires	5,402	6.7%	5,940	6.7%	7,373	6.8%
Other operating	3,270	4.0%	3,575	4.0%	4,811	4.4%
Insurance and losses	7,261	8.9%	8,640	9.7%	9,426	8.7%
Depreciation expense	6,654	8.2%	7,383	8.3%	7,870	7.3%
Rents, tags & utilities	2,708	3.3%	2,933	3.3%	3,406	3.1%
Sales, general & administrative	8,764	10.8%	8,936	10.1%	9,884	9.1%
Corporate expenses	1,936	2.4%	2,114	2.4%	2,270	2.1%
Gain on sale of land	(1,614)	(2.0%)	–	0.0%	–	0.0%
Gain on disposition of PP&E	179	0.2%	(774)	(0.9%)	(1,657)	(1.5%)
Total cost of operations	80,388	98.9%	88,470	99.7%	106,737	98.2%
Total operating profit	\$880	1.1%	243	0.3%	1,979	1.8%

Fiscal Year 2021 versus 2020 – The Company reported net income of \$625,000, or \$.18 per share, compared to \$257,000, or \$.08 per share last year. Net income this year included \$1,170,000, or \$.34 per share, from gains on real estate sales net of income taxes.

Total revenues for the period were \$81,268,000, down \$7,445,000 from the same period last year, of which \$5,444,000 resulted from the downsizing of one customer account beginning late first quarter and the remainder of the revenue variance was primarily attributable to the declining driver count. Transportation revenues (excluding fuel surcharges) were \$74,431,000, down \$8,072,000 or 10%. Revenue miles were down 4,598,000, or 16%, over the same period last year. Transportation revenue per mile was up \$.22, or 7.6%, due to an improved business mix and rate increases. Fuel surcharge revenue was \$6,837,000, up \$627,000 from the same period last year.

Compensation and benefits decreased \$3,228,000, mainly due to lower company miles, as well as the elimination of minimum driver pay expense and reductions in non-driver support positions. Gross fuel expense decreased \$667,000 due to lower company miles. Repairs and tire expense decreased \$538,000 due to lower miles this year. Insurance and losses decreased \$1,379,000, primarily from lower health care claims. Depreciation expense was down \$729,000 as we continue to reduce our fleet size to meet our business levels. SG&A expense was lower by \$172,000 resulting primarily from permanent cost reductions. Corporate expenses were down \$178,000 due mainly to lower compensation expense, legal and audit fees. Gain on sale of land was \$1,614,000 due to the sale of our former terminal location in Pensacola, FL and the sale and partial leaseback of our terminal in Chattanooga, TN. Loss on disposition of assets was \$179,000 (primarily due to \$243,000 of write offs on the equipment involved in two tractor rollover accidents) versus a gain of \$774,000 last year. Total expense associated with the 2 roll over accidents, including the equipment write-offs, was \$879,500.

As a result, operating profit was \$880,000 compared to \$243,000 in the same period last year. Excluding the gain on sale of terminal sites and the negative impacts of the rollover accidents, operating profit for the fiscal year was \$145,500. Operating ratio was 98.9 versus 99.7 last year.

Fiscal Year 2020 versus 2019 – The Company reported net income of \$257,000, or \$.08 per share, in fiscal year 2020 compared to net income of \$1,763,000, or \$.53 per share, in fiscal year 2019. Net income in fiscal year 2019 included \$634,000, or \$.19 per share, from gains on real estate sales.

Transportation revenues (excluding fuel surcharges) were \$82,503,000 in fiscal year 2020, down \$15,776,000 on 7,236,000 fewer miles primarily due to the COVID-19 pandemic, the downsizing of certain customer business due to inadequate freight rates, and the closure of our Charlotte terminal in May 2019 and our Wilmington terminal on April 25, 2020. Transportation revenue per mile in fiscal year 2020 was up \$.14, or 5.1%, due to an improved business mix and rate increases. Fuel surcharge revenue in fiscal year 2020 was \$6,210,000, down \$4,227,000, or \$.07 per mile, from fiscal year 2019.

Compensation and benefits decreased \$8,123,000 in fiscal year 2020 mainly due to lower company miles and lower driver training and minimum pay expense. Gross fuel expense decreased \$5,508,000, or \$.08 per mile, due to lower company miles and lower cost per gallon. Repair and tire expense decreased \$1,433,000 in fiscal year 2020 due to reduced miles. Insurance and losses decreased \$786,000 in fiscal year 2020, but were up

\$.04 per mile, primarily due to higher premiums on risk insurance and several high-cost health claims in the first six months of fiscal year 2020. Gain on disposition of assets was \$774,000 in fiscal year 2020 versus \$1,657,000 in fiscal year 2019 which included (i) a gain of \$866,000 on a land sale and (ii) a gain of \$231,000 on a hurricane related insurance settlement.

As a result, operating profit was \$243,000 in fiscal year 2020 compared to \$1,979,000 in fiscal year 2019. Operating ratio was 99.7 versus 98.2 in fiscal year 2019.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains its operating accounts with Wells Fargo Bank, N.A. and these accounts directly sweep overnight against the Wells Fargo revolver. Our revolver has a maximum amount available of \$15 million and as of September 30, 2021, we had no debt outstanding on this revolver, \$1,636,000 letters of credit and \$13,364,000 available for additional borrowings. The Company expects our fiscal year 2022 cash generation to cover the cost of our operations and our budgeted capital expenditures.

Cash Flows - The following table summarizes our cash flows from operating, investing and financing activities for each of the periods presented (in thousands of dollars):

Years Ended September 30	2021	2020	2019
Total cash provided by (used for):			
Operating activities	\$ 2,772	9,382	10,804
Investing activities	2,173	(4,079)	(6,328)
Financing activities	(10,008)	(10,557)	(559)
Increase (decrease) in cash and cash equivalents	\$ (5,063)	(5,254)	3,917
Outstanding debt at the beginning of the period	\$ —	—	—
Outstanding debt at the end of the period	\$ —	—	—

Operating Activities - Net cash provided by operating activities (as set forth in the cash flow statement) was \$2,772,000 for the year ended September 30, 2021, \$9,382,000 in 2020 and \$10,804,000 in 2019. The total of net income plus depreciation and amortization less gains on sales of property and equipment decreased \$1,184,000 versus last year. These changes are described above under “Comparative Results of Operations”. Prepaid insurance increased \$2,007,000 due to collateral payments into our insurance captive reducing our letters of credit. These changes comprise the majority of the decrease in net cash provided by operating activities.

Investing Activities – Investing activities include the purchase of property and equipment, any business acquisitions and proceeds from sales of property and equipment upon retirement. For the year ended September 30, 2021, we received \$2,173,000 on investing activities which included the proceeds from retirements net of the purchase of property, plant and equipment. For the year ended September 30, 2020, we spent \$4,079,000 on investing activities which included \$3,079,000 for the purchase of plant, property and equipment net of proceeds from retirements and \$1,000,000 for the acquisition of Danfair Transport.

For the year ended September 30, 2019, net cash used in investing activities was \$6,328,000 which included the purchase of plant, property and equipment net of proceeds.

Financing Activities – Financing activities primarily include net changes to our outstanding revolving debt and proceeds from

the sale of shares of common stock through employee equity incentive plans. For the year ended September 30, 2021, cash used in financing activities was \$10,008,000 due to dividends paid. For the year ended September 30, 2020, cash used in financing activities was \$10,557,000 due to dividends paid in the second quarter. The Company had no outstanding long-term debt on September 30, 2021 or September 30, 2020.

For the year ended September 30, 2019, cash used in financing activities was \$559,000 due to bank overdrafts in the prior year, debt issue costs related to a revised and restated revolver credit agreement and stock option exercises.

Credit Facilities - The Company has a five-year credit agreement with Wells Fargo Bank N.A. which provides a \$15 million revolving line of credit with a \$10 million sublimit for stand-by letters of credit. The amounts outstanding under the credit agreement bear interest at a rate of 1.1% over the Secured Overnight Financing Rate ("SOFR"), which may change quarterly based on the Company's ratio of consolidated total debt to consolidated total capital. A commitment fee of 0.12% per annum is payable quarterly on the unused portion of the commitment. The credit agreement contains certain conditions and financial covenants, including a minimum tangible net worth. As of September 30, 2021, the tangible net worth covenant would have limited our ability to pay dividends or repurchase stock with borrowed funds to a maximum of \$6.7 million combined.

Cash Requirements - The Company currently expects its fiscal 2022 capital expenditures to be approximately \$6.0 million for replacement equipment which we expect to be fully funded by our cash generated from our operations. In October 2021, after the close of fiscal 2021 we sold the terminal location in Tampa resulting in approximately \$6.9 million of cash, after tax. The \$6.3 million net income from this sale increased our ability to pay dividends under our credit agreement's tangible net worth covenant to approximately \$13 million. Our dividends in fiscal 2022 include a special cash dividend of \$3.75 per share paid in November 2021, or approximately \$12.8 million in the aggregate, on the Company's outstanding common stock. This was paid out of cash on hand. We have had discussions with Wells Fargo Bank, N.A. about a waiver of the tangible net worth covenant if necessary.

The Company projects that cash flows from operating activities, cash on hand and the funds available under its revolving credit agreement will be adequate to finance its capital expenditures, any dividends paid and its working capital needs for the next 12 months and the foreseeable future.

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

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the respective reporting periods. Accounting estimates are considered to be critical if (1) the nature of the estimates and assumptions is material due to the levels of subjectivity and judgment necessary to account for highly

uncertain matters or the susceptibility of such matters to change; and (2) the impact of the estimates and assumptions on financial condition or operating performance is material. Actual results could differ from the estimates and assumptions used.

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

Accounts Receivable Valuation. The Company is subject to customer credit risk that could affect the collection of outstanding accounts receivable. 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 collectability of outstanding receivables is evaluated, and allowances are recorded as appropriate. Significant changes in customer credit could require increased allowances and affect cash flows.

Property and Equipment and Impairment of Tangible and Intangible Assets. Property and equipment is recorded at cost less accumulated depreciation. Provision for depreciation of property and equipment is computed using the straight-line method based on the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	7-39
Revenue equipment	7-10
Other equipment	3-10

The Company periodically reviews property and equipment for potential impairment whenever events or circumstances indicate the carrying amount of a long-lived asset may not be recoverable. The analysis consists of a review of future anticipated results considering business prospects and asset utilization. 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 assets with the fair value of the assets generally based upon an estimate of the discounted future cash flows expected with regards to the assets and their eventual disposition as the measure of fair value. The Company performs an annual impairment test on goodwill and other intangible assets. Changes in estimates or assumptions could have an impact on the Company's financials.

Claims and Insurance Accruals. 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 liability claims of \$250,000 and \$500,000 for worker's compensation claims 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 based upon independent actuarial analysis, insurance company estimates, and our monthly review of claims reserve changes. In making claim reserve changes we rely upon estimates of our insurance company adjusters, attorney evaluations, and judgment of our management. Our estimates require judgment concerning the nature, severity, comparative liability, jurisdiction, legal and investigative costs of each claim. Claims involving serious injury have greater uncertainty of the eventual cost. In the past, our estimate of the amount of individual claims has increased from insignificant amounts to the full deductible as we learn more information about the claim in subsequent periods. We obtain an independent actuarial analysis at least twice annually to assist in estimating the total loss reserves expected on claims including claim development and incurred but not reported claims.

Payments made under a captive agreement for each year's loss fund are scheduled in advance using actuarial methodology. The captive agreement provides that we will share in the underwriting results, good or bad, within a \$250,000 per occurrence layer of loss through retrospective premium adjustments. Including the potential exposure in the captive we have \$4.1 million of estimated insurance liabilities. In the event that actual costs for these claims are different than estimates we will have adjustments in future periods. It is likely that we will experience either gains or losses of 5-10% of prior year estimated insurance liabilities in any year. We also retain exposure on employee health benefits up to \$250,000 per covered participant each calendar year plus a \$84,500 aggregate deductible for any claims exceeding \$250,000. We estimate claim liability using historical payment trends and specific knowledge of larger claims. Health claims are expensed as the health services are rendered so there is only a two-month lag in payments on average. We are usually aware of the larger claims before closing each accounting period reducing the amount of uncertainty of the estimate. Our accrued insurance liabilities for retiree benefits are recorded by actuarial calculation. Our total accrued insurance liabilities as of September 30, 2021, 2020, and 2019 amounted to \$2.6 million, \$3.1 million, and \$2.7 million, respectively.

Income Taxes. The Company accounts for income taxes under the asset-and-liability method. 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, 2021, 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 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.

INFLATION

Most of the Company's operating expenses are inflation-sensitive, with inflation generally producing increased costs of operations. During the past three years, inflation has been fairly modest with its impacts mostly related to equipment prices, tire prices and the compensation paid to drivers.

In addition to inflation, fluctuations in fuel prices can affect profitability. Most of the Company's contracts with customers contain fuel surcharge provisions. Although the Company historically has been able to pass through most long-term increases in fuel prices and operating taxes to customers in the form of surcharges and higher rates, there is no guarantee that this will be possible in the future. See "Risk Factors—We may be

adversely impacted by fluctuations in the price and availability of fuel."

SEASONALITY

Our business is subject to seasonal trends common in the refined petroleum products delivery industry. We typically face reduced demand for refined petroleum products delivery services during the winter months and increased demand during the spring and summer months. Further, operating costs and earnings are generally adversely affected by inclement weather conditions. These factors generally result in lower operating results during the first and second fiscal quarters of the year and cause our operating results to fluctuate from quarter to quarter. Our fuel efficiency is somewhat lower in colder months.

FORWARD LOOKING STATEMENTS

Certain matters discussed in this report contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those indicated by such forward-looking statements. These forward-looking statements relate to, among other things, capital expenditures, liquidity, capital resources and competition and may be indicated by words or phrases such as "anticipate", "estimate", "plans", "projects", "continuing", "ongoing", "expects", "management believes", "the Company believes", "the Company intends" and similar words or phrases. The following factors and others discussed in the Company's periodic reports and filings with the Securities and Exchange Commission are among the principal factors that could cause actual results to differ materially from the forward-looking statements: freight demand for petroleum products including the impact of the COVID-19 pandemic and "stay home" orders, as well as increased vehicle fuel efficiency, other impacts of the COVID-19 pandemic on our operations and financial results; the increased popularity of electric vehicles recessionary and terrorist impacts on travel in the Company's markets; fuel costs and the Company's ability to recover fuel surcharges; accident severity and frequency; risk insurance markets; driver availability and cost; the impact of future regulations, including regulations regarding the transportation industry and regulations intended to reduce greenhouse gas emissions; cyber-attacks; pandemics; availability and terms of financing; competition in our markets; interest rates, inflation and general economic conditions. However, this list is not a complete statement of all potential risks or uncertainties.

These forward-looking statements are made as of the date hereof based on management's current expectations, and the Company does not undertake an obligation to update such statements, whether as a result of new information, future events or otherwise. Additional information regarding these and other risk factors may be found in the Company's other filings made from time to time with the Securities and Exchange Commission.

(In thousands, except per share amounts)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues:			
Transportation revenues	\$ 74,431	82,503	98,279
Fuel surcharges	6,837	6,210	10,437
Total revenues	<u>81,268</u>	<u>88,713</u>	<u>108,716</u>
Cost of operations:			
Compensation and benefits	36,198	39,426	47,549
Fuel expenses	9,630	10,297	15,805
Repairs & tires.....	5,402	5,940	7,373
Other operating	3,270	3,575	4,811
Insurance and losses	7,261	8,640	9,426
Depreciation expense	6,654	7,383	7,870
Rents, tags & utilities	2,708	2,933	3,406
Sales, general & administrative	8,764	8,936	9,884
Corporate expenses	1,936	2,114	2,270
Gain on sale of terminal sites	(1,614)	-	(866)
Gain on disposition of PP&E.....	179	(774)	(791)
Total cost of operations	<u>80,388</u>	<u>88,470</u>	<u>106,737</u>
Total operating profit	880	243	1,979
Interest income and other	5	135	446
Interest expense	(27)	(31)	(32)
Income before income taxes	858	347	2,393
Provision for (benefit from) income taxes	233	90	630
Net income	<u>\$ 625</u>	<u>257</u>	<u>1,763</u>
Earnings per common share:			
Net income-			
Basic	\$.18	.08	.53
Diluted.....	\$.18	.08	.53
Number of shares (in thousands) used in computing:			
-basic earnings per common share	3,395	3,369	3,342
-diluted earnings per common share.....	3,408	3,370	3,343

Consolidated Statements of Comprehensive Income -Years Ended September 30

(In thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net income	\$ 625	257	1,763
Other comp. income (loss) net of tax:			
Unrealized investment gain (loss), net	-	-	14
Loss on retiree health, net	(16)	(18)	(51)
Reclassification adjust for net investment gains realized in net income	-	(5)	-
Comprehensive income	<u>\$ 609</u>	<u>234</u>	<u>1,726</u>

See notes to consolidated financial statements

(In thousands, except share data)

	<u>2021</u>	<u>2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,899	15,962
Accounts receivable (net of allowance for doubtful accounts of \$86 and \$87, respectively)	4,930	5,005
Federal and state taxes receivable	—	—
Inventory of parts and supplies	871	903
Prepaid tires on equipment	1,317	1,414
Prepaid taxes and licenses	448	522
Prepaid insurance	4,614	2,444
Prepaid expenses, other	299	291
Total current assets	<u>23,378</u>	<u>26,541</u>
Property, plant and equipment, at cost:		
Land	2,544	2,782
Buildings	5,596	5,878
Equipment	69,041	74,544
	<u>77,181</u>	<u>83,204</u>
Less accumulated depreciation	54,497	52,805
	<u>22,684</u>	<u>30,399</u>
Operating lease right-of-use assets	1,949	2,964
Goodwill	3,637	3,637
Intangible assets, net	756	957
Other assets, net	156	171
Total assets	<u>\$ 52,560</u>	<u>64,669</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,858	2,679
Federal and state taxes payable	343	284
Accrued payroll and benefits	2,939	3,156
Accrued insurance	1,105	1,210
Accrued liabilities, other	1,742	1,281
Operating lease liabilities, current portion	928	1,065
Total current liabilities	<u>8,915</u>	<u>9,675</u>
Operating lease liabilities, less current portion	1,131	2,073
Deferred income taxes	3,982	5,087
Accrued insurance	1,537	1,886
Other liabilities	879	900
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, 5,000,000 shares authorized, of which 250,000 shares are designated Series A Junior Participating Preferred Stock; \$0.01 par value; none issued and outstanding	—	—
Common stock, \$.10 par value; (25,000,000 shares authorized; 3,415,643 and 3,377,279 shares issued and outstanding, respectively)	342	338
Capital in excess of par value	39,257	38,670
Retained earnings	(3,572)	5,935
Accumulated other comprehensive income, net	89	105
Total shareholders' equity	<u>36,116</u>	<u>45,048</u>
Total liabilities and shareholders' equity	<u>\$ 52,560</u>	<u>64,669</u>

See notes to consolidated financial statements

(In thousands)

Cash flows from operating activities:	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net income	\$ 625	257	1,763
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,217	9,071	8,474
Non-cash gain of acquisition-related contingent consideration	(16)	(340)	—
Deferred income taxes	(1,105)	(1,150)	297
Gain on asset dispositions	(1,472)	(774)	(1,645)
Stock-based compensation	467	574	590
Net changes in operating assets and liabilities:			
Accounts receivable	75	1,583	1,278
Inventory of parts and supplies	32	46	(54)
Prepaid expenses	(2,007)	735	(544)
Other assets	28	312	(25)
Accounts payable and accrued liabilities	(682)	(939)	(711)
Income taxes payable and receivable	59	574	257
Operating lease assets and liabilities, net	(1,079)	(1,152)	—
Long-term insurance liabilities and other long-term liabilities	(370)	585	1,124
Net cash provided by operating activities	<u>2,772</u>	<u>9,382</u>	<u>10,804</u>
Cash flows from investing activities:			
Purchase of property and equipment	(927)	(5,045)	(9,576)
Business acquisition	—	(1,000)	—
Proceeds from the sale of property, plant and equipment	<u>3,100</u>	<u>1,966</u>	<u>3,248</u>
Net cash provided by (used in) investing activities	<u>2,173</u>	<u>(4,079)</u>	<u>(6,328)</u>
Cash flows from financing activities:			
Dividends paid	(10,132)	(10,557)	—
(Decrease) Increase in bank overdrafts.....	—	—	(625)
Debt issue cost	—	—	(9)
Proceeds from exercised stock options	<u>124</u>	<u>—</u>	<u>75</u>
Net cash (used in) provided by financing activities	<u>(10,008)</u>	<u>(10,557)</u>	<u>(559)</u>
Net increase (decrease) in cash and cash equivalents	(5,063)	(5,254)	3,917
Cash and cash equivalents at beginning of year	15,962	21,216	17,299
Cash and cash equivalents at end of the year	<u>\$ 10,899</u>	<u>15,962</u>	<u>21,216</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 27	28	29
Income taxes	\$ 1,273	658	123

See notes to consolidated financial statements.

(In thousands, except share amounts)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Stockholders' Investment
	Shares	Amount				
Balance as of October 1, 2018	3,328,466	\$ 333	\$ 37,436	\$ 14,472	\$ 165	\$ 52,406
Stock-based compensation			227			227
Exercise of stock options	4,000		75			75
Shares granted to Directors	18,863	2	361			363
Net income				1,763		1,763
Unrealized gain on investment, net					14	14
Loss on retiree health, net					(51)	(51)
Balance as of September 30, 2019	<u>3,351,329</u>	<u>\$ 335</u>	<u>\$ 38,099</u>	<u>\$ 16,235</u>	<u>\$ 128</u>	<u>\$ 54,797</u>
Stock-based compensation			239			239
Shares granted to Directors	25,950	3	332			335
Cash dividends (\$3.15 per share).....				(10,557)		(10,557)
Net income				257		257
Loss on retiree health, net					(18)	(18)
Reclassification adjustment of realized gain, net					(5)	(5)
Balance as of September 30, 2020	<u>3,377,279</u>	<u>\$ 338</u>	<u>\$ 38,670</u>	<u>\$ 5,935</u>	<u>\$ 105</u>	<u>\$ 45,048</u>
Stock-based compensation			248			248
Exercise of stock options	13,497	1	123			124
Shares granted to Directors	24,867	3	216			219
Cash dividends (\$3.00 per share).....				(10,132)		(10,132)
Net income				625		625
Loss on retiree health, net					(16)	(16)
Balance as of September 30, 2021	<u>3,415,643</u>	<u>\$ 342</u>	<u>\$ 39,257</u>	<u>\$ (3,572)</u>	<u>\$ 89</u>	<u>\$ 36,116</u>

1. Accounting Policies.

DESCRIPTION OF BUSINESS - The business of the Company, conducted through our wholly owned subsidiary, Florida Rock & Tank Lines, Inc., is to transport petroleum and other liquids and dry bulk commodities. We do not own any of the products we haul, rather, we act as a third-party carrier to deliver our customers' products from point A to point B predominately using Company employees driving Company owned tractors and tank trailers. Approximately 86% of our business consists of hauling liquid petroleum products (mostly gas and diesel fuel) from large scale fuel storage facilities to our customers' retail outlets (e.g. convenience stores, truck stops and fuel depots) where we off-load the product into our customers' fuel storage tanks for ultimate sale to the retail consumer. The remaining 14% of our business consists of hauling our customers' dry bulk commodities such as cement, lime and various industrial powder products, water and liquid chemicals. Our operations are comprised of one reportable segment.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts, certain assets, liabilities, and expenses of Patriot and its wholly owned subsidiaries that comprise the Company. All significant intercompany transactions within the consolidated entity have been eliminated.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid debt instruments with maturities of three months or less at time of purchase and treasury bills to be cash equivalents. Bank overdrafts consist of outstanding checks not yet presented to a bank for settlement, net of cash held in accounts with right of offset.

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

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.

The Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers" on October 1, 2018. Management has identified that a legally enforceable contract with its customers is executed by both parties at the point of pickup of the shipper's product, as evidenced by the bill of lading. Although the Company may have master agreements with its customers, these master agreements only establish terms. There is no financial obligation to the shipper until the Company takes possession of the load and there are no significant performance obligations after delivery. Revenue is recognized for each individual load and the amount of revenue

in progress at the end of each quarter is insignificant. There is no significant amount of judgment or uncertainty in recording revenue. The Company's adoption of this guidance did not result in a material impact on its financial statements.

ACCOUNTS RECEIVABLE - 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 creditworthiness, current economic trends and changes in customer payment terms. Any trade accounts receivable balances written off are charged against the allowance for doubtful accounts. The Company has not experienced any significant credit-related losses in the past three years.

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

	<u>Years</u>
Building and improvements	7-39
Revenue equipment	7-10
Other equipment	3-10

The Company recorded depreciation expenses for 2021, 2020 and 2019 of \$7,014,000, \$7,780,000 and \$8,317,000, respectively. Gains and losses upon disposition are reflected in operating results in the period of disposition. Direct internal and external costs to implement computer systems and internal-use software are capitalized. Capitalized costs are depreciated over the estimated useful life of the system or software, generally 5 years, beginning when site installation or module development is complete and ready for use.

IMPAIRMENT OF LONG-LIVED ASSETS - The Company periodically reviews its long-lived assets, which include property and equipment and purchased intangible assets subject to amortization, for potential impairment whenever events or circumstances indicate the carrying amount of a long-lived asset may not be recoverable. The analysis consists of a review of future anticipated results considering business prospects and asset utilization. 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 assets with the fair value of the assets generally based upon an estimate of the discounted future cash flows expected with regards to the assets and their eventual disposition.

GOODWILL - Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the acquisition of a business. Goodwill is not amortized, but rather is tested for impairment annually and when events

or changes in circumstances indicate that the fair value of a reporting unit with goodwill has been reduced below carrying value. The impairment test requires allocating goodwill and other assets and liabilities to reporting units. The Company's operations are comprised of one operating segment and therefore one reporting unit. The fair value of each reporting unit is determined and compared to the book value of the reporting unit. If the fair value of the reporting unit is less than the book value, including goodwill, then the recorded goodwill is impaired to its implied fair value with a charge to operating 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 for losses over \$250,000 per covered participant per year plus a \$84,500 aggregate. The Company has established an accrued liability for the estimated cost in connection with its portion of its risk and health insurance losses incurred and reported. Claims paid by the Company are charged against the liability. Additionally, the Company maintains an accrued liability for incurred but not reported claims based on historical analysis of such claims. Payments made under a captive agreement for each year's loss fund are scheduled in advance using actuarial methodology. The captive agreement provides that we will share in the underwriting results, good or bad, within a \$250,000 per occurrence layer of loss through retrospective premium adjustments. 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 by recognizing the grant date fair value of stock options and other equity-based compensation issued to Company employees over the requisite employee service period using the straight-line attribution model. In addition, compensation expense must be recognized for the change in fair value of any awards modified, repurchased or cancelled after the grant date. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model. The assumptions used in the model and related impact are discussed in Footnote 6.

PENSION PLAN - The Company has a defined benefit plan for certain key employees, See note 9 discussion of MSP Plan, and accounts for its pension plan following the requirements of FASB ASC Topic 715, "Compensation - Retirement Benefits", which 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 States 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, 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 result 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.

RECENTLY ISSUED ACCOUNTING STANDARDS - In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" which replaces existing revenue recognition standards and significantly expand the disclosure requirements for revenue arrangements. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. It may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts with remaining performance obligations as of the effective date. Management has identified that a legally enforceable contract with its customers is executed by both parties at the point of pickup of the shipper's product, as evidenced by the bill of lading. Although the Company may have master agreements with its customers, these master agreements only establish terms. There is no financial obligation to the shipper until the Company takes possession of the load. Revenue is recognized for each individual load and the amount of revenue in progress at the end of each quarter is insignificant. There is no significant amount of judgment or uncertainty in recording revenue. The Company adopted this standard on October 1, 2018, and its adoption of this guidance did not result in a material impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases", which requires lessees to recognize a right-to-use asset and a lease liability for the obligation to make lease payments measured at the present value of the lease payments for all leases with terms greater than twelve months. The provisions of this update and additional guidance in subsequent ASUs became effective for us beginning October 1, 2019. In July 2018, the FASB issued ASU No. 2018-11, "Leases" which provides an optional transition method allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening

balance of retained earnings in the period of adoption, with no restatement of comparative prior periods required. We adopted the standard using this optional transition method. Upon adoption as of October 1, 2019, the Company recognized \$3,873,000 in operating lease right-of-use assets, a reduction of \$231,000 of other long-term liabilities related to straight-lined leases and \$4,104,000 in operating lease liabilities.

2. Related Party Agreements.

The Company provides FRP Holdings, Inc. (FRP) certain services including the services of certain shared executive officers. FRP may be considered a related party due to common significant shareholder ownership and shared common officers. A written agreement exists outlining the terms of such services and the boards of the respective companies amended and extended this agreement for one year effective April 1, 2021.

The consolidated statements of income reflect charges and/or allocation to FRP Holdings, Inc. for these services of \$1,207,000, \$1,283,000, and \$1,398,000 for fiscal 2021, 2020 and 2019, respectively. Included in the charges above are amounts recognized for corporate executive stock-based compensation expense. These charges are reflected as a reduction to Patriot corporate expenses.

We employ an allocation method to allocate said expenses and thus we believe that the allocations to FRP are a reasonable approximation of the costs related to FRP's operations, but any such related-party transactions cannot be presumed to be carried out on an arm's-length basis.

3. Debt.

On July 6, 2021, Patriot Transportation Holding, Inc. (the "Company") entered into the 2021 Amended and Restated Credit Agreement (the "The Amended and Restated Credit Agreement") with Wells Fargo Bank, N.A. ("Wells Fargo"). The Amended and Restated Credit Agreement modifies the Company's prior Credit Agreement with Wells Fargo, dated January 30, 2015, as amended by that certain First Amendment dated December 28, 2018. The Amended and Restated Credit Agreement establishes a five-year revolving credit facility with a maximum facility amount of \$15 million, with a separate sublimit for standby letters of credit. The credit facility limit may be increased to \$25 million upon request by the Company, subject to the lender's discretion and the satisfaction of certain conditions. The interest rate under the Amended and Restated Credit Agreement is 1.10% over the Secured Overnight Financing Rate ("SOFR"). A commitment fee of 0.12% per annum is payable quarterly on the unused portion of the commitment. The Amended and Restated Credit Agreement contains certain conditions, affirmative financial covenants and negative covenants including a minimum tangible net worth of \$25 million. As of September 30, 2021, we had no outstanding debt borrowed on this revolver, \$1,636,000 in commitments under letters of credit and \$13,364,000 available for additional borrowings. The letter of credit fee is 1% and the applicable interest rate for borrowings would have been 1.15% on September 30, 2021.

This credit agreement contains certain conditions, affirmative financial covenants and negative covenants including a minimum tangible net worth. The Company was in compliance with all of its loan covenants as of September 30, 2021. As of September 30, 2021, the tangible net worth covenant would have limited our ability to pay dividends or repurchase stock with borrowed funds to a maximum of \$6.7 million combined.

4. Leases.

The Company leases certain assets under operating leases, which primarily consist of real estate leases for the corporate office and some of our terminal locations and 29 full-service leased 2019 model year tractors. Certain operating leases provide for renewal options, which can vary by lease and are typically offered at their fair rental value. The Company has not made any residual value guarantees related to its operating leases. Operating leases with an initial term of more than 12 months are included in our Consolidated Balance Sheets as discounted liabilities and corresponding right-of-use assets consisting of the following (in thousands):

	Asset (Liability) Balance	
	As of September 30,	
	2021	2020
Right-of-use-assets	\$ 1,949	2,964
Lease liabilities, current	\$ (928)	(1,065)
Lease liabilities, long-term	\$ (1,131)	(2,073)

As the Company's operating leases do not provide an implicit rate, the Company utilized its incremental borrowing rate determined by obtaining a quote from their lender and applied to the individual leases. The assumptions underlying the calculation of the Company's right-of-use assets and lease liabilities are disclosed below.

	September 30, 2021	
	Weighted-average Remaining lease term	Weighted-average Discount rate
Revenue equipment and other leases	2.1 years	3.50%
Real estate leases	2.6 years	3.25%

Future minimum annual lease payments for assets under operating leases as of September 30, 2021 are as follows (in thousands):

Fiscal Year	Total
2022	\$ 983
2023	797
2024	294
2025	7
2026	—
Thereafter	—
Total future minimum lease payments	\$ 2,081
Less: Imputed Interest	(202)
Present value of operating lease liabilities	\$ 1,879

Aggregate expense under operating leases was \$1,097,000, \$1,216,000 and \$1,549,000 for 2021, 2020 and 2019, respectively. Certain operating leases include rent escalation provisions, which are recognized as expense on a straight-line basis.

5. Earnings Per Share.

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

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

	Years Ended September 30		
	2021	2020	2019
Common shares:			
Weighted average common shares outstanding during the period - shares used for basic earnings per common share	3,395	3,369	3,342
Common shares issuable under share based payment plans which are potentially dilutive	13	1	1
Common shares used for diluted earnings per common share	3,408	3,370	3,343
Net income	\$ 625	257	1,763
Earnings per common share			
Basic	\$.18	.08	.53
Diluted	\$.18	.08	.53

For 2021 and 2020, 500,950 and 380,829 shares, respectively, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

6. Stock-Based Compensation Plans.

PARTICIPATION IN FRP PLANS - Prior to the Company's spin-off from FRP Holdings, Inc. (FRP) in January 2015, the Company's directors, officers and key employees previously were eligible to participate in FRP's 2000 Stock Option Plan and the 2006 Stock Option Plan under which options for shares of common stock were granted to directors, officers and key employees.

POST SPIN-OFF PATRIOT INCENTIVE STOCK PLAN - As part of the spin-off transaction, the Board of Directors of the Company adopted the Patriot Transportation Holding, Inc. Incentive Stock Plan. ("Patriot Plan") in January 2015. In exchange for all outstanding FRP options held on January 30, 2015, existing Company directors, officers and key employees holding option grants in the FRP Stock Option Plan(s) were issued new grants in the Patriot and FRP Plans based upon the relative value of Patriot and FRP immediately following the completion of the spin-off with the same remaining terms. All related compensation expense has been allocated to the Company (rather than FRP) and included in corporate

expenses. The number of common shares available for future issuance in the Patriot Plan was 69,820 at September 30, 2021.

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

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

Patriot 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 or modification. The revised assumptions due to the revaluation are dividend yield of 0%, expected volatility between 37% and 55%, risk-free interest rate of .1 to .7% and expected life of 0.6 to 6.0 years.

The dividend yield of 0% was based on no anticipated regular quarterly dividend at the date of modification for the extraordinary dividend. Expected volatility is estimated based on 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 or modification 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.

In December 2016, the Company approved and issued a long-term performance incentive to an officer in the form of stock appreciation rights. As adjusted for the extraordinary dividend the Company granted 174,011 stock appreciation rights. The adjusted market price of the grant was \$12.79, and the executive will get a cash award at age 65 based upon the stock price at that date compared to the adjusted market price of \$12.79 but in no event will the award be less than \$500,000. The Company is expensing the fair value of the award over the 9.1-year vesting period to the officer's attainment of age 65, with periodic adjustments to the liability estimate based upon changes in the assumptions used to calculate the liability. The accrued liability under this plan as of September 30, 2021 and 2020 was \$372,000 and \$342,000, respectively.

The annual director stock grant was 24,867 shares in fiscal 2021 at \$8.80, 25,950 shares in fiscal 2020 at \$12.90, and 18,863 shares in fiscal 2019 at \$19.25, based on the market prices indicated on the date of the grants.

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

	Years Ended September 30		
	2021	2020	2019
Stock option grants	\$ 248	239	227
Annual director stock award	219	335	363
	<u>\$ 467</u>	<u>574</u>	<u>590</u>

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

Options	Number Of Shares	Weighted Average Exercise Price	Weighted Average Remaining Term (yrs)	Weighted Average Grant Date Fair Value (000's)
Outstanding at				
October 1, 2018	173,095	\$ 21.49	6.3	\$ 1,398
Granted	29,920	20.10		240
Exercised	(4,000)	18.84		(31)
Forfeited	<u>(10,000)</u>	18.24		<u>(76)</u>
Outstanding at				
September 30, 2019	189,015	\$ 21.49	6.3	\$ 1,531
Dividend Adjustment	148,877			
Granted	68,865	18.40		275
Forfeited	<u>(6,035)</u>	23.99		<u>(57)</u>
Outstanding at				
September 30, 2020(a)	400,722	\$ 14.96	6.6	\$ 1,749
Dividend Adjustment	148,067			
Granted	78,345	10.00		275
Exercised	(13,497)	9.17		(45)
Forfeited	<u>(9,632)</u>	13.88		<u>(48)</u>
Outstanding at				
September 30, 2020(b)	604,005	\$ 10.80	6.5	\$ 1,931
Exercisable at				
September 30, 2020	303,711	\$ 12.10	4.9	\$ 1,150
Vested during				
twelve months ended				
September 30, 2020	77,845			\$ 242

(a) The Company stock option intrinsic values were adjusted as of January 30, 2020, the date of the extraordinary dividend. Stock option activity, including the weighted average exercise price, was not retroactively adjusted.

(b) The Company stock option intrinsic values were adjusted as of December 30, 2020, the date of the extraordinary dividend. Stock option activity, including the weighted average exercise price, was not retroactively adjusted.

The following table summarizes information concerning stock options outstanding at September 30, 2021:

Range of Exercise Prices per Share	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Life
Non-exercisable:			
\$7.60 – \$10.26	241,551	9.06	8.4
\$10.27 - \$13.86	<u>58,743</u>	<u>11.21</u>	<u>6.6</u>
	300,294	\$9.48	8.1 Years
Exercisable:			
\$7.60 - \$10.26	60,424	10.11	7.1
\$10.27 - \$13.86	203,420	11.96	4.6
\$13.87 - \$18.73	<u>39,867</u>	<u>15.84</u>	<u>2.7</u>
	<u>303,711</u>	<u>\$12.10</u>	<u>4.9</u> Years
Total (a)	<u>604,005</u>	<u>\$10.80</u>	<u>6.5</u> Years

(a) The Company stock option intrinsic values were adjusted as of December 30, 2020, the date of the extraordinary dividend. Stock option activity, including the weighted average exercise price, was not retroactively adjusted.

The aggregate intrinsic value of exercisable Company options was \$107,000 and the aggregate intrinsic value of all outstanding in-the-money options was \$687,000 based on the Company's market closing price of \$11.40 on September 30, 2021 less exercise prices.

The realized tax benefit from option exercises during fiscal 2021 was \$16,000 of which \$9,000 pertained to FRP options exercised that were granted to persons employed by Patriot. The unrecognized compensation expense of Patriot options granted as of September 30, 2021 was \$567,000, which is expected to be recognized over a weighted-average period of 3.2 years.

7. Income Taxes.

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

	2021	2020	2019
Current:			
Federal	\$955	952	227
State	<u>297</u>	<u>280</u>	<u>92</u>
	1,252	1,232	319
Deferred	<u>(1,019)</u>	<u>(1,142)</u>	<u>311</u>
Total	<u>\$233</u>	<u>90</u>	<u>630</u>

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

	2021	2020	2019
Amount computed at statutory Federal rate	\$179	75	474
State income taxes (net of Federal income tax benefit)	38	14	146
Other, net	<u>16</u>	<u>1</u>	<u>10</u>
Provision for income taxes	<u>\$233</u>	<u>90</u>	<u>630</u>

In this reconciliation, the category "Other, net" consists of changes in permanent tax differences related to non-deductible expenses, goodwill tax amortization, 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):

	2021	2020
Deferred tax liabilities:		
Property and equipment	\$4,547	6,302
Prepaid expenses	<u>1,149</u>	<u>520</u>
Gross deferred tax liabilities	5,696	6,822
Deferred tax assets:		
Insurance liabilities	583	711
Employee benefits and other	<u>1,051</u>	<u>1,024</u>
Gross deferred tax assets	<u>1,634</u>	<u>1,735</u>
Net deferred tax liability	<u>\$4,062</u>	<u>5,087</u>

The Company has no unrecognized tax benefits.

Tax returns in the U.S. and various states are subject to audit by taxing authorities. As of September 30, 2021, the earliest tax year that remains open for audit in the United States is 2016. We do not have any material unpaid assessments.

8. Accrued Insurance.

The Company has established an accrued liability for the estimated cost in connection with its portion of its risk and health insurance losses incurred and reported. Payments made under a captive agreement for each year's risk loss fund are scheduled in advance using actuarial methodology. Captive insurance assets available to us to settle risk insurance liabilities are not reported on our balance sheet as we do not control or consolidate the captive.

The accrued insurance liability at September 30 is summarized as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Accrued insurance, current portion	\$1,105	1,210
(Prepaid) insurance claims	(3,088)	(1,182)
Accrued insurance, non-current	<u>1,537</u>	<u>1,886</u>
Total accrued prepaid insurance reported on the Company's balance sheet	\$ (446)	1,914
Captive agreement assets	<u>4,021</u>	<u>2,233</u>
Gross insurance liability estimate	<u>\$3,575</u>	<u>4,147</u>

9. Employee Benefits.

The Company and certain subsidiaries and related entities (FRP) 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. Patriot 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 \$482,000 in 2021, \$534,000 in 2020 and \$780,000 in 2019.

The Company has a Management Security Plan (MSP) for certain key employees. The accruals for future benefits are based upon the remaining years to retirement of the participating employees and other actuarial assumptions. The expense for fiscal 2021, 2020 and 2019 was \$17,000, \$19,000 and \$20,000, respectively. The accrued benefit related to the Company under this plan as of September 30, 2021 and 2020 was \$468,000 and \$518,000, respectively.

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 Patriot. The plan is contributory and unfunded. The Company accrues its allocated estimated cost of retiree health benefits over the years that the employees render service. The accrued postretirement benefit obligation for this plan related to the Company as of September 30, 2021 and 2020 was \$252,000 and \$236,000, respectively. The net periodic postretirement benefit credit or cost allocated to the Company was \$(8,000), \$(12,000) and \$(58,000) for fiscal 2021, 2020 and 2019, respectively. The discount rate used in

determining the Net Periodic Postretirement Benefit Cost was 3.0% for 2021, 3.0% for 2020 and 3.7% for 2019. The discount rate used in determining the Accumulated Postretirement Benefit Obligation (APBO) was 3.0% for 2021, 3.0% for 2020, and 3.73% for 2019. No medical trend is applicable because the Company's share of the cost is frozen.

10. Fair Value Measurements.

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

During fiscal year 2019, the Company invested in treasury bills with maturities at time of purchase of 3 months to 1 year. The unrealized gains on these investments were \$14,000 in 2019. The unrealized gains and losses are recorded as part of comprehensive income and based on the market value (Level 1). The amortized cost of the investments was \$5,977,000 and the carrying amount and fair value was \$5,983,000 as of September 30, 2019.

At September 30, 2021 and September 30, 2020, the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and other financial instruments approximate their fair value based upon the short-term nature of these items.

11. Contingent Liabilities.

The Company is involved in litigation on a number of matters and is subject to certain claims which arise in the normal course of business. The Company has retained certain self-insurance risks with respect to losses for third party liability and property damage. There is a reasonable possibility that the Company's estimate of vehicle and workers' compensation liability may be understated or overstated but the possible range cannot be estimated. The liability at any point in time depends upon the relative ages and amounts of the individual open claims. In the opinion of management none of these matters are expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

12. Concentrations.

MARKET - The Company primarily serves customers in the petroleum industry in the Southeastern U.S. Significant economic disruption or downturn in this geographic region or within these industries could have an adverse effect on our financial statements.

CUSTOMERS - During fiscal 2021, the Company's ten largest customers accounted for approximately 59.8% of our revenue and one of these customers accounted for 21.4% of our revenue. Accounts receivable from the ten largest customers

was \$2,843,000 and \$3,121,000 at September 30, 2021 and September 30, 2020, respectively. The loss of one or more of our major customers could have a material adverse effect on the Company's revenues and income.

DEPOSITS - Cash and cash equivalents are comprised of cash and an FDIC insured investment account at Wells Fargo Bank, N.A. The balance in the cash account may exceed FDIC limits.

13. Unusual or Infrequent Items Impacting Results.

The Company recorded gains due to the reversal of the estimated contingent liability related to the Danfair acquisition. The earned payout liability, estimated to be \$425,000 on the date of acquisition, was later determined to be \$69,000 based upon the total revenues for the 12 months following the acquisition. Changes in the estimated earned payout liability, up to the total contractual amount, were reflected in our results of operations in the periods in which they are identified. The Company recorded gains during fiscal years 2021 and 2020 of \$16,000 and \$340,000, respectively.

Second quarter 2021 net income included \$1,037,000, or \$.31 per share, from gains on the sale of our former terminal location in Pensacola, FL. Third quarter 2021 net income included \$133,000, or \$.04 per share, from gains on the sale and partial leaseback of our terminal in Chattanooga, TN.

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

14. Goodwill and Intangible Assets.

The changes in gross carrying amounts of goodwill are as follows (in thousands):

	<u>Goodwill</u>
October 1, 2018	\$ 3,431
No activity	—
September 30, 2019	3,431
Danfair Transport acquisition	206
September 30, 2020	3,637
No activity	—
September 30, 2021	<u>\$ 3,637</u>

The Company assesses goodwill for impairment on an annual basis in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The Company reviews intangible assets, including customer value, trade name and non-compete agreements, for impairment, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset group to the future undiscounted net cash flows expected to be generated by those assets. If such assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amounts of the assets exceeds the fair

value of the assets.

The gross amounts and accumulated amortization (including impairment) of identifiable intangible assets are as follows (in thousands):

	September 30, 2021		September 30, 2020	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortizable intangible assets:				
Customer value	4,440	3,689	4,440	3,492
Trade name	72	72	72	72
Non-compete	74	69	74	66
	<u>\$ 4,586</u>	<u>\$ 3,830</u>	<u>\$ 4,586</u>	<u>\$ 3,630</u>

Amortization expense for intangible assets was \$200,000 for 2021 and it is included in sales, general and administrative expense. The trade names are amortized on a straight-line basis over the estimated useful life of three and a half years. Customer values are amortized based on the straight-line basis over the estimated remaining useful lives of ten to eleven years. Non-compete agreements are amortized based on a straight-line basis over the term of the non-compete agreement, typically three to five years.

Estimated amortization expense for the five succeeding years follows (in thousands):

	<u>Amount</u>
2022	\$ 201
2023	197
2024	133
2025	44
2026	44
Total	<u>\$ 619</u>

15. Business Acquisition.

The Company acquired certain assets of Danfair Transport out of Americus, GA on November 4, 2019.

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

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

The goodwill recorded resulting from the acquisition is tax deductible. The earned payout liability, estimated to be \$425,000 on the date of acquisition, was later determined to be \$69,000 based upon the total revenues for the 12 months following the acquisition. Changes in the estimated earned payout liability, up to the total contractual amount, were reflected in our results of operations in the periods in which they are identified. During fiscal years 2021 and 2020 the Company recorded gains on the contingent consideration of \$16,000 and \$340,000, respectively.

16. Subsequent Events.

On October 18, 2021, we completed the disposition of the Company's terminal located in Tampa, Florida to Amazon.com Services LLC for a sale price of \$9,600,000. The Company anticipates that the sale will result in an after-tax gain of approximately \$6,287,000. The \$6.3 million net income from this sale increased our ability to pay dividends under our credit agreement's tangible net worth covenant to approximately

\$13 million. We have had discussions with Wells Fargo Bank, N.A. about a waiver for the tangible net worth covenant if necessary.

On October 1, 2021 a lease commenced for property in Tampa to replace our sold terminal location. The minimum lease term is 128 months and will go on our balance sheet as a right-of-use asset for approximately \$1.45 million and a lease liability of approximately \$1.53 million. Monthly rental payment commence in June 2022 at \$13,250 and escalate 3% annually.

On October 25th, we announced that our Board of Directors declared a special cash dividend of \$3.75 per share, or approximately \$12,800,000 in the aggregate, on the Company's outstanding common stock. This one-time, special dividend was paid on November 15, 2021, to shareholders of record at the close of business on November 8, 2021.

Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and integrity of the consolidated financial statements appearing in our Annual Report on Form 10-K. The financial statements were prepared in conformity with accounting principles generally accepted in the United States appropriate in the circumstances and, accordingly, include certain amounts based on our best judgments and estimates. Financial information in this Annual Report on Form 10-K is consistent with that in the financial statements.

Management of the Company is responsible for establishing and maintaining a system of internal controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements. Our internal control system is supported by a program of internal audits and appropriate reviews by management, written policies and guidelines, careful selection and training of qualified personnel, and a written Code of Business Conduct adopted by our Company's Board of Directors, applicable to all officers and employees of our Company and subsidiaries.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. 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.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934 ("Exchange Act"). Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2017 Framework) ("COSO") in Internal Control—Integrated Framework. Based on this assessment, management believes that the Company maintained effective internal control over financial reporting as of September 30, 2021.

The Company's independent auditors, Hancock Askew & Co., LLP, a registered public accounting firm, are appointed by the Audit Committee of the Company's Board of Directors, subject to ratification by our Company's shareholders. Hancock Askew & Co., LLP has audited and reported on the consolidated financial statements of Patriot Transportation Holding, Inc. The report of the independent auditors is contained in this annual report.

Audit Committee's Responsibility

The Audit Committee of our Company's Board of Directors, composed solely of Directors who are independent in accordance with the requirements of the Nasdaq Stock Market listing standards, the Exchange Act, and the Company's Corporate Governance Guidelines, meets with the independent auditors, management and internal auditors periodically to discuss internal controls and auditing and financial reporting matters. The Audit Committee reviews with the independent auditors the scope and results of the audit effort. The Audit Committee also meets periodically with the independent auditors and the chief internal auditor without management present to ensure that the independent auditors and the chief internal auditor have free access to the Audit Committee. Our Audit Committee's Report can be found in the Company's Proxy Statement.

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Patriot Transportation Holding, Inc. (the Company) as of September 30, 2021 and 2020, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2021, 2020, and 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2021, 2020, and 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Auto Liability and Workers' Compensation Claims Accrual –
"Risk Accrual"

Description of the Matter

The Company is self-insured for a portion of its risk related to auto liability and workers' compensation. The Company retains the exposure on liability claims of \$250,000 and \$500,000 for worker's compensation claims and has third-party coverage for amounts exceeding the retention up to the amount of the policy limits. The Company accrues an expense for the cost of the self-insured portion of unpaid claims by evaluating the nature and severity of reported claims and by estimating future claims development based upon historical development trends. The actual cost to settle self-insured claim liabilities may differ from the Company's reserve estimates due to legal costs, claims that have been incurred but not reported, and various other uncertainties.

We identified the estimation of auto liability and workers' compensation claims accruals subject to self-insurance retention of \$2.8 million as a critical audit matter. The accrual is included in "Accrued insurance" on the Company's consolidated balance sheet. Auto liability and workers' compensation unpaid claim liabilities are determined by projecting the estimated ultimate loss related to a claim, less actual costs paid to date. These estimates rely on the assumption that historical claim patterns are an accurate representation for future claims that have been incurred but not completely paid. The principal considerations for assessing auto liability and workers' compensation claims as a critical audit matter are the high level of estimation uncertainty related to determining the severity of these types of claims, the inherent subjectivity in management's judgment in estimating the total costs to settle or dispose of these claims, and high degree of auditor judgment and an increased extent of effort to test the Company's claims accruals.

How we Addressed the Matter in our Audit

- We tested the effectiveness of controls over auto liability and workers' compensation claims, including the completeness and accuracy of claim expenses and payments.
- We tested management's reconciliation of the reported claims data to the data submitted to their third-party actuary.
- We tested management's process for determining the auto liability and workers' compensation accrual, including testing the underlying claims data used as the basis for the actuarial analysis and testing current year claims and payment data.
- We tested management's comparison to selected loss accruals to the range established by management's third-party actuary and historical trends.

Hancock Askew & Co., LLP

Hancock Askew & Co., LLP

We have served as the Company's auditor since 2006.
Jacksonville, Florida
December 14, 2021

Directors

Thompson S. Baker II (1)
Chairman of the Board of the Company
Senior Vice President, Vulcan Materials

Edward L. Baker (1)
Chairman Emeritus

John E. Anderson (2)(3)(4)
Former President and Chief Executive
Officer of Patriot Transportation Holding, Inc.

Luke E. Fichthorn III (2)(3)(4)
Private Investment Banker,
Twain Associates

Charles D. Hyman (2)(3)(4)
President/Founder
Charles D. Hyman & Company

Officers

Robert E. Sandlin
President and Chief Executive Officer

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

John D. Klopfenstein
Controller, Treasurer and Chief Accounting Officer

James N. Anderson IV
Vice President of Safety and Risk Management

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Compensation Committee

(4) Member of the Nominating Committee

Patriot Transportation Holding, Inc.

200 West Forsyth Street, 7th Floor
Jacksonville, Florida, 32202
Telephone: (904) 396-5733

Annual Meeting

Due to the social distancing guidelines from the CDC, this year our Annual Shareholders meeting will be held virtually at 11 a.m. Eastern Standard Time on Wednesday, February 2, 2022. All shareholders are cordially invited to attend the Annual Shareholders meeting via a weblink titled "2022 Annual Shareholders Meeting" which will be posted on our website at www.patriottrans.com under *Investor Relations*.

Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
Telephone: 1-800-937-5449

General Counsel

Nelson Mullins Riley & Scarborough LLP
Jacksonville, Florida

Independent Registered

Public Accounting Firm

Hancock Askew & Co., LLP
Jacksonville, Florida

Common Stock Listed

The Nasdaq Stock Market
(Symbol: PATI)

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, 2021 as filed with the Securities and Exchange Commission by writing to the Treasurer at 200 West Forsyth Street, 7th Floor, 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, proxy statements, quarterly reports on Form 10-Q, current reports filed or furnished on Form 8-K and all related amendments.



Safely Delivering Our Customers' Products On Time and Accurately



Bulk Fuel



Dry Bulk



Chemical

NASDAQ: PATI
PATRIOT TRANSPORTATION HOLDING, INC.
200 W. FORSYTH STREET, 7TH FLOOR
JACKSONVILLE, FLORIDA 32202