

CELADON GROUP INC
Form 10-Q/A
May 25, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended September 30, 2011

or

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

Commission file number: 001-34533

CELADON GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-3361050 (IRS Employer Identification No.)
---	--

9503 East 33rd Street One Celadon Drive Indianapolis, IN (Address of principal executive offices)	46235-4207 (Zip Code)
---	--------------------------

(Registrant's telephone number, including area code): (317)
972-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: CELADON GROUP INC - Form 10-Q/A

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes No

As of October 31, 2011 (the latest practicable date), 22,537,921 shares of the registrant's common stock, par value \$0.033 per share, were outstanding.

CELADON GROUP, INC.

Index to

September 30, 2011 Form 10-Q/A

Part I. Financial Information

Item 1.	Financial Statements	
	Condensed Consolidated Statements of Income for the three months ended September 30, 2011 and 2010 (Unaudited)	<u>4</u>
	Condensed Consolidated Balance Sheets at September 30, 2011 (Unaudited) and June 30, 2011	<u>5</u>
	Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2011 and 2010 (Unaudited)	<u>6</u>
	Notes to Condensed Consolidated Financial Statements (Unaudited)	<u>7</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>18</u>
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	<u>24</u>
Item 4.	Controls and Procedures	<u>25</u>

Part II. Other Information

Item 1.	Legal Proceedings	<u>27</u>
Item 1A.	Risk Factors	<u>27</u>
Item 4.	Mine Safety Disclosures	<u>27</u>
Item 6.	Exhibits	<u>28</u>

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (Amendment No. 1) amends the Quarterly Report on Form 10-Q of Celadon Group, Inc. (the Company) for the quarterly period ended September 30, 2011, as originally filed with the Securities and Exchange Commission (SEC) on November 4, 2011 (Original Filing). This Form 10-Q/A amends the Original Filing to change the classification of most of the Company's revenue equipment leases from operating leases to capital leases. Further explanation regarding such change is set forth in Note 2 to the consolidated financial statements contained in this Amendment No. 1. This Amendment No. 1 amends and restates the Original Filing in its entirety. Revisions to the Original Filing have been made to the following sections:

- Item 1 – Financial Statements
- Item 1A – Risk Factors
- Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 4 – Controls and Procedures

In addition, the Company's principal executive officer and principal financial officer have provided certifications in connection with this Amendment No. 1 (Exhibits 31.1, 31.2, 32.1, and 32.2).

Except as described above, no other amendments have been made to the Original Filing. This Amendment continues to speak as of the date of the Original Filing, and the Company has not updated the disclosures contained herein to reflect events that have occurred since the date of the Original Filing. Notwithstanding the foregoing, the modifications made herein resulted from the appropriate GAAP interpretation of the maximum amount the Company could be required to pay as described in ASC 840-10-25-14, in the event of a non-performance-related default under the Company's leases. Accordingly, this Amendment No. 1 should be read in conjunction with the Company's other filings made with the SEC subsequent to the filing of the Original Filing, including any amendments to those filings.

Table of Contents

PART I. FINANCIAL INFORMATION

Item I. Financial Statements

CELADON GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Dollars and shares in thousands except per share amounts)
 (Unaudited)

	Three months ended September 30,	
	2011 (Restated)	2010 (Restated)
REVENUE:		
Freight Revenue	\$ 114,778	\$ 121,699
Fuel surcharge revenue	29,182	20,819
Total revenue	143,960	142,518
OPERATING EXPENSES:		
Salaries, wages, and employee benefits	37,561	38,127
Fuel	38,466	32,271
Purchased transportation	27,133	25,875
Revenue equipment rentals	973	330
Operations and maintenance	9,802	10,094
Insurance and claims	3,042	4,125
Depreciation and amortization	11,532	15,226
Cost of products and services sold	---	1,398
Communications and utilities	905	1,108
Operating taxes and licenses	2,509	2,393
General and other operating	1,629	1,741
Total operating expenses	133,552	132,688
Operating Income	10,408	9,830
Interest expense	1,382	2,259
Interest income	(8)	(16)
Other income	(286)	(67)
Income before income taxes	9,320	7,654
Income tax expense	3,862	3,262
Net income	\$5,458	\$4,392
Income per common share:		
Diluted	\$0.24	\$0.19
Basic	\$0.25	\$0.20
Diluted weighted average shares outstanding	22,667	22,556
Basic weighted average shares outstanding	22,218	22,056

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

CELADON GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 September 30, 2011 and June 30, 2011
 (Dollars in thousands except par value and share amounts)

	(unaudited) September 30, 2011 (Restated)	June 30, 2011 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$516	\$25,673
Trade receivables, net of allowance for doubtful accounts of \$1,095 and \$1,045 at September 30, 2011 and June 30, 2011, respectively	64,091	64,723
Prepaid expenses and other current assets	17,594	14,403
Tires in service	7,027	6,594
Deferred income taxes	4,106	3,940
Total current assets	93,334	115,333
Property and equipment	431,182	418,698
Less accumulated depreciation and amortization	135,005	141,584
Net property and equipment	296,177	277,114
Tires in service	3,295	2,914
Goodwill	16,702	16,702
Investment in unconsolidated companies	2,998	2,902
Other assets	6,471	1,701
Total assets	\$418,977	\$416,666
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$5,886	\$10,475
Accrued salaries and benefits	10,796	13,192
Accrued insurance and claims	13,129	13,360
Accrued fuel expense	10,279	11,113
Other accrued expenses	18,055	15,729
Current maturities of capital lease obligations	67,958	75,521
Income taxes payable	4,833	1,778
Total current liabilities	130,936	141,168
Long-term debt	4,733	---
Capital lease obligations, net of current maturities	79,434	72,182
Deferred income taxes	30,700	31,416
Stockholders' equity:		
Common stock, \$0.033 par value, authorized 40,000,000 shares; issued and outstanding 23,833,836 and 23,886,601 shares at September 30, 2011 and June 30, 2011, respectively	786	788
Treasury stock at cost; 1,295,975 and 1,364,364 shares at September 30, 2011 and June 30, 2011, respectively	(8,937)	(9,408)
Additional paid-in capital	100,094	99,906

Edgar Filing: CELADON GROUP INC - Form 10-Q/A

Retained earnings	86,579	81,566
Accumulated other comprehensive loss	(5,348)	(952)
Total stockholders' equity	173,174	171,900
Total liabilities and stockholders' equity	\$418,977	\$416,666

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

CELADON GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)
 (Unaudited)

	Three months ended September 30,	
	2011	2010
	(Restated)	(Restated)
Cash flows from operating activities:		
Net income	\$5,458	\$4,392
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,682	15,188
(Gain)\Loss on sale of equipment	(1,289)	25
Stock based compensation	(108)	557
Deferred income taxes	(856)	(473)
Provision for doubtful accounts	10	95
Changes in assets and liabilities:		
Trade receivables	371	977
Income taxes	2,938	1,763
Tires in service	(831)	(1,047)
Prepaid expenses and other current assets	(4,346)	(6,241)
Other assets	(639)	(104)
Accounts payable and accrued expenses	(5,131)	1,338
Net cash provided by operating activities	8,259	16,470
Cash flows from investing activities:		
Purchase of property and equipment	(27,942)	(10,094)
Proceeds on sale of property and equipment	15,163	8,170
Purchase of available for sale securities	(4,390)	---
Net cash used in investing activities	(17,169)	(1,924)
Cash flows from financing activities:		
Borrowings (Payments) on long-term debt	4,733	(122)
Principal payments under capital lease obligations	(20,350)	(21,615)
Proceeds from issuance of common stock	34	90
Net cash used in financing activities	(15,583)	(21,647)
Effect of exchange rates on cash and cash equivalents	(664)	(806)
Decrease in cash and cash equivalents	(25,157)	(7,907)
Cash and cash equivalents at beginning of period	25,673	18,844
Cash and cash equivalents at end of period	\$516	\$10,937
Supplemental disclosure of cash flow information:		
Interest paid	\$1,382	\$2,295
Income taxes paid	\$1,727	\$1,917
Change in dividends payable	\$445	---
Lease obligation incurred in the purchase of equipment	\$20,228	\$5,060

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011
(Unaudited)

1. Basis of Presentation

References in this Report on Form 10-Q/A to "we," "us," "our," "Celadon," or the "Company" or similar terms refer to Celadon Group, Inc. and its consolidated subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

The accompanying condensed consolidated unaudited financial statements of Celadon Group, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America and Regulation S-X, instructions to Form 10-Q, and other relevant rules and regulations of the Securities and Exchange Commission (the "SEC"), as applicable to the preparation and presentation of interim financial information. Certain information and footnote disclosures have been omitted or condensed pursuant to such rules and regulations. We believe all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations in interim periods are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended June 30, 2011.

The preparation of the financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Restatement Accounting for Leases

The Company has restated most of its revenue equipment operating leases as capital leases based upon certain provisions included in the lease agreements. Specifically, the leases have certain default clauses, including material adverse change, cross-default provisions, and other provisions which are not objectively determinable or do not represent pre-defined criteria at the inception of the lease. As a result, the maximum consideration the Company could be required to pay the lessor in the event of a default is included in the lease payments for lease classification purposes at the inception of the lease. For these leases, the maximum consideration usually approximates or exceeds the cost of the revenue equipment at the inception of the lease and, when included in minimum lease payments for purposes of applying ASC 840-10-25-1(d) (i.e., the 90% test), results in capital lease classification, in accordance with the guidance for default covenants related to non-performance as discussed in ASC 840-10-25-14.

As a result of the restatement, the Company has recorded additional capital lease assets and related capital lease obligations on the consolidated balance sheets. The Company also adjusted its deferred income tax liability to take into account the temporary differences created to reflect the capital lease obligations and assets for financial reporting purposes. Lease payments related to this revenue equipment are now recognized as principal reductions in the capital lease obligations and interest expense, rather than as revenue equipment rent expense. The consolidated statements of income also include depreciation on the capital lease assets over the terms of the respective leases.

In addition, the Company has reclassified the rental payments received for equipment rented to third parties from a reduction in the revenue equipment rental classification to freight revenue as part of the restatement. The reclassification of rents has no impact on net income.

The restatement also impacted opening stockholders equity and the classification of cash flows from operating, investing and financing activities; however, there was no impact on the net increase or decrease in cash and cash equivalents reported in the consolidated statements of cash flows.

7

Table of Contents
 CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2011
 (Unaudited)

The adjustment to net income for the three months ended September 30, 2011 and 2010, is summarized below (amounts in thousands):

	For the three months ended September 30,	
	2011	2010
Net income as previously reported:	\$ 5,372	\$ 4,421
Freight revenue	2,481	2,229
Revenue equipment rentals	4,937	7,123
Operations and maintenance	---	96
Depreciation and amortization	(5,938)	7,699
Interest expense	(1,340)	(1,796)
Tax effect on restatement adjustment	(54)	18
Net income, as restated	\$ 5,458	\$ 4,392

The impact of the restatement on the consolidated financial statements is summarized below (amounts in thousands except per share amounts):

Consolidated Balance Sheets	30-Sep-11		30-Jun-11	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Property and equipment	\$230,558	\$431,182	\$213,222	\$418,698
Less accumulated depreciation and amortization	78,781	135,005	80,592	141,584
Net property and equipment	151,777	296,177	132,630	277,114
Total assets	274,577	418,977	272,182	416,666
Current maturities of capital lease obligations	358	67,958	354	75,521
Total current liabilities	63,336	130,936	66,001	141,168
Capital lease obligations, net of current maturities	1,648	79,434	1,740	72,182
Deferred income taxes	30,971	30,700	31,740	31,416
Retained earnings	87,294	86,579	82,367	81,566
Total stockholders' equity	173,889	173,174	172,701	171,900
Total liabilities and stockholders' equity	274,577	418,977	272,182	416,666

Table of Contents
CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011
(Unaudited)

Consolidated Statements of Income	Three months ended September 30, 2011		Three months ended September 30, 2010	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Freight revenue	\$ 112,297	\$ 114,778	\$ 119,470	\$ 121,699
Total revenue	141,479	143,960	140,289	142,518
Revenue equipment rentals	5,910	973	7,453	330
Operations and maintenance	9,802	9,802	10,190	10,094
Depreciation and amortization	5,594	11,532	7,527	15,226
Total operating expenses	132,551	133,552	132,208	132,688
Operating income	8,928	10,408	8,081	9,830
Interest expense	42	1,382	463	2,259
Income before income taxes	9,180	9,320	7,701	7,654
Provision for income taxes	3,808	3,862	3,280	3,262
Net income	\$ 5,372	\$ 5,458	\$ 4,421	\$ 4,392
Diluted income per common share	\$ 0.24	\$ 0.24	\$ 0.20	\$ 0.19
Basic income per common share	\$ 0.24	\$ 0.25	\$ 0.20	\$ 0.20

Consolidated Statements of Cash Flows	Three months ended September 30, 2011		Three months ended September 30, 2010	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Net income	\$ 5,372	\$ 5,458	\$ 4,421	\$ 4,392
Depreciation and amortization expense	6,744	12,682	7,529	15,188
Deferred income taxes	(909)	(856)	(491)	(473)
Net cash provided by operating activities	2,630	8,259	8,822	16,470
Purchase of property and equipment	(42,128)	(27,942)	(16,285)	(10,094)
Net cash used in investing activities	(31,803)	(17,169)	(8,115)	(1,924)
Principal payments under capital lease obligations	(87)	(20,350)	(7,776)	(21,615)
	4,680	(15,583)	(7,808)	(21,647)

Net cash provided by (used in)
financing activities

Interest paid in cash during the period	42	1,382	499	2,295
Lease obligation incurred in the purchase of equipment	---	20,228	---	5,060

Table of Contents
 CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2011
 (Unaudited)

3. Earnings Per Share (in thousands, except per share data)

A reconciliation of the basic and diluted earnings per share is as follows:

	Three months ended September 30,	
	2011 (Restated)	2010 (Restated)
Weighted average common shares outstanding – basic	22,218	22,056
Dilutive effect of stock options and unvested restricted stock units	459	500
Weighted Average common shares outstanding – diluted	22,677	22,556
Net income	\$ 5,458	\$ 4,392
Earnings per common share		
Basic	\$ 0.25	\$ 0.20
Diluted	\$ 0.24	\$ 0.19

Certain shares of common stock were excluded from the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares, and therefore, the effect would be anti-dilutive. A summary of those options follows:

	Three months ended September 30,	
	2011	2010
Number of anti-dilutive shares	816	245

4. Stock Based Compensation

The following table summarizes the components of our share based compensation program expense (in thousands):

	For three months ended September 30,	
	2011	2010
Stock compensation expense for options, net of forfeitures	\$ 230	\$ 215
Stock compensation expense for restricted stock, net of forfeitures	389	390
Stock compensation income for stock appreciation rights, including forfeitures	(727)	(48)
Total stock compensation expense	\$ (108)	\$ 557

As of September 30, 2011, we have approximately \$1.2 million of unrecognized compensation cost related to unvested options granted under the Company's 2006 Omnibus Incentive Plan, as amended (the "2006 Plan"). This cost is expected to be recognized over a weighted-average period of 1.4 years and a total period of 3.5 years.

Table of Contents
 CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2011
 (Unaudited)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model that uses the following assumptions:

- Dividend yield – the dividend yield is based on our historical experience and future expectation of dividend payouts.
- Expected volatility – we analyzed the volatility of our stock using historical data for three or four years through the end of the most recent period to estimate the expected volatility, as the historical data mirrors the vesting terms of the respective option.
- Risk-free interest rate – the risk-free interest rate assumption is based on U.S. Treasury securities at a constant maturity with a maturity period that most closely resembles the expected term of the stock option award.
- Expected terms – the expected terms of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and has been determined based on an analysis of historical exercise behavior from 1995 through the end of the most recent period.

No option grants were issued in the three months ended September 30, 2011 or 2010.

A summary of the award activity of the Company's stock option plans as of September 30, 2011, and changes during the three month period then ended is presented below:

Options	Option Totals	Weighted-Average Exercise Price per Share
Outstanding at July 1, 2011	1,432,083	\$ 10.60
Granted	---	---
Exercised	(11,250)	\$ 3.00
Forfeited or expired	(1,500)	\$ 8.79
Outstanding at September 30, 2011	1,419,333	\$ 10.66
Exercisable at September 30, 2011	1,035,835	\$ 10.74

As of September 30, 2011, we also have approximately \$2.9 million of unrecognized compensation expense related to restricted stock awards, which is anticipated to be recognized over a weighted-average period of 2.9 years and a total period of 3.8 years. A summary of the restricted stock award activity under the 2006 Plan as of September 30, 2011, and changes during the three-month period then ended is presented below:

	Number of Restricted Stock Awards	Weighted-Average Grant Date Fair Value
Unvested at July 1, 2011	355,630	\$ 12.27
Granted	5,000	\$ 13.38
Vested and Issued	(57,139)	\$ 11.89
Forfeited	(566)	\$ 11.89

Outstanding at September 30, 2011	302,925	\$	12.36
-----------------------------------	---------	----	-------

The fair value of each restricted stock award is based on the closing market price on the date of grant.

The Company had 143,156 and 144,844 outstanding stock appreciation rights as of September 30, 2011 and September 30, 2010, respectively. These stock appreciation rights were granted at a fair value market price of \$8.64 based on the closing market price on the date of the grant.

Table of Contents
 CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2011
 (Unaudited)

5. Segment Information (in thousands)

We have two reportable segments comprised of an asset-based segment and an asset-light-based segment. Our asset-based segment includes our asset based dry van carrier and rail services, which are geographically diversified but have similar economic and other relevant characteristics, as they all provide truckload carrier services of general commodities to a similar class of customers. Our asset-light based segment consists of our warehousing, brokerage, and less-than-load ("LTL") operations, and Truckers B2B (through March 2011 when the majority interest was sold and de-consolidated), which we have determined qualifies as a reportable segment under ASC 280-10 Segment Reporting.

	Operating Revenues Three Months Ended September 30,	
	2011 (Restated)	2010 (Restated)
Asset Based	\$ 133,959	131,690
Asset-light Based	10,001	10,828
Total	\$ 143,960	\$ 142,518

	Operating Income Three Months Ended September 30,	
	2011 (Restated)	2010 (Restated)
Asset Based	\$ 9,756	\$ 9,018
Asset-light Based	652	812
Total	\$ 10,408	\$ 9,830

Information as to the Company's operating revenue by geographic area is summarized below. The Company allocates operating revenue based on country of origin of the tractor hauling the freight:

	Operating Revenue Three Months Ended September 30,	
	2011 (Restated)	2010 (Restated)
United States	\$ 124,694	\$ 125,327
Canada	\$ 11,077	\$ 10,161
Mexico	\$ 8,189	\$ 7,030
Consolidated	\$ 143,960	\$ 142,518

Table of Contents
 CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2011
 (Unaudited)

6. Comprehensive Income

Comprehensive income includes net income and changes in fair value on foreign currency and fuel derivatives, which qualified for hedge accounting, foreign currency translation adjustments, and changes in fair value of available for sale securities. A reconciliation of net income and comprehensive income follows (in thousands):

	Three months ended September 30,	
	2011 (Restated)	2010 (Restated)
Net income	\$ 5,458	\$ 4,392
Unrealized gain (loss) on fuel derivative instruments	(649)	860
Unrealized gain (loss) on currency derivative instruments	(437)	306
Unrealized gain on available for sale securities	280	---
Foreign currency translation adjustments	(3,590)	543
Comprehensive income	\$ 1,062	\$ 6,101

7. Income Taxes

Our effective income tax rate was 41.4% for the three-month period ended September 30, 2011, compared with 42.6% for the three-month period ended September 30, 2010. In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates, nontaxable and nondeductible items of income and expense and the ultimate outcome of tax audits.

The Company follows ASC Topic 740-10-25 in Accounting for Uncertainty in Income Taxes. Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of September 30, 2011, the Company recorded a \$0.4 million liability for unrecognized tax benefits, a portion of which represents penalties and interest.

As of September 30, 2011, we are subject to U.S. Federal income tax examinations for the tax years 2007 through 2010. We file tax returns in numerous state jurisdictions with varying statutes of limitations.

8. Commitments and Contingencies

We are involved in certain claims and pending litigation arising from the normal conduct of business. Based on our present knowledge of the facts and, in certain cases, opinions of outside counsel, we believe the resolution of these claims and pending litigation will not have a material adverse effect on our financial condition, results of operations or our liquidity.

9. Lease Obligations

The Company leases certain revenue and service equipment under long-term lease agreements, payable in monthly installments.

Equipment obtained under a capital lease is reflected on the Company's balance sheet as owned and the related leases mature at various dates through 2018.

Assets held under operating leases are not recorded on the Company's balance sheet. The Company leases revenue and service equipment under noncancellable operating leases expiring at various dates through August 2018.

Table of Contents
 CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2011
 (Unaudited)

Future minimum lease payments relating to capital leases and to operating leases as of September 30, 2011 (in thousands):

	Capital Leases (Restated)	Operating Leases (Restated)
2013	\$ 71,746	\$ 2,847
2014	27,998	5,199
2015	15,270	1,155
2016	15,313	1,147
2017	5,222	1,147
Thereafter	21,082	6,675
Total minimum lease payments	156,631	\$ 18,170
Less amounts representing interest	9,239	
Present value of minimum lease payments	147,392	
Less current maturities	67,958	
Non-current portion	\$ 79,434	

10. Fair Value Measurements

Effective January 1, 2009, we adopted ASC 820-10 Fair Value Measurements and Disclosure for non-recurring fair value measurements of non-financial assets and liabilities. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard establishes a three-level hierarchy for fair value measurements based upon the significant inputs used to determine fair value. Observable inputs are those which are obtained from marked participants external to the Company while unobservable inputs are generally developed internally, utilizing management's estimates assumptions, and specific knowledge of the nature of the assets or liabilities and related markets. The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market is defined as a market in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc), and inputs that are derived principally from or corroborated by observable market data correlation or other means (market corroborated inputs).

Level 3 – Unobservable inputs, only used to the extent that observable inputs are not available, reflect the Company's assumptions about the pricing of an asset or liability.

Table of Contents
 CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2011
 (Unaudited)

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial assets and liabilities (in thousands) that are required to be measured at fair value as of September 30, 2011 and June 30, 2011.

	Level 1		Level 2		Level 3			
	Balance at September 30, 2011	Balance at June 30, 2011	Balance at September 30, 2011	Balance at June 30, 2011	Balance at September 30, 2011	Balance at June 30, 2011		
Foreign currency derivatives	\$ (332)	\$ 105	\$ ---	\$ ---	\$ (332)	\$ 105	\$ ---	\$ ---
Fuel derivatives	(262)	387	---	---	(262)	387	---	---
Available for Sale Securities	4,670	---	4,670	---	---	---	---	---

11. Dividend

On August 17, 2011, the Company declared a cash dividend of \$0.02 per share of common stock. The dividend was payable to shareholders of record on September 26, 2011 and was paid on October 7, 2011. Future payment of cash dividends, and the amount of any such dividends, will depend on our financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors.

12. Fuel Derivatives

In the Company's day to day business activities we are exposed to certain market risks, including the effects of changes in fuel prices. The company continually reviews new ways to reduce the potentially adverse effects that the volatility of fuel markets may have on operating results. In an effort to reduce the variability of the ultimate cash flows associated with fluctuations in diesel fuel prices, the company has begun to enter into futures contracts. These instruments will be heating oil futures contracts as the related index, New York Mercantile Exchange ("NYMEX"), generally exhibits high correlation with the changes in the dollars of the forecasted purchase of diesel fuel. The Company does not engage in speculative transactions, nor does it hold or issue financial instruments for trading purposes.

In fiscal 2012, we entered into futures contracts, which pertain to 3.2 million gallons (210,000 gallons per month) or approximately 7% of our monthly projected fuel requirements through December 2012. Under these contracts, we pay a fixed rate per gallon of heating oil and receive the monthly average price of New York heating oil per the NYMEX. The Company has done retrospective and prospective regression analyses that showed the changes in the prices of diesel fuel and heating oil were deemed to be highly effective based on the relevant authoritative

guidance. Accordingly, we have designated the respective hedges as cash flow hedges.

We perform both a prospective and retrospective assessment of the effectiveness of our hedge contracts at inception and quarterly. If our analysis shows that the derivatives are not highly effective as hedges, we will discontinue hedge accounting for the period and prospectively recognize changes in the fair value of the derivative being recognized through earnings. As a result of our effectiveness assessment at inception and at September 30, 2011, we believe our hedge contracts have been and will continue to be highly effective in offsetting changes in cash flows attributable to the hedged risk.

Table of Contents

CELADON GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

(Unaudited)

We recognize all derivative instruments at fair value on our consolidated condensed balance sheets in other assets or other accrued expenses. The Company's derivative instruments are designated as cash flow hedges, thus the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income and will be reclassified into earnings in the same period during which the hedged transactions affect earnings. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in other income or expense on our consolidated condensed statements of operations. The ineffective portion of the hedge for the quarter was immaterial and therefore not recognized through earnings.

Based on the amounts in accumulated other comprehensive income as of September 30, 2011 and the expected timing of the purchases of the diesel hedged, we expect to reclassify \$0.3 million of losses on derivative instruments from accumulated other comprehensive income to the statement of income, as an offset to fuel expense, during the next fifteen months due to the actual diesel fuel purchases. The amounts actually realized will be dependent on the fair values as of the date of settlement.

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the companies with which we have these agreements. Our credit exposure related to these financial instruments is represented by the fair value of contracts reported as assets. To evaluate credit risk, we review each counterparty's audited financial statements and credit ratings and obtain references. Any credit valuation adjustments deemed necessary would be reflected in the fair value of the instrument. As of September 30, 2011, there have not been any adjustments made.

13. Disposition of Majority Interest in Subsidiary

In February 2011, the Company entered into a joint venture, whereby the Company sold a 65% majority interest, in its TruckersB2B subsidiary to an unrelated third party. TruckersB2B will continue normal daily operations with an expanding sales and marketing team to develop growth. TruckersB2B is controlled by a five person executive committee, of which the Company has two committee seats. In conjunction with the transaction, the Company recognized a pre-tax gain of \$4.1 million and de-consolidated the subsidiary, including \$2.4 million of goodwill. Approximately \$2.6 million of the gain related to the fair market valuation of the Company's continuing 35% ownership.

In the first quarter of fiscal year 2012, the Company invested \$4.4 million in marketable equity securities that are classified as available-for-sale securities. These securities are carried at fair value on our balance sheet in the Other Assets category, with unrealized gains and losses recorded through accumulated other comprehensive income. Any future realized gains and losses will be included in net income. As of September 30, 2011, the value of available-for-sale securities included in Other Assets was \$4.8 million, which included unrealized gains of \$0.3 million.

14. Marketable Equity Securities

In the first quarter of fiscal year 2012, the Company invested \$4.4 million in marketable equity securities that are classified as available-for-sale securities. These securities are carried at fair value on our balance sheet in the Other

Assets category, with unrealized gains and losses recorded through accumulated other comprehensive income. Any future realized gains and losses will be included in net income. As of September 30, 2011, the value of available-for-sale securities included in Other Assets was \$4.8 million, which included unrealized gains of \$0.3 million.

15. Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income" ("ASU 2011-05"), which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective during interim and annual periods beginning after December 15, 2011; with early adoption permitted. Adoption of ASU 2011-05 is not expected to have a material impact on the Company's consolidated financial statements.

Table of Contents

CELADON GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

(Unaudited)

In September 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-08, Goodwill and Other (Topic 350) – Testing Goodwill for Impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011; however, early adoption is permitted. We do not expect the adoption of ASU 2011-08 will have a material impact on the consolidated financial statements.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Disclosure Regarding Forward Looking Statements

This Quarterly Report contains certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, events, performance, or achievements of the Company to be materially different from any future results, events, performance, or achievements expressed in or implied by such forward-looking statements. Such statements may be identified by the fact that they do not relate strictly to historical or current facts. These statements generally use words such as "believe," "expect," "anticipate," "project," "forecast," "should," "estimate," "plan," "intend," "outlook," "goal," "will," "may," and similar expressions. While it is impossible to identify all factors that may cause actual results to differ from those expressed in or implied by forward-looking statements, the risks and uncertainties that may affect the Company's business, include, but are not limited to, those discussed in the section entitled Item 1A. Risk Factors set forth below.

All such forward-looking statements speak only as of the date of this Form 10-Q/A. You are cautioned not to place undue reliance on such forward-looking statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in the events, conditions, or circumstances on which any such statement is based.

References to the "Company," "we," "us," "our," and words of similar import refer to Celadon Group, Inc. and its consolidated subsidiaries.

Business Overview

We are one of North America's twenty largest truckload carriers as measured by revenue. We generated \$568.2 million in operating revenue during our fiscal year ended June 30, 2011. We provide asset-based dry van truckload carrier and rail services and asset-light based services including brokerage services, less-than-truckload (LTL), and warehousing services. Through our asset and asset-light services, we are able to transport or arrange for transportation throughout the United States, Canada, and Mexico.

We generated approximately 44% of our revenue in fiscal 2011 from international movements, and we believe our annual border crossings make us the largest provider of international truckload movements in North America. We believe that our strategically located terminals and experience with the language, culture, and border crossing requirements of each North American country provide a competitive advantage in the international trucking marketplace.

We believe our international operations, particularly those involving Mexico, offer an attractive business niche. The additional complexity of and need to establish cross-border business partners and to develop strong organization and adequate infrastructure in Mexico affords some barriers to competition that are not present in traditional U.S. truckload services.

Recent Results of Operations

Our results of operations for the quarter ended September 30, 2011, compared to the same period in 2010 are:

Edgar Filing: CELADON GROUP INC - Form 10-Q/A

- Freight revenue decreased 5.7% to \$114.8 million from \$121.7 million;
- Net income increased 25.0% to \$5.5 million from \$4.4 million; and
- Net income per diluted share increased 26.3% to \$0.24 from \$0.19.

In the September 2011 quarter, average revenue per seated tractor per week was flat and average miles per seated tractor declined 2.8% from the September 2010 quarter. Average revenue per total mile increased 3.1% and average revenue per loaded mile increased 3.7% from the September 2010 quarter. We believe that we are making progress improving our freight mix and contract pricing.

Table of Contents

Our seated line haul tractors decreased to 2,529 tractors in the quarter ended September 30, 2011, compared to 2,688 tractors for the same period a year ago. The net change of 159 units is comprised of a 55-unit decrease in independent contractor tractors, and a 104-unit decrease in company tractors. The decrease in company tractors was primarily driven by difficulty recruiting drivers because of the tight driver market. We anticipate this number to increase in the current quarter as we hire drivers through our asset acquisition of the dry van division of Frozen Food Express Industries, Inc. The number of tractors operated by independent contractors decreased 12.7% from a year ago, and now represents 14.9% of our total fleet.

Revenue and Expenses

We primarily generate revenue by transporting freight for our customers. Generally, we are paid a predetermined rate per mile or per load for our services. We enhance our revenue by charging for tractor and trailer detention, loading and unloading activities, brokerage operations, and other specialized services, as well as through the collection of fuel surcharges to mitigate the impact of the cost of fuel. The main factors that affect our revenue are the revenue per mile we receive from our customers, the percentage of miles for which we are compensated, and the number of miles we generate with our equipment. These factors relate to, among other things, the general level of economic activity in the United States, inventory levels, specific customer demand, the level of capacity in the trucking industry, and driver availability.

The main factors that impact our profitability in terms of expenses are the variable costs of transporting freight for our customers. These costs include fuel expense, driver-related expenses, such as wages, benefits, training and recruitment, and independent contractor and third party carrier costs, which are recorded on the "Purchased Transportation" line of our consolidated statements of income. Expenses that have both fixed and variable components include maintenance, insurance, and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency, and other factors. Our main fixed costs are the acquisition and depreciation of long-term assets, such as revenue equipment and the compensation of non-driver personnel. Effectively controlling our expenses and managing our net cost of revenue equipment acquisitions and dispositions, including any related gains or losses, are important elements of assuring our profitability. We evaluate our profitability using operating ratio, excluding the impact of fuel surcharge revenue (operating expenses, net of fuel surcharge, expressed as a percentage of revenue, before fuel surcharge), and income before income taxes, which eliminates shifting operating lease expenses "above the line" from interest expense on owned or capital leased equipment.

Restatement

In April 2012, we determined that substantially all of our operating leases should be recorded as capitalized leases. This determination resulted from a recent accounting interpretation concerning customary lease provisions where the default terms are not objectively quantifiable and the remedies could result in the operating lease criteria not being satisfied. The result of this accounting change on our balance sheet at March 31, 2012, was to record approximately \$191.4 million in net property and equipment as assets, and approximately \$192.5 million in capitalized lease obligations as liabilities, with an immaterial effect on total stockholders' equity. This accounting change did not result in a material change to our historical or expected pre-tax earnings. However, it did result in a significant increase in EBITDA as lease expense is reclassified into depreciation and interest. All current and historical information in this Form 10-Q/A has been restated. See Note 2 to our Condensed Consolidated Financial Statements for additional information.

Table of Contents

Results of Operations

The following table sets forth the percentage relationship of expense items to freight revenue for the periods indicated:

	For the three months ended			
	2011		2010	
	(Restated)		(Restated)	
Freight revenue(1)	100.0	%	100.0	%
Operating expenses:				
Salaries, wages, and employee benefits	32.7	%	31.3	%
Fuel(1)	8.1	%	9.4	%
Purchased transportation	23.7	%	21.3	%
Revenue equipment rentals	0.8	%	0.3	%
Operations and maintenance	8.5	%	8.3	%
Insurance and claims	2.7	%	3.4	%
Depreciation and amortization	10.0	%	12.5	%
Cost of products and services sold	---		1.1	%
Communications and utilities	0.8	%	0.9	%
Operating taxes and licenses	2.2	%	2.0	%
General and other operating	1.4	%	1.4	%
Total operating expenses	90.9	%	91.9	%
Operating income	9.1	%	8.1	%
Other expense:				
Interest expense	1.2	%	1.8	%
Other expense (income), net	(0.3)	(%)	0.0	%
Income before income taxes	8.2	%	6.3	%
Provision for income taxes	3.4	%	2.7	%
Net income	4.8	%	3.6	%

(1) Freight revenue is total revenue less fuel surcharges. In this table, fuel surcharges are eliminated from revenue and subtracted from fuel expense. Fuel surcharges were \$29.2 million and \$20.8 million for the first quarter of fiscal 2012 and 2011, respectively.

Comparison of Three Months Ended September 30, 2011 to Three Months Ended September 30, 2010

Total revenue increased by \$1.5 million, or 1.1%, to \$144.0 million for the first quarter of fiscal 2012, from \$142.5 million for the first quarter of fiscal 2011. Freight revenue decreased by \$6.9 million, or 5.7%, to \$114.8 million for the first quarter of fiscal 2012, from \$121.7 million for the first quarter of fiscal 2011. This decrease was primarily attributable to a decrease in loaded miles to 59.0 million for the first quarter of fiscal 2012 from 65.3 million in the first quarter of fiscal 2011, offset by an increase in revenue per loaded mile to \$1.526 for the first quarter of fiscal 2012 from \$1.471 for the first quarter of fiscal 2011. Additionally, the decrease in revenue was also the result of a reduction in seated line-haul tractors offset by the rate increases we were able to implement over the last year and

improving freight selection. This combination of factors resulted in a flat average revenue per tractor per week, which is our primary measure of asset productivity, of \$2,971 in the first quarter of fiscal 2012, from \$2,961 for the first quarter of fiscal 2011. The decrease in company tractors was primarily driven by difficulty recruiting drivers because of the tight driver market. We anticipate revenue to increase in the near term due to an anticipated increase in our seated line-haul tractors through the hiring of certain drivers from the acquisition of the dry van division of Frozen Food Express Industries, Inc.

Revenue for our asset-light segment decreased to \$10.0 million in the first quarter of fiscal 2012 from \$10.8 million in the first quarter of fiscal 2011.

Table of Contents

Fuel surcharge revenue increased to \$29.2 million in the first quarter of fiscal 2012 from \$20.8 million for the first quarter of fiscal 2011.

In discussing our results of operations, we use freight revenue ("revenue") and fuel, net of fuel surcharge, because we believe that eliminating the impact of the sometimes volatile source of revenue affords more consistent basis for comparing our results of operations from period to period.

Salaries, wages, and employee benefits were \$37.6 million, or 32.7% of revenue, for the first quarter of fiscal 2012, compared to \$38.1 million, or 31.3% of revenue, for the first quarter of fiscal 2011. The decrease in absolute dollars was the result of a decrease in driver payroll related to a decrease in company miles and a decrease in stock compensation related expenses, partially offset by increases in administrative wages and insurance benefits.

Fuel expenses, net of fuel surcharge revenue, decreased to \$9.3 million, or 8.1% of revenue, for the first quarter of fiscal 2012, compared to \$11.5 million, or 9.4% of revenue, for the first quarter of fiscal 2011. This decrease was primarily attributable to a decrease in gallons purchased due to lower total company miles offset by the average fuel price increasing to \$3.46 per gallon in the first quarter of fiscal 2012, compared to \$2.55 per gallon in the first quarter of fiscal 2011. We expect that our continued efforts to reduce idling, operate more fuel-efficient tractors, and aerodynamic trailer skirts will continue to have a positive impact on our miles per gallon; however, we expect this positive impact to be partially offset by lower fuel economy on EPA-mandated new engines and use of more costly ultra-low sulfur diesel fuel.

Purchased transportation increased to \$27.1 million, or 23.7% of revenue, for the first quarter of fiscal 2012, from \$25.9 million, or 21.3% of revenue, for the first quarter of fiscal 2011. These increases were primarily related to an increase in purchased transportation for our intermodal business, offset by a decrease in independent contractor miles to 11.6 million in the first quarter of fiscal 2012 compared to 13.1 million miles in the first quarter of fiscal 2011. Independent contractors are drivers who cover all their operating expenses (fuel, driver salaries, maintenance, and equipment costs) for a fixed payment per mile. We expect purchased transportation to increase as we continue to increase our purchased transportation for our brokerage and intermodal operations.

Operations and maintenance decreased to \$9.8 million, or 8.5% of revenue, for the first quarter of fiscal 2012, from \$10.1 million, or 8.3% of revenue, for the first quarter of fiscal 2011. Operations and maintenance consist of direct operating expense, maintenance, and tire expense. The dollar decrease in the first quarter of fiscal 2012 is primarily related to a decrease in costs associated with trailer maintenance as we have continued to reduce the age of our trailer fleet. We expect our operations and maintenance expense to be similar to the current level going forward, subject to implementation of CSA 2010 that may impact these expenses.

Insurance and claims expense decreased to \$3.0 million, or 2.7% of revenue, for the first quarter of fiscal 2012, from \$4.1 million, or 3.4% of revenue, for the first quarter of fiscal 2011. Insurance consists of premiums for liability, physical damage, cargo damage, and workers' compensation insurance, in addition to claims expense. These decreases are primarily from decreases in workers' compensation claims expense and liability insurance claims. Our insurance program involves self-insurance at various risk retention levels. Claims in excess of these risk levels are covered by insurance in amounts we consider to be adequate. We accrue for the uninsured portion of claims based on known claims and historical experience. We continually revise and change our insurance program to maintain a balance between premium expense and the risk retention we are willing to assume. Insurance and claims expense will vary based primarily on the frequency and severity of claims, the level of self-retention, and the premium expense.

Depreciation and amortization, consisting primarily of depreciation of revenue equipment, decreased to \$11.5 million, or 10.0% of revenue, for the first quarter of fiscal 2012, compared to \$15.2 million, or 12.5% of revenue, for the first quarter of fiscal 2011. These decreases were primarily attributable to decreased trailer depreciation, related to

a net decrease of trailers in our owned fleet as compared to the first quarter of fiscal 2011 and a decrease in our depreciation for our capital leased tractors. This decrease included a gain on sale of equipment in the first quarter of fiscal 2012, which include expenses to prepare the equipment for sale. Revenue equipment held under operating leases is not reflected on our balance sheet and the expenses related to such equipment are reflected on our statements of income in revenue equipment rentals, rather than in depreciation and amortization and interest expense, as is the case for revenue equipment that is financed with borrowings or capital leases. We anticipate that we will dispose of substantially all of the equipment acquired from Frozen Food Express Industries, Inc. during the quarter ending December 31, 2011. We expect our depreciation and amortization to be increase going forward.

Table of Contents

All of our other operating expenses are relatively minor in amount, and there were no significant changes in such expenses. Accordingly, we have not provided a detailed discussion of such expenses.

Income taxes increased to \$3.9 million, with an effective tax rate of 41.4%, for the first quarter of fiscal 2012, from \$3.3 million, with an effective tax rate of 42.6%, for the first quarter of fiscal 2011. As pre-tax net income increases, our non-deductible expenses, such as per diem expense, have a lesser impact on our effective rate.

Liquidity and Capital Resources

Trucking is a capital-intensive business. We require cash to fund our operating expenses (other than depreciation and amortization), to make capital expenditures and acquisitions, and to repay debt, including principal and interest payments. Other than ordinary operating expenses, we anticipate that capital expenditures for the acquisition of revenue equipment will constitute our primary cash requirement over the next twelve months. We frequently consider potential acquisitions, and if we were to consummate an acquisition, our cash requirements would increase and we may have to modify our expected financing sources for the purchase of tractors. Subject to any required lender approval, we may make acquisitions in the future. Our principal sources of liquidity are cash generated from operations, bank borrowings, capital and operating lease financing of revenue equipment, and proceeds from the sale of used revenue equipment. At September 30, 2011, our total balance sheet debt, including capital lease obligations and current maturities, was \$152.1 million, compared to \$147.7 million at June 30, 2011.

As of September 30, 2011, we had a capital commitment for revenue equipment of \$63.8 million for delivery through fiscal 2012. These capital commitments are amounts before considering the proceeds of equipment dispositions. In fiscal 2012, we expect to purchase our new tractors and trailers with a combination of cash, capital leases and off-balance sheet operating leases.

On August 29, 2011, the Company increased our credit facility to \$100 million and reset the term on our five-year revolving credit facility agented by Bank of America, N.A. The facility refinanced the Company's existing credit facility and provides for ongoing working capital needs and general corporate purposes. Bank of America, N.A. continues to serve as the lead arranger in the facility and Wells Fargo Bank, N.A. continues to participate in the new facility. At September 30, 2011, we were authorized to borrow up to \$100 million under this revolving line of credit, which expires August 29, 2016. The applicable interest rate under this agreement is based on either a base rate equal to Bank of America, N.A.'s prime rate or LIBOR plus an applicable margin between 0.75% and 1.125% that is adjusted quarterly based on the Company's lease adjusted total debt to EBITDAR ratio. At September 30, 2011, we had \$4.7 million in outstanding borrowings related to our credit facility and \$0.4 million utilized for letters of credit. The agreement is collateralized by the assets of all the US subsidiaries of the Company. We are obligated to comply with certain financial covenants under our credit agreement and we were in compliance with these covenants at September 30, 2011.

We believe we will be able to fund our operating expenses, as well as our current commitments for the acquisition of revenue equipment over the next twelve months, with a combination of cash generated from operations, borrowings available under our primary credit facility, and lease financing arrangements. We will continue to have significant capital requirements over the long term, and the availability of the needed capital will depend upon our financial condition and operating results and numerous other factors over which we have limited or no control, including prevailing market conditions and the market price of our common stock. However, based on our operating results, anticipated future cash flows, current availability under our credit facility, and sources of equipment lease financing that we expect will be available to us, we do not expect to experience significant liquidity constraints in the foreseeable future.

Cash Flows

Net cash provided by operations for the three months ended September 30, 2011 was \$8.3 million, compared to \$16.5 million for the three months ended September 30, 2010. Cash provided by operations decreased due to a decrease in accounts payable and accrued expenses.

Table of Contents

Net cash used in investing activities was \$17.2 million for the three months ended September 30, 2011, compared to net cash used in investing activities of \$1.9 million for the three months ended September 30, 2010. Cash used in investing activities includes the net cash effect of acquisitions and dispositions of property and revenue equipment during each period. Capital expenditures for property and equipment totaled \$27.9 million for the three months ended September 30, 2011, and \$10.0 million for the three months ended September 30, 2010. We generated proceeds from the sale of property and equipment of \$15.2 million and \$8.2 million for the three months ended September 30, 2011, and September 30, 2010, respectively. Cash used in the quarter also included \$4.4 million for the purchase of available for sale securities.

Net cash used in financing activities was \$15.6 million for the three months ended September 30, 2011, compared to \$21.6 million for the three months ended September 30, 2010. The decrease in cash used for financing activities was due to an increase in borrowings on our line of credit offset by a reduction in principal payments of capital lease obligations. Financing activity represents borrowings (new borrowings, net of repayment) and payments of the principal component of capital lease obligations.

Cash dividends accrued for the three months ended September 30, 2011, also increased approximately \$0.4 million, due to the accrual of our first quarterly dividend of \$0.02 per share that became effective in the first quarter of fiscal 2012. We currently expect to continue to pay quarterly cash dividends in the future. Future payment of cash dividends, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors.

Contractual Obligations

As of September 30, 2011, our operating leases, capitalized leases, other debts, and future commitments have stated maturities or minimum annual payments as follows:

	Annual Cash Requirements As of September 30, 2011 (in thousands)				
	Total (Restated)	Payments Due by Period			
		Less than 1 year (Restated)	1-3 years (Restated)	3-5 Years (Restated)	More than 5 years (Restated)
Operating leases	\$ 10,241	\$ 2,710	\$ 3,107	\$ 2,295	\$ 2,129
Lease residual value guarantees	7,929	137	3,246	---	4,546
Capital leases(1)	156,631	71,746	43,268	20,535	21,082
Long-term debt(1)	4,780	35	4,745	---	---
Sub total	\$ 179,581	\$ 74,628	\$ 54,366	\$ 22,830	\$ 27,757
Future Purchase of Revenue Equipment	\$ 63,829	\$ 4,702	\$ 12,540	\$ 21,198	\$ 25,389
Employment and consulting agreements(2)	700	700	---	---	---
Standby letters of credit	438	438	---	---	---

Total	\$ 244,548	\$ 80,468	\$ 66,906	\$ 44,028	\$ 53,146
-------	------------	-----------	-----------	-----------	-----------

- (1) Includes interest
- (2) The amounts reflected in the table do not include amounts that could become payable to our Chief Executive Officer and Chief Operating Officer under certain circumstances if their employment by the Company is terminated.

Table of Contents

Off-Balance Sheet Arrangements

Operating leases have been an important source of financing for our revenue equipment. Our operating leases include some under which we do not guarantee the value of the asset at the end of the lease term ("walk-away leases") and some under which we do guarantee the value of the asset at the end of the lease term ("residual value"). Therefore, we are subject to the risk that equipment values may decline, in which case we would suffer a loss upon disposition and be required to make cash payments because of the residual value guarantees. We were obligated for residual value guarantees related to operating leases of \$7.9 million at September 30, 2011, compared to \$7.2 million at September 30, 2010. We believe that any residual payment obligations will be satisfied by the value of the related equipment at the end of the lease. To the extent the expected value at the lease termination date is lower than the residual value guarantee; we would accrue for the difference over the remaining lease term. We anticipate that going forward we will use a combination of cash generated from operations and capital leases to finance tractor and trailer purchases primarily.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America require that management make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, revenue, and expenses in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that affect, or could affect our financial statements materially and involve a significant level of judgment by management. The accounting policies we deem most critical to use include revenue recognition, allowance for doubtful accounts, depreciation, claims accrual, and accounting for income taxes. There have been no significant changes to our critical accounting policies and estimates during the three months ended September 30, 2011, compared to those disclosed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation," included in our 2011 Annual Report on Form 10-K/A.

Seasonality

In the trucking industry, revenue generally decreases as customers reduce shipments during the winter holiday season and as inclement weather impedes operations. At the same time, operating expenses generally increase, with fuel efficiency declining because of engine idling and inclement weather. We have substantial operations in the Midwestern and Eastern United States and Canada. For the reasons stated, in those geographic regions in particular, third quarter net income historically has been lower than net income in each of the other three quarters of the year excluding charges. Our equipment utilization typically improves substantially between May and October of each year because of seasonal increased shipping and better weather. Also, during September and October, business generally increases as a result of increased retail merchandise shipped in anticipation of the holidays.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We experience various market risks, including fluctuations in interest rates, variability in currency exchange rates, and fuel prices. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

Interest Rate Risk. We are exposed to interest rate risk principally from our primary credit facility. The credit facility carries a variable interest rate equal to either Bank of America, N.A.'s prime rate or LIBOR plus an applicable margin between 0.75% and 1.125% that is adjusted quarterly based on the Company's lease adjusted total debt to EBITDAR ratio. At September 30, 2011 the interest rate for revolving borrowings under our credit facility was 0.989%. At

September 30, 2011, we had \$4.7 million variable rate term loan borrowings outstanding under the credit facility. A hypothetical 10% increase in the bank's base rate and LIBOR would be immaterial to our net income.

Currency Exchange Rate Risk. We are subject to variability in foreign currency exchange rates in our international operations. Exposure to this variability is periodically managed primarily through the use of natural hedges, whereby funding obligations and assets are both managed in the local currency. We, from time-to-time, enter into currency exchange agreements to manage our exposure arising from fluctuating exchange rates related to specific and forecasted transactions. We operate this program pursuant to documented corporate risk management policies and do not enter into derivative transactions for speculative purposes.

Table of Contents

Our currency risk consists primarily of foreign currency denominated firm commitments and forecasted foreign currency denominated intercompany and third party transactions. At September 30, 2011, we had outstanding foreign exchange derivative contracts in notional amounts of \$3.5 million with a fair value of these contracts approximately \$0.3 million less than the original contract value. Derivative gains/(losses), initially reported as a component of other comprehensive income, are reclassified to earnings in the period when the forecasted transaction affects earnings.

Assuming revenue and expenses for our Canadian operations identical to that in the first quarter of fiscal 2012 (both in terms of amount and currency mix), we estimate that a \$0.01 decrease in the Canadian dollar exchange rate would reduce our annual net income by approximately \$35,000. Also, we estimate that a \$0.01 decrease in the Mexican peso exchange rate would reduce our annual net income by approximately \$46,000.

Commodity Price Risk. Shortages of fuel, increases in prices, or rationing of petroleum products can have a materially adverse effect on our operations and profitability. Fuel is subject to economic, political, and market factors that are outside of our control. We believe fuel surcharges are effective at mitigating most, but not all, of the risk of high fuel price because we do not recover the full amount of fuel price increases. In fiscal 2012, we entered into contracts to hedge up to 0.3 million gallons per month for 15 months ending on December 31, 2012. This represents approximately 7% of our monthly projected fuel requirements through December 2012. At September 30, 2011, we had outstanding contracts in place for a notional amount of \$8.2 million with a fair value of these contracts approximately \$0.3 million less than the original contract value. Derivative gains/(losses), initially reported as a component of other comprehensive income, are reclassified to earnings in the period when the forecasted transaction affects earnings. Based on our expected fuel consumption for fiscal 2012, a 10% change in the related price of heating oil or diesel per gallon would not have a material financial impact, assuming no further changes to our fuel hedging program or our fuel surcharge recovery.

Item 4. Controls and Procedures

Restatement of Previously Issued Financial Statements

During the third quarter of fiscal 2012, the Company discovered that under ASC 840-10-25-14, some leases would need to be classified as capital leases, because of certain non-performance-related default provisions. Management initiated a review of the Company's equipment lease accounting and determined that its previous method of accounting for certain equipment leases as operating leases was not in accordance with U.S. generally accepted accounting principles (GAAP). As a result, the Company has restated its consolidated balance sheets as of June 30, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2011 and the consolidated interim financial statements included for the quarterly periods ended September 30, 2011 and 2010.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that information is accumulated and communicated to management, including the principal executive and financial officers (referred to in this report as the Certifying Officers), as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(b) under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply judgment in evaluating our controls and procedures.

Prior to the filing of our Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2012, our management, under the supervision and with the participation of our Certifying Officers, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (the Evaluation) as of the last day of the period covered by such filing.

Table of Contents

Based upon that Evaluation, our Certifying Officers concluded that our previously established equipment lease accounting practices were not in accordance with GAAP. Correspondingly, as described above, management has restated its consolidated balance sheets as of June 30, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2011 included in the Company's June 30, 2011 Annual Report on Form 10-K and the consolidated interim financial statements included in the Company's Form 10-Q as of and for the quarter ended September 30, 2011, and related comparative prior quarter included in that Form 10-Q. The restatement is the result of the material weakness related to the Company's control to evaluate leases for capital lease or operating lease classification which was not designed to consider all of the relevant lease accounting literature applicable to lease classification, including nonperformance related default provisions as described in ASC 840-10-25-14. As a result of the material weakness, our Certifying Officers have now concluded that our disclosure controls and procedures were not effective as of September 30, 2011.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation of the Material Weakness

To remediate the material weakness in the Company's internal control over financial reporting, subsequent to the reporting period, the Company implemented additional review procedures over the lease default provisions affecting equipment lease accounting practices.

The Company's remediation plan has been implemented; however, the above material weakness will not be considered remediated until the additional review procedures over lease default provisions have been operating effectively for an adequate time. Management will consider the status of this remedial effort when assessing the effectiveness of the Company's internal control over financial reporting and other disclosure controls and procedures in future reporting periods. While management believes that the remedial efforts will resolve the identified material weakness, there is no assurance that management's remedial efforts conducted to date will be sufficient or that additional remedial actions will not be necessary.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

There are various claims, lawsuits, and pending actions against the Company and its subsidiaries which arose in the normal course of the operations of its business. The Company believes many of these proceedings are covered in whole or in part by insurance and that none of these matters will have a material adverse effect on its consolidated financial position or results of operations in any given period.

Item 1A. Risk Factors

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business, some level of risk and uncertainty will always be present. Our Annual Report on Form 10-K/A for the year ended June 30, 2011, in the section entitled Item 1A. Risk Factors, describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. In addition to the risk factors set forth in our Form 10-K/A, we believe that the following additional risk should be considered in evaluating our business and growth outlook:

We are required to maintain disclosure controls and procedures. As of September 30, 2011, our disclosure controls and procedures were not effective due to a material weakness.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, concluded that, as of September 30, 2011, our disclosure controls and procedures were ineffective due to a material weakness in our internal control over financial reporting. The material weakness arose because our previously established equipment lease accounting practices were not in accordance with GAAP. As a result, we are required to restate certain of our financial statements. Effective internal controls are necessary for us to provide reliable financial reports and to effectively prevent fraud. We cannot assure you that the measures we will take to remediate the material weakness will be successful or that we will implement and maintain adequate controls over our financial processes and reporting in the future as we continue our growth. If we are unable to establish appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations, result in the further restatement of our financial statements, harm our operating results, subject us to regulatory scrutiny and sanction, cause investors to lose confidence in our reported financial information and have a negative effect on the market price of our common stock.

Item 4. Mine Safety Disclosures – Not applicable

Table of Contents

Item 6. Exhibits

- 3.1 Amended and Restated Certificate of Incorporation of the Company, effective January 12, 2006. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ending December 31, 2005, filed with the SEC on January 30, 2006.)
- 3.2 Certificate of Designation for Series A Junior Participating Preferred Stock. (Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000, filed with the SEC on September 28, 2000.)
- 3.3 Amended and Restated By-laws of the Company. (Incorporated by reference to Exhibit 3 to the Company's Current Report on Form 8-K filed with the SEC on July 3, 2006.)
- 4.1 Amended and Restated Certificate of Incorporation of the Company, effective January 12, 2006. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ending December 31, 2005, filed with the SEC on January 30, 2006.)
- 4.2 Amended and Restated By-laws of the Company. (Incorporated by reference to Exhibit 3 to the Company's Current Report on Form 8-K filed with the SEC on July 3, 2006.)
- 10.26 First Amendment to Credit Agreement dated August 29, 2011, among the Company, certain of its subsidiaries, Bank of America, N.A., and certain other lenders. (Incorporated by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarterly period ending September 30, 2011, filed with the SEC on November 4, 2011.)
- 31.1 Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Stephen Russell, the Company's Chief Executive Officer.*
- 31.2 Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by William Meek, the Company's Chief Financial Officer.*
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Stephen Russell, the Company's Chief Executive Officer.*
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by William Meek, the Company's Chief Financial Officer.*
- 101.INS** XBRL Instance Document.*
- 101.SCH** XBRL Taxonomy Extension Schema Document.*
- 101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document.*
- 101.DEF** XBRL Taxonomy Extension Definition Linkbase Document.*
- 101.LAB** XBRL Taxonomy Extension Label Linkbase Document.*
- 101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document.*

* Filed herewith

** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 shall be deemed to be "furnished" and not "filed."

Table of Contents

SIGNATURES

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

Celadon Group, Inc.
(Registrant)

/ s / S t e p h e n
Russell
Stephen Russell
Chief Executive Officer

/ s / W i l l i a m E .
Meek
William E. Meek
Executive Vice President, Chief Financial Officer and
Treasurer

Date: May 24, 2012

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Company, effective January 12, 2006. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ending December 31, 2005, filed with the SEC on January 30, 2006.)
3.2	Certificate of Designation for Series A Junior Participating Preferred Stock. (Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000, filed with the SEC on September 28, 2000.)
3.3	Amended and Restated By-laws of the Company. (Incorporated by reference to Exhibit 3 to the Company's Current Report on Form 8-K filed with the SEC on July 3, 2006.)
4.1	Amended and Restated Certificate of Incorporation of the Company, effective January 12, 2006. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ending December 31, 2005, filed with the SEC on January 30, 2006.)
4.2	Amended and Restated By-laws of the Company. (Incorporated by reference to Exhibit 3 to the Company's Current Report on Form 8-K filed with the SEC on July 3, 2006.)
10.26	First Amendment to Credit Agreement dated August 29, 2011, among the Company, certain of its subsidiaries, Bank of America, N.A., and certain other lenders. (Incorporated by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarterly period ending September 30, 2011, filed with the SEC on November 4, 2011.)
31.1	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Stephen Russell, the Company's Chief Executive Officer.*
31.2	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by William Meek, the Company's Chief Financial Officer.*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Stephen Russell, the Company's Chief Executive Officer.*
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by William Meek, the Company's Chief Financial Officer.*
101.INS**	XBRL Instance Document.*
101.SCH**	XBRL Taxonomy Extension Schema Document.*
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Filed herewith

** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 shall be deemed to be "furnished" and not "filed."