

CELADON GROUP INC
Form 10-Q
April 30, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

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

Commission file number: 000-23192

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)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 [X] 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 [X]

As of April 30, 2010 (the latest practicable date), 22,260,726 shares of the registrant's common stock, par value \$0.033 per share, were outstanding.

CELADON GROUP, INC.

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March 31, 2010 Form 10-Q

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Part I. Financial Information

Item I. Financial Statements

CELADON GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 March 31, 2010 and June 30, 2009
 (Dollars in thousands except per share and par value amounts)

| | March 31, 2010 (unaudited) | June 30, 2009 |
|--|----------------------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$9,410 | \$863 |
| Trade receivables, net of allowance for doubtful accounts of \$1,202 and \$1,059 at March 31, 2010 and June 30, 2009, respectively | 60,806 | 55,291 |
| Prepaid expenses and other current assets | 14,269 | 10,044 |
| Tires in service | 4,968 | 4,336 |
| Equipment held for resale | --- | 8,012 |
| Income tax receivable | --- | 232 |
| Deferred income taxes | 3,210 | 2,780 |
| Total current assets | 92,663 | 81,558 |
| Property and equipment | 235,554 | 237,167 |
| Less accumulated depreciation and amortization | 76,654 | 70,025 |
| Net property and equipment | 158,900 | 167,142 |
| Tires in service | 1,472 | 1,581 |
| Goodwill | 19,137 | 19,137 |
| Other assets | 1,591 | 1,581 |
| Total assets | \$273,763 | \$270,999 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$6,727 | \$5,461 |
| Accrued salaries and benefits | 12,104 | 10,084 |
| Accrued insurance and claims | 9,599 | 8,508 |
| Accrued fuel expense | 10,508 | 8,592 |
| Other accrued expenses | 11,786 | 11,547 |
| Current maturities of long-term debt | 563 | 1,109 |
| Current maturities of capital lease obligations | 11,867 | 6,693 |
| Provision for income taxes | 1,433 | --- |
| Total current liabilities | 64,587 | 51,994 |
| Long-term debt, net of current maturities | 109 | 5,870 |
| Capital lease obligations, net of current maturities | 25,061 | 35,311 |
| Deferred income taxes | 34,019 | 34,132 |
| Minority interest | --- | 25 |
| Stockholders' equity: | | |
| | 788 | 787 |

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Common stock, \$0.033 par value, authorized 40,000,000 shares; issued 23,871,993 and 23,840,677 shares at March 31, 2010 and June 30, 2009, respectively

| | | |
|--|-----------|-----------|
| Treasury stock at cost; 1,611,267 and 1,744,245 shares at March 31, 2010 and June 30, 2009, respectively | (11,109) | (12,025) |
| Additional paid-in capital | 98,007 | 97,030 |
| Retained earnings | 64,907 | 62,955 |
| Accumulated other comprehensive loss | (2,606) | (5,080) |
| Total stockholders' equity | 149,987 | 143,667 |
| Total liabilities and stockholders' equity | \$273,763 | \$270,999 |

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

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

| | For the three months ended March 31, | | For the nine months ended March 31, | |
|--|--|------------|---|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue: | | | | |
| Freight revenue | \$109,913 | \$96,152 | \$329,689 | \$303,979 |
| Fuel surcharges | 19,522 | 10,725 | 54,817 | 69,412 |
| Total revenue | 129,435 | 106,877 | 384,506 | 373,391 |
| Operating expenses: | | | | |
| Salaries, wages, and employee benefits | 38,348 | 36,990 | 116,940 | 116,144 |
| Fuel | 31,682 | 22,146 | 91,812 | 100,093 |
| Operations and maintenance | 9,327 | 8,711 | 27,018 | 26,944 |
| Insurance and claims | 3,928 | 3,505 | 11,280 | 10,374 |
| Depreciation and amortization | 7,602 | 10,123 | 23,025 | 26,802 |
| Revenue equipment rentals | 9,142 | 7,774 | 27,169 | 20,814 |
| Purchased transportation | 20,572 | 12,469 | 58,803 | 40,989 |
| Costs of products and services sold | 1,352 | 1,486 | 4,553 | 4,620 |
| Communications and utilities | 1,256 | 1,386 | 3,701 | 3,734 |
| Operating taxes and licenses | 2,523 | 2,424 | 7,282 | 7,148 |
| General and other operating | 1,557 | 1,733 | 5,215 | 6,293 |
| Total operating expenses | 127,289 | 108,747 | 376,798 | 363,955 |
| Operating income (loss) | 2,146 | (1,870) | 7,708 | 9,436 |
| Other (income) expense: | | | | |
| Interest income | (18) | (15) | (55) | (26) |
| Interest expense | 666 | 776 | 1,888 | 2,901 |
| Other (income) expense, net | (21) | 60 | 82 | 47 |
| Income (loss) before income taxes | 1,519 | (2,691) | 5,793 | 6,514 |
| Provision (benefit) for income taxes | 1,153 | (613) | 3,841 | 4,124 |
| Net income (loss) | \$366 | \$(2,078) | \$1,952 | \$2,390 |
| Earnings (loss) per common share: | | | | |
| Diluted earnings per share | \$0.02 | \$(0.10) | \$0.09 | \$0.11 |
| Basic earnings per share | \$0.02 | \$(0.10) | \$0.09 | \$0.11 |
| Average shares outstanding: | | | | |
| Diluted | 22,503 | 21,792 | 22,303 | 22,122 |
| Basic | 21,916 | 21,792 | 21,877 | 21,706 |

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

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CELADON GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the nine months ended March 31, 2010 and 2009
 (Dollars in thousands)
 (Unaudited)

| | 2010 | 2009 |
|---|-----------|-----------|
| Cash flows from operating activities: | | |
| Net income | \$1,952 | \$2,390 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,233 | 27,478 |
| (Gain)/Loss on sale of equipment | 834 | (676) |
| Stock based compensation | 2,657 | 1,615 |
| Deferred income taxes | 2,442 | 992 |
| Provision for doubtful accounts | 132 | 78 |
| Changes in assets and liabilities: | | |
| Trade receivables | (5,293) | 20,964 |
| Income tax recoverable | (958) | 4,972 |
| Tires in service | (497) | (174) |
| Prepaid expenses and other current assets | 3,960 | 4,106 |
| Other assets | 391 | (474) |
| Accounts payable and accrued expenses | 4,792 | (7,554) |
| Net cash provided by operating activities | 32,645 | 53,717 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (43,253) | (28,336) |
| Proceeds on sale of property and equipment | 29,806 | 42,344 |
| Purchase of business, net of cash | --- | (24,100) |
| Net cash (used in) investing activities | (13,447) | (10,092) |
| Cash flows from financing activities: | | |
| Payments on long-term debt | (6,308) | (38,226) |
| Principal payments under capital lease obligations | (5,076) | (4,943) |
| Net cash (used in) financing activities | (11,384) | (43,169) |
| Effect of exchange rates on cash and cash equivalents | 733 | --- |
| Increase in cash and cash equivalents | 8,547 | 456 |
| Cash and cash equivalents at beginning of year | 863 | 2,325 |
| Cash and cash equivalents at end of year | \$9,410 | \$2,781 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$1,938 | \$2,974 |
| Income taxes paid | \$4,049 | --- |

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

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CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Celadon Group, Inc. and its majority owned subsidiaries (the "Company"). All material intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. Certain information and footnote disclosures have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, which are necessary for a fair presentation of the financial condition and results of operations for these periods. The results of operations for the interim period are not necessarily indicative of the results for a full year. These condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's audited condensed consolidated financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009.

The preparation of the financial statements in conformity with 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. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements ("SFAS 157"), which was primarily codified into Topic 820 in the Accounting Standards Codification ("ASC"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. It also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, FASB issued Staff Position No. 157-2, which provides a one-year delayed application of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company's adoption of the provisions of SFAS 157 with respect to the financial assets and liabilities measured at fair value did not have a material impact on the fair value measurements or the consolidated financial statements. See Note 12 for additional information. In accordance with SFAS 157-2, the Company's adoption did not have a material impact on nonfinancial assets and nonfinancial liabilities, including, but not limited to, the valuation of the Company's reporting units for the purpose of assessing goodwill impairment, the valuation of property and equipment when assessing long-lived asset impairment, and the valuation of assets acquired and liabilities assumed in business combinations. In October 2008, FASB issued SFAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, which became effective upon issuance, including periods for which financial statements have not been issued. SFAS 157-3 clarifies the application of SFAS 157. The Company's adoption of SFAS 157-3 in determination of fair values did not have a material impact on the consolidated financial statements.

In December 2007, FASB issued SFAS No. 141R (revised 2007), Business Combinations ("SFAS 141R"), which was primarily codified into Topic 805 Business Combinations in the ASC. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R was effective for us beginning July 1, 2009 and will apply prospectively to business combinations completed after that date.

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(Unaudited)

In December 2007, FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 ("SFAS 160"), which was primarily codified into Topic 810 Consolidations in the ASC, and changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 was effective for us beginning July 1, 2009 and did not have a material impact on the consolidated financial statements.

In March 2008, FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 ("SFAS 161"), which was primarily codified into Topic 815 Derivatives and Hedging in the ASC. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Company adopted this statement effective July 1, 2009, and it did not have a material impact on the consolidated financial statements.

In May 2009, FASB issued SFAS No. 165, Subsequent Events, which was primarily codified into Topic 855 Subsequent Events in the ASC. This standard is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for fiscal years and interim periods ended after June 15, 2009. We adopted this statement effective July 1, 2009.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which were primarily codified into Topic 825 into the ASC. This FSP amends FASB Statement No. 107, to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The FSP also amends APB Opinion No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FSP was effective for interim reporting periods ending after June 15, 2009. The adoption of this FSP did not materially affect the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which was primarily codified into Topic 105 Generally Accepted Accounting Standards in the ASC. This standard did become the single source of authoritative nongovernmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. This standard reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. This guidance was effective for financial statements issued for

reporting periods that ended after September 15, 2009. Beginning in the first quarter of 2010, this guidance impacted the Company's financial statements and related disclosures as all references to authoritative accounting literature reflect the newly adopted codification.

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CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2010
 (Unaudited)

3. Income Taxes

Income tax expense varies from the federal corporate income tax rate of 35%, primarily due to state income taxes, net of federal income tax effect and our permanent differences primarily related to our per diem pay structure.

The company follows ASC Topic 740-10-25 in Accounting for Uncertainty in Income Taxes. Topic 740-10-25 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 March 31, 2010, the Company recorded a \$0.6 million liability for unrecognized tax benefits, a portion of which represents penalties and interest.

As of March 31, 2010, we are subject to U.S. Federal income tax examinations for the tax years 2006 through 2008. We file tax returns in numerous state jurisdictions with varying statutes of limitations.

4. Earnings Per Share

The difference in basic and diluted weighted average shares is due to the assumed exercise of outstanding stock options and unvested restricted stock. A reconciliation of the basic and diluted earnings per share calculation is as follows (amounts in thousands, except per share amounts):

| | For three months ended March 31, 2010 | | For nine months ended March 31, 2009 | |
|--|---|------------|--|---------|
| Net income (loss) | \$366 | \$(2,078) | \$1,952 | \$2,390 |
| Denominator | | | | |
| Weighted average number of common shares outstanding | 21,916 | 21,792 | 21,877 | 21,706 |
| Equivalent shares issuable upon exercise of stock options and restricted stock vesting | 587 | --- | 426 | 416 |
| Diluted shares | 22,503 | 21,792 | 22,303 | 22,122 |
| Earnings (loss) per share | | | | |
| Basic | \$0.02 | \$(0.10) | \$0.09 | \$0.11 |
| Diluted(1) | \$0.02 | \$(0.10) | \$0.09 | \$0.11 |

(1) Diluted loss per share for the three months ended March 31, 2009 does not include the anti-dilutive effect of 188,000 stock options and other incremental shares.

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CELADON GROUP, INC.
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 March 31, 2010
 (Unaudited)

5. Segment Information and Significant Customers

The Company operates in two segments, transportation and e-commerce. The Company generates revenue in the transportation segment, primarily by providing truckload-hauling services through its subsidiaries Celadon Trucking Services Inc. ("CTSI"), Celadon Logistics Services, Inc ("CLSI"), Servicios de Transportacion Jaguar, S.A. de C.V. ("Jaguar"), and Celadon Canada, Inc. ("CelCan"). The Company provides certain services over the Internet through its e-commerce subsidiary TruckersB2B, Inc. ("TruckersB2B"). TruckersB2B is an Internet based "business-to-business" membership program, owned by Celadon E-Commerce, Inc., a wholly owned subsidiary of Celadon Group, Inc. The e-commerce segment generates revenue by providing discounted fuel, tires, and other products and services to small and medium-sized trucking companies. The Company evaluates the performance of its operating segments based on operating income (amounts below in thousands).

| | Transportation | E-commerce | Consolidated |
|-----------------------------------|----------------|------------|--------------|
| Three months ended March 31, 2010 | | | |
| Operating revenue | \$ 127,443 | \$ 1,992 | \$ 129,435 |
| Operating income | 1,857 | 289 | 2,146 |
| Three months ended March 31, 2009 | | | |
| Operating revenue | \$ 104,744 | \$ 2,133 | \$ 106,877 |
| Operating income (loss) | (2,178) | 308 | (1,870) |
| Nine months ended March 31, 2010 | | | |
| Operating revenue | \$ 378,002 | \$ 6,504 | \$ 384,506 |
| Operating income | 6,829 | 879 | 7,708 |
| Nine months ended March 31, 2009 | | | |
| Operating revenue | \$ 366,752 | \$ 6,639 | \$ 373,391 |
| Operating income | 8,489 | 947 | 9,436 |

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

| | For the three months ended March 31, | | For the nine months ended March 31, | |
|--------------------|--|------------|---|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Operating revenue: | | | | |
| United States | \$ 113,417 | \$ 93,976 | \$ 336,155 | \$ 326,964 |
| Canada | 9,474 | 7,146 | 28,664 | 26,837 |
| Mexico | 6,544 | 5,755 | 19,687 | 19,590 |
| Total | \$ 129,435 | \$ 106,877 | \$ 384,506 | \$ 373,391 |

No customer accounted for more than 5% of the Company's total revenue during any of its three most recent fiscal years or the interim periods presented above.

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CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

6. Stock Based Compensation

The Company accounts for all share-based grants to employees based upon a grant date fair value of an award in accordance with FAS 123R, which was primarily codified into Topic 718 in the ASC. In January 2006, stockholders approved the Company's 2006 Omnibus Incentive Plan ("2006 Plan"), which provides vehicles such as stock options, restricted stock grants, and stock appreciation rights ("SARs") to compensate the Company's key employees. Giving effect to the appropriate adjustments and amendments, an aggregate 2,687,500 shares of our common stock were originally reserved for issuance under the 2006 Plan. The Company granted 242,000 stock options and 177,904 shares of restricted stock pursuant to the 2006 Plan in fiscal 2010. As of March 31, 2010, the Company was authorized to grant an additional 541,186 shares pursuant to the 2006 Plan.

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

| | For three months ended March 31, 2010 | | For nine months ended March 31, 2009 | |
|--|---|-------|--|---------|
| Stock options expense | \$220 | \$278 | \$812 | \$909 |
| Restricted stock expense | 374 | 148 | 1,065 | 872 |
| Stock appreciation rights expense/(income) | 446 | --- | 766 | (340) |
| Total stock related compensation expense | \$1,040 | \$426 | \$2,643 | \$1,441 |

The Company has granted a number of stock options under various plans. Options granted to employees have been granted with an exercise price equal to the market price on the grant date and expire on the tenth anniversary of the grant date. The majority of options granted to employees vest 25 percent per year, commencing with the first anniversary of the grant date. Options granted to non-employee directors have been granted with an exercise price equal to the market price on the grant date, vest over one to four years, commencing with the first anniversary of the grant date, and expire on the tenth anniversary of the grant date.

A summary of the activity of the Company's stock option plans as of March 31, 2010 and changes during the period then ended is presented below:

| Options | Shares | Weighted-Average | | |
|-------------------------------|-----------|---------------------------------------|----------------------------------|---------------------------------|
| | | Weighted-Average Exercise Price | Remaining Contractual Term | Aggregate Intrinsic Value |
| Outstanding at July 1, 2009 | 1,289,841 | \$ 9.87 | 7.04 | \$677,650 |
| Granted | 242,000 | \$ 9.86 | --- | --- |
| Exercised | (7,500) | \$ 1.83 | --- | --- |
| Forfeited or expired | (10,750) | \$ 10.42 | --- | --- |
| Outstanding at March 31, 2010 | 1,513,591 | \$ 9.90 | 6.88 | \$6,119,789 |
| Exercisable at March 31, 2010 | 957,929 | \$ 10.30 | 5.90 | \$3,490,483 |

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CELADON GROUP, INC.
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March 31, 2010
(Unaudited)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | Fiscal 2010 | | Fiscal 2009 | |
|--|-------------|---|-------------|---|
| Weighted average grant date fair value | \$5.24 | | \$4.22 | |
| Dividend yield | 0 | | 0 | |
| Expected volatility | 57.8 | % | 52.1 | % |
| Risk-free interest rate | 1.89 | % | 1.72 | % |
| Expected lives | 5.6 years | | 4.1 years | |

Restricted Shares

| | Number of Shares | Weighted Average Grant Date Fair Value |
|----------------------------|---------------------|---|
| Unvested at July 1, 2009 | 309,706 | \$11.81 |
| Granted | 177,904 | \$9.66 |
| Vested | (125,478) | \$11.02 |
| Forfeited | (21,110) | \$14.78 |
| Unvested at March 31, 2010 | 341,022 | \$10.80 |

Restricted shares granted to employees have been granted with a fair value equal to the market price on the grant date and the grants vest by 25 percent or 33 percent per year, commencing with the first anniversary of the grant date. In addition, for a portion of the shares certain financial targets must be met for these shares to vest. Restricted shares granted to non-employee directors have been granted with a fair value equal to the market price on the grant date and vest on the date of the Company's next annual meeting.

As of March 31, 2010, the Company had \$2.1 million and \$2.3 million of total unrecognized compensation expense related to stock options and restricted stock, respectively, that is expected to be recognized over the remaining period of approximately 3.8 years for both stock options and restricted stock.

Stock Appreciation Rights

| | Number of Shares | Weighted Average Grant Date Fair Value |
|--------------------------|---------------------|---|
| Vested at July 1, 2009 | 144,844 | \$8.64 |
| Paid | (844) | \$8.64 |
| Forfeited | --- | --- |
| Vested at March 31, 2010 | 144,000 | \$8.64 |

SARs granted to employees vested on a four year vesting schedule.

7. Stock Repurchase Programs

On October 24, 2007, the Company's Board of Directors authorized a stock repurchase program pursuant to which the Company purchased 2,000,000 shares of the Company's common stock in open market transactions at an aggregate cost of approximately \$13.8 million. We intend to hold repurchased shares in treasury for general corporate purposes, including issuances under stock plans. We account for treasury stock using the cost method.

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CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

8. Comprehensive Income

Comprehensive income consisted of the following components for the quarter and the nine months ended March 31, 2010 and 2009, respectively (in thousands):

| | Three months ended March 31, | | Nine months ended March 31, | |
|--|---------------------------------|------------|--------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income/(loss) | \$366 | \$(2,078) | \$1,952 | \$2,390 |
| Currency hedges | 272 | (272) | 301 | (318) |
| Foreign currency translation adjustments | 846 | (822) | 2,173 | (6,684) |
| Total comprehensive income/(loss) | \$1,484 | \$(3,172) | \$4,426 | \$(4,612) |

9. Commitments and Contingencies

The Company has outstanding commitments to purchase approximately \$9.9 million of revenue equipment at March 31, 2010.

Standby letters of credit, not reflected in the accompanying consolidated financial statements, aggregated to approximately \$0.3 million at March 31, 2010. In addition, at March 31, 2010, 650,000 treasury shares were held in a trust as collateral for self insurance reserves.

The Company has employment and consulting agreements with various key employees providing for minimum combined annual compensation of \$700,000 in fiscal 2010.

There are various claims, lawsuits, and pending actions against the Company and its subsidiaries in the normal course of the operation of their businesses with respect to cargo, auto liability, or income taxes.

On August 8, 2007, the 384th District Court of the State of Texas situated in El Paso, Texas, rendered a judgment against CTSI, for approximately \$3.4 million in the case of Martinez v. Celadon Trucking Services, Inc., which was originally filed on September 4, 2002. The case involves a workers' compensation claim of a former employee of CTSI who suffered a back injury as a result of a traffic accident. CTSI and the Company believe all actions taken were proper and legal and contend that the proper and exclusive place for resolution of this dispute was before the Indiana Worker's Compensation Board. In October 2007, CTSI posted an appeal bond and filed an appeal of this decision to the Texas Court of Appeals. The ATA Litigation Center filed an amicus brief in support of our position with the Texas Court of Appeals. Oral arguments on this case were held February 18, 2010. Celadon argued its case before the Texas Court of Appeals and on March 24, 2010, the Texas Court of Appeals reversed the judgment and dismissed Martinez' suit in its entirety finding that the Indiana Workers Compensation Board had exclusive jurisdiction over this dispute. Plaintiff has until May 7, 2010 to request a rehearing of the Texas Court of Appeals' decision. While there can be no certainty as to the outcome, the Company believes that the ultimate resolution of this dispute will not have a materially adverse affect on its consolidated financial position, cash flows, or results of operations, and the Company has not recorded any provision for the case.

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CELADON GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2010
 (Unaudited)

10. Fair Value Measurements

The Company adopted SFAS No. 157, which was primarily codified into Topic 820 in the ASC, effective October 1, 2008. Under this standard, the definition of fair value focuses on the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. As permitted by FSP No. FAS 157-2, Effective Date of FASB Statement No. 157, we deferred the adoption of SFAS No. 157 until October 1, 2010 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually).

SFAS No. 157 establishes a fair value hierarchy that prioritizes the valuation approaches, based on reliability of inputs, as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals or current market) and contractual prices for the underlying financial instrument, as well as other relevant economic measures.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis in accordance with SFAS 157 as of March 31, 2010 (in thousands):

| Description | March 31, 2010 | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------|-------------------|--|---|--|
| Assets: | --- | --- | --- | --- |
| Liabilities: | | | | |
| Foreign Currency Contracts | \$ 276 | --- | \$ 276 | --- |

The Company pays a fixed contract rate for foreign currency. The fair value of foreign currency forward contracts is based on the valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

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(Unaudited)

11. Reclassifications and Adjustments

Certain items in the prior fiscal year's consolidated financial statements have been reclassified to conform to the current presentation. During the first quarter of fiscal 2010, the Company recorded a \$0.5 million reduction to accumulated other comprehensive loss related to foreign currency translations from a discontinued operation in fiscal 1996. The Company determined that the amounts that related to prior periods were immaterial to all prior periods and therefore recognized the reduction to retained earnings during the first quarter of fiscal 2010 as an immaterial error correction.

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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," "outlook," "goal," 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. 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 \$490.3 million in operating revenue during our fiscal year ended June 30, 2009. We have grown significantly since our incorporation in 1986 through internal growth and a series of acquisitions since 1995. As a dry van truckload carrier, we generally transport full trailer loads of freight from origin to destination without intermediate stops or handling. Our customer base includes many Fortune 500 companies.

In our international operations, we offer time-sensitive transportation in and between the United States and two of its largest trading partners, Mexico and Canada. We generated approximately one-half of our revenue in fiscal 2009 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. Recently, we have become aware of various manufacturers that have moved, or indicated an interest in moving, certain of their manufacturing plants from China and other locations to Mexico. To the extent this near-sourcing trend develops and expands, we believe it will offer us a unique opportunity to increase our operations to and from Mexico.

Our success is partially dependent upon the success of our operations in Mexico and Canada, and we are subject to risks of doing business internationally, including fluctuations in foreign currencies, changes in the economic strength of the countries in which we do business, difficulties in enforcing contractual obligations and intellectual property rights, burdens of complying with a wide variety of international and United States export and import laws, and social, political, and economic instability. Additional risks associated with our foreign operations, including restrictive trade policies and imposition of duties, taxes, or government royalties by foreign governments, are present but largely mitigated by the terms of NAFTA.

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In addition to our international business, we offer a broad range of truckload transportation services within the United States, including long-haul, regional, dedicated, intermodal, and logistics. With six different asset-based acquisitions from 2003 to 2008, we expanded our operations and service offerings within the United States and significantly improved our lane density, freight mix, and customer diversity.

We also operate TruckersB2B, a profitable marketing business that affords volume purchasing power for items such as fuel, tires, and equipment to approximately 20,000 trucking fleets representing approximately 480,000 tractors. TruckersB2B is included in our e-commerce unit, which is a separate operating segment under generally accepted accounting principles.

Recent Results and Financial Condition

For the third quarter of fiscal 2010, revenue increased 21.0% to \$129.4 million, compared with \$106.9 million for the third quarter of fiscal 2009. Excluding fuel surcharge, freight revenue increased 14.2% to \$109.9 million for the third quarter of fiscal 2010, compared with \$96.2 million for the third quarter of fiscal 2009. In the third quarter of fiscal 2010, we recorded a net income of \$0.4 million compared to a net loss of \$2.1 million in the third quarter of fiscal 2009. Diluted earnings (loss) per share increased to \$0.02 in the third quarter of fiscal 2010, from \$(0.10) in the third quarter of fiscal 2009.

At March 31, 2010, our total balance sheet debt (including capital lease obligations less cash) was \$28.2 million, and our total stockholders' equity was \$150.0 million. At March 31, 2010, our debt to capitalization ratio was 15.8%. At March 31, 2010, we had \$39.7 million of available borrowing capacity under our revolving credit facility.

Revenue

We generate substantially all of our revenue by transporting freight for our customers. Generally, we are paid by the mile or by the load for our services. We also derive revenue from fuel surcharges, loading and unloading activities, equipment detention, brokerage, intermodal, less-than-truckload, other trucking related services, and from TruckersB2B. We believe that eliminating the impact of the sometimes volatile fuel surcharge revenue affords a more consistent basis for comparing our results of operations from period to period. 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, the number of tractors operating, and the number of miles we generate with our equipment. These factors relate to, among other things, the U.S. economy, inventory levels, the level of truck capacity in our markets, specific customer demand, the percentage of team-driven tractors in our fleet, driver availability, and our average length of haul.

Expenses and Profitability

The main factors that impact our profitability on the expense side are the variable costs of transporting freight for our customers. These costs include fuel expense, driver-related expenses, such as wages, benefits, training, recruitment, and independent contractor costs, which we record as purchased transportation. Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of 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 cost is the acquisition and financing of long-term assets, primarily revenue equipment. Other mostly fixed costs include our non-driver personnel and facilities expenses. In discussing our expenses as a percentage of revenue, we sometimes discuss changes as a percentage of revenue before fuel surcharges, in addition to absolute dollar changes, because we believe the high variable cost nature of our business makes a comparison of changes in expenses as a percentage of revenue more meaningful at times than absolute dollar changes.

The trucking industry has experienced significant increases in expenses over the past three years, in particular those relating to equipment costs and insurance. Until recently, many trucking companies had been able to raise freight rates to cover the increased costs. As freight demand has softened, carriers have been willing to accept rate decreases to utilize assets in service. Going forward, to the extent capacity in the industry continues to tighten and we are able to continue to gradually increase our average rate per mile, we expect to be able to increase our recovery of these cost increases.

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Revenue Equipment and Related Financing

Going forward for the next year, we do not expect to place any orders for new tractors or trailers. At March 31, 2010, the average age of our domestic tractor fleet was approximately 1.3 years and the average age of our trailer fleet was approximately 5.7 years. At March 31, 2010, we had future operating lease obligations totaling \$193.3 million, including residual value guarantees of approximately \$92.5 million.

| | March 31, 2010 | | March 31, 2009 | |
|----------------------------|----------------|----------|----------------|----------|
| | Tractors | Trailers | Tractors | Trailers |
| Owned equipment | 1,070 | 2,858 | 1,355 | 2,986 |
| Capital leased equipment | --- | 3,710 | --- | 3,719 |
| Operating leased equipment | 1,934 | 3,331 | 1,616 | 3,336 |
| Independent contractors | 357 | --- | 198 | --- |
| Total | 3,361 | 9,899 | 3,169 | 10,041 |

Independent contractors are utilized through a contract with us to supply one or more tractors and drivers for our use. Independent contractors must pay their own tractor expenses, fuel, maintenance, and driver costs and must meet our specified guidelines with respect to safety. A lease-purchase program that we offer provides independent contractors the opportunity to lease-to-own a tractor from the Company or a third party. As of March 31, 2010, there were 357 independent contractors providing a combined 10.6% of our tractor capacity.

Outlook

Looking forward, our profitability goal is to achieve an operating ratio of approximately 90%, which is operating expenses as a percentage of freight revenue net of fuel surcharge revenue. We expect this to require improvements in rate per mile and miles per tractor and decreased non-revenue miles, to overcome expected additional cost increases. Because a large percentage of our costs are variable, changes in revenue per mile affect our profitability to a greater extent than changes in miles per tractor. For the remainder of fiscal 2010, the key factors that we expect to have the greatest effect on our profitability are our freight revenue per tractor per week (which will be affected by the general freight environment, including the balance of freight demand and industry-wide trucking capacity), our compensation of drivers, our fuel costs, and our insurance and claims. To overcome cost increases and improve our margins, we will need to achieve increases in freight revenue per tractor. Operationally, we will seek improvements in safety, driver recruiting, and retention. Our success in these areas primarily will affect revenue, driver-related expenses, and insurance and claims expense. Although we believe the freight market and supply-demand balance in our industry are beginning to improve compared to prior recent periods, the freight market and the economy remain challenging. Accordingly, we believe achieving our near term profitability goal will be difficult.

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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 | | | | For the nine months ended | | | |
|--|----------------------------|---|----------------|----|---------------------------|---|----------------|---|
| | March 31, 2010 | | March 31, 2009 | | March 31, 2010 | | March 31, 2009 | |
| Freight revenue(1) | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Operating expenses: | | | | | | | | |
| Salaries, wages, and employee benefits | 34.9 | % | 38.5 | % | 35.5 | % | 38.2 | % |
| Fuel(1) | 11.1 | % | 11.9 | % | 11.2 | % | 10.1 | % |
| Operations and maintenance | 8.5 | % | 9.1 | % | 8.2 | % | 8.9 | % |
| Insurance and claims | 3.6 | % | 3.6 | % | 3.4 | % | 3.4 | % |
| Depreciation and amortization | 6.9 | % | 10.5 | % | 7.0 | % | 8.8 | % |
| Revenue equipment rentals | 8.3 | % | 8.1 | % | 8.2 | % | 6.8 | % |
| Purchased transportation | 18.7 | % | 13.0 | % | 17.8 | % | 13.5 | % |
| Costs of products and services sold | 1.2 | % | 1.5 | % | 1.4 | % | 1.5 | % |
| Communications and utilities | 1.1 | % | 1.4 | % | 1.1 | % | 1.2 | % |
| Operating taxes and licenses | 2.3 | % | 2.5 | % | 2.2 | % | 2.4 | % |
| General and other operating expenses | 1.4 | % | 1.8 | % | 1.6 | % | 2.1 | % |
| Total operating expenses | 98.0 | % | 101.9 | % | 97.6 | % | 96.9 | % |
| Operating income (loss) | 2.0 | % | (1.9) |)% | 2.4 | % | 3.1 | % |
| Other expense: | | | | | | | | |
| Currency exchange (gain)/loss | 0.0 | % | 0.1 | % | 0.0 | % | 0.0 | % |
| Interest expense | 0.6 | % | 0.8 | % | 0.6 | % | 1.0 | % |
| Income (loss) before income taxes | 1.4 | % | (2.8) |)% | 1.8 | % | 2.1 | % |
| Provision (benefit) for income taxes | 1.0 | % | (0.6) |)% | 1.2 | % | 1.3 | % |
| Net income (loss) | 0.4 | % | (2.2) |)% | 0.6 | % | 0.8 | % |

(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 \$19.5 million and \$10.7 million for the third quarter of fiscal 2010 and 2009, respectively, and \$54.8 million and \$69.4 million for the nine months ended March 31, 2010 and

2009, respectively.

Comparison of Three Months Ended March 31, 2010 to Three Months Ended March 31, 2009

Operating revenue increased by \$22.5 million, or 21.0%, to \$129.4 million for the third quarter of fiscal 2010, from \$106.9 million for the third quarter of fiscal 2009. Freight revenue excludes \$19.5 million and \$10.7 million of fuel surcharge revenue for the third quarter of fiscal 2010 and 2009, respectively.

Freight revenue increased by \$13.7 million, or 14.2%, to \$109.9 million for the third quarter of fiscal 2010, from \$96.2 million for the third quarter of fiscal 2009. This increase was attributable to an increase in loaded miles to 65.0 million for the third quarter of fiscal 2010, from 55.1 million for the third quarter of fiscal 2009, offset by average freight revenue per loaded mile decreasing to \$1.398 for the third quarter of fiscal 2010, from \$1.455 for the third quarter of fiscal 2009. This decrease in revenue per loaded mile was the result of a difficult freight market and the aggressive rate environment confronting our industry and a weakened economy. Despite the difficult freight market, aggressive rate environment, and weakened economy, we achieved more than a seasonal pick up in shipments in the third quarter of fiscal 2010, which resulted in an increase in loaded miles and an increase in average revenue per tractor per week, which is our primary measure of asset productivity, to \$2,315 in the third quarter of fiscal 2010, from \$2,136 for the third quarter of fiscal 2009.

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Revenue for TruckersB2B was \$2.0 million in the third quarter of fiscal 2010, compared to \$2.1 million for the third quarter of fiscal 2009. This decrease was primarily related to a drop in revenues from our tire programs as small and mid-sized fleets have continued to experience difficulty obtaining bank lending and capital.

Salaries, wages, and employee benefits were \$38.3 million, or 34.9% of freight revenue, for the third quarter of fiscal 2010, compared to \$37.0 million, or 38.5% of freight revenue, for the third quarter of fiscal 2009. This dollar increase was due primarily to increased driver payroll related to increased miles. This increase was offset by a decrease in administrative payroll due to efforts to eliminate positions and increase efficiencies. Also offsetting this increase was a reduction in driver pay per mile and a reduction in our driver recruiting costs in the fiscal 2010 quarter as compared to the fiscal 2009 quarter.

Fuel expenses, net of fuel surcharge revenue of \$19.5 million and \$10.7 million for the third quarter of fiscal 2010 and 2009, respectively, increased to \$12.2 million, or 11.1% of freight revenue, for the third quarter of fiscal 2010, compared to \$11.4 million, or 11.9% of freight revenue, for the third quarter of fiscal 2009. This dollar increase was related to an increase in amount of fuel purchased, due to an increase in miles, as well as a 36.4% increase in average fuel prices to \$2.55 per gallon in the third quarter of fiscal 2010, from \$1.87 per gallon in the third quarter of fiscal 2009.

Operations and maintenance expense increased to \$9.3 million, or 8.5% of freight revenue, for the third quarter of fiscal 2010, from \$8.7 million, or 9.1% of freight revenue, for the third quarter of fiscal 2009. Operations and maintenance expense consists of direct operating expense, maintenance, and tire expense. This dollar increase in the third quarter of fiscal 2010 was primarily related to an increase in costs associated with physical damage and tire expenses, offset by decreases in our maintenance expenses due to a younger fleet of tractors.

Insurance and claims expense increased to \$3.9 million, or 3.6% of freight revenue, for the third quarter of fiscal 2010, from \$3.5 million, or 3.6% of freight revenue, for the third quarter of fiscal 2009. Insurance consists of premiums for liability, physical damage, cargo damage, and workers compensation insurance, in addition to claims expense. This dollar increase resulted from an increase in our liability claims loss development in the quarter. 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 review and revise 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 \$7.6 million, or 6.9% of freight revenue, for the third quarter of fiscal 2010, compared to \$10.1 million, or 10.5% of freight revenue, for the third quarter of fiscal 2009. This decrease was primarily attributable to decreased tractor depreciation, related to a net decrease of approximately 285 tractors out of our owned fleet as compared to the third quarter of fiscal 2009 and an increase in the percentage of our fleet financed with operating leases. 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 operations 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.

Revenue equipment rentals increased to \$9.1 million, or 8.3% of freight revenue, for the third quarter of fiscal 2010, compared to \$7.8 million, or 8.1% of freight revenue, for the third quarter of fiscal 2009. These increases were attributable to an increase in the percentage of our tractors and trailers financed under operating leases. At March 31, 2010, 1,934 tractors, or 57.5% of our company tractors, were held under operating leases, compared to 1,616 tractors, or 51.0% of our company tractors, at March 31, 2009.

Purchased transportation increased to \$20.6 million, or 18.7% of freight revenue, for the third quarter of fiscal 2010, from \$12.5 million, or 13.0% of freight revenue, for the third quarter of fiscal 2009. These increases are primarily related to an increase in independent contractors to 357, or 10.6% of our tractor capacity, in the third quarter of fiscal 2010 compared to 198, or 6.2% of tractors, in the third quarter of 2009, and the growth of our intermodal and brokerage operations. Independent contractors are drivers who cover all of their operating expenses (fuel, driver salaries, maintenance, and equipment costs) for a fixed payment per mile. Many of our independent contractors operate under a tractor lease purchase program that we began in the middle of fiscal 2009. Going forward, depending on outside factors such as the freight environment confronting our industry and the strength of the U.S. economy, in general, we may decide to increase the number of independent contractors we engage. Accordingly, to the extent we increase the number of independent contractors in our fleet and continue to increase our purchased transportation for brokerage and intermodal transportation, we expect purchased transportation to increase as well.

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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.

Our pretax margin, which we believe is a useful measure of our operating performance because it is neutral with regard to the method of revenue equipment financing that a company uses, increased 420 basis points to 1.4% of freight revenue for the third quarter of fiscal 2010, from (2.8)% of freight revenue for the third quarter of fiscal 2009.

In addition to other factors described above, Canadian and Mexican exchange rate fluctuations principally impact salaries, wages, and benefits and purchased transportation and therefore impact our pretax margin and results of operations.

Income taxes increased to \$1.2 million, with an effective tax rate of 75.9%, for the third quarter of fiscal 2010, from a benefit of \$0.6 million, with an effective tax rate of 22.8%, for the third quarter of fiscal 2009. As pre-tax net income decreases, our non-deductible expenses, such as per diem expense, will have a greater impact on our effective rate.

As a result of the factors described above, net income increased to \$0.4 million for the third quarter of fiscal 2010, compared to a net loss of \$2.1 million for the third quarter of fiscal 2009.

Comparison of Nine Months Ended March 31, 2010 to Nine Months Ended March 31, 2009

Operating revenue increased by \$11.1 million, or 3.0%, to \$384.5 million for the nine months ended March 31, 2010, from \$373.4 million for the nine months ended March 31, 2009.

Freight revenue, which excludes \$54.8 million and \$69.4 million of fuel surcharge for the nine months ended March 31, 2010 and 2009, respectively, increased by \$25.7 million, or 8.5%, to \$329.7 million for the nine months ended March 31, 2010, from \$304.0 million for the nine months ended March 31, 2009. This increase was attributable to an increase in loaded miles to 196.2 million for the nine months ended March 31, 2010, from 171.3 million for the nine months ended March 31, 2009, offset by average freight revenue per loaded mile decreasing to \$1.397 for the nine months ended March 31, 2010, from \$1.484 for the nine months ended March 31, 2009. This decrease in revenue per loaded mile was the result of a difficult freight market and the aggressive rate environment confronting our industry and a weakened economy. This combination of factors resulted in an increase in average revenue per tractor per week, which is our primary measure of asset productivity, to \$2,392 for nine months ended March 31, 2010, from \$2,365 for nine months ended March 31, 2009.

Revenue for TruckersB2B was \$6.5 million for the nine months ended March 31, 2010, compared to \$6.6 million for the nine months ended March 31, 2009. This decrease was primarily related to a drop in revenues from our tire programs, as small and mid-sized fleets have continued to experience difficulty obtaining bank lending and capital, offset by increases in revenues from our fuel programs.

Salaries, wages, and benefits were \$116.9 million, or 35.5% of freight revenue, for the nine months ended March 31, 2010, compared to \$116.1 million, or 38.2% of freight revenue, for the nine months ended March 31, 2009. This slight dollar increase was due primarily to increased driver payroll related to increased miles and an increase in the value of stock appreciation rights, and was partially offset by a reduction in driver pay per mile, a reduction in our driver recruiting costs, and a decrease in administrative payroll due to efforts to eliminate positions and increase efficiencies.

Fuel expenses, net of fuel surcharge revenue of \$54.8 million and \$69.4 million for the nine months ended March 31, 2010 and 2009 respectively, increased to \$37.0 million, or 11.2% of freight revenue, for the nine months ended

March 31, 2010, compared to \$30.7 million, or 10.1% of freight revenue, for the nine months ended March 31, 2009. These increases were attributable to a decrease in fuel surcharge revenue, which offsets our fuel expense, and an increase in the gallons of fuel purchased, due to an increase in miles. The cost associated with the increase in gallons of fuel purchased was partially offset by a 12.8% decrease in average fuel prices to \$2.46 per gallon in the nine months ended March 31, 2010, from \$2.82 in the nine months ended March 31, 2009.

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Operations and maintenance increased to \$27.0 million, or 8.2% of freight revenue, for the nine months ended March 31, 2010, from \$26.9 million, or 8.9% of freight revenue, for the nine months ended March 31, 2009. Operations and maintenance expense consists of direct operating expense, maintenance, and tire expense. The slight dollar increase in fiscal 2010 was primarily related to an increase in costs associated with physical damage and tire expenses, offset by decreases in our maintenance expenses due to a younger fleet of tractors.

Insurance and claims expense was \$11.3 million for the nine months ended March 31, 2010, compared to \$10.4 million for the nine months ended March 31, 2009. As a percentage of freight revenue, insurance and claims remained constant at 3.4% for the nine months ended March 31, 2010 and 2009. Insurance consists of premiums for liability, physical damage, cargo damage, and workers compensation insurance. The increase in the overall dollar amount is attributable to an increase in workers compensation claims and cargo claims expense, due the severity of claims reported in fiscal 2010, offset by a decrease in liability 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 review and revise our insurance program to maintain a balance between premium expense and the risk retention we are willing to assume.

Depreciation and amortization, consisting primarily of depreciation of revenue equipment, decreased to \$23.0 million, or 7.0% of freight revenue, for the nine months ended March 31, 2010, from \$26.8 million, or 8.8% of freight revenue, for the nine months ended March 31, 2009. This decrease was primarily attributable to decreased tractor depreciation, related to a net decrease of approximately 285 tractors out of our owned fleet as compared to March 31, 2009 and an increase in the percentage of our fleet financed with operating leases. 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 operations 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.

Revenue equipment rentals were \$27.2 million, or 8.2% of freight revenue, for the nine months ended March 31, 2010, compared to \$20.8 million, or 6.8% of freight revenue, for the nine months ended March 31, 2009. These increases were attributable to an increase in the percentage of our tractors financed under operating leases. At March 31, 2010, 1,934 tractors, or 57.5% of our company tractors, were held under operating leases, compared to 1,616 tractors, or 51.0% of our company tractors, at March 31, 2009.

Purchased transportation increased to \$58.8 million, or 17.8% of freight revenue, for the nine months ended March 31, 2010, from \$41.0 million, or 13.5% of freight revenue, for the nine months ended March 31, 2009. These increases were primarily related to an increase in independent contractors to 357, or 10.6% of our tractor capacity, at March 31, 2010 compared to 198, or 6.2% of tractors, at March 31, 2009. Other factors were the growth of our intermodal and brokerage operations. Independent contractors are drivers who cover all of their operating expenses (fuel, driver salaries, maintenance, and equipment costs) for a fixed payment per mile. Many of our independent contractors operate under a tractor lease purchase program that we began in the middle of fiscal 2009. Going forward, depending on outside factors such as the freight environment confronting our industry and the strength of the U.S. economy, in general, we may decide to increase the number of independent contractors we engage. Accordingly, to the extent we increase the number of independent contractors in our fleet and continue to increase our purchased transportation for brokerage and intermodal transportation, we expect purchased transportation to increase as well.

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.

Our pretax margin, which we believe is a useful measure of our operating performance because it is neutral with regard to the method of revenue equipment financing that a company uses decreased 30 basis points to 1.8% of freight revenue for the nine months ended March 31, 2010, from 2.1% of freight revenue for the nine months ended March 31, 2009.

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In addition to other factors described above, Canadian and Mexican exchange rate fluctuations primarily impact salaries, wages and benefits, and purchased transportation, and therefore impact our pretax margin and results of operations.

Income taxes decreased to \$3.8 million for the nine months ended March 31, 2010, compared to \$4.1 million for the nine months ended March 31, 2009, while the effective tax rate increased from 63.3% to 66.3%. Income tax expense for the nine months ended March 31, 2009 included an adjustment of approximately \$300,000 related to per diem calculations for prior years. As per diem is a partially non-deductible expense, our effective tax rate will fluctuate as net income and per diem fluctuate in the future.

As a result of the factors described above, net income decreased by \$0.4 million to \$2.0 million for the nine months ended March 31, 2010, from a net income of \$2.4 million for the nine months ended March 31, 2009.

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. Given our trade cycle for revenue equipment, we expect minimal capital expenditures 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.

As of March 31, 2010, we had on order 100 tractors for delivery through fiscal 2011. These revenue equipment orders represent a capital commitment of approximately \$9.9 million, before considering the proceeds of equipment dispositions. At March 31, 2010, our total balance sheet debt, including capital lease obligations and current maturities less cash, was \$28.2 million, compared to \$56.6 million at March 31, 2009. Our debt-to-capitalization ratio (total balance sheet debt as a percentage of total balance sheet debt plus total stockholders' equity) was 15.8% at March 31, 2010, and 28.6% at March 31, 2009.

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

For the nine months ended March 31, 2010, net cash provided by operations was \$32.6 million, compared to \$53.7 million for the nine months ended March 31, 2009. Cash provided by operations decreased due to the change in trade receivables and income tax receivable, partially offset by the change in accounts payable and accrued expenses.

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Net cash used in investing activities was \$13.4 million for the nine months ended March 31, 2010, compared to \$10.1 million for the nine months ended March 31, 2009. Cash used in investing activities includes the net cash effect of acquisitions and dispositions of revenue equipment during each period. Capital expenditures for equipment totaled \$43.3 million for the nine months ended March 31, 2010, and \$28.3 million for the nine months ended March 31, 2009. In fiscal 2009, we used \$24.1 million to purchase certain assets of Continental. We generated proceeds from the sale of property and equipment of \$29.8 million for the nine months ended March 31, 2010, compared to \$42.3 million in proceeds for the nine months ended March 31, 2009.

Net cash used in financing activities was \$11.4 million for the nine months ended March 31, 2010, compared to \$43.2 million for the nine months ended March 31, 2009. The decrease in cash used for financing activities was primarily due to increased payment on our revolving debt line and the buy-out of mortgaged equipment in the nine months ended March 31, 2009. Financing activity represents borrowings (new borrowings, net of repayment) and payments of the principal component of capital lease obligations.

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 value 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 \$92.5 million at March 31, 2010 compared to \$70.2 million at March 31, 2009. 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 guarantees, 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 operating leases to finance tractor purchases and operating leases to finance trailer purchases.

Primary Credit Agreement

On September 26, 2005, Celadon Group, Inc., Celadon Trucking Services, Inc., and TruckersB2B entered into an unsecured Credit Agreement (the "Credit Agreement") with LaSalle Bank National Association, as administrative agent, and LaSalle Bank National Association, Fifth Third Bank (Central Indiana), and JPMorgan Chase Bank, N.A., as lenders. The Credit Agreement was amended on December 23, 2005, by the First Amendment to Credit Agreement, pursuant to which Celadon Logistics Services, Inc. was added as a borrower to the Credit Agreement. The Credit Agreement was also amended on June 30, 2007 and January 22, 2008 by the Second Amendment to Credit Agreement and Third Amendment to Credit Agreement, respectively. On August 11, 2009, the Credit Agreement was amended and restated (the "Restatement"). Pursuant to the Restatement, (i) the maximum available borrowing limit under the Credit Agreement was reduced from a \$70 million unsecured line to a \$40 million secured line and (ii) certain financial covenants were adjusted as follows: Minimum Fixed Charge ratio to a minimum of .90, Maximum Lease-Adjusted Total Debt to EBITDAR ratio up to 3.25 to 1, Minimum Tangible Net Worth to \$100 million, and the Minimum Asset Coverage ratio to be no less than 1.25 to 1. The Restatement and the financial covenants included therein were in effect starting June 30, 2009. The Credit Agreement, as amended by the Restatement, matures on January 23, 2013. The Credit Agreement is intended to provide for ongoing working capital needs and general corporate purposes. Borrowings under the Credit Agreement are based, at the option of the Company, on a base rate equal to the greater of the federal funds rate plus an applicable margin between 0.75% and 1.50% and the administrative agent's prime rate or LIBOR plus an applicable margin between 2.25% and 3.00% that is adjusted quarterly based on cash flow coverage. Our borrowing rate was 4.50% and 3.25% at March 31, 2010 and

June 30, 2009 respectively. The Credit Agreement is guaranteed by Celadon E-Commerce, Inc., CelCan, and Jaguar, each of which is a subsidiary of the Company.

Letters of credit are limited to an aggregate commitment of \$15.0 million and the swing line facility has a limit of \$3.0 million. A commitment fee that is adjusted quarterly between 0.375% and 0.5% per annum based on cash flow coverage is due on the daily unused portion of the Credit Agreement. The Credit Agreement contains certain restrictions and covenants relating to, among other things, dividends, tangible net worth, cash flow, mergers, consolidations, acquisitions and dispositions, and total indebtedness. We were in compliance with these covenants at March 31, 2010, and expect to remain in compliance for the foreseeable future. At March 31, 2010, none of our credit facility was utilized for outstanding borrowings and \$0.3 million was utilized for standby letters of credit.

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Contractual Obligations

As of March 31, 2010, our operating leases, capitalized leases, other debts, and future commitments have stated maturities or minimum annual payments as follows:

| | Annual Cash Requirements as of March 31, 2010 (in thousands) | | | | |
|---|--|---------------------|------------------|-----------------|----------------------|
| | Payments Due by Period | | | | |
| | Total | Less than 1 year | 1-3 Years | 3-5 Years | More than 5 years |
| Operating leases | \$100,842 | \$38,758 | \$43,412 | \$12,453 | \$6,219 |
| Lease residual value guarantees | 92,453 | 11,262 | 64,072 | 14,474 | 2,645 |
| Capital leases(1) | 39,351 | 13,382 | 25,969 | --- | --- |
| Long-term debt(1) | 699 | 588 | 111 | --- | --- |
| Sub-total | \$233,345 | \$63,990 | \$133,564 | \$26,927 | \$8,864 |
| Future purchase of revenue equipment | \$9,878 | \$9,878 | --- | --- | --- |
| Employment and consulting agreements(2) | 700 | 700 | --- | --- | --- |
| Standby Letters of Credit | 259 | 259 | --- | --- | --- |
| Total | \$244,182 | \$74,827 | \$133,564 | \$26,927 | \$8,864 |

(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 Financial Officer under certain circumstances if their employment by the Company is terminated.

Critical Accounting Policies

The preparation of our financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that impact the amounts reported in our consolidated financial statements and accompanying notes. Therefore, the reported amounts of assets, liabilities, revenues, expenses, and associated disclosures of contingent assets and liabilities are affected by these estimates and assumptions. We evaluate these estimates and assumptions on an ongoing basis, utilizing historical experience, consultation with experts, and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates and assumptions, and it is possible that materially different amounts would be reported using differing estimates or assumptions. We consider our critical accounting policies to be those that require us to make more significant judgments and estimates when we prepare our financial statements. Our critical accounting policies include the following:

Depreciation of Property and Equipment. We depreciate our property and equipment using the straight-line method over the estimated useful life of the asset. We generally use estimated useful lives of two to seven years for tractors and trailers, and estimated salvage values for tractors and trailers generally range from 35% to 50% of the capitalized cost. Gains and losses on the disposal of revenue equipment are included in depreciation expense in our statements of operations.

We review the reasonableness of our estimates regarding useful lives and salvage values of our revenue equipment and other long-lived assets based upon, among other things, our experience with similar assets, conditions in the used equipment market, and prevailing industry practice. Changes in our useful life or salvage value estimates or fluctuations in market values that are not reflected in our estimates could have a material effect on our results of operations.

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Revenue equipment and other long-lived assets are tested for impairment whenever an event occurs that indicates an impairment may exist. Expected future cash flows are used to analyze whether an impairment has occurred. If the sum of expected undiscounted cash flows is less than the carrying value of the long-lived asset, then an impairment loss is recognized. We measure the impairment loss by comparing the fair value of the asset to its carrying value. Fair value is determined based on a discounted cash flow analysis or the appraised or estimated market value of the asset, as appropriate.

Operating leases. We have financed a substantial percentage of our tractors and trailers with operating leases. These leases generally contain residual value guarantees, which provide that the value of equipment returned to the lessor at the end of the lease term will be no lower than a negotiated amount. To the extent that the value of the equipment is below the negotiated amount, we are liable to the lessor for the shortage at the expiration of the lease. For all equipment, we are required to recognize additional rental expense to the extent we believe the fair market value at the lease termination will be less than our obligation to the lessor.

In accordance with ASC Topic 840, Accounting for Leases, property and equipment held under operating leases, and liabilities related thereto, are not reflected on our balance sheet. All expenses related to revenue equipment operating leases are reflected on our statements of operations in the line item entitled "Revenue equipment rentals." As such, financing revenue equipment with operating leases instead of bank borrowings or capital leases effectively moves the interest component of the financing arrangement into operating expenses on our statements of operations.

Claims Reserves and Estimates. The primary claims arising for us consist of cargo liability, personal injury, property damage, collision and comprehensive, workers' compensation, and employee medical expenses. We maintain self-insurance levels for these various areas of risk and have established reserves to cover these self-insured liabilities. We also maintain insurance to cover liabilities in excess of these self-insurance amounts. Claims reserves represent accruals for the estimated uninsured portion of reported claims, including adverse development of reported claims, as well as estimates of incurred but not reported claims. Reported claims and related loss reserves are estimated by third party administrators, and we refer to these estimates in establishing our reserves. Claims incurred but not reported are estimated based on our historical experience and industry trends, which are continually monitored, and accruals are adjusted when warranted by changes in facts and circumstances. In establishing our reserves we must take into account and estimate various factors, including, but not limited to, assumptions concerning the nature and severity of the claim, the effect of the jurisdiction on any award or settlement, the length of time until ultimate resolution, inflation rates in health care, and in general interest rates, legal expenses, and other factors. Our actual experience may be different than our estimates, sometimes significantly. Changes in assumptions as well as changes in actual experience could cause these estimates to change in the near term. Insurance and claims expense will vary from period to period based on the severity and frequency of claims incurred in a given period.

Accounting for Income Taxes. Deferred income taxes represent a substantial liability on our consolidated balance sheet. Deferred income taxes are determined in accordance with ASC topic 740, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. We evaluate our tax assets and liabilities on a periodic basis and adjust these balances as appropriate. We believe that we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law. However, should our tax positions be challenged and not prevail, different outcomes could result and have a significant impact on the amounts reported in our consolidated financial statements.

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The carrying value of our deferred tax assets (tax benefits expected to be realized in the future) assumes that we will be able to generate, based on certain estimates and assumptions, sufficient future taxable income in certain tax jurisdictions to utilize these deferred tax benefits. If these estimates and related assumptions change in the future, we may be required to reduce the value of the deferred tax assets resulting in additional income tax expense. We believe that it is more likely than not that the deferred tax assets, net of valuation allowance, will be realized, based on forecasted income. However, there can be no assurance that we will meet our forecasts of future income. We evaluate the deferred tax assets on a periodic basis and assess the need for additional valuation allowances.

Federal income taxes are provided on that portion of the income of foreign subsidiaries that is expected to be remitted to the United States.

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.

Inflation

Many of our operating expenses, including fuel costs, revenue equipment, and driver compensation, are sensitive to the effects of inflation, which result in higher operating costs and reduced operating income. The effects of inflation on our business during the past three years were most significant in fuel. The effects of inflation on revenue were not material in the past three years. We attempt to limit the effects of inflation through increases in freight rates and fuel surcharges.

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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 maximum variable interest rate of either the bank's base rate or LIBOR plus 1.125%. At March 31, 2010 the interest rate for revolving borrowings under our credit facility was LIBOR plus 1.25%, an effective rate of 4.5%. At March 31, 2010, we did not have any 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.

Our currency risk consists primarily of foreign currency denominated firm commitments and forecasted foreign currency denominated intercompany and third-party transactions. At March 31, 2010, we had outstanding foreign exchange derivative contracts in notional amounts of \$5.2 million with a fair value of these contracts approximately equal to \$5.5 million. 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 and Mexican operations are identical to that in the third quarter of fiscal 2010 (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 \$145,000. Also, we estimate that a \$0.01 decrease in the Mexican peso exchange rate would reduce our annual net income by approximately \$88,000.

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. Historically, we have sought to recover a portion of short-term increases in fuel prices from customers through the collection of fuel surcharges. However, fuel surcharges do not always fully offset increases in fuel prices. As of March 31, 2010, we had no derivative financial instruments in place to reduce our exposure to fuel price fluctuations.

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Item 4. Controls and Procedures

As required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company has carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. There were no changes in the Company's internal control over financial reporting that occurred during the third quarter of fiscal 2010 that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosures.

The Company has confidence in its disclosure controls and procedures. Nevertheless, the Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors or intentional fraud. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

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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.

On August 8, 2007, the 384th District Court of the State of Texas situated in El Paso, Texas, rendered a judgment against CTSI, for approximately \$3.4 million in the case of Martinez v. Celadon Trucking Services, Inc., which was originally filed on September 4, 2002. The case involves a workers' compensation claim of a former employee of CTSI who suffered a back injury as a result of a traffic accident. CTSI and the Company believe all actions taken were proper and legal and contend that the proper and exclusive place for resolution of this dispute was before the Indiana Worker's Compensation Board. In October 2007, CTSI posted an appeal bond and filed an appeal of this decision to the Texas Court of Appeals. The ATA Litigation Center filed an amicus brief in support of our position with the Texas Court of Appeals. Oral arguments on this case were held February 18, 2010. Celadon argued its case before the Texas Court of Appeals and on March 24, 2010, the Texas Court of Appeals reversed the judgment and dismissed Martinez' suit in its entirety finding that the Indiana Workers Compensation Board had exclusive jurisdiction over this dispute. Plaintiff has until May 7, 2010 to request a rehearing of the Texas Court of Appeals' decision. While there can be no certainty as to the outcome, the Company believes that the ultimate resolution of this dispute will not have a materially adverse affect on its consolidated financial position, cash flows, or results of operations, and the Company has not recorded any provision for the case.

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 Form 10-K for the year ended June 30, 2009, in the section entitled Item 1A. Risk Factors, describes the risks and uncertainties associated with our business. Please also see our Quarterly Report on Form 10-Q filed with the SEC on January 29, 2010 for a description of the risks and uncertainties associated with the Federal Motor Carrier Safety Administration's new Comprehensive Safety Analysis 2010 initiative. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects.

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- 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 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.)
 - 4.3 Rights Agreement, dated as of July 20, 2000, between Celadon Group, Inc. and Fleet National Bank, as Rights Agent. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A, filed with the SEC on July 20, 2000.)
 - 4.4 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.)
 - 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 Paul Will, 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 Paul Will, the Company's Chief Financial Officer.*

* Filed herewith

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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/ Stephen Russell
Stephen Russell
Chief Executive Officer

/s/ Paul Will
Paul Will
Chief Financial Officer, Executive Vice
President,
Treasurer, and Assistant Secretary

Date: April 30, 2010

