CELADON GROUP INC
Form 10-Q
February 10, 2014

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

FORM 10-Q

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

For the quarterly period ended December 31, 2013

or

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

Commission file number: 001-34533

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

Delaware	13-3361050
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
9503 East 33rd Street One Celadon Drive Indianapolis, IN	46235-4207
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (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 January 26, 2014 (the latest practicable date), 23,282,773 shares of the registrant's common stock, par value $0.033 per share, were outstanding.

CELADON GROUP, INC.

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December 31, 2013 Form 10-Q

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PART I. FINANCIAL INFORMATION

Item I. Financial Statements

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

	For the three months ended December 31,		For the six months ended December 31,	
	2013	2012	2013	2012
REVENUE:				
Freight revenue	$ 157,241	$ 116,794	$ 299,197	$ 238,910
Fuel surcharge revenue	36,354	31,318	69,500	62,499
Total revenue	193,595	148,112	368,697	301,409
OPERATING EXPENSES:				
Salaries, wages, and employee benefits	53,905	41,639	100,558	82,040
Fuel	43,679	36,422	80,522	73,875
Purchased transportation	45,599	28,638	87,343	56,975
Revenue equipment rentals	1,577	1,653	3,229	3,650
Operations and maintenance	11,652	7,713	22,925	15,779
Insurance and claims	4,595	3,988	8,735	7,489
Depreciation and amortization	15,921	9,534	30,849	22,208
Communications and utilities	1,475	1,349	2,839	2,641
Operating taxes and licenses	3,293	2,509	6,125	5,097
General and other operating	2,956	2,076	5,098	3,924
Total operating expenses	184,652	135,521	348,223	273,678
Operating income	8,943	12,591	20,474	27,731
Interest expense	1,263	1,172	2,487	2,663
Interest income	(4)	---	(4)	---
Other income	(159)	(316)	(400)	(279)
Income before income taxes	7,843	11,735	18,391	25,347
Income tax expense	2,717	4,355	6,699	9,706
Net income	$ 5,126	$ 7,380	$ 11,692	$ 15,641
Income per common share:				
Diluted	$ 0.22	$ 0.32	$ 0.49	$ 0.67
Basic	$ 0.22	$ 0.33	$ 0.51	$ 0.70
Diluted weighted average shares outstanding	23,679	23,248	23,671	23,214
Basic weighted average shares outstanding	22,995	22,587	22,963	22,485

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

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CELADON GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands)
(Unaudited)

	For the three months ended December 31,		For the six months ended December 31,	
	2013	2012	2013	2012
Net income	$ 5,126	$ 7,380	$ 11,692	$ 15,641
Other comprehensive income (loss):				
Unrealized gain (loss) on fuel derivative instruments, net of tax	(47)	(309)	(45)	278
Unrealized gain (loss) on currency derivative instruments, net of tax	(20)	(27)	145	97
Foreign currency translation adjustments, net of tax	(1,458)	(315)	(1,011)	1,194
Total other comprehensive income (loss)	(1,525)	(651)	(911)	1,569
Comprehensive income	$ 3,601	$ 6,729	$ 10,781	$ 17,210

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

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CELADON GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
December 31, 2013 and June 30, 2013
(Dollars and shares in thousands except par value)

ASSETS	(unaudited) December 31, 2013	June 30, 2013
Current assets:		
Cash and cash equivalents	$ 15,196	$ 1,315
Trade receivables, net of allowance for doubtful accounts of $853 and $919 at December 31, 2013 and June 30, 2013, respectively	93,227	77,623
Prepaid expenses and other current assets	31,958	13,434
Tires in service	1,434	1,245
Equipment for resale	6,701	9,923
Income tax receivable	---	9,506
Deferred income taxes	4,085	4,342
Total current assets	152,601	117,388
Property and equipment	675,985	612,236
Less accumulated depreciation and amortization	132,100	115,366
Net property and equipment	543,885	496,870
Tires in service	2,098	1,785
Goodwill	23,686	17,730
Investment in joint venture	3,972	4,604
Other assets	3,878	2,785
Total assets	$ 730,120	$ 641,162
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,166	$ 10,401
Accrued salaries and benefits	12,038	11,197
Accrued insurance and claims	11,600	10,092
Accrued fuel expense	9,158	7,461
Other accrued expenses	31,274	20,070
Income taxes payable	2,203	--
Current maturities of capital lease obligations	48,300	25,669
Total current liabilities	122,739	84,890
Long-term debt	151,908	78,137
Capital lease obligations, net of current maturities	154,927	190,625
Deferred income taxes	62,613	61,821
Stockholders' equity:		
Common stock, $0.033 par value, authorized 40,000 shares; issued and outstanding 23,827 and 23,887 shares at December 31, 2013 and June 30, 2013, respectively	786	788
	(3,711)	(4,811)

Treasury stock at cost; 537 and 696 shares at December 31, 2013 and June 30, 2013, respectively				
Additional paid-in capital		105,029		103,749
Retained earnings		142,001		131,224
Accumulated other comprehensive loss		(6,172)		(5,261)
Total stockholders' equity		237,933		225,689
Total liabilities and stockholders' equity	$	730,120	$	641,162

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
(in thousands)
(Unaudited)

	Six months ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net income	$ 11,692	$ 15,641
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,829	28,197
Gain on sale of equipment	(1,920)	(5,883)
Stock based compensation	1,053	2,817
Deferred income taxes	(1,985)	5,971
Provision for doubtful accounts	---	2
Changes in assets and liabilities:		
Trade receivables	(7,953)	7,573
Income taxes	11,361	(2,188)
Tires in service	(501)	2,369
Prepaid expenses and other current assets	(9,936)	(2,395)
Other assets	31	(2,373)
Accounts payable and accrued expenses	2,253	(2,063)
Net cash provided by operating activities	36,924	47,668
Cash flows from investing activities:		
Purchase of property and equipment	(44,766)	(90,924)
Proceeds on sale of property and equipment	23,338	69,669
Purchase of businesses, net of cash	(40,745)	(32,578)
Net cash used in investing activities	(62,173)	(53,833)
Cash flows from financing activities:		
Proceeds from bank borrowings and debt	182,640	216,580
Payments on bank borrowings and debt	(130,949)	(187,235)
Dividends paid	(915)	(895)
Principal payments under capital lease obligations	(13,067)	(48,386)
Proceeds from issuance of stock	1,325	215
Net cash provided by (used in) financing activities	39,034	(19,721)
Effect of exchange rates on cash and cash equivalents	96	334
Increase (Decrease) in cash and cash equivalents	13,881	(25,552)
Cash and cash equivalents at beginning of period	1,315	33,646
Cash and cash equivalents at end of period	$ 15,196	$ 8,094
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,487	$ 2,664
Income taxes paid	$ 1,646	$ 5,596
Lease obligation incurred in the purchase of equipment	$ ---	$ 26,415

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

CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013
(Unaudited)

1. Basis of Presentation

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

The accompanying condensed consolidated unaudited financial statements of Celadon Group, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America and Regulation S-X, instructions to Form 10-Q, and other relevant rules and regulations of the Securities and Exchange Commission (the “SEC”), as applicable to the preparation and presentation of interim financial information. Certain information and footnote disclosures have been omitted or condensed pursuant to such rules and regulations. We believe all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations in interim periods are not necessarily indicative of results for a full year. These condensed consolidated unaudited financial statements and notes thereto should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

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

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

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Weighted average common shares outstanding – basic	22,995	22,587	22,963	22,485
Dilutive effect of stock options and unvested restricted stock units	684	661	708	729
Weighted average common shares outstanding – diluted	23,679	23,248	23,671	23,214
Net income	$ 5,126	$ 7,380	$ 11,692	$ 15,641
Earnings per common share				
Diluted	$ 0.22	$ 0.32	$ 0.49	$ 0.67
Basic	$ 0.22	$ 0.33	$ 0.51	$ 0.70

Certain shares of common stock were excluded from the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares, and therefore, the effect

would be anti-dilutive. A summary of those options follows:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Number of anti-dilutive shares	--	74	--	81

CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013
(Unaudited)

3. Stock Based Compensation

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

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Stock compensation expense for options, net of forfeitures	$ 49	$ 208	$ 123	$ 314
Stock compensation for restricted stock, net of forfeitures	460	2,032	930	2,507
Stock compensation (income) expense for stock appreciation rights, net of forfeitures	---	40	---	(4)
Total stock compensation expense	$ 509	$ 2,280	$ 1,053	$ 2,817

As of December 31, 2013, we have approximately $0.1 million of unrecognized compensation cost related to unvested options granted under our 2006 Omnibus Incentive Plan, as amended (the "2006 Plan"). This cost is expected to be recognized over a weighted-average period of 0.5 years and a total period of 1.3 years.

A summary of the award activity of our stock option plans as of December 31, 2013, and changes during the period then ended is presented below:

Options	Option Totals	Weighted-Average Exercise Price per Share
Outstanding at July 1, 2013	1,148,790	$ 10.76
Granted	---	---
Exercised	(102,537)	$ 12.71
Forfeited or expired	(5,500)	$ 13.88
Outstanding at December 31, 2013	1,040,753	$ 10.62
Exercisable at December 31, 2013	986,503	$ 10.48

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

We also have approximately $3.6 million of unrecognized compensation expense related to restricted stock awards, which is anticipated to be recognized over a weighted-average period of 2.3 years and a total period of 3.1 years. A summary of the restricted stock award activity under the 2006 Plan as of December 31, 2013, and changes during the six-month period is presented below:

	Number of Restricted Stock Awards	Weighted-Average Grant Date Fair Value
Unvested at July 1, 2013	355,963	$ 15.75
Granted	---	---
Vested	(53,783)	$ 13.77
Forfeited	(6,050)	$ 12.61
Unvested at December 31, 2013	296,130	$ 16.17

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

4. Segment Information (in thousands)

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

Operating Revenues

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Asset-based	$ 181,043	$ 137,435	$ 343,664	$ 279,870
Asset-light	12,552	10,677	25,033	21,539
Total	$ 193,595	$ 148,112	$ 368,697	$ 301,409

Operating Income

Three Months Ended Six Months Ended

	December 31,		December 31,	
	2013	2012	2013	2012
Asset-based	$ 8,143	$ 11,482	$ 18,519	$ 25,791
Asset-light	800	1,109	1,955	1,940
Total	$ 8,943	$ 12,591	$ 20,474	$ 27,731

CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013
(Unaudited)

Information as to our operating revenue by geographic area is summarized below (in thousands). We allocate operating revenue based on country of origin of the tractor hauling the freight:

	Operating Revenues			
	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
United States	$ 154,218	$ 129,770	$ 300,423	$ 263,901
Canada	31,241	10,907	52,328	21,810
Mexico	8,136	7,435	15,946	15,698
Consolidated	$ 193,595	$ 148,112	$ 368,697	$ 301,409

5. Income Taxes

During the three months ended December 31, 2013 and 2012, our effective tax rates were 34.6% and 37.1%, respectively. During the six months ended December 31, 2013 and 2012, our effective tax rates were 36.4% and 38.3%, respectively. Income tax expense varies from the amount computed by applying the statutory federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Drivers may elect to receive non-taxable per diem pay in lieu of a portion of their taxable wages. This per diem program increases our drivers' net pay per mile, after taxes, while decreasing gross pay, before taxes. As a result, salaries, wages and employee benefits are slightly lower, and our effective income tax rate is higher than the statutory rate. Generally, as pre-tax income decreases, the impact of the driver per diem program on our effective tax rate increases because aggregate per diem pay becomes larger in relation to pre-tax income. Due to the partially nondeductible effect of per diem pay, our tax rate will fluctuate in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

We account for any uncertainty in income taxes by determining whether it is more likely than not that a tax position taken or expected to be taken in a tax return will be sustained upon examination by the appropriate taxing authority based on the technical merits of the position. In that regard, we have analyzed filing positions in our federal and applicable state tax returns as well as in all open tax years. The only periods subject to examination for our federal returns are the 2010 through 2013 tax years. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position, results of operations and cash flows. As of December 31, 2013, we recorded a $0.5 million liability for unrecognized tax benefits, a portion of which represents penalties and interest.

6. Commitments and Contingencies

The Company has outstanding commitments to purchase approximately $9.3 million of revenue equipment at December 31, 2013.

Standby letters of credit, not reflected in the accompanying consolidated financial statements, aggregated approximately $0.8 million at December 31, 2013.

7. Lease Obligations and Long-Term Debt

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

Equipment obtained under a capital lease is reflected on our balance sheet as owned and the related leases mature at various dates through 2020.

Assets held under operating leases are not recorded on the balance sheet. We lease revenue and service equipment under non-cancellable operating leases expiring at various dates through 2019.

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December 31, 2013
(Unaudited)

Long-Term Debt

We had outstanding borrowings, excluding capital leases, of $151.9 million at December 31, 2013 compared to $29.3 million outstanding borrowings at June 30, 2013

Future minimum lease payments relating to capital leases and operating leases as of December 31, 2013 (in thousands):

	Capital Leases	Operating Leases
2014	$ 51,613	$ 10,044
2015	52,600	14,830
2016	12,874	2,546
2017	12,857	2,540
2018	33,825	10,214
Thereafter	50,537	5,416
Total minimum lease payments	214,306	$ 45,590
Less amounts representing interest	11,079	
Present value of minimum lease payments	203,227	
Less current maturities	48,300	
Non-current portion	$ 154,927	

8. Fair Value Measurements

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

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

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

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

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In accordance with the fair value hierarchy described above, the following table shows the fair value of our financial assets and liabilities that are required to be measured at fair value as of December 31, 2013 and June 30, 2013.

			Level 1		Level 2		Level 3	
	Balance at December 31, 2013	Balance at June 30, 2013	Balance at December 31, 2013	Balance at June 30, 2013	Balance at December 31, 2013	Balance at June 30, 2013	Balance at December 31, 2013	Balance at June 30, 2013
Foreign currency derivatives	$ 75	$ (70)	---	---	$ 75	$ (70)	---	---
Fuel derivatives	---	45	---	---	---	45	---	---

9. Dividend

On October 24, 2013, we declared a cash dividend of $0.02 per share of common stock. The dividend was payable to shareholders of record on January 6, 2014 and was paid on January 17, 2014. Future payment of cash dividends, and the amount of any such dividends, will depend on our financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors.

10. Fuel Derivatives

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

As of December 31, 2013, we had no future contracts pertaining to heating oil outstanding. Previously under such contracts, we would pay a fixed rate per gallon of heating oil and receive the monthly average price of New York heating oil per the NYMEX. We previously had done retrospective and prospective regression analyses that showed the changes in the prices of diesel fuel and heating oil were deemed to be highly effective based on the relevant authoritative guidance. Accordingly, we had designated the respective hedges as cash flow hedges.

We performed both a prospective and retrospective assessment of the effectiveness of our hedge contracts at inception and quarterly. If our analysis had shown that the derivatives were not highly effective as hedges, we would have discontinued hedge accounting for the period and prospectively recognized changes in the fair value of the derivative through earnings.

We recognized all derivative instruments at fair value on our consolidated condensed balance sheets in other assets or other accrued expenses. Our derivative instruments were designated as cash flow hedges, thus the effective portion of the gain or loss on the derivative was reported as a component of accumulated other comprehensive income and was reclassified into earnings in the same period during which the hedged transactions affected earnings.

CELADON GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013
(Unaudited)

11. Acquisitions and Assets Held for Sale

On August 26, 2013, we acquired certain assets and assumed certain liabilities of Houg, LLC ("Houg") in Denver, CO. We acquired trade receivables of $2.3 million, property and equipment of $2.7 million, intangible assets of $1.0 million, other assets of $0.3 million offset by $4.4 million in debt and $1.9 million of various liabilities. The property and equipment includes tractors and trailers that we intend to operate in the short term. We used borrowings under our existing line of credit to fund the purchase price. The purposes of the acquisition were to offer employment opportunities to Houg drivers and continue dry-van and temperature controlled services for the Houg customers.

On August 26, 2013, we acquired certain assets and assumed certain liabilities of Land Span Motor Equipment, Inc. ("Land Span") in Lakeland, FL for $5.4 million. We acquired property and equipment of $11.4 million, other assets of $0.1 million offset by $6.1 million in debt. The property and equipment includes tractors and trailers that we intend to operate in the short term. We used borrowings under our existing line of credit to fund the purchase price. The purposes of the acquisition were to offer employment opportunities to Land Span drivers and continue dry-van services for the Land Span customers.

On September 13, 2013, we acquired the stock of TCI Logistics, Inc. ("TCI") in Kernersville, NC for $2.9 million. TCI had trade receivables of $1.8 million, property and equipment of $4.0 million, intangible assets of $1.6 million, cash and other assets of $0.6 million offset by debt of $4.0 million and $1.1 million of various liabilities. The property and equipment owned by TCI includes tractors and trailers that we intend to continue to utilize. We used borrowings under our existing line of credit to fund the purchase price. The purposes of the acquisition were to continue employment of TCI drivers and continue dry-van services for the TCI customers.

On September 16, 2013, we acquired certain assets and assumed certain liabilities of Hoss Cartage & Distribution Systems, Inc. ("Hoss") in Ayr, Ontario, Canada for $1.0 million. We acquired property and equipment of $1.2 million, offset by $0.2 million in debt. The property and equipment includes tractors and trailers that we intend to operate in the short term. We used borrowings under our existing line of credit to fund the purchase price. The purposes of the acquisition were to offer employment opportunities to Hoss drivers and continue dry-van services for the Hoss customers. Additionally on November 13, 2013 we purchased land and building from Hoss for $1.8 million.

On November 1, 2013, we acquired the stock of Osborn Transportation, Inc. ("Osborn") in Gadsden, AL for $21.0 million. Osborn had cash of $4.9 million, trade receivables of $3.9 million, prepaid expenses of $3.0 million, property and equipment of $11.2 million, intangible assets of $3.1 million, and other assets of $1.1 million offset by debt of $2.0 million, deferred taxes of $2.6 million, and $1.6 million of various liabilities. The property and equipment owned by Osborn includes tractors and trailers that we intend to continue to utilize. We used borrowings under our existing line of credit to fund the purchase price. The purposes of the acquisition were to continue employment of Osborn drivers and continue dry-van services for the Osborn customers.

On November 15, 2013, we acquired certain assets and assumed certain liability of N. Yanke Transfer Ltd. ("Yanke") in Saskatchewan, Canada for $17.9 million. We acquired property and equipment of $22.1 million, $0.2 million in parts inventory, paid $0.9 million in Canadian Goods and Services Tax (GST). Additionally, we assumed and subsequently paid off $5.3 million in debt related to the equipment. The property and equipment includes tractors, trailers, containers, and chassis that we intend to continue to utilize. We used borrowings under our existing line of credit to fund the purchase price. The purposes of the acquisition were to continue employment of Yanke drivers and continue

dry-van services for the Yanke customers.

The recorded amounts of assets acquired in the above transactions are subject to change upon the finalization of our determination of acquisition date fair values. Equipment held for resale is not being depreciated.

12. Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (ASC Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"), which amends current comprehensive income guidance. The Company will be required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required that provide additional detail about those amounts. The amendment is effective prospectively for public entities in fiscal years, and interim periods within those years, beginning after December 15, 2012. The amendments do not change the existing requirements for reporting net income or other comprehensive income in financial statements and the adoption of this guidance has not had a material impact on our consolidated financial statements.

13. Goodwill and Other Intangible Assets

The acquired intangible assets relate to customer relations acquired through acquisition in fiscal 2013. There have been no additions to intangible assets in fiscal 2014. The Company did not have any amortizable intangible assets prior to fiscal 2013.

		December 31, 2013	
	Gross carrying amount	Amortization period	Accumulated amortization
Amortizing intangible assets: Customer list	$ 494	4 years	$ 156

The additions to goodwill relate to the Houg, TCI, Osborn acquisitions of $1.0 million, $1.6 million, and $3.1 million respectively. The Houg related goodwill is tax deductible.

	June 30, 2013	Goodwill Current year additions	December 31, 2013
Asset based	$ 16,362	$ 5,956	$ 22,318
Asset light	$ 1,368	---	$ 1,368
Total Goodwill	$ 17,730	$ 5,956	$ 23,686

14. Reclassifications and Adjustments

Certain items in the prior year's consolidated financial statements have been reclassified to conform to the current presentation.

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

Disclosure Regarding Forward-Looking Statements

Except for certain historical information contained herein, this report contains certain statements that may be considered "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act of 1933, as amended, and such statements are subject to the safe harbor created by those sections and the Private Securities Litigation Reform Act of 1995, as amended. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including without limitation: any projections of revenues, earnings, cash flows, capital expenditures, or other financial items; any statement of plans, strategies, and objectives of management for future operations; any statements concerning proposed acquisition plans, new services, or developments; any statements regarding future economic conditions or performance; and any statements of belief and any statement of assumptions underlying any of the foregoing. Words such as "believe," "may," "could," "will," "expects," "hopes," "estimates," "projects," "intends," "anticipates," and "likely," and variations of these words, or similar expressions, terms, or phrases, are intended to identify such forward-looking statements. Forward-looking statements are inherently subject to risks, assumptions, and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Item 1A. Risk Factors," set forth in our Form 10-K for the year ended June 30, 2013, along with any supplements in Part II 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 $613.6 million in operating revenue during our fiscal year ended June 30, 2013. We provide asset-based dry van truckload carrier and rail services, asset-based temperature-controlled truckload carrier and rail services, and asset-light based services including brokerage services, LTL, and warehousing services. Through our asset-based and asset-light-based services, we are able to transport or arrange for transportation throughout the United States, Canada, and Mexico.

We generated approximately 43% of our revenue in fiscal 2013 from international movements, and we believe our annual border crossings make us one of the largest providers 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 offer an attractive business niche, and we plan to continue expanding our cross-border operations to take advantage of this opportunity. The additional complexity of and need to establish cross-border business partners and to develop strong organization and adequate infrastructure in Mexico affords some

barriers to competition that are not present in traditional U.S. truckload services.

Recent Results of Operations

Our results of operations for the quarter ended December 31, 2013, compared to the same period in 2012 are:

- Freight revenue increased to $157.2 million from $116.8 million;
- Net income decreased to $5.1 million from $7.4 million; and
- Net income per diluted share decreased to $0.22 from $0.32.

In the December 2013 quarter, average revenue per loaded mile increased 3.8% from the December 2012 quarter. In addition to this increase, average revenue per seated tractor per week increased 2.3% in the December 2013 quarter, while average miles per seated tractor remained flat from the December 2012 quarter. We believe that we are making considerable improvements to our freight mix and our pricing strategy through recent acquisitions and international expansion.

Our average seated line haul tractors increased to 3,418 tractors in the quarter ended December 31, 2013, compared to 2,698 tractors for the same period a year ago. The net change of 720 units is comprised of a 258-unit increase in independent contractor tractors, and a 462-unit increase in company tractors, mainly attributable our recent acquisitions. The number of tractors operated by independent contractors increased 55.8% from a year ago, and now represents 21.1% of our total fleet.

Revenue and Expenses

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

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

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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:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Operating revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Salaries, wages, and employee benefits	27.8 %	28.1 %	27.3 %	27.2 %
Fuel	22.6 %	24.6 %	21.8 %	24.5 %
Purchased transportation	23.6 %	19.3 %	23.7 %	18.9 %
Revenue equipment rentals	0.8 %	1.1 %	0.9 %	1.2 %
Operations and maintenance	6.0 %	5.2 %	6.2 %	5.2 %
Insurance and claims	2.4 %	2.7 %	2.4 %	2.5 %
Depreciation and amortization	8.2 %	6.5 %	8.3 %	7.4 %
Communications and utilities	0.8 %	0.9 %	0.8 %	0.9 %
Operating taxes and licenses	1.7 %	1.7 %	1.6 %	1.7 %
General and other operating	1.5 %	1.4 %	1.4 %	1.3 %
Total operating expenses	95.4 %	91.5 %	94.4 %	90.8 %
Operating income	4.6 %	8.5 %	5.6 %	9.2 %
Other expense (incomes)	0.6 %	0.6 %	0.6 %	0.8 %
Income before income taxes	4.0 %	7.9 %	5.0 %	8.4 %
Provision for income taxes	1.4 %	2.9 %	1.8 %	3.2 %
Net income	2.6 %	5.0 %	3.2 %	5.2 %

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Freight revenue(1)	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Salaries, wages, and employee benefits	34.3 %	35.6 %	33.6 %	34.3 %
Fuel(1)	4.7 %	4.4 %	3.7 %	4.8 %
Purchased transportation	29.0 %	24.5 %	29.2 %	23.9 %
Revenue equipment rentals	1.0 %	1.4 %	1.1 %	1.5 %
Operations and maintenance	7.4 %	6.6 %	7.7 %	6.6 %
Insurance and claims	2.9 %	3.4 %	2.9 %	3.1 %
Depreciation and amortization	10.1 %	8.2 %	10.3 %	9.3 %
Communications and utilities	0.9 %	1.2 %	0.9 %	1.1 %
Operating taxes and licenses	2.1 %	2.1 %	2.1 %	2.1 %
General and other operating	1.9 %	1.8 %	1.7 %	1.7 %

Total operating expenses	94.3	%	89.2	%	93.2	%	88.4	%
Operating income	5.7	%	10.8	%	6.8	%	11.6	%
Other expense (income)	0.7	%	0.8	%	0.7	%	1.0	%
Income before income taxes	5.0	%	10.0	%	6.1	%	10.6	%
Provision for income taxes	1.7	%	3.7	%	2.2	%	4.0	%
Net income	3.3	%	6.3	%	3.9	%	6.6	%

(1) Freight revenue is total revenue less fuel surcharges. In this table, fuel surcharges are eliminated from revenue and subtracted from fuel expense. Fuel surcharges were $36.4 million and $31.3 million for the second quarter of fiscal 2014 and 2013, respectively, and $69.5 million and $62.5 million for the six months ended December 31, 2013 and 2012, respectively. Freight revenue is not a recognized measure under GAAP and should not be considered an alternative to or superior to other measures derived in accordance with GAAP. We believe our presentation of freight revenue and our discussion of various expenses as a percentage of freight revenue is a useful way to evaluate our core operating performance.

Comparison of Three Months Ended December 31, 2013 to Three Months Ended December 31, 2012

Total revenue increased by $45.5 million, or 30.7%, to $193.6 million for the second quarter of fiscal 2014, from $148.1 million for the second quarter of fiscal 2013. Freight revenue increased by $40.4 million, or 34.6%, to $157.2 million for the second quarter of fiscal 2014, from $116.8 million for the second quarter of fiscal 2013. This increase was attributable to an increase in loaded miles to 78.4 million for the second quarter of fiscal 2014 from 62.8 million in the second quarter of fiscal 2013, in addition to an increase to revenue per loaded mile to $1.632 for the second quarter of fiscal 2014 from $1.571 for the second quarter of fiscal 2013. The increase in loaded miles was also the result of an increase in average seated line-haul tractors to 3,418 in the second quarter of fiscal 2014, from 2,698 in the second quarter of fiscal 2013. This increase is attributable to improved driver recruiting efforts, including the addition of new drivers from our driving school, and as a result of the integration of fleets we have acquired. Miles per seated truck remained flat over the second quarter of fiscal 2013. This combination of factors resulted in a slight increase in average revenue per seated tractor per week, which is our primary measure of asset productivity, of $2,880 in the second quarter of fiscal 2014, from $2,815 for the second quarter of fiscal 2013.

Revenue for our asset-light-based segment increased to $12.6 million in the second quarter of fiscal 2014 from $10.7 million in the second quarter of fiscal 2013, primarily based on increases in our warehousing and LTL revenues. We expect our asset-light business to sustain moderate revenue growth going forward.

Fuel surcharge revenue increased to $36.4 million in the second quarter of fiscal 2014 from $31.3 million for the second quarter of fiscal 2013 primarily based on an increase in loaded miles.

Salaries, wages, and employee benefits were $53.9 million, or 27.8% of total revenue and 34.3% of freight revenue, for the second quarter of fiscal 2014, compared to $41.6 million, or 28.1% of total revenue and 35.6% of freight revenue, for the second quarter of fiscal 2013. The increase in absolute dollars was the result of an increase in driver wages attributable to increased average seated tractor count and increased company miles. Administrative wages also increased primarily as a result of retaining additional administrative personnel in connection with our recent acquisitions. As we complete the integration of our latest acquisitions, we expect to reduce administrative redundancies and associated costs. Increased recruiting expenses were due primarily to the driving school and other recruitment efforts. We expect the completion of our driving school to result in reduced recruiting expenses in the future. The decrease in salaries, wages, and employee benefits as a percentage of revenue is partially attributable to the increase in independent contractors as a percentage of our total fleet and a reduction in expenses related to our driving school compared to the second quarter of fiscal 2013. Increasing independent contractor capacity has shifted (and assuming all other factors remain equal, is expected to continue to shift) expenses to the purchased transportation line item with offsetting reductions in employee driver wages and related expenses, net of fuel (as independent contractors generate fuel surcharge revenue, while the related cost of their fuel is included with their compensation in purchased transportation), maintenance, and capital costs.

Fuel expenses, without reduction for fuel surcharge revenue, increased to $43.7 million, or 22.6% of total revenue, for the second quarter fiscal 2014, compared to $36.4 million, or 24.6% of total revenue, for the second quarter fiscal 2013. Fuel expenses, net of fuel surcharge revenue, increased to $7.3 million, or 4.7% of freight revenue, for the second quarter of fiscal 2014, compared to $5.1 million, or 4.4% of freight revenue, for the second quarter of fiscal 2013. These increases were attributable to an increase in total miles in the fiscal 2014 period compared to the fiscal 2013 period offset by a decrease in the weekly on-highway diesel prices of $0.15 per gallon, from $4.02 to $3.87. Integration of our latest acquisitions also contributed to increased fuel expenses during the quarter, as we experienced significant empty miles for tractors we acquired. Furthermore, much of the revenue equipment obtained through our recent acquisitions is not equipped with anti-idling devices or other fuel efficiency enhancing devices. We expect that increased fuel expenses due to integration of recently acquired fleets will be diminished in the future. We also expect

that our continued efforts to reduce idling, our operation of more fuel-efficient tractors, and our use of aerodynamic trailer skirts will continue to have a positive impact on our miles per gallon. However, we expect this positive impact to be partially offset by lower fuel economy on EPA-mandated new engines and use of more costly ultra-low sulfur diesel fuel.

Purchased transportation increased to $45.6 million, or 23.6% of total revenues and 29.0% of freight revenue, for the second quarter of fiscal 2014, from $28.6 million, or 19.3% of total revenue and 24.5% of freight revenue, for the second quarter of fiscal 2013. The increase is primarily related to increases in our independent contractor expense due to an increase in independent contractor miles for the fiscal 2014 period compared to the fiscal 2013 period. We also had increases in intermodal rail expense and third party LTL expense resulting from increased use of these services. Independent contractors are drivers who cover all their operating expenses (fuel, driver salaries, maintenance, and equipment costs) for a fixed payment per mile. We expect purchased transportation to increase as we increase the number of independent contractors in our fleet and continue to increase our purchased transportation for brokerage and intermodal transportation.

Operations and maintenance increased to $11.7 million, or 6.0% of total revenue and 7.4% of freight revenue, for the second quarter of fiscal 2014, from $7.7 million, or 5.2% of total revenue and 6.6% of freight revenue, for the second quarter of fiscal 2013. Operations and maintenance consist of direct operating expense, maintenance, and tire expense. These increases in the second quarter of fiscal 2014 are primarily related to increased total miles, the maintenance requirements of equipment added due to acquisitions, and increased maintenance costs for the emission reduction systems on our newer tractors. We believe the maintenance costs associated with equipment acquired through our acquisitions will decrease as we replace this equipment with new equipment or underutilized equipment from our existing fleet. However, we expect operations and maintenance expense to increase as the average age of our fleet ages.

Insurance and claims expense increased to $4.6 million, or 2.4% of total revenue and 2.9% of freight revenue, for the second quarter of fiscal 2014, from $4.0 million, or 2.7% of total revenue and 3.4% of freight revenue, for the second quarter of fiscal 2013. Insurance consists of premiums for liability, physical damage, cargo damage, and workers' compensation insurance, in addition to claims expense. Our insurance program involves self-insurance at various risk retention levels. Claims in excess of these risk levels are covered by insurance in amounts we consider to be adequate. We accrue for the uninsured portion of claims based on known claims and historical experience. We continually revise and change our insurance program to maintain a balance between premium expense and the risk retention we are willing to assume. We anticipate 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, increased to $15.9 million, or 8.2% of total revenue and 10.1% of freight revenue, for the second quarter of fiscal 2014, compared to $9.5 million, or 6.4% of total revenue and 8.2% of freight revenue, for the second quarter of fiscal 2013. These increases were primarily attributable to an increase in owned tractors and a reduction in gain on sale of equipment in the second quarter of fiscal 2014, which included expenses to prepare the equipment for sale. We expect some of these expenses to persist going forward as we prepare to replace equipment obtained through our recent acquisitions. Revenue equipment held under operating leases is not reflected on our balance sheet and the expenses related to such equipment are reflected on our statements of income in revenue equipment rentals, rather than in depreciation and amortization and interest expense, as is the case for revenue equipment that is financed with borrowings or capital leases. Considering our current position in our tractor and trailer refresh cycle, we expect minimal gains from the sale of equipment for the remainder of fiscal 2014. Accordingly, we expect our depreciation and amortization to increase versus the prior year period.

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

Income taxes decreased to $2.7 million, with an effective tax rate of 34.6%, for the second quarter of fiscal 2014, from $4.4 million, with an effective tax rate of 37.1%, for the second quarter of fiscal 2013. The decrease is related primarily to the reduction in income before tax expense. Furthermore, the effective tax rate applicable to our foreign operations is lower than that of the United States. As our percentage of income attributable to foreign income changes, our total income tax effective rate will also change. We expect that the continued growth of our international operations will produce a slight reduction in our effective tax rate for this reason.

Comparison of Six Months Ended December 31, 2013 to Six Months Ended December 31, 2012

Total revenue increased by $67.3 million, or 22.3%, to $368.7 million for the six months ended December 31, 2013, (“the fiscal 2014 period”), from $301.4 million for the six months ended December 31, 2012, (“the fiscal 2013 period”). Freight revenue increased by $60.3 million, or 25.2%, to $299.2 million for the fiscal 2014 period, from $238.9 million for the fiscal 2013 period. This increase was attributable to an increase in loaded miles to 150.1 million

for the fiscal 2014 period from 128.9 million in the fiscal 2013 period, in addition to an increase to revenue per loaded mile to $1.615 for the fiscal 2014 period from $1.567 for the fiscal 2013 period. The increase in loaded miles was also the result of an increase in average seated line-haul tractors to 3,221 in the fiscal 2014 period, from 2,717 in the fiscal 2013 period, with the increase being attributable to improved driver recruiting efforts, including the addition of drivers as a result of our driving school, and the integration of new fleets as the result of recent acquisitions. Miles per seated truck remained flat over the fiscal 2013 period. This combination of factors resulted in a slight increase in average revenue per seated tractor per week, which is our primary measure of asset productivity, of $2,896 in the fiscal 2014 period, from $2,858 for the fiscal 2013 period.

Revenue for our asset-light segment increased to $25.0 million in the fiscal 2014 period from $21.5 million in the fiscal 2013 period based on increases in our warehousing and LTL revenues. We expect our asset-light business to sustain moderate revenue growth going forward.

Fuel surcharge revenue increased to $69.5 million in the fiscal 2014 period from $62.5 million for the fiscal 2013 period due to an increase in loaded miles.

Salaries, wages, and employee benefits were $100.6 million, or 27.3% of total revenue and 33.6% of freight revenue, for the fiscal 2014 period, compared to $82.0 million, or 27.2% of total revenue and 34.3% of freight revenue, for the fiscal 2013 period. The increase in absolute dollars was the result of an increase in administrative wages, driver wages, and increased recruiting expense. Driver wage increases are attributable to increased average seated tractor count and increased company miles. Administrative wages also increased primarily as a result of the addition of administrative employees through our recent acquisitions. As we complete the integration of our latest acquisitions, we expect to reduce administrative redundancies and associated costs. Increased recruiting expenses were due primarily to the driving school and other recruitment efforts. Despite the absolute increase in independent contractors, our acquisitions during the fiscal 2014 period caused independent contractors as a percentage of our fleet to increase only slightly during the fiscal 2014 period. However, increasing independent contractor capacity has shifted (and assuming all other factors remain equal, is expected to continue to shift) expenses to the purchased transportation line item with offsetting reductions in employee driver wages and related expenses, net of fuel (as independent contractors generate fuel surcharge revenue, while the related cost of their fuel is included with their compensation in purchased transportation), maintenance, and capital costs.

Fuel expenses, without reduction for fuel surcharge revenue, increased to $80.4 million, or 21.8% of total revenue, for the fiscal 2014 period, compared to $73.9 million, or 24.5% of total revenue, for the fiscal 2013 period. Fuel expenses, net of fuel surcharge revenue, decreased to $11.0 million, or 3.7% of freight revenue, for the fiscal 2014 period, compared to $11.4 million, or 4.8% of freight revenue, for the fiscal 2013 period. Fuel expense was affected by an increase in total miles in the fiscal 2014 period compared to the fiscal 2013 period offset by a decrease in the weekly on-highway diesel prices of $0.10 per gallon, from $3.99 to $3.89. While total miles and average fuel cost will affect both fuel expense and surcharge revenue, the impact on each is not always proportional, thus resulting in an increase to each but a decrease in the net fuel expense. We expect that our continued efforts to replace less efficient equipment obtained through acquisitions, reduce idling as weather conditions improve, operate more fuel-efficient tractors, and utilize aerodynamic trailer skirts will continue to have a positive impact on our miles per gallon. However, we expect this positive impact to be partially offset by lower fuel economy on EPA-mandated new engines and use of more costly ultra-low sulfur diesel fuel.

Purchased transportation increased to $87.3 million, or 23.7% of total revenues and 29.2% of freight revenue, for the fiscal 2014 period, from $57.0 million, or 18.9% of total revenue and 23.9% of freight revenue, for the fiscal 2013 period. The increase is primarily related to increases in our independent contractor expense due to an increase in independent contractor miles for the fiscal 2014 period compared to the fiscal 2013 period. We also had increases in intermodal rail expense and third party LTL expense. Independent contractors are drivers who cover all their operating expenses (fuel, driver salaries, maintenance, and equipment costs) for a fixed payment per mile. We expect purchased transportation to increase as both the number of independent contractors in our fleet and our purchased transportation for brokerage and intermodal transportation continue to increase.

Operations and maintenance increased to $22.9 million, or 6.2% of total revenue and 7.7% of freight revenue, for the fiscal 2014 period, from $15.8 million, or 5.2% of total revenue and 6.6% of freight revenue, for the fiscal 2013 period. Operations and maintenance consist of direct operating expense, maintenance, and tire expense. These increases in the fiscal 2014 period are primarily related to increases in costs associated with maintenance of tractors and equipment added due to acquisitions. We believe the maintenance costs associated with equipment acquired through our acquisitions will decrease as we replace this equipment with new equipment or underutilized equipment from our existing fleet. However, we also expect operations and maintenance expense to increase as the average age of our fleet continues to increase.

Insurance and claims expense increased to $8.7 million, or 2.4% of total revenue and 2.9% of freight revenue, for the fiscal 2014 period, from $7.5 million, or 2.5% of total revenue and 3.1% of freight revenue, for the fiscal 2013 period. Insurance consists of premiums for liability, physical damage, cargo damage, and workers' compensation

insurance, in addition to claims expense. Our insurance program involves self-insurance at various risk retention levels. Claims in excess of these risk levels are covered by insurance in amounts we consider to be adequate. We accrue for the uninsured portion of claims based on known claims and historical experience. We continually revise and change our insurance program to maintain a balance between premium expense and the risk retention we are willing to assume. We anticipate 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, increased to $30.8 million, or 8.3% of total revenue and 10.3% of freight revenue, for the fiscal 2014 period, compared to $22.2 million, or 7.4% of total revenue and 9.3% of freight revenue, for the fiscal 2013 period. These increases were primarily attributable to an increase in owned tractors and a reduction in gain on sale of equipment in the fiscal 2014 period, which included expenses to prepare the equipment for sale. We expect some of these expenses to persist going forward as we prepare to replace equipment obtained through our recent acquisitions. Revenue equipment held under operating leases is not reflected on our balance sheet and the expenses related to such equipment are reflected on our statements of income in revenue equipment rentals, rather than in depreciation and amortization and interest expense, as is the case for revenue equipment that is financed with borrowings or capital leases. We expect minimal gains from the sale of equipment for the remainder of fiscal 2014 given our current position in our tractor and trailer refresh cycle. Accordingly, depreciation and amortization should increase versus the prior year period.

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

Income taxes decreased to $6.7 million, with an effective tax rate of 36.4%, for the fiscal 2014 period, from $9.7 million, with an effective tax rate of 38.3%, for the fiscal 2013 period. The decrease is related primarily to the reduction in income before tax expense. Furthermore, the effective rate in foreign countries is lower than that in the United States, therefore as our percentage of income attributable to foreign income changes, our total income tax effective rate will also change.

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 as we replace older equipment obtained through acquisitions. Although we expect to reduce the frequency of our acquisitions in the near future as we focus on integrating recently acquired fleets, we will continue to consider potential acquisitions. If we were to consummate an acquisition, our cash requirements would increase and we may have to modify our expected financing sources for the purchase of tractors. Subject to any required lender approval, we may make acquisitions in the future. Our principal sources of liquidity are cash generated from operations, bank borrowings, capital and operating lease financing of revenue equipment, and proceeds from the sale of used revenue equipment. At December 31, 2013, our total balance sheet debt, including capital lease obligations and long term debt, was $355.1 million, compared to $294.4 million at June 30, 2013.

As of December 31, 2013, we had a capital commitment for revenue equipment of $9.3 million for delivery through fiscal 2014. These capital commitments are amounts before considering the proceeds of equipment dispositions. In fiscal 2014, we expect to purchase our new tractors with both cash and off-balance sheet operating leases and our new trailers with off-balance sheet operating leases.

In May 2013, we increased our credit facility and extended the maturity. At December 31, 2013, we were authorized to borrow up to $200.0 million under this credit facility, which expires May 2018. The applicable interest rate under this agreement is based on either a base rate equal to Bank of America, N.A.'s prime rate or LIBOR plus an applicable margin between 0.75% and 1.375% that is adjusted quarterly based on our lease adjusted total debt to EBITDAR ratio. At December 31, 2013, we had $149.7 million in outstanding borrowings related to our credit facility and $0.8 million utilized for letters of credit. The agreement is collateralized by the assets of all the U.S. subsidiaries of the Company. We are obligated to comply with certain financial covenants under our credit agreement and we were in compliance with these covenants at December 31, 2013. We believe that our reduced need for capital expenditures in the near future will allow us to make reductions in our outstanding debt going forward.

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

Cash Flows

Net cash provided by operations for the six months ended December 31, 2013 was $37.1 million, compared to cash provided by operations of $47.7 million for the six months ended December 31, 2012. Cash provided by operations decreased primarily due to the increase in trade receivables, the decrease in net income, and the effect of deferred taxes on cash flow. Offsetting these decreases in operating cash flows were decreases in gain on sale, increases in depreciation, and a decrease in tax receivable.

Net cash used in investing activities was $62.2 million for the six months ended December 31, 2013, compared to net cash used in investing activities of $53.8 million for the six months ended December 31, 2012. Cash used in investing activities includes the net cash effect of acquisitions and dispositions of revenue equipment during each period. Capital expenditures for property and equipment totaled $44.8 million for the six months ended December 31, 2013, and $90.9 million for the six months ended December 31, 2012. We generated proceeds from the sale of property and equipment of $23.3 million and $69.7 million for the six months ended December 31, 2013, and December 31, 2012, respectively. Net cash paid for acquisitions was $40.7 million for the six months ended December 31, 2013, and $32.6 million for the six months ended December 31, 2012.

Net cash provided by financing activity was $39.0 million for the six months ended December 31, 2013, compared to a net amount used of $19.7 million for the six months ended December 31, 2012. The increase in cash provided by financing activities was primarily due to an increase in proceeds from bank borrowings. Financing activity represents borrowings (new borrowings, net of repayment) and payments of the principal component of capital lease obligations.

Cash dividends paid for the three months ended December 31, 2013, was approximately $0.5 million, or $0.02 per share. We currently expect to continue to pay quarterly cash dividends in the future. Future payment of cash dividends, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors.

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Contractual Obligations

As of December 31, 2013, our operating leases, capitalized leases, other debts, and future commitments have stated maturities or minimum annual payments as follows:

Annual Cash Requirements
As of December 31, 2013
(in thousands)
Payments Due by Period

	Total	Less than 1 year	1-3 years	3-5 Years	More than 5 years
Operating leases	$ 22,979	$ 2,916	$ 11,839	$ 4,394	$ 3,830
Lease residual value guarantees	22,611	7,129	5,537	5,988	3,957
Capital leases(1)	214,306	51,613	65,474	46,682	50,537
Long-term debt(1)	151,908	---	151,908	---	---
Sub total	$ 411,804	$ 61,658	$ 234,758	$ 57,064	$ 58,324
Future purchase of revenue equipment	$ 9,300	$ 9,300	---	---	---
Employment and consulting agreements(2)	300	300	---	---	---
Standby letters of credit	840	840	---	---	---
Total	$ 422,244	$ 72,098	$ 234,758	$ 57,064	$ 58,324

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

Off-Balance Sheet Arrangements

Operating leases have been an important source of financing for our revenue equipment. Our operating leases include some under which we do not guarantee the value of the asset at the end of the lease term ("walk-away leases") and some under which we do guarantee the value of the asset at the end of the lease term ("residual value"). Therefore, we are subject to the risk that equipment values may decline, in which case we would suffer a loss upon disposition and be required to make cash payments because of the residual value guarantees. We were obligated for residual value guarantees related to operating leases of $22.6 million at December 31, 2013, compared to $22.7 million at December 31, 2012. We believe that any residual payment obligations will be satisfied by the value of the related equipment at the end of the lease. To the extent the expected value at the lease termination date is lower than the residual value guarantee we would accrue for the difference over the remaining lease term. We anticipate that going forward, we will use a combination of cash generated from operations and operating leases to finance tractor purchases and operating leases to finance trailer purchases.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires that management make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, revenue, and expenses in our consolidated financial statements and accompanying notes. Management bases it estimates on historical experience and various other assumptions believed to be reasonable. These estimates are based on management's best knowledge of current events and actions that affect, or could affect, our financial statements materially and involve a significant level of judgment by management. The accounting policies we deem most critical include revenue recognition, allowance for doubtful accounts, depreciation, claims accrual, and accounting for income taxes. There have been no significant changes to our critical accounting policies and estimates during the three months ended December 31, 2013, compared to those disclosed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation," included in our 2013 Annual Report on Form 10-K.

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 fiscal quarter net income historically has been lower than net income in each of the other three quarters of the year excluding charges. Our equipment utilization typically improves substantially between May and October of each year because of seasonal increased shipping and better weather. Also, during September and October, business generally increases as a result of increased retail merchandise shipped in anticipation of the holidays.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk. We are exposed to interest rate risk principally from our primary credit facility. The credit facility carries a variable interest rate equal to either Bank of America, N.A.'s prime rate or LIBOR plus an applicable margin between 0.75% and 1.375% that is adjusted quarterly based on the Company's lease adjusted total debt to EBITDAR ratio. At December 31, 2013, the interest rate for revolving borrowings under our credit facility was 0.92%. At December 31, 2013, we had $149.7 million variable rate term loan borrowings outstanding under the credit facility. A hypothetical 0.25% 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. From time-to-time, we 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 December 31, 2013, we had outstanding foreign exchange derivative contracts in notional amounts of $2.9 million with a fair value of these contracts being approximately $0.1 million more than the original contract value. Derivative gains/(losses), initially reported as a component of other comprehensive income, are reclassified to earnings in the period when the forecasted transaction affects earnings.

Assuming revenue and expenses for our Canadian operations are identical to that in the six months ended December 31, 2013 (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 $138,000. Also, we estimate that a $0.01 decrease in the Mexican peso exchange rate would reduce our annual net income by approximately $199,000.

Commodity Price Risk. Shortages of fuel, increases in prices, or rationing of petroleum products can have a materially adverse effect on our operations and profitability. Fuel is subject to economic, political, and market factors that are outside of our control. We believe fuel surcharges are effective at mitigating most, but not all, of the risk of high fuel price because we do not recover the full amount of fuel price increases. In fiscal 2013, we entered into contracts to hedge up to 0.1 million gallons per month ending on December 31, 2013. This represented approximately 4.0% of our monthly projected fuel requirements through December 2013. At December 31, 2013, we had no outstanding

contracts in place for the hedging of fuel. Derivative gains or losses, initially reported as a component of other comprehensive income, were reclassified to earnings in the period when the forecasted transaction affected earnings. Based on our expected fuel consumption for fiscal 2014, a 10.0% change in the related price of heating oil or diesel per gallon would not have a material financial impact, assuming no further changes to our fuel hedging program or our fuel surcharge recovery.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Prior to the filing of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, our management, under the supervision and with the participation of our Certifying Officers, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (the "Evaluation") as of the last day of the period covered by such filing.

Changes in Internal Control over Financial Reporting

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

Part II. Other Information

Item 1. Legal Proceedings

We are party to certain lawsuits in the ordinary course of business. We are currently not party to any proceedings which will have a material adverse effect.

Item 1A. Risk Factors

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business, some level of risk and uncertainty will always be present. Our Annual Report on Form 10-K for the year ended June 30, 2013, in the section entitled Item 1A. Risk Factors, describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We are obligated to comply with certain financial covenants under our credit agreement. Our credit agreement also places certain limitations on our ability to pay dividends, including a $5,000,000 cap on cash dividend payments during any fiscal year.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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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 3.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on January 31, 2008.)
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 3.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on January 31, 2008.)
10.1	Service Agreement dated December 11, 2013 between the Company and Stephen Russell.*
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 Paul A. Will, the Company's Principal Executive Officer.*
31.2	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by William E. Meek, the Company's Principal 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 Paul A. Will, the Company's Chief Executive Officer.*
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by William E. Meek, the Company's Chief Financial Officer.*
101.INS**	XBRL Instance Document.*
101.SCH**	XBRL Taxonomy Extension Schema Document.*
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Filed herewith

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

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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/Paul A. Will
Paul A. Will
President and Chief Executive Officer

/s/William E. Meek
William E. Meek
Executive Vice President, Chief Financial Officer and Treasurer

/s/Bobby Peavler
Bobby Peavler
Vice President of Accounting

Date: February 10, 2014

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EXHIBIT INDEX

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