CELADON GROUP INC
Form 10-Q
November 09, 2010

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 September 30, 2010

or

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

Commission file number: 001-34533

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

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

(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 [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 [ ] 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 October 30, 2010 (the latest practicable date), 22,303,688 shares of the registrant's common stock, par value $0.033 per share, were outstanding.

CELADON GROUP, INC.

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PART I. FINANCIAL INFORMATION

Item I. Financial Statements

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

	Three months ended September 30,	
	2010	2009
REVENUE:		
Revenue, before fuel surcharge	$119,470	$110,686
Fuel surcharge revenue	20,819	17,151
Total revenue	140,289	127,837
OPERATING EXPENSES:		
Salaries, wages, and employee benefits	38,127	40,005
Fuel	32,271	29,737
Purchased transportation	25,875	18,128
Revenue equipment rentals	7,453	9,376
Operations and maintenance	10,190	8,682
Insurance and claims	4,125	3,945
Depreciation and amortization	7,527	7,997
Cost of products and services sold	1,398	1,632
Communications and utilities	1,108	1,238
Operating taxes and licenses	2,393	2,362
General and other operating	1,741	2,018
Total operating expenses	132,208	125,120
Operating Income	8,081	2,717
Interest expense	463	663
Interest income	(16)	(21)
Other (income) expense, net	(67)	91
Income before income taxes	7,701	1,984
Income tax expense	3,280	1,419
Net income	$4,421	$565
Income per common share:		
Diluted	$0.20	$0.03
Basic	$0.20	$0.03
Diluted weighted average shares outstanding	22,556	22,190
Basic weighted average shares outstanding	22,056	21,847

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

CELADON GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2010 and June 30, 2010
(Dollars in thousands except par value amounts)

ASSETS	(unaudited) September 30, 2010	June 30, 2010
Current assets:		
Cash and cash equivalents	$10,937	$18,844
Trade receivables, net of allowance for doubtful accounts of $1,133 and $1,307 at September 30, 2010 and June 30, 2010, respectively	62,470	63,468
Prepaid expenses and other current assets	18,624	12,310
Tires in service	5,612	5,010
Deferred income taxes	3,443	3,593
Total current assets	101,086	103,225
Property and equipment	229,859	226,169
Less accumulated depreciation and amortization	77,505	74,852
Net property and equipment	152,354	151,317
Tires in service	2,295	1,843
Goodwill	19,137	19,137
Other assets	1,704	1,578
Total assets	$276,576	$277,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$6,579	$7,733
Accrued salaries and benefits	11,245	11,472
Accrued insurance and claims	11,170	10,967
Accrued fuel expense	8,394	11,263
Other accrued expenses	15,064	12,209
Current maturities of long-term debt	257	336
Current maturities of capital lease obligations	12,913	15,350
Income taxes payable	4,730	2,950
Total current liabilities	70,352	72,280
Long-term debt, net of current maturities	---	44
Capital lease obligations, net of current maturities	14,522	19,861
Deferred income taxes	32,704	32,742
Total liabilities	117,578	124,927
Stockholders' equity:		
Common stock, $0.033 par value, authorized 40,000 shares; issued 23,799 and 23,872 shares at September 30, 2010 and June 30, 2010, respectively	785	788
Treasury stock at cost; 1,495 and 1,604 shares at September 30, 2010 and June 30, 2010, respectively	(10,307)	(11,064)
Additional paid-in capital	98,581	98,640

Retained earnings	72,055	67,635
Accumulated other comprehensive loss	(2,116)	(3,826)
Total stockholders' equity	158,998	152,173
Total liabilities and stockholders' equity	$276,576	$277,100

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)

	Three months ended September 30, 2010	2009
Cash flows from operating activities:		
Net income	$4,421	$565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,529	7,561
(Gain)\Loss on sale of equipment	25	436
Stock based compensation	557	1,061
Deferred income taxes	(491)	(1,143)
Provision for doubtful accounts	95	133
Changes in assets and liabilities:		
Trade receivables	977	(5,072)
Income tax receivable/payable	1,763	1,246
Tires in service	(1,047)	(639)
Prepaid expenses and other current assets	(6,241)	1,648
Other assets	(104)	221
Accounts payable and accrued expenses	1,338	2,937
Net cash provided by operating activities	8,822	8,954
Cash flows from investing activities:		
Purchase of property and equipment	(16,285)	(11,718)
Proceeds on sale of property and equipment	8,170	4,256
Net cash used in investing activities	(8,115)	(7,462)
Cash flows from financing activities:		
(Payments)Borrowings on long-term debt	(122)	1,071
Principal payments under capital lease obligations	(7,776)	(1,667)
Proceeds from issuance of common stock	90	---
Net cash used in financing activities	(7,808)	(596)
Effect of exchange rates on cash and cash equivalents	(806)	158
Increase (decrease) in cash and cash equivalents	(7,907)	1,054
Cash and cash equivalents at beginning of period	18,844	863
Cash and cash equivalents at end of period	$10,937	$1,917
Supplemental disclosure of cash flow information:		
Interest paid	$499	$740
Income taxes paid	$1,917	$1,355

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
September 30, 2010
(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 year ended June 30, 2010.

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 September 30,	
	2010	2009
Weighted average common shares outstanding – basic	22,056	21,847
Dilutive effect of stock options and unvested restricted stock units	500	343
Weighted Average common shares outstanding – diluted	22,556	22,190
Net income attributable to Celadon	$4,421	$565
Earnings per common share		
Basic	$0.20	$0.03
Diluted	$0.20	$0.03

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

Three months ended

	September 30,	
	2010	2009
Number of anti-dilutive shares	245	536

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3. Stock Based Compensation

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

	For three months ended September 30, 2010	For three months ended September 30, 2009
Stock compensation expense for options, net of forfeitures	215	320
Stock compensation for restricted stock, net of forfeitures	390	342
Stock compensation (income) expense for stock appreciation rights, net of forfeitures	(48)	399
Total stock compensation expense	$557	$1,061

As of September 30, 2010, we have approximately $1.6 million of unrecognized compensation cost related to unvested options granted under the 2006 Plan. This cost is expected to be recognized over a weighted-average period of 1.3 years and a total period of 3.3 years. We also have approximately $3.0 million of unrecognized compensation expense related to restricted stock awards, which is anticipated to be recognized over a weighted-average period of 2.9 years and a total period of 3.3 years.

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

Dividend yield – the dividend yield is based on our historical experience and future expectation of dividend payouts.

Expected volatility – we analyzed the volatility of our stock using historical data for three or four years through the end of the most recent period to estimate the expected volatility, as the historical data mirrors the vesting terms of the respective option.

Risk-free interest rate – the risk-free interest rate assumption is based on U.S. Treasury securities at a constant maturity with a maturity period that most closely resembles the expected term of the stock option award.

Expected terms – the expected terms of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and has been determined based on an analysis of historical exercise behavior from 1995 through the end of the most recent period.

No grants were issued in the three months ended September 30, 2010 or 2009.

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A summary of the award activity of the Company's stock option plans as of September 30, 2010, and changes during the period then ended is presented below:

Options	Option Totals	Weighted-Average Exercise Price per Share
Outstanding at July 1, 2010	1,506,967	$ 9.91
Granted	---	---
Exercised	(37,000)	$ 2.45
Forfeited or expired	(1,500)	$ 10.90
Outstanding at September 30, 2010	1,468,467	$ 10.10
Exercisable at September 30, 2010	913,969	$ 10.65

A summary of the restricted stock award activity under the 2006 Plan as of September 30, 2010, and changes during the three-month period is presented below:

	Number of Restricted Stock Awards	Weighted-Average Grant Date Fair Value
Unvested at July 1, 2010	340,692	$ 10.80
Granted	---	---
Vested and Issued	(72,764)	$ 11.75
Forfeited	(333)	$ 11.89
Outstanding at September 30, 2010	267,595	$ 9.85

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

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

CELADON GROUP, INC.
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(Unaudited)

4. Segment Information

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 TruckersB2B, warehousing, brokerage, and less-than-load ("LTL") operations, which we have determined qualifies as a reportable segment under ASC 280-10 Segment Reporting. In prior reporting periods we had two reportable segments comprised of a transportation segment, consisting of revenue from all truckload-hauling services, and an ecommerce segment, consisting of revenues from our subsidiary TruckersB2B.

	Operating Revenues Three Months Ended September 30, 2010	2009
Asset Based	$ 129,461	$ 119,018
Asset-light Based	10,828	8,819
Total	$ 140,289	$ 127,837

	Operating Income Three Months Ended September 30, 2010	2009
Asset Based	$ 7,269	$ 2,013
Asset-light Based	812	704
Total	$ 8,081	$ 2,717

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:

	Operating Revenue Three Months Ended September 30, 2010	2009
United States	$ 123,098	$ 111,856
Canada	$ 10,161	$ 9,960
Mexico	$ 7,030	$ 6,021
Consolidated	$ 140,289	$ 127,837

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5. Comprehensive Income

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

	Three months ended September 30,	
	2010	2009
Net income	$ 4,421	$ 565
Unrealized gain on fuel derivative instruments	860	---
Unrealized gain on currency derivative instruments	306	---
Foreign currency translation adjustments	543	664
Comprehensive income	$ 6,130	$ 1,229

6. Income Taxes

Our effective income tax rate was 42.6% for the three-month period ended September 30, 2010, compared with 71.5% for the three-month period ended September 30, 2009. In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates, best estimate of nontaxable and nondeductible items of income and expense and the ultimate outcome of tax audits. The fiscal 2011 effective income tax rate reflects changes in estimates of state income taxes and nontaxable and nondeductible items as they relate to expected annual income.

The Company follows ASC Topic 740-10-25 in Accounting for Uncertainty in Income Taxes. Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of September 30, 2010, the Company recorded a $0.7 million liability for unrecognized tax benefits, a portion of which represents penalties and interest.

As of September 30, 2010, we are subject to U.S. Federal income tax examinations for the tax years 2007 through 2009. We file tax returns in numerous state jurisdictions with varying statutes of limitations.

7. Commitments and Contingencies

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

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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 Workers' 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. The Plaintiff filed a petition to appeal with the Texas Supreme Court in an attempt to reverse the Texas Court of Appeals' decision by the extended deadline to file an appeal granted to them of October 15, 2010. The Texas Supreme Court has not yet made a decision on whether they will accept the appeal or dismiss it.

8. Fair Value Measurements

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

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

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

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

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In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial assets and liabilities that are required to be measured at fair value as of September 30, 2010 and June 30, 2010.

		Level 1		Level 2		Level 3	
Balance at September 30,	Balance at June 30,	Balance at September 30,	Balance at June 30,	Balance at September 30,	Balance at June 30,	Balance at September 30,	Balance at June 30,