CELADON GROUP INC
Form 10-K/A
September 14, 2004

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

FORM 10-K/A
(Amendment No. 1)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________________ to ______________

Commission file number: 0-23192

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

Delaware	13-3361050
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)
9503 East 33rd Street Indianapolis, IN	46235
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock ($0.033 par value)
Series A Junior Participating Preferred Stock Purchase Rights

Indicate by check mark whether the registrant (1) has filed all reports required 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

On December 31, 2003, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock ($0.033 par value) held by non-affiliates (6,241,266 shares) was approximately $89.2 million, based upon the reported last sale price of the common stock on that date. The exclusion from such amount of the market value of shares of common stock owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.

The number of outstanding shares of the registrant's common stock as of the close of business on September 9, 2004 was 9,760,550.

Documents Incorporated by Reference
Part III of Form 10-K - Portions of Definitive Proxy Statement for the 2004 Annual Meeting of Stockholders

This Amendment No. 1 on Form 10-K/A ("Amendment No. 1") amends the Annual Report on Form 10-K of Celadon Group, Inc. for the fiscal year ended June 30, 2004, filed with the Securities and Exchange Commission on September 13, 2004 (the "Original Report"), by correcting certain typographical and clerical errors in Items 6, 8, 9A and 15 of the Original Report. None of the revisions reflected in this Amendment No. 1 represents a change in the financial or statistical information set forth in the financial statements or elsewhere in the Original Report or a substantive change to the other disclosures contained in the Original Report. In connection with the filing of this Amendment No. 1 and pursuant to Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, Celadon Group, Inc. is including as exhibits certain currently dated certifications of its Chief Executive Officer and Chief Financial Officer and an updated consent of its independent registered public accounting firm. Item 15 of this Amendment No. 1 has been revised to reflect the addition of these exhibits.

This Amendment No. 1 only reflects the changes discussed above, and does not amend, update, or change any other items or disclosures contained in the Original Report.

CELADON GROUP, INC.
FORM 10-K

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PART I

Disclosure Regarding Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information in Items 1, 3, 7, 7A and 8 of this Form 10-K constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and, as such, involve known and unknown risks, uncertainties and other factors which may cause the actual results, events, performance or achievements of the Company to be materially different from any future results, events, performance or achievements expressed or implied by such forward-looking statements. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes," and words or terms of similar substance used in connection with any discussion of future operating results, financial performance, or business plans identify forward-looking statements. All forward-looking statements reflect our management's present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. While it is impossible to identify all factors that may cause actual results to differ, the risks and uncertainties that may affect the Company's business, performance and results of operations include the factors listed on Exhibit 99.1 to this report, which is incorporated herein by reference. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Form 10-K.

All such forward-looking statements speak only as of the date of this Form 10-K. 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 events, conditions or circumstances on which any such statement is based.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"), as amended.

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

Item 1. Business

Introduction

We are one of North America's fifteen largest truckload carriers as measured by revenue. We generated $397.9 million in operating revenue during our fiscal year ended June 30, 2004. We have grown significantly since our incorporation in 1986 through internal growth and a series of acquisitions since 1995. As a dry van truckload carrier, we generally transport full trailer loads of freight from origin to destination without intermediate stops or handling. Our customer base includes Fortune 500 shippers such as DaimlerChrysler, General

Electric, Philip Morris, Wal-Mart, Procter & Gamble, DuPont, and Target.

We operate in two main market sectors. In our international operations, we offer time-sensitive transportation in and between the United States and its two largest trading partners, Mexico and Canada. We generated nearly one-half of our revenue in fiscal 2004 from international movements, and we believe our approximately 125,000 annual border crossings make us the largest provider of international truckload movements in North America. We believe that our strategically located terminals and experience with the language, culture, and border crossing requirements of each North American country provide a competitive advantage in the international trucking marketplace.

We believe our international operations, particularly those involving Mexico, offer an attractive business niche for several reasons. First, the additional complexity and the need to establish cross-border business partners and to develop a strong organization and an adequate infrastructure in Mexico afford some barriers to competition that are not present in traditional U.S. truckload service. Second, the expected continued growth of Mexico's economy, particularly exports to the U.S., positions us to capitalize on our cross-border expertise. Third, we believe

the opening of the border to Mexican drivers could provide us with a cost advantage based on differences in wages. The U.S. Supreme Court recently ruled that the United States can let Mexican trucks cross the border without the United States having to conduct the environmental study mandated by a lower court ruling. How to implement the border opening process is currently being evaluated.

Our success is largely dependent upon the success of our operations in Mexico and Canada, and we are subject to risks of doing business internationally, including fluctuations in foreign currencies, changes in the economic strength of the countries in which we do business, difficulties in enforcing contractual obligations and intellectual property rights, burdens of complying with a wide variety of international and United States export and import laws and social, political, and economic instability. Additional risks associated with our foreign operations, including restrictive trade policies and imposition of duties, taxes or government royalties by foreign governments, are present but largely mitigated by the terms of NAFTA. Information regarding our revenue derived from foreign external customers and long-lived assets located in foreign countries is set forth in Note 11 to the consolidated financial statements filed as part of this report.

In addition to our international business, we offer a broad range of truckload transportation services within the United States, including regional, long-haul, dedicated, and logistics. With the acquisitions of certain assets of Burlington Motor Carriers in March 2002 and Highway Express in August 2003, we expanded our operations and service offerings within the United States and significantly improved our lane density, freight mix, and customer diversity. The Highway Express acquisition was particularly important to us, and we believe it has contributed to our recent operating improvements.

We also operate TruckersB2B, Inc., a profitable marketing business that affords volume purchasing power for items such as fuel, tires, and equipment to approximately 16,480 member trucking fleets representing approximately 437,500 tractors. TruckersB2B represents a separate operating segment under generally accepted accounting principles. Information regarding revenue, profits and losses, and total assets of our transportation and e-commerce (TruckersB2B) operating segments is set forth in Note 11 to the consolidated financial statements filed as part of this report.

Operating and Marketing Strategy

We approach our trucking operations as an integrated effort of marketing, customer service, and fleet management. As a part of our strategic plan, we identified as priorities: increasing our freight rates; decreasing our reliance on DaimlerChrysler and other automotive industry customers; raising our service standards; rebalancing lane flows to enhance asset utilization; and identifying and acquiring suitable acquisition candidates and successfully integrating acquired operations. To accomplish these objectives, we have sought to instill high levels of discipline, cooperation, and trust between our operations and sales departments and have consolidated the two departments under the leadership of our Chief Operating Officer, Tom Glaser. As a part of this combined effort, our operations and sales departments have developed the following strategies, goals, and objectives:

- Seeking high yielding freight from targeted industries, customers, regions, and lanes that improves our overall network density and diversifies our customer and freight mix. We believe that by focusing our sales and marketing resources on target customers who have freight with specific cross-border or international needs, who ship high volumes of freight in lanes or regions where we already have equipment capacity positioned, or who have shipping needs in several regions that we serve, we can improve our equipment utilization, increase our average revenue per mile, and lower our average cost per mile. We have implemented yield management efforts that involve specific rate and productivity goals for new and existing business. As part of these efforts, we generally are seeking to replace less profitable freight with more favorable freight and to implement selective rate increases where possible. We believe that by reducing our exposure to automotive shippers such as DaimlerChrysler and increasing the amount of business that we do with less cyclical shippers, such as consumer products and non-durables companies, we will have more opportunities to pursue and obtain rate increases.

- Focusing on asset productivity. Our primary productivity measure is revenue per tractor per week. Within revenue per tractor, we examine freight rates, non-revenue miles, and miles per tractor. We actively analyze customers and freight movements in an effort to enhance the revenue production of our tractors. We also attempt to concentrate our equipment in defined operating lanes to create more

predictable movements, reduce non-revenue miles, and shorten turn times between loads. As a result of our recent initiatives to improve asset productivity, automotive parts now comprise a significantly lower proportion of our overall freight mix than they have historically, having been replaced primarily by consumer non-durables and other retail products.

- Operating a modern fleet to reduce maintenance costs and improve safety and driver retention. We believe that updating our tractor and trailer fleets will produce several benefits, including lower maintenance and tire expenses, and enhanced safety, driver recruitment and retention, and equipment utilization. We recently have taken two important steps towards modernizing our fleet. First, in the second quarter of fiscal 2001, we shortened the replacement cycle for our tractors from five years to four years. Second, as a result of continuing changes in our customer base, in the first quarter of fiscal 2004 we made arrangements to replace all of the remaining 48-foot trailers in our fleet with new 53-foot trailers. These changes could produce significant benefits because maintenance and tire expenses increase significantly for tractors beyond the fourth year of operation and for trailers beyond the seventh year of operation, as wear and tear increases and some warranties expire. In addition, we anticipate our adoption of a uniform fleet of 53-foot trailers will allow us to operate fewer total trailers.

- Continuing our emphasis on service, safety, and technology. We offer just-in-time, time-definite, and other premium transportation services to meet the expectations of our service-oriented customers. We believe that targeting premium service freight permits us to obtain higher rates, build long-term, service-based customer relationships, and avoid competition from railroad, intermodal, and trucking companies that compete primarily on the basis of price. We believe our recent safety record has been among the best in our industry. In March 2003, we were awarded first place in fleet safety among all truckload fleets that log more than 100 million miles per year at the Truckload Carriers Association Annual Conference. We have made significant investments in technologies that are intended to reduce costs, afford a competitive advantage with service-sensitive customers, and promote economies of scale. Examples of these technologies are Qualcomm satellite-based tracking and communications systems, our proprietary CelaTrac system that enables customers to track shipments and access other information via the Internet, and document imaging. We believe we are the only carrier offering Internet shipment tracking in all three North American countries.

- Maintaining our leading position in cross-border truckload shipments while offering diversified, nationwide transportation services in the U.S. We believe our strategically located terminals and experience with the languages, cultures, and border crossing requirements of all three North American countries provide us with competitive advantages in the international trucking marketplace. As a result of these advantages, we believe we are the industry leader in cross-border movements between North American countries. We supplement these cross-border shipments, which comprised over 50% of our revenue in fiscal 2004, with domestic freight from service-sensitive customers.

- Seeking strategic acquisitions to broaden our existing domestic operations. We have made seven trucking company acquisitions since 1995 (including our acquisition of Cheetah Transportation, Inc. which we disposed of in June 2001), and continue to evaluate acquisition candidates. Our current acquisition strategy, as evidenced by our purchases of certain assets of Burlington Motor Carriers in 2002 and Highway Express in 2003, is focused on broadening our domestic operations through the addition of carriers that improve our lane density, customer diversity, and service offerings.

- Capitalizing on the opening of the U.S.-Mexican border. In December 2001, the U.S. Congress enacted legislation providing for the opening of the Mexican border consistent with NAFTA. The opening of the border would for the first time permit Mexican drivers to move loads without restrictions between Mexico and points in the U.S. On January 16, 2003, a U.S. federal appeals court ruled that the border opening would be delayed pending an environmental study. The matter was appealed to the U.S. Supreme Court, which recently ruled that the United States can let Mexican trucks cross the border without the United States having to conduct the environmental study. How to implement the border opening process currently is being evaluated. Due to our extensive experience managing drivers in Mexico through Jaguar, our Mexico City-based subsidiary, we believe that we are well positioned to take advantage of the opportunities associated with the eventual opening of the border. In particular, we expect to be able to generate significant cost savings by utilizing lower cost Mexican drivers in the U.S. on shipments to and from Mexico.

Other Services

TruckersB2B. Our TruckersB2B subsidiary is a profitable marketing business that affords volume purchasing power for items such as fuel, tires, insurance, and other products and services to small and medium-sized trucking companies through its website, www.truckersb2b.com. TruckersB2B provides small and medium-sized trucking company members with the ability to cut costs and thereby compete more effectively and profitably with the larger fleets. TruckersB2B has approximately 16,480 member trucking fleets representing approximately 437,500 tractors. Over the past four years, TruckersB2B has improved to $8.1 million in revenue and an operating profit of $1.5 million in fiscal 2004, from $4.4 million in revenue and an operating loss of $2.3 million in fiscal 2001. TruckersB2B continues to introduce complementary products and services to drive its growth and attract new fleets. For example, TruckersB2B recently entered into a marketing arrangement with a leading provider of insurance products to the trucking industry. We believe this represents a significant growth opportunity for TruckersB2B.

Kuwait Joint Venture. In February 2004, we entered into a joint venture arrangement with a Kuwaiti investment group pursuant to which we have agreed to manage a trucking operation based in Kuwait. This venture has been formed to provide transportation services to suppliers involved in rebuilding efforts in Iraq. The joint venture will operate under the name Celadon East Transport Company, SAK.

Under the terms of this arrangement, the Kuwaiti investment group will fund all start-up costs, historical and future capital requirements, and operating expenses, while we will provide operational, marketing, logistics, and management services to the joint venture. In exchange for these services, we will receive a portion of the joint venture's operating income, a monthly management fee, and reimbursement of our costs. In addition, we have the option to acquire up to a 49% interest in the joint venture. We have no obligation to fund operating losses. John Hekman, who joined us following our acquisition of certain assets of Highway Express in August 2003, where he was the Vice President of Administration, is directing the development of our gulf region operations and is responsible for the joint venture's government and military contracting activities. David Shatto, our Executive Vice President -- Corporate Development, is responsible for management oversight of the venture, a role which he will fulfill primarily from our Indianapolis headquarters. Other than Mr. Hekman's assignment and Mr. Shatto's oversight responsibilities, we do not expect to transfer any employees to, or have any other resources from our North American operations engaged in, the joint venture.

Zipp Logistics. Through our subsidiary, Zipp Logistics, we provide warehousing services to three Fortune 500 companies. Our warehouse facilities are located near our customers' manufacturing plants. We also transport the manufacturing component parts to our warehouses and sequence those parts for our customers. We then transport completed units from our customers' plants.

Industry and Competition

The full truckload market is defined by the quantity of goods, generally over 10,000 pounds, shipped by a single customer point-to-point and is divided into several segments by the type of trailer used to transport the goods. These segments include van, temperature-controlled, flatbed, and tank carriers. We participate in the North American van truckload market. The markets within the United States, Canada, and Mexico are fragmented, with thousands of competitors, none of whom dominates the market. We believe that the current economic pressures will continue to force many smaller and private fleets into mergers or to exit the industry.

Transportation of goods by truck between the United States, Canada, and Mexico is subject to the provisions of NAFTA. United States and Canadian based carriers may operate within both countries. United States and Canadian carriers are not allowed to operate within Mexico, and Mexican carriers are not allowed to operate within the United States and Canada, in each case except for a 26-kilometer, or approximately 16 miles, band along either side of the Mexican border. Trailers may cross all borders. We are one of a limited number of trucking companies that participates in all three segments of this cross border market, providing true door-to-door carriage.

Transportation of goods between the United States or Canada and Mexico consists of three components: (i) transport from the point of origin to the Mexican border, (ii) drayage, which is transportation across the border, and (iii) transportation from the border to the final destination. While the truckload industry is highly competitive and fragmented, we are one of a limited number of companies that is able to provide or arrange for door-to-door

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transport service between points in the United States, Canada and Mexico. Although both service and price drive competition in the premium long haul, time sensitive portion of the market, we rely primarily on our high level of service to attract customers. This strategy requires us to focus on market segments that employ just-in-time inventory systems and other premium services. Our competitors for freight include other long-haul truckload carriers and, to a lesser extent, medium-haul truckload carriers and railroads. We also compete with other trucking companies for the services of drivers. Some of the truckload carriers with which we complete have greater financial resources, operate more revenue equipment, and carry a larger total volume of freight than us.

TruckersB2B is a business-to-business savings program, for small and mid-sized fleets. Competitors include other large trucking companies and other business-to-business buying programs.

Customers

We target large service-sensitive customers with time-definite delivery requirements throughout the United States, Canada and Mexico. Our customers frequently ship in the north-south lanes (i.e., to and from locations in Mexico and locations in the United States and Eastern Canada). The sales and marketing personnel in our offices work together to source northbound and southbound transport, in addition to other transportation solutions. We currently service in excess of 2,900 trucking customers. Our premium service to these customers is enhanced by a high trailer-to-tractor ratio, state-of-the-art technology, well-maintained tractors and trailers, and 24/7 dispatch and reporting services. The principal types of freight transported include automotive parts, paper products, manufacturing parts, semi-finished products, textiles, appliances, retail and toys.

Our largest customer is DaimlerChrysler, which accounted for approximately 9%, 12%, and 19% of our total revenue for fiscal 2004, 2003, and 2002, respectively. We transport DaimlerChrysler original equipment automotive parts primarily between the United States and Mexico, and DaimlerChrysler after-market replacement parts and accessories within the United States. We have an agreement with DaimlerChrysler for international freight for the Chrysler division, which expires in October 2006. No other customer accounted for more than 5% of our total revenue during any of our three most recent fiscal years.

Drivers and Personnel

At June 30, 2004, we employed 3,091 persons, of whom 2,150 were drivers, 204 were truck maintenance personnel, 583 were administrative personnel, and 154 were dedicated services personnel and TruckersB2B personnel. None of our U.S. or Canadian employees are represented by a union or a collective bargaining unit.

Driver recruitment, retention, and satisfaction are essential components of our success. Competition to recruit and retain drivers is intense in the trucking industry. There has been and continues to be a shortage of qualified drivers in the industry. Drivers are selected in accordance with specific guidelines, relating primarily to safety records, driving experience, and personal evaluations, including a physical examination and mandatory drug testing. Our drivers attend an orientation program and ongoing driver efficiency and safety programs. An increase in driver turnover can have a negative impact on the results of operations.

Independent contractors are utilized through a contract with us to supply one or more tractors and drivers for our use. Independent contractors must pay their own tractor expenses, fuel, maintenance, and driver costs and must meet our specified guidelines with respect to safety. A lease-purchase program that we offer provides independent contractors the opportunity to lease-to-own a tractor from us. As of June 30, 2004, there were 358 independent contractor tractors and 94 lease-purchase independent contractor tractors providing a combined 18% of our tractor capacity.

Revenue Equipment

Our equipment strategy is to utilize late-model tractors and high-capacity trailers, actively manage equipment throughout its life cycle, and employ a comprehensive service and maintenance program.

Over the past several years, we have determined that the average annual cost of maintenance and tires for tractors in our fleet rises substantially after the first four years due to a combination of greater wear and tear and the expiration of some warranty coverages. We believe these costs rise late in the trade cycle for our trailers as well. We

anticipate that we will achieve ongoing savings in maintenance and tire expense by replacing tractors and trailers more often. In addition, we believe operating newer equipment will enhance our driver recruiting and retention efforts. Accordingly, we recently have shortened our normal tractor replacement cycle to four years of service from five years of service. We further reduce exposure to declines in the resale value of our equipment by entering into agreements with certain manufacturers providing for pre-established resale values upon trade-in of existing equipment. Approximately 72% of tractors and 39% of trailers are under these arrangements.

The average age of our owned and leased tractors and trailers was approximately 2.1 and 4.6 years, respectively, at June 30, 2004, and approximately 2.7 and 6.1 years, respectively, at June 30, 2003. We utilize a comprehensive maintenance program to minimize downtime and control maintenance costs. Centralized purchasing of spare parts and tires, and centralized control of over-the-road repairs are also used to control costs.

Fuel

We purchase the majority of our fuel through a network of over 100 fuel stops throughout the United States and Canada. We have negotiated discounted pricing based on certain volume commitments with these fuel stops. We maintain bulk fueling facilities in Indianapolis, Laredo, and Kitchener, Ontario to further reduce fuel costs.

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 have historically been able to recover a portion of high fuel prices from customers in the form of fuel surcharges. However, a portion of the fuel expense increase is not recovered due to several factors, including the base fuel price levels which determine when surcharges are collected, truck idling, empty miles between freight shipments, and out-of-route miles. We cannot predict whether high fuel price levels will occur in the future or the extent to which fuel surcharges will be collected to offset such increases.

Regulation

Our operations are regulated and licensed by various United States federal and state, Canadian provincial and Mexican federal agencies. Interstate motor carrier operations are subject to safety requirements prescribed by the United States Department of Transportation (DOT). Such matters as weight and equipment dimensions are also subject to United States federal and state regulation and Canadian provincial regulations. We operate in the United States throughout the 48 contiguous states pursuant to operating authority granted by the Federal Highway Administration, in various Canadian provinces pursuant to operation authority granted by the Ministries of Transportation and Communications in such provinces, and within Mexico pursuant to operating authority granted by Secretaria de Communiciones y Transportes. To the extent that we conduct operations outside the United States, we are subject to the Foreign Corrupt Practices Act, which generally prohibits United States companies and their intermediaries from bribing foreign officials for the purpose of obtaining or retaining favorable treatment.

Beginning January 4, 2004, carriers were required to comply with several changes to DOT hours-of-service requirements that may have a positive or negative effect on driver hours (and miles). The new rules allow drivers to drive up to 11 hours instead of the 10 hours permitted under prior regulations, subject to the new 14-hour on-duty maximum described below. The rules will require a driver's off-duty period to be 10 hours, compared to 8 hours under prior regulations. In general, drivers may not drive beyond 14 hours in a 24-hour period, compared to not being permitted to drive after 15 hours on-duty under the prior rules. During the new 14-hour consecutive on-duty period, the only way to extend the on-duty period is by the use of a sleeper berth period of at least two hours that is later coupled with a second sleeper berth break to equal 10 hours. Under the prior rules, during the 15-hour on-duty period, drivers were allowed to take multiple breaks of varying lengths of time, which could be either off-duty time or sleeper berth time, that did not count against the 15-hour period. There was no change to the rule that precludes drivers from driving after being on-duty for a maximum of 70 hours in 8 consecutive days. However, under the new rules, drivers can "restart" their 8-day clock by taking at least 34 consecutive hours off duty.

Recently a citizens' advocacy group successfully petitioned the courts that the new rules were developed without driver health in mind. The Federal Motor Carrier Safety Administration ("FMCSA") was given until the end of August 2004 to propose new rules. The FMCSA has petitioned the court for a stay which would allow the new rules to stay in effect while the FMCSA reviews the rules. It is unclear if there will be changes to the hours-of-service rules or the extent of the change. Given this uncertainty, we are unable to determine the effect on driver hours and our operations. The DOT is also considering implementing stronger safety requirements on trucks. These regulatory changes may have an impact on our profitability in the future.

Our operations are subject to various federal, state, and local environmental laws and regulations, implemented principally by the EPA and similar state regulatory agencies, governing the management of hazardous wastes, other discharge of pollutants into the air and surface add underground waters, and the disposal of certain substances. We do not believe that compliance with these regulations has a material effect on our capital expenditures, earnings, and competitive position.

In addition, the engines used in our newer tractors are subject to new emissions control regulations. The EPA recently adopted new emissions control regulations, which require progressive reductions in exhaust emissions from diesel engines through 2007. The new regulations decrease the amount of emissions that can be released by truck engines. Compliance with such regulations has increased the cost of our new tractors and could impair equipment productivity, lower fuel mileage, and increase our operating expenses. Some manufacturers have significantly increased new equipment prices, in part to meet new engine design requirements.

Cargo Liability, Insurance, and Legal Proceedings

We are a party to routine litigation incidental to our business, primarily involving claims for bodily injury or property damage incurred in the transportation of freight. We are responsible for the safe delivery of cargo. We have increased the self-insured retention portion of our insurance coverage for most claims significantly over the past several years. For fiscal 2005, we renewed our auto liability policy, self-insuring for personal injury and property damage claims for amounts up to $2.5 million per occurrence. The following chart reflects the major changes in our auto liability program since July 1, 2002:

Coverage Period	Primary Coverage	Primary Coverage SIR/Deductible	Pri
July 2002 - June 2003	$11.0 million	$1.0 million *	
July 2003 - June 2004	$10.0 million	$1.0 million **	
July 2004 - June 2005	$10.0 million	$2.5 million	

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* Subject to an additional $1.0 million aggregate corridor deductible in the $1.0 million - $2.0 million coverage layer which could potentially result in a possible additional self-insured retention of up to $1.0 million for the coverage period.

** Subject to an additional $2.75 million self-insured aggregate amount, limited to $1.5 million per occurrence, which resulted in the total self-insured retention of up to $2.5 million per occurrence, until the $2.75 million retention is utilized.

We are also responsible for administrative expenses, for each occurrence involving personal injury or property damage. We are also self-insured for the full amount of all our physical damage losses, for workers' compensation losses up to $1.5 million per claim, and for cargo claims up to $100,000 per shipment. Subject to these self-insured retention amounts, our current workers' compensation policy provides coverage up to a maximum per claim amount of $10.0 million, and our current cargo loss and damage coverage provides coverage up to $1.0 million per shipment. We maintain separate insurance in Mexico consisting of bodily injury and property damage coverage with acceptable deductibles. Management believes our uninsured exposure is reasonable for the transportation industry, based on previous history.

There are various claims, lawsuits, and pending actions against us and our subsidiaries that arise in the normal course of business. We believe many of these proceedings are covered in whole or in part by insurance and that none of these matters will have a materially adverse effect on our consolidated financial position or results of operations in any given period.

Seasonality

We have substantial operations in the Midwestern and Eastern U.S. and Canada. In those geographic regions, our tractor productivity may be adversely affected during the winter season because inclement weather may impede our operations. Moreover, some shippers reduce their shipments during holiday periods as a result of curtailed operations or vacation shutdowns. At the same time, operating expenses generally increase, with fuel

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efficiency declining because of engine idling and harsh weather creating higher accident frequency, increased claims, and more equipment repairs.

Internet Website

We maintain an Internet website where additional information concerning our business can be found. The address of that website is www.celadontrucking.com. All of our reports filed with or furnished to the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Exchange Act, including our annual report on Form10-K, quarterly reports on Form 10-Q, or current reports on Form 8-K, and amendments thereto are made available free of charge on or through our Internet website as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

Non-Audit Services Performed by Independent Accountants

We are responsible for disclosing to investors the non-audit services pursuant to Section 10A(i)(2) of the Exchange Act, as added by Section 202 of the Sarbanes-Oxley Act of 2002. Non-audit services are defined as services other than those provided in connection with an audit or review of our financial statements. Our current non-audit services consist of a tax outsourcing agreement with Ernst & Young LLP, which was approved by our Audit Committee prior to commencement. Future non-audit services will be processed in the same manner.

Item 2. Properties

We operate a network of 18 terminal locations, including facilities in Laredo and El Paso, Texas, which are the two largest inland freight gateway cities between the U.S. and Mexico. Our operating terminals currently are located in the following cities:

United States	Mexico	Canada
Baltimore, MD (Leased)	Guadalajara (Leased)	Kitchener, ON (Leased)
Dallas, TX (Owned)	Mexico City (Leased)	
Detroit, MI (Leased)	Monterrey (Leased)	
El Paso, TX (Owned)	Nueva Laredo (Leased)	
Greensboro, NC (Leased)	Puebla (Leased)	
Hampton, VA (Leased)	Queretero (Leased)	
Indianapolis, IN (Leased)	Tijuana (Leased)	
Laredo, TX (Owned)		

Louisville, KY (Leased)
Richmond, VA (Leased)

Our executive and administrative offices occupy four buildings located on 30 acres of property in Indianapolis, Indiana. The Indianapolis, Laredo, and Kitchener terminals include administrative functions, lounge facilities for drivers, parking, fuel, maintenance, and truck washing facilities. A portion of the Indianapolis facility is used for the operations of Truckers B2B. All of our other owned and leased facilities are utilized exclusively by our transportation segment.

Item 3. Legal Proceedings

See discussion under "Cargo Liability, Insurance, and Legal Proceedings" in Item 1, and Note 10 to the consolidated financial statements, "Commitments and Contingencies." In the fourth quarter of fiscal 2004, we were involved in a significant accident for which we have reserved $2.75 million, which amount is comprised of the entire amount of our self-insured retention, or $2.5 million, and anticipated legal and related expenses.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted for a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended June 30, 2004.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

Price Range of Common Stock

Our common stock is listed on the NASDAQ National Market under the symbol "CLDN." The following table sets forth the range of high and low bid prices as quoted on the NASDAQ National Market for the periods indicated:

Fiscal 2003	High	Low
Quarter ended September 30, 2002	$13.12	$ 7.12
Quarter ended December 31, 2002	$12.20	$ 7.85
Quarter ended March 31, 2003	$13.04	$ 7.45
Quarter ended June 30, 2003	$10.01	$ 7.10
Fiscal 2004		
Quarter ended September 30, 2003	$14.48	$ 8.93
Quarter ended December 31, 2003	$14.73	$11.55
Quarter ended March 31, 2004	$16.79	$12.69
Quarter ended June 30, 2004	$18.00	$13.49

On September 8, 2004, there were approximately 130 holders of our Common Stock based upon the number of record holders on that date. We estimate that we have approximately 2,000 stockholders because a substantial number of shares are held of record by brokers or dealers for their customers in street names.

Dividend Policy

We have never paid a cash dividend on our common stock. We currently intend to continue to retain earnings to finance the growth of our business and reduce our indebtedness rather than to pay dividends. Our ability to pay cash dividends currently is prohibited by restrictions contained in our revolving credit facility. Future payments of cash dividends will depend on our financial condition, results of operations, capital commitments, restrictions under our then-existing debt agreements, and other factors our board of directors may consider relevant.

Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of June 30, 2004:

Plan Category	(a) Number of securities issued upon exercise of outstanding options warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	Num rem fo c (ex refle
Equity compensation plans approved by security holders	1,001,551	$6.55	
Equity compensation plans not approved by security holders	Not applicable	Not applicable	

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Item 6. Selected Financial Data

The statement of operations data and balance sheet data presented below have been derived from our consolidated financial statements and related notes thereto. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto.

	2004	2003	2002	2001
	(in thousands, except per share data, operating data,			
Statement of Operations Data:				
Operating revenue	$397,923	$367,105	$336,999	$351,818
Operating expense(1)	390,852	354,371	326,454	351,162
Operating income(1)	7,071	12,734	10,545	656
Interest expense, net(2)	3,723	6,201	7,487	9,280
Other expense (income)	180	(3)	134	(331)
Minority interest in subsidiary	---	---	---	(331)
Income (loss) before income taxes	3,168	6,536	2,924	(7,962)
Provision (benefit) for income taxes	3,443	2,948	1,215	(2,626)
Net income (loss)(1)(2)	$ (275)	$ 3,588	$ 1,709	$ (5,336)
Diluted earnings (loss) per share (1)(2)	$ (0.03)	$ 0.45	$ 0.22	$ (0.70)
Weighted average diluted shares outstanding	7,986	8,035	7,753	7,649
Balance Sheet Data (at end of period)				
Working capital	$ 20,108	$ 8,343	$ 12,905	$ 13,352

Total assets	151,310	162,073	190,031	194,916
Long-term debt, revolving lines of credits, and capital lease obligations, including current maturities	14,494	60,794	97,022	105,245
Stockholders' equity	82,830	57,252	53,916	52,063
Operating Data:				
For period(3):				
Average revenue per loaded mile (4)	$ 1.322	$ 1.266	$ 1.232	$ 1.236
Non-revenue miles percentage	7.4%	7.7%	7.9%	8.0%
Average revenue per total mile (4)	$ 1.225	$ 1.169	$ 1.134	$ 1.137
Average revenue per tractor per week(4)	$ 2,723	$ 2,546	$ 2,548	$ 2,533
Average length of haul	994	942	950	987
At end of period:				
Total tractors(5)	2,531	2,491	2,568	2,368
Average age of company tractors (in years)(6)	2.1	2.7	2.3	2.0
Total trailers(5)	6,966	7,142	6,758	6,537
Average age of company trailers (in years)(6)	4.6	6.1	4.8	4.2

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(1) Includes: (a) a $3.3 million pretax loss on the disposition of equipment in the quarter en
million pretax write-off of deferred initial public offering costs for TruckersB2B in the y
million pretax loss on disposal of former flatbed unit in the quarter ended June 30, 200
impairment charge in the quarter ended September 30, 2003, relating to the disposition of
48-foot trailers.

(2) Includes a $0.9 million pretax write-off of loan origination costs relating to replacement
ended September 30, 2002.

(3) Unless otherwise indicated, operating data and statistics presented in this table and e
truckload revenue and operations and exclude revenue and operations of TruckersB2B; our Mex
less-than truckload, local trucking (or "shuttle"), brokerage, logistics, and airfreig
statistics for the fiscal years ended June 30, 1999, 2000, and 2001 also exclude the rev
flatbed division.

(4) Excludes fuel surcharges.

(5) Total fleet, including equipment operated by independent contractors and our Mexican subsidi

(6) Total company fleet, including equipment operated by our Mexican subsidiary, Jaguar.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are one of North America's fifteen largest truckload carriers, generating approximately $397.9 million in operating revenue for our fiscal year ended June 30, 2004. We have grown significantly since our incorporation in 1986 through internal growth and a series of acquisitions since 1995. As a dry van truckload carrier, we generally transport full trailer loads of freight from origin to destination without intermediate stops or handling. We operate in two main market sectors. In our international operations, we offer time-sensitive transportation in and between the United States and its two largest trading partners, Mexico and Canada. We generated approximately one-half of our revenue in fiscal 2004 from international movements, and we believe our approximately 125,000 annual border crossings make us the largest provider of international truckload movements in North America. In addition to our international business, we offer a broad range of truckload transportation services within the U.S., including regional, long-haul, dedicated, and logistics. We also operate TruckersB2B, a profitable marketing business that affords volume purchasing power for items such as fuel, tires, and equipment to approximately 16,480 member trucking fleets representing approximately 437,500 tractors. Under generally accepted accounting principles, TruckersB2B constitutes a separate operating segment. Information regarding revenue, profits or losses, and total assets of each of our operating segments (transportation and e-commerce (TruckersB2B)) is set forth in Note 11 to the consolidated financial statements filed as part of this report.

We generate substantially all of our revenue by transporting freight for our customers. Generally, we are paid by the mile for our services. We also derive revenue from fuel surcharges, loading and unloading activities, equipment detention, other trucking-related services, and from TruckersB2B. The main factors that affect our revenue are the revenue per mile we receive from our customers, the number of miles we generate with our equipment, and the percentage of miles for which we are compensated. These factors are affected by, among other things, the United States, Mexican, and Canadian economies, customers' inventory levels, the level of capacity in our industry, and customer demand.

The main factors that impact our profitability on the expense side are the variable costs of transporting freight for our customers. These costs include fuel expense, driver-related expenses, such as wages, benefits, training, and recruitment, and independent contractor costs, which we record as purchased transportation. Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency, and other factors. Our main fixed cost is the acquisition and financing of long-term assets, primarily revenue equipment and operating terminals. We have other mostly fixed costs, such as our non-driver personnel.

The trucking industry has experienced significant increases in expenses over the past three years, in particular those relating to equipment costs, driver compensation, insurance, and fuel. As the United States economy has expanded, many trucking companies, including Celadon, have been able to raise freight rates to cover the increased costs. This is primarily due to industry-wide tight capacity of tractors and trailers, which in general has arisen because many fleets have stated they will not add equipment until margins improve. In addition, competition for drivers has become increasingly intense, as the expanding economy has provided alternative jobs at the same time as increasing freight demand. To obtain capacity, shippers have been willing to accept the largest rate increases in recent memory. As long as freight demand continues to exceed truck capacity, we expect increases in driver pay by many carriers, which we may do as well, and higher freight rates.

In connection with our fleet upgrade, we have financed, and plan to continue to finance, most of our new tractors and trailers with off-balance sheet operating leases. As a result of our increased use of operating leases and the application of proceeds from our recent stock issuance, we have reduced our balance sheet debt, including capital lease obligations, to $14.5 million at June 30, 2004, from $60.8 million at June 30, 2003, and from $97.0 million at June 30, 2002. Financing revenue equipment acquisitions with operating leases, rather than borrowings or capital leases, moves the interest component of our financing activities into "above-the-line" operating expenses on our statements of operations. Consequently, we believe that pretax margin (income before income taxes as a percentage of operating revenue) is a more useful measure of our operating performance than operating ratio (operating expenses as a percentage of operating revenue) because it eliminates the effect of our revenue equipment financing decisions.

In fiscal 2002, we began to implement a strategic plan designed to improve our profitability. The primary components of our strategic plan are improving our freight mix by replacing lower yielding freight with more profitable freight; diversifying our customer base; upgrading our equipment fleet;

emphasizing discipline in all aspects of our operations; and successfully identifying and acquiring suitable acquisition candidates and integrating acquired operations. We believe the ongoing implementation of our strategic plan has contributed to the recent improvements in our operating performance and profitability.

Our operating revenue improved 8.4% to $397.9 million in fiscal 2004 from $367.1 million in fiscal 2003. We experienced a net loss of $0.3 million in fiscal 2004 compared to net income of $3.6 million in 2003. Included in those results were a $9.8 million pretax impairment charge related to our decision to dispose of certain used trailers and a $3.1 million fuel tax refund in fiscal 2004 and a $0.9 million pretax write-off of loan origination costs in fiscal 2003. Excluding the impact of these items, which we believe to be non-recurring, and we would have generated pre-tax income of $9.9 million in fiscal 2004 compared to pre-tax income of $7.5 million in fiscal 2003. We believe that excluding the impact of these items affords investors with a consistent basis for comparing our operating results from year-to-year.

Stock Issuance

In the fourth quarter of fiscal 2004, we issued 1.85 million shares of our common stock in a public offering. The stock issuance resulted in net proceeds to us of approximately $25.1 million. We used the proceeds to repay all amounts outstanding under our revolving credit facility. The balance of the net proceeds were used to pay off debt and leases related to equipment.

Results of Operations

The following table sets forth the percentage relationship of revenue and expense items to operating revenue for the periods indicated.

	Fiscal year end
	2004
Operating revenue	100.0%
Operating expenses:	
Salaries, wages, and employee benefits	31.3
Fuel	13.6
Operations and maintenance	8.3
Insurance and claims	4.8
Depreciation, amortization, and impairment charges(1)	6.5
Revenue equipment rentals	7.6
Purchased transportation	19.5
Cost of products and services sold	1.2
Professional and consulting fees	0.6
Communication and utilities	1.0
Operating taxes and licenses	2.1
General and other operating	1.7
Total operating expenses	98.2

Operating income	1.8
Other (income) expense:	
Interest expense, net(2)	0.9
Other (income) expense	0.1
Income before income taxes	0.8
Provision for income taxes	0.9
Net income (loss)	(0.1)%

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(1) Includes a $9.8 million trailer impairment charge or 2.5% of operating revenue in fiscal 200

(2) Includes a $914,000 pretax write-off of unamortized loan origination costs for refinancin ended September 30, 2002.

Fiscal year ended June 30, 2004, compared with fiscal year ended June 30, 2003

Operating revenue increased by $30.8 million, or 8.4%, to $397.9 million for fiscal 2004, from $367.1 million for fiscal 2003. This increase was primarily attributable to a 4.8% improvement in average revenue per total mile, excluding fuel surcharge, from $1.169 to $1.225, a 2.0% increase in average miles per tractor per week, from 2,179 to 2,223, and a 4.1% increase in average tractors from 2,172 to 2,262. The improvement in average revenue per total mile resulted primarily from better overall freight rates in fiscal 2004, a decrease in the percentage of our freight comprised of automotive parts and a corresponding increase in the percentage of our freight comprised of consumer non-durables, and to a lesser extent a reduction in our percentage of non-revenue miles. The increase in miles per tractor per week was primarily attributable to stronger overall freight demand in the 2004 period. Revenue per tractor per week, excluding fuel surcharge, which is our primary measure of asset productivity, increased 7.0% to $2,723 in fiscal 2004, from $2,546 for fiscal 2003, as a result of increases in revenue per mile and miles per tractor. The increase in average tractors was primarily related to our acquisition of certain assets of Highway in the first quarter of fiscal 2004. Revenue for TruckersB2B was $8.1 million in fiscal 2004, compared to $7.2 million in fiscal 2003. The TruckersB2B revenue increase resulted from an increase in member usage of various programs, including the fuel and tire discount programs.

Salaries, wages, and employee benefits were $124.5 million, or 31.3% of operating revenue, for fiscal 2004, compared to $111.6 million, or 30.4% of operating revenue, for fiscal 2003. The increase in the overall dollar

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amount primarily was related to a 16.6% increase in company miles, which in turn increased driver wages. The 0.9% increase in this expense category as a percentage of operating revenue was primarily attributable to an increase in the percentage of our fleet comprised of company trucks, an increase in driver compensation, and an increase in administrative payroll and related expenses for the Highway Express employees. We expect this line item to increase in the near term primarily because of a driver pay increase implemented during March 2004.

Fuel expenses increased to $54.0 million, or 13.6% of operating revenue, for fiscal 2004, compared to $47.6 million, or 13.0% of operating revenue, for the same period in fiscal 2003. This increase was primarily attributable to a 16.6% increase in company miles and an increase in average fuel prices of approximately $0.06 per gallon. Fuel expense was partially offset by the collection of $12.7 million in fuel surcharge revenue in the fiscal 2004 period, compared to $9.0 million in the fiscal 2003 period. In addition, fuel expense was reduced by a $3.1 million fuel tax refund relating to prior years. We expect fuel prices may remain at relatively high levels due to low inventory and unrest in the Middle East. Higher fuel prices will increase our operating expenses to the extent we cannot offset them with surcharges.

Operations and maintenance expenses increased to $33.1 million for fiscal 2004, from $31.7 million for fiscal 2003. This dollar amount increase was primarily the result of our larger fleet of company-operated equipment in fiscal 2004. As a percentage of operating revenue, operations and maintenance decreased to 8.3% of revenue for fiscal 2004, compared to 8.6% for fiscal 2003. The decrease in maintenance expense as a percentage of revenue in the fiscal 2004 period was primarily the result of our fleet upgrade initiative, as newer tractors and trailers generally require less maintenance, which was partially offset by a larger percentage of our fleet being comprised of company-operated equipment in the fiscal 2004 period. Operations and maintenance consist of direct operating expense, maintenance and tire expense.

Insurance and claims expense was $18.9 million, or 4.8% of operating revenue, for fiscal 2004, compared to $14.1 million, or 3.8% of operating revenue, for fiscal 2003. The primary reason for the increase in insurance and claims expense relates to one significant accident that occurred and was accrued for in the fourth quarter of fiscal 2004. Our insurance expenses consist of premiums for liability, physical damage, and cargo damage insurance. 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 regularly evaluate our insurance program in an effort to maintain a balance between premium expense and the risk retention we are willing to assume.

Depreciation and amortization, consisting primarily of depreciation of revenue equipment, increased to $25.8 million, or 6.5% of operating revenue, in fiscal 2004 from $13.8 million, or 3.8% of operating revenue, for fiscal 2003. This increase was primarily attributable to the pretax impairment charge of $9.8 million, or 2.5% of operating revenue in fiscal 2004 related to a plan to dispose of all 48-foot trailers in addition to 53-foot trailers over nine years old. We disposed of approximately 1,600 1994-1998 model year trailers and replaced them with 1,300 2004/2005 model year trailers. We also incurred higher depreciation due to the equipment we acquired in the Highway Express acquisition and losses on disposition of some of the tractors acquired from Burlington Motor Carriers. These items were partially offset by our increased use of operating leases to finance acquisitions of revenue equipment. Revenue equipment held under operating leases is not reflected on our balance sheet and the expenses related to such equipment are reflected on our statements of operations in revenue equipment rentals, rather than in depreciation and amortization and interest expense, as is the case for revenue equipment that is financed with borrowings or capital leases. We expect most of the new tractors and trailers acquired in connection with our fleet upgrade will be financed under off-balance sheet operating leases. In such event, we expect a decrease in depreciation and amortization going forward, excluding the impact of the impairment charge.

Revenue equipment rentals were $30.2 million, or 7.6% of operating revenue, in fiscal 2004, compared to $24.5 million, or 6.7% of operating revenue, for fiscal 2003. This increase was attributable to a higher proportion of our tractor and trailer fleet held under operating leases during the 2004 period. As we expect to finance most of our new tractors and trailers under off-balance sheet operating leases, we expect revenue equipment rentals will increase going forward.

Purchased transportation decreased to $77.6 million, or 19.5% of operating revenue, for fiscal 2004, from $85.5 million, or 23.3% of operating revenue, for fiscal 2003. This decrease was primarily related to reduced independent contractor expense, as the percentage of our fleet comprised of independent contractors decreased.

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 the majority of our equipment additions to come in our company-operated fleet. As a result, the percentage of our fleet comprised of independent contractors may continue to decline, with a corresponding decrease in this expense category. It has become difficult to recruit and retain independent contractors.

All of our other operating expenses are relatively minor in amount, and there were no significant changes in these expenses.

Net interest expense decreased by $2.5 million, or 40.3%, to $3.7 million in fiscal 2004, or .9% of operating revenue, from $6.2 million, or 1.7% of operating revenue, in fiscal 2003. The decrease was the result of reduced bank borrowings, which decreased to $6.0 million at June 30, 2004, from $23.1 million at June 30, 2003, reduced capital lease obligations, which decreased to $5.3 million at June 30, 2004, from $28.2 million at June 30, 2003, and a one-time pretax write-off of unamortized loan origination costs of approximately $0.9 million related to the refinancing of our line of credit in fiscal 2003. The reduction in our capital lease obligations has resulted largely from our increased use of operating leases to finance acquisitions of new revenue equipment. The reduction in bank borrowings and other debt resulted from the use of the proceeds of our secondary offering completed in May 2004 and from increased working capital related to our increased profitability in fiscal 2004.

Our pretax margin, which we believe is a useful measure of our operating performance because it is neutral with regard to the method of revenue equipment financing that a company uses, improved to 2.5% for fiscal 2004, excluding the impact of the $9.8 million pretax impairment charge, or 2.5% of pretax margin, and a $3.1 million fuel tax refund, or 0.8% of pretax margin, from 2.0% for fiscal 2003, excluding the impact of a one-time pretax write-off of unamortized loan origination costs of approximately $0.9 million related to the refinancing of our line of credit, or 0.2% of pretax margin. In addition to other factors described above, Canadian exchange rate fluctuations principally impact salaries, wages, and benefits and purchased transportation and, therefore, impact our pretax margin and results of operations.

Income taxes increased $0.5 million to $3.4 million for fiscal 2004, from $2.9 million, for fiscal 2003. The effective tax rate increased as a result of an increase in non-deductible expenses related to our driver per diem pay structure, in addition to the tax effect of final settlement with the Internal Revenue Service related to all of the Company's consolidated federal income tax returns through fiscal year June 30, 2001. As per diem charges are partially non-deductible for income tax purposes, our tax rate will fluctuate as our net income fluctuates.

Fiscal year ended June 30, 2003, compared with fiscal year ended June 30, 2002

Operating revenue increased by $30.1 million, or 8.9%, to $367.1 million for fiscal 2003, from $337.0 million for fiscal 2002. This increase resulted from a 3.1% improvement in average revenue per total mile, excluding fuel surcharge, from $1.134 to $1.169, and the full year effect of tractor additions from the Burlington acquisition made in March of fiscal 2002. Dedicated operations for outsourced spotting services, which began in March 2002, represented approximately $3.3 million of this increase. Revenue for TruckersB2B was $7.2 million in fiscal 2003 compared to $6.7 million in fiscal 2002. The TruckersB2B revenue increase is primarily related to an increase in member usage of various programs including the tire discount program. Revenue per tractor per week, excluding fuel surcharge, which is our primary measure of asset productivity, remained constant at $2,546 in fiscal 2003 compared to $2,548 in fiscal 2002.

Salaries, wages and benefits were $111.6 million, or 30.4% of operating revenue, for fiscal 2003, compared to $100.4 million, or 29.8% of operating revenue, for fiscal 2002. This increase is primarily related to a 16.2% increase in company miles, which in turn increased the amount paid to drivers. The non-driver payroll expense and employer-paid health insurance remained consistent year over year despite an industry wide increase in medical expenses.

Fuel expenses increased to $47.6 million, or 13.0% of operating revenue, for fiscal 2003 compared to $36.0 million, or 10.7%, in fiscal 2002. This increase was primarily attributable to a 16.2% increase in company miles and an increase in average fuel prices of approximately $0.17 per gallon. Fuel expense also was partially offset by the collection of $9.0 million in fuel surcharge revenue in the fiscal 2003 period, compared to $2.8 million in the fiscal 2002 period. We expect fuel prices may remain at relatively high levels due to low inventory and unrest

in the Middle East. Higher fuel prices will increase our operating expenses to the extent we cannot offset them with surcharges.

Operations and maintenance increased to $31.7 million, or 8.6% of operating revenue, for fiscal 2003, compared to $28.1 million, or 8.3% of operating revenue, in fiscal 2002. Maintenance expenses increased in fiscal 2003, as the average age of our tractors increased to 2.7 years from 2.3 years and trailers increased to 6.1 years from 4.9 years. As the age of our equipment has increased, the cost to maintain the fleet has increased. Operations and maintenance consist of direct operating expense, maintenance and tire expense.

Insurance and claims expense was $14.1 million, or 3.8% of operating revenue, for fiscal 2003, compared to $12.0 million, or 3.6% of operating revenue, for fiscal 2002. 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 regularly evaluate our insurance program in an effort to maintain a balance between premium expense and the risk retention we are willing to assume.

Depreciation and amortization, consisting primarily of depreciation of revenue equipment, increased slightly to $13.8 million in fiscal 2003 from $13.7 million for fiscal 2002. As a percentage of operating revenue, depreciation and amortization decreased slightly to 3.8% of operating revenue in fiscal 2003 from 4.1% of operating revenue in fiscal 2002, as we moved to financing revenue equipment under operating leases. As such, this revenue equipment is not reflected on our balance sheet and the expenses related to such equipment are reflected on our statements of operations in revenue equipment rentals, rather than in depreciation and amortization and interest expense, as is the case for revenue equipment that is financed with borrowings or capital leases. We expect most of the new tractors and trailers acquired in connection with our fleet upgrade will be financed under off-balance sheet operating leases.

Revenue equipment rentals were $24.5 million, or 6.7% of operating revenue, in fiscal 2003, compared to $21.8 million, or 6.5% of operating revenue, for fiscal 2002. This increase was attributable to a higher proportion of our tractor and trailer fleet held under operating leases during fiscal 2003. As we expect to finance most of our new tractors and trailers under off-balance sheet operating leases, we expect revenue equipment rentals will increase going forward.

Purchased transportation decreased to $85.5 million, or 23.3% of operating revenue, for fiscal 2003, from $90.3 million, or 26.8% of operating revenue, for fiscal 2002. This decrease was primarily related to reduced independent contractor expense, as the percentage of our fleet comprised of independent contractors decreased. 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 the majority of our equipment additions to come in our company-operated fleet. As a result, the percentage of our fleet comprised of independent contractors may continue to decline, with a corresponding decrease in this expense category. It has become difficult to recruit and train independent contractors.

All of our other operating expenses are relatively minor in amount, and there were no significant changes in these expenses.

Net interest expense decreased by $1.3 million, or 17.3%, to $6.2 million in fiscal 2003, or 1.7% of operating revenue, from $7.5 million in fiscal 2002, or 2.2% of operating revenue. The decrease was the result of lower interest rates and reduced bank borrowings, offset by a one-time pretax write-off of unamortized loan origination costs of approximately $0.9 million related to our line of credit in fiscal 2003. Interest rates decreased 0.9% year-over-year and bank borrowings decreased to $23.1 million for fiscal 2003 from $38.9 million for fiscal 2002.

Other income and expense includes approximately $1.1 million of commission income related to a receivables collection agreement between Foothill Capital and us. This agreement related to the collection of receivables tied to the bankrupt Burlington Motor Carriers' business. We have recognized approximately $1.0 million of other expense related to a write-down of revenue equipment acquired from Foothill Capital, which has not been located.

Our pretax margin, which we believe is a useful measure of our operating performance because it is neutral with regard to the method of revenue equipment financing that a company uses, improved to 2.0%, excluding the impact of a one-time pretax write-off of unamortized loan origination costs of approximately $0.9 million related to the refinancing of our line of credit in fiscal 2003, from 0.9% in fiscal 2002.

Income taxes increased by $1.7 million to $2.9 million for fiscal 2003 from $1.2 million for fiscal 2002. The effective tax rate increased as a result of an increase in non-deductible expenses related to our driver per diem pay structure and the tax effect on the trailer impairment. As per diem charges are partially non-deductible for income tax purposes, our tax rate will fluctuate as our net income fluctuates.

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. Our principal sources of liquidity are cash generated from operations, bank borrowings, capital and operating lease financing of revenue equipment, proceeds from the sale of used revenue equipment, and to a lesser extent, the proceeds from our recent stock issuance.

We generated net cash from operating activities of $33.1 million in fiscal

2004, $33.7 million in fiscal 2003, and $14.5 million in fiscal 2002. In fiscal 2004, cash flow remained relatively constant compared to fiscal 2003 with an increase in trade receivables offset by an increase in accounts payable.

Net cash used in investing activities was $4.6 million for fiscal 2004, compared to net cash provided by investing activities of $3.2 million for fiscal 2003 and $5.3 million for fiscal 2002. Approximately $3.6 million of the cash used in investing activities for fiscal 2004 was related to our purchase of certain assets of Highway Express in August of 2003. In addition, cash used in (provided by) investing activities includes the net cash effect of acquisitions and dispositions of revenue equipment during each year. Capital expenditures (including the value of equipment procured under capital leases and excluding the assets purchased from Highway Express) totaled $25.1 million in fiscal 2004, $7.1 million in fiscal 2003, and $19.0 million in fiscal 2002. We generated proceeds from the sale of property and equipment of $22.8 million in fiscal 2004, $10.3 million in fiscal 2003, and $11.7 million in fiscal 2002.

Net cash used in financing activities was $29.2 million in fiscal 2004, $36.2 million in fiscal 2003, and $20.2 million in fiscal 2002. Financing activity represents bank borrowings (new borrowings, net of repayments) and payment of the principal component of capital lease obligations.

As of June 30, 2004, we had on order 407 tractors and 600 trailers for delivery through June 2005. These revenue equipment orders represent a capital commitment of approximately $45.6 million, before considering the proceeds of equipment dispositions. In connection with our fleet upgrade, we have financed most of the new tractors and new trailers we have acquired to date under off-balance sheet operating leases. A portion of the used equipment that has been or will be replaced by these new units was or is owned or held under capital leases and, therefore, carried on our balance sheet. As a result of our increased use of operating leases to finance acquisitions of revenue equipment, we have reduced our balance sheet debt. At June 30, 2004, our total balance sheet debt, including capital lease obligations and current maturities, was $14.5 million, compared to $60.8 million at June 30, 2003, and $97.0 million at June 30, 2002. Our debt-to-capitalization ratio (total balance sheet debt as a percentage of total balance sheet debt plus total stockholders' equity) decreased to 14.9% at June 30, 2004, from 51.5% at June 30, 2003, and 64.3% at June 30, 2002.

Over the past several years, we have financed most of our new tractors and trailers under operating leases, which are not reflected on our balance sheet. The use of operating leases also affects our statement of cash flows. For assets subject to these operating leases, we do not record depreciation as an increase to net cash provided by operations, nor do we record any entry with respect to investing activities or financing activities.

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. We were obligated for residual value payments related to operating leases of $42.5 million at June 30, 2004and $51.1 million at June 30, 2003. A portion of these amounts is covered by repurchase and/or trade agreements we have with the equipment manufacturer. We believe that any residual payment obligations that are not covered by the manufacturer will be satisfied, in the aggregate, by the value of the related equipment at the end of the lease. We anticipate that our continued reliance on operating leases, rather than bank borrowings or capital leases, to finance the acquisition of revenue equipment in connection with our fleet upgrade will allow us to use our cash flows to further reduce our balance sheet debt.

The tractors on order are not protected by manufacturers' repurchase arrangements and are not subject to "walk-away" leases under which we can return the equipment without liability regardless of its market value at the time of return. 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 provide to our equipment lessors.

On September 26, 2002, we entered into our current primary credit facility with Fleet Capital Corporation, Fleet Capital Canada Corporation and several other lenders. This $55.0 million facility consists of revolving loan facilities, approximately $10.8 million in term loan subfacilities, and a commitment to issue and guaranty letters of credit. Repayment of the amounts outstanding under the credit facility is secured by a lien on our assets, including the stock or other equity interests of our subsidiaries, and the assets of certain of our subsidiaries. In addition, certain of our subsidiaries that are not party to the credit facility have guaranteed repayment of the amount outstanding under the credit facility and have granted a lien on their respective assets to secure such repayment. The credit facility expires on September 26, 2005.

Amounts available under the credit facility are determined based on our accounts receivable borrowing base. The facility contains restrictive covenants, which, among other things, limit our ability to pay cash dividends and make capital expenditures and lease payments, and require us to maintain compliance with certain financial ratios, including a minimum fixed charge coverage ratio. We were in compliance with these covenants at June 30, 2004, and expect to remain in compliance for the foreseeable future. At June 30, 2004, $6.0 million of our credit facility was utilized as outstanding borrowings and $6.8 million was utilized for standby letters of credit, and we had approximately $37.4 million in remaining availability under the facility.

We believe we will be able to fund our operating expenses, as well as our current commitments for the acquisition of revenue equipment in connection with our fleet upgrade, over the next twelve months with a combination of cash generated from operations, borrowings available under our primary credit facility, and lease financing arrangements. Our reduction in outstanding indebtedness with the application of the net proceeds of our recent stock offering significantly increased the availability under our primary credit facility for working capital and other purposes. Subject to any required lender approval, we may make acquisitions, although we do not have any specific acquisition plans at this time.

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 improving operating results, anticipated future cash flows, current availability under our credit facility, as well as increased borrowing availability following the application of offering proceeds, 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.

As of June 30, 2004, our bank loans, capitalized leases, operating leases, other debts, and future commitments have stated maturities or minimum annual payments as follows:

Annual Cash Requirements as of June 30, 2004 (in thousands)

		Amounts Due by Period		
	Total	Less than One Year	One to Three Years	Three to Five Years
Operating leases (1)	$159,949	$37,298	$67,082	$27,106
Capital lease obligations(1)	5,317	3,040	1,449	225
Long-term debt	9,177	2,270	4,703	319
Sub-total	174,443	42,608	73,234	27,650
Future purchase of revenue equipment	45,555	3,477	13,908	21,919
Employment and consulting agreements(2)	1,430	958	453	19
Standby letters of credit	6,766	6,766	---	---
Total	$228,194	$53,809	$87,595	$49,588

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(1) Included in these balances are residual guarantees of $42.5 million in total and $6.0 millio
We believe these amounts will be satisfied by manufacturer commitments.

(2) The amounts reflected in the table do not include amounts that could become payable to ou
Financial Officer, and our Executive Vice President under certain circumstances if
terminated.

Off-Balance Sheet Arrangements

Operating leases have been an important source of financing for our revenue equipment. We lease a significant portion of our tractor and trailer fleet using operating leases. In connection with substantially all of our operating leases, we have issued residual value guarantees, which provide that if we do not purchase the leased equipment from the lessor at the end of the lease term, then we are liable to the lessor for an amount equal to the shortage (if any) between the proceeds from the sale of the equipment and an agreed value. With respect to a substantial majority of our tractors and a significant minority of our trailers held under operating leases, we have obtained from the manufacturers residual value guarantees that meet or exceed the amount of our guarantee to the lessor. 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 currently believe that proceeds from the sale of equipment held under operating leases would exceed the amount of our residual obligation on all operating leases.

Inflation

Many of our operating expenses, including fuel costs and revenue equipment, are sensitive to the effects of inflation, which result in higher operating costs and reduced operating income. The effects of inflation on our business during the past three years were most significant in fuel. We have limited the effects of inflation through increases in freight rates and fuel surcharges.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that impact the amounts reported in our consolidated financial statements and accompanying notes. Therefore, the reported amounts of assets, liabilities, revenues, expenses and associated disclosures of contingent assets and liabilities are affected by these estimates and assumptions. We evaluate these estimates and assumptions on an ongoing basis, utilizing historical experience, consultation with experts, and other methods considered reasonable in the particular circumstances. Nevertheless,

actual results may differ significantly from our estimates and assumptions, and it is possible that materially different amounts would be reported using differing estimates or assumptions. We consider our critical accounting policies to be those that require us to make more significant judgments and estimates when we prepare our financial statements. Our critical accounting policies include the following:

Revenue Recognition. Upon delivery of a load, we recognize all revenue related to that load, including revenue from detention charges and our fuel surcharge program. In this connection, we make estimates concerning the collectibility of our accounts receivable and the required amounts of reserves for uncollectible accounts. We also recognize direct operating expenses, such as drivers' wages and fuel, on the date of delivery of the relevant load.

Depreciation of Property and Equipment. We depreciate our property and equipment using the straight line method over the estimated useful life of the asset. We generally use estimated useful lives of 4 to 12 years for tractors and trailers, and estimated salvage values for tractors and trailers generally range from 25% to 40% of the capitalized cost. Gains and losses on the disposal of revenue equipment are included in depreciation expense in our statements of operations.

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

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

Operating leases. We recently have financed a majority of our revenue equipment acquisitions with operating leases, rather than with bank borrowings or capital lease arrangements. These leases generally contain residual value guarantees, which provide that the value of equipment returned to the Lessor at the end of the lease term will be no lower than a negotiated amount. To the extent that the value of the equipment is below the negotiated amount, we are liable to the Lessor for the shortage at the expiration of the lease. For approximately 81% of our current tractors and 61% of our current trailers, we have residual value guarantees at amounts equal to our residual obligation to the lessors. For all other equipment (or to the extent we believe any manufacturer will refuse or be unable to meet its obligation), we are required to recognize additional rental expense to the extent we believe the fair market value at the lease termination will be less than our obligation to the lessor.

In accordance with SFAS 13, "Accounting for Leases," property and equipment held under operating leases, and liabilities related thereto, are not reflected on our balance sheet. All expenses related to revenue equipment operating leases are reflected on our statements of operations in the line item entitled "Revenue equipment rentals." As such, financing revenue equipment with operating leases instead of bank borrowings or capital leases effectively moves the interest component of the financing arrangement into operating expenses on our statements of operations. Consequently, we believe that pretax margin (income before income taxes as a percentage of operating revenue) may provide a more useful measure of our operating performance than operating ratio (operating expenses as a percentage of operating revenue) because it eliminates the impact of revenue equipment financing decisions.

Claims Reserves and Estimates. The primary claims arising for us consist of cargo liability, personal injury, property damage, collision and comprehensive, workers' compensation, and employee medical expenses. We maintain self-insurance levels for these various areas of risk and have established reserves to cover these self-insured liabilities. We also maintain insurance to cover liabilities in excess of these self-insurance amounts. Claims reserves represent accruals for the estimated uninsured portion of reported claims, including adverse development of reported claims, as well as estimates of incurred but not reported claims. Reported claims and related loss reserves are estimated by third party administrators, and we refer to these estimates in establishing our reserves. Claims incurred but not reported are estimated based on our historical experience and industry trends, which are continually

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monitored, and accruals are adjusted when warranted by changes in facts and circumstances. In establishing our reserves we must take into account and estimate various factors, including, but not limited to, assumptions concerning the nature and severity of the claim, the effect of the jurisdiction on any award or settlement, the length of time until ultimate resolution, inflation rates in health care and in general, interest rates, legal expenses, and other factors. Our actual experience may be different than our estimates, sometimes significantly. Changes in assumptions as well as changes in actual experience could cause these estimates to change in the near term. Insurance and claims expense will vary from period to period based on the severity and frequency of claims incurred in a given period.

Goodwill. Our consolidated balance sheets at June 30, 2004, and June 30, 2003, included goodwill of acquired businesses of approximately $16.7 million. This amount has been recorded as a result of prior business acquisitions accounted for under the purchase method of accounting. Prior to July 1, 2001, goodwill from each acquisition was generally amortized on a straight-line basis. Under FASB No. 142, Goodwill and Other Intangible Assets, which we adopted as of July 1, 2001, goodwill is tested for impairment annually (or more often, if an event or circumstance indicates that an impairment loss has been incurred) in lieu of amortization. The provisions of FASB No. 142 required the completion of a transitional impairment test within six months of adoption. We completed this transitional test and there was no impairment as of July 1, 2001. During the fourth quarter of fiscal 2004, we completed our most recent annual impairment test for that fiscal year and concluded that there was no indication of impairment.

A significant amount of judgment is required in performing goodwill impairment tests. Such tests include estimating the fair value of our reporting units. As required by FASB No. 142, we compare the estimated fair value of our reporting units with their respective carrying amounts including goodwill. We define a reporting unit as an operating segment. Under FASB No. 142, fair value refers to the amount for which the entire reporting unit could be bought or sold. Our methods for estimating reporting unit values include market quotations, asset and liability fair values, and other valuation techniques, such as discounted cash flows and multiples of earnings, revenue, or other financial measures. With the exception of market quotations, all of these methods involve significant estimates and assumptions, including estimates of future financial performance and the selection of appropriate discount rates and valuation multiples.

Accounting for Income Taxes. Deferred income taxes represent a substantial liability on our consolidated balance sheet. Deferred income taxes are determined in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. We evaluate our tax assets and liabilities on a periodic basis and adjust these balances as appropriate. We believe that we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law. However, should our tax positions be challenged and not prevail, different outcomes could result and have a significant impact on the amounts reported in our consolidated financial statements.

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

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

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Factors That May Affect Future Results

Our business is subject to a number of known and unknown risks and uncertainties that may have a materially adverse effect on our financial condition or operating results, many of which are beyond our control.

Important factors currently known to us that could adversely affect our financial condition or operating results are summarized in Exhibit 99.1 to this report and discussed in more detail in the "Risk Factors" section of our Registration Statement on Form S-3 filed with the SEC on May 19, 2004.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We experience various market risks, including changes in interest rates, foreign currency exchange rates, and fuel prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes, nor when there are no underlying related exposures.

Interest Rate Risk. We are exposed to interest rate risk principally from our primary credit facility. The credit facility carries a maximum variable interest rate of either the bank's base rate plus 3.0% or LIBOR plus 3.5%. At June 30, 2004, the interest rate for revolving borrowings under our credit facility was LIBOR plus 2.25%. At June 30, 2004, we had $6.0 million in variable rate term loan borrowings outstanding under the credit facility. Assuming variable rate borrowings under the credit facility at June 30, 2004 levels, a hypothetical 10% increase in the bank's base rate and LIBOR would reduce our net income by approximately $43,000.

Foreign Currency Exchange Rate Risk. We are subject to foreign currency exchange rate risk, specifically in connection with our Canadian operations. While virtually all of the expenses associated with our Canadian operations, such as independent contractor costs, company driver compensation, and administrative costs, are paid in Canadian dollars, a significant portion of our revenue generated from those operations is billed in U.S. dollars because many of our customers are U.S. shippers transporting goods to or from Canada. As a result, increases in the Canadian dollar exchange rate adversely affect the profitability of our Canadian operations. Assuming revenue and expenses for our Canadian operations identical to the year ended June 30, 2004 (both in terms of amount and currency mix), we estimate that a $0.01 increase in the Canadian dollar exchange rate would reduce our annual net income by approximately $350,000. In response to the increase in Canadian dollar exchange rates, we entered into derivative financial instruments to reduce our exposure to currency fluctuations. In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Certain Hedging Activities." In June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." SFAS 133 and SFAS 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. Derivatives that are not hedges must be adjusted to fair value through earnings. As of June 30, 2004, we had 92% of our estimated Canadian currency exposure hedged through August 2004. These derivative contracts resulted in a $107,000 expense for the year ended June 30, 2004.

We generally do not face the same magnitude of foreign currency exchange rate risk in connection with our intra-Mexico operations conducted through our Mexican subsidiary, Jaguar, because our foreign currency revenues are generally proportionate to our foreign currency expenses for those operations. For purposes of consolidation, however, the operating results earned by our subsidiaries, including Jaguar, in foreign currencies are converted into United States dollars. As a result, a decrease in the value of the Mexican peso could adversely affect our consolidated results of operations. Assuming revenue and expenses for our Mexican operations identical to the year ended June 30, 2004 (both in terms of amount and currency mix), we estimate that a $0.01 decrease in the Mexican peso exchange rate would reduce our annual net income by approximately $65,000.

Commodity Price Risk. Shortages of fuel, increases in prices, or rationing of petroleum products can have a materially adverse effect on our operations and profitability. Fuel is subject to economic, political and market factors that are outside of our control. Historically, we have sought to recover a portion of short-term increases in fuel prices from customers through the collection of fuel surcharges. However, fuel surcharges do not always fully offset increases in fuel prices. In addition, from time-to-time we may enter into derivative financial instruments to reduce our exposure to fuel price fluctuations. In accordance with SFAS 133, we adjust any derivative instruments to fair value through earnings on a monthly basis. As of June 30, 2004, we had none of our estimated fuel purchases hedged. Derivative contracts had no material impact on our results of operations for the year ended June 30, 2004.

Item 8. Financial Statements and Supplementary Data

The following statements are filed with this report:

Report of Independent Registered Public Accounting Firm;
Consolidated Balance Sheets as of June 30, 2004 and 2003;
Consolidated Statements of Operations for years ended June 30, 2004, 2003, and 2002;
Consolidated Statements of Cash Flows for years ended June 30, 2004, 2003, and 2002;
Consolidated Statements of Stockholders' Equity for years ended June 30, 2004, 2003, and 2002; and
Notes to Consolidated Financial Statements.

CELADON GROUP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

Three years ended June 30, 2004 with
Report of Independent Auditors

Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Celadon Group, Inc.

We have audited the accompanying consolidated balance sheets of Celadon Group, Inc. as of June 30, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Celadon Group, Inc. at June 30, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statements schedule, when considered in relation to the basic financial statement taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ERNST & YOUNG LLP

Indianapolis, Indiana
July 29, 2004

CONSOLIDATED BALANCE SHEETS
June 30, 2004 and 2003
(Dollars in thousands)

A S S E T S	2004
Current assets:	
Cash and cash equivalents	$ 356
Trade receivables, net of allowance for doubtful accounts of $1,945 and $1,065 in 2004 and 2003, respectively	52,248
Accounts receivable -other	4,476
Prepaid expenses and other current assets	5,427
Tires in service	4,368
Income tax receivable	---
Deferred income taxes	1,974
Total current assets	68,849
Property and equipment	102,084
Less accumulated depreciation and amortization	40,283
Net property and equipment	61,801
Tires in service	1,875
Goodwill	16,702
Other assets	2,083
Total assets	$ 151,310
L I A B I L I T I E S A N D S T O C K H O L D E R S' E Q U I T Y	
Current liabilities:	
Accounts payable	$ 7,464
Accrued salaries and benefits	9,229
Accrued insurance and claims	7,563
Accrued independent contractor expense	2,269
Accrued fuel expense	2,466
Other accrued expenses	11,499
Current maturities of long-term debt	2,270
Current maturities of capital lease obligations	3,040
Income tax payable	2,941
Total current liabilities	48,741
Long-term debt, net of current maturities	6,907
Capital lease obligations, net of current maturities	2,277
Deferred income taxes	10,530
Minority interest	25
Stockholders' equity:	
Preferred stock, $1.00 par value, authorized 179,985 shares; no shares issued and outstanding	---
Common stock, $0.033 par value, authorized 12,000,000 shares; issued 9,748,970 and 7,789,764 shares at June 30, 2004 and 2003, respectively	322
Additional paid-in capital	86,588
Retained deficit	(1,036)
Unearned compensation on restricted stock	(689)
Accumulated other comprehensive loss	(2,355)
Treasury stock, at cost, 96,001 shares at June 30, 2003	---
Total stockholders' equity	82,830
Total liabilities and stockholders' equity	$ 151,310

See accompanying notes to consolidated financial statements.

CELADON GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended June 30, 2004, 2003 and 2002
(Dollars in thousands, except share amounts)

	2004	20
Operating revenue	$397,923	$36
Operating expenses:		
Salaries, wages and employee benefits	124,532	11
Fuel	54,019	4
Operations and maintenance	33,081	3
Insurance and claims	18,919	1
Depreciation, amortization and impairment charge(1)	25,779	1
Revenue equipment rentals	30,244	2
Purchased transportation	77,617	8
Cost of products and services sold	5,022	