CELADON GROUP INC
Form S-3/A
May 18, 2004

As filed with the Securities and Exchange Commission on May 18, 2004

Registration No. 333-114980

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2
to

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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)*

One Celadon Drive
Indianapolis, Indiana 46235 4207
(317) 972-7000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Paul A. Will
Chief Financial Officer
Celadon Group, Inc.
One Celadon Drive
Indianapolis, Indiana 46235 4207
(317) 972-7000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practical after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said section 8(a), may determine.

SUBJECT TO COMPLETION, DATED MAY 18, 2004

2,340,000 Shares

Common Stock

We are offering 2,200,000 shares of our common stock and the selling stockholders identified in this prospectus are offering 140,000 shares of our common stock. The underwriters also have an option to purchase up to an additional 351,000 shares of common stock from us solely to cover over-allotments. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our common stock is listed on the Nasdaq National Market under the symbol CLDN. The last reported sale price of our common stock on May 17, 2004 was $15.54 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 5.

Neither the Securities and Exchange Commission nor any state securities commissions has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	$	$
Underwriting discount and commission	$	$
Proceeds to us (before expenses)	$	$
Proceeds to selling stockholders (before expenses)	$	$

The underwriters expect to deliver the shares of common stock to purchasers on or about , 2004.

Legg Mason Wood Walker

Incorporated

BB&T Capital Markets

Morgan Keegan & Company, Inc.

Stephens Inc.

The date of this prospectus is , 2004.

PROSPECTUS SUMMARY

This summary highlights some of the information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors. The terms Company, we, us, our, and similar terms refer Celadon Group, Inc. and its consolidated subsidiaries, unless the context otherwise requires.

Our Business

We are one of North America s fifteen largest truckload carriers as measured by revenue. We generated $367.1 million in operating revenue during our fiscal year ended June 30, 2003. We have grown significantly throughout our history 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 approximately one-half of our revenue in fiscal 2003 from international movements, and we believe our approximately 150,000 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 potential opening of the border to Mexican drivers, which currently is suspended pending the determination of whether an environmental study is required, could provide us with a cost advantage based on differences in wages.

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 Zipp Express in 1999, Burlington Motor Carriers in 2002, and Highway Express in 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 more than 16,300 member trucking fleets representing approximately 435,000 tractors.

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. The processes we have undertaken include the following:

We analyzed our customers, lanes, and loads for profitability, based on revenue per mile, length of time for completion of the movement, attractiveness of positioning for the next load, driver friendliness, and total cost. We then sought rate increases and implemented a continuous process of attempting to improve our freight mix by replacing less profitable freight with more attractive freight. We believe these efforts have contributed to increases in our average revenue per loaded mile for eight consecutive quarters from $1.244 in the three months ended March 31, 2002, to $1.332 in the three months ended March 31, 2004.

Our operations group routed trucks to serve more profitable lanes and customers and maintained disciplined equipment positioning in favorable lanes, while striving to provide safe, dependable service to control our costs and justify a rate structure based on the quality of our service in addition to price.

We established customer guidelines that included reducing our exposure to the automotive industry; increasing our amount of higher yielding freight from less cyclical industries, such as consumer non-durables, and seeking freight in targeted geographic areas that improve our backhaul lanes and maintain compatibility with driver domiciles and our overall traffic patterns. We have reduced our concentration with DaimlerChrysler from approximately 42% of our revenue in fiscal 1997 and 20% in fiscal 2001 to 11% currently, and increased our amount of consumer non-durables business from approximately 8% of our revenue in fiscal 1997 and 9% in fiscal 2001 to 20% currently.

We shortened the trade cycle of our tractor fleet from five years to four years to obtain cost savings in the maintenance area and decided to replace the remaining 48-foot trailers and older 53-foot trailers in our fleet to obtain operating efficiencies.

We targeted acquisitions as a method to replace the freight we discontinued as part of our yield management efforts, as well as to grow our regional operations, balance lane flows, and add density in selected lanes. Our acquisitions of certain assets of Burlington Motor Carrier in 2002 and Highway Express in 2003 were consistent with these goals. These acquisitions further diversified our customer base, improved our overall freight mix, enhanced the profitability of our East-West lanes, and provided us a quality pool of drivers.

We believe our strategic plan has contributed to improvements in our financial and operating performance. We improved from a net loss of $5.3 million in fiscal 2001 to net income of $3.6 million in fiscal 2003. Implementation of our strategic plan is ongoing, and we expect significant additional improvements in our operating performance and profitability as we continue to execute the plan. Specifically, we expect further improvements in asset productivity and substantial benefits from our revenue equipment upgrade.

We intend to continue our growth and believe we are well positioned to capitalize on expansion opportunities and the improving U.S. economy. We plan to maintain our leading position in cross-border truckload shipments while continuing to position ourselves as a premier domestic truckload carrier. We believe our size, service, and technology will help us expand as a core carrier for major shippers in these markets. In addition, we intend to continue to seek acquisitions. We believe the capital and increased borrowing capacity provided by this offering will facilitate these efforts.

Company Information

We are incorporated in Delaware. Our principal executive offices are located at One Celadon Drive, Indianapolis, Indiana 46235-4207, and our telephone number is (317) 972-7000. Our website address is http://www.celadontrucking.com. Information contained in our website is not incorporated by reference into this prospectus, and you should not consider information contained in our website as part of this prospectus.

The Offering

Common stock being offered by us	2,200,000 shares
Common stock being offered by the selling stockholders	140,000 shares
Common stock to be outstanding after this offering	10,025,003 shares
Use of proceeds	We estimate that our net proceeds from the shares of common stock that we sell in this offering, after deducting underwriting discounts and other estimated expenses, will be approximately $32.0 million. We intend to use our net proceeds to pay down existing indebtedness and for working capital, which may be used to prepay some operating lease obligations. We will not receive any proceeds from the sale of shares by the selling stockholders.
Nasdaq National Market symbol	CLDN

Share information is based on 7,825,003 shares outstanding as of April 27, 2004, and excludes approximately 1.0 million shares of our common stock available for issuance under our stock option plans, approximately 0.8 million shares of which were issuable upon exercise of outstanding stock options as of April 27, 2004, and 67,800 shares of our common stock subject to restrictions granted as of April 27, 2004.

Except as otherwise indicated, we have presented the information in this prospectus on the assumption that the underwriters will not exercise their over-allotment option. If the over-allotment option is exercised in full, we will sell an additional 351,000 shares of common stock in this offering.

Risk Factors

An investment in our common stock involves a high degree of risk. Potential investors should carefully consider the risk factors set forth under Risk Factors beginning on page 5 and the other information contained or incorporated by reference in this prospectus before investing in our common stock.

SUMMARY HISTORICAL FINANCIAL AND OPERATING DATA

Our summary financial data as of and for the years ended June 30, 1999, 2000, 2001, 2002, and 2003 under the captions Statements of Operations Data and Balance Sheet Data are derived from our audited financial statements. The annual financial statements were audited by Ernst & Young LLP. The summary financial data as of and for the nine month periods ended March 31, 2003, and 2004, have been derived from our unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of our financial position and our results of operations for these periods. This data should be read in conjunction with our financial statements, related notes, and other financial information included or incorporated by reference in this prospectus.

	Year Ended June 30,					Nine Months Ended March 31,	
	1999	**2000**	**2001**	**2002**	**2003**	**2003**	**2004**
	(in thousands, except per share data, operating data, and percentages)						
Statements of Operations Data:							
Operating revenue	$281,829	$351,569	$351,818	$336,999	$367,105	$275,073	$291,610
Operating expenses(1)	266,538	345,991	351,162	326,454	354,371	265,969	289,558
Operating income(1)	15,291	5,578	656	10,545	12,734	9,104	2,052
Interest expense, net(2)	7,385	9,238	9,280	7,487	6,201	5,080	3,015
Other expense (income)	85	256	(331)	134	(3)	(25)	235
Minority interest in subsidiary		(547)	(331)				
Income (loss) before income taxes(1)(2)	7,821	(3,369)	(7,962)	2,924	6,536	4,049	(1,198)
Provision (benefit) for income taxes	2,980	(1,328)	(2,626)	1,215	2,948	1,676	1,445
Net income (loss)(1)(2)	$ 4,841	$ (2,041)	$ (5,336)	$ 1,709	$ 3,588	$ 2,373	$ (2,643)
Diluted earnings (loss) per share(1)(2)	$ 0.62	$ (0.26)	$ (0.70)	$ 0.22	$ 0.45	$ 0.30	$ (0.34)
Weighted average diluted shares outstanding	7,784	7,777	7,649	7,753	8,035	8,049	7,760
Balance Sheet Data (at end of period):							
Working capital	$ 20,115	$ 22,087	$ 13,352	$ 12,905	$ 8,343	$ 5,813	$ 14,574
Total assets	188,759	215,322	194,916	190,031	162,073	168,755	162,369
Long-term debt, revolving lines of credit, and capital lease obligations, including current maturities	93,918	115,446	105,245	97,022	60,794	69,606	50,513
Stockholders equity	57,306	58,407	52,063	53,916	57,252	56,021	55,007
Operating Data:							
For period:(3)							
Average revenue per loaded mile(4)	$ 1.240	$ 1.258	$ 1.236	$ 1.232	$ 1.266	$ 1.262	$ 1.310
Non-revenue miles percentage	8.9%	7.7%	8.0%	7.9%	7.7%	7.8%	7.5%

Average revenue per total mile[(4)]	$ 1.130	$ 1.160	$ 1.137	$ 1.134	$ 1.169	$ 1.164	$ 1.212
Average revenue per tractor per week[(4)]	$ 2,536	$ 2,552	$ 2,533	$ 2,548	$ 2,546	$ 2,538	$ 2,673
Average length of haul	1,091	1,098	987	950	942	945	993
At end of period:							
Total tractors[(5)]	2,155	2,580	2,368	2,568	2,491	2,559	2,798
Average age of company tractors (in years)[(6)]	3.7	2.2	2.0	2.3	2.7	2.7	2.3
Total trailers[(5)]	5,758	7,042	6,537	6,758	7,142	7,139	7,498
Average age of company trailers (in years)[(6)]	4.7	3.8	4.2	4.8	6.1	5.3	5.3

(1) Includes: (a) a $3.3 million pretax loss on the disposition of equipment in the quarter ended September 30, 1999; (b) a $0.8 million pretax write-off of deferred initial public offering costs for TruckersB2B in the year ended June 30, 2001; (c) a $3.7 million pretax loss on disposal of former flatbed unit in the quarter ended June 30, 2001; and (d) a $9.8 million pretax impairment charge in the quarter ended September 30, 2003, relating to the anticipated disposition of our approximately 1,600 remaining 48-foot trailers.

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

(3) Data for all periods presented are for our truckload revenue and operations and exclude revenue and operations of TruckerB2B; our Mexican subsidiary, Jaguar; and our less-than-truckload, local trucking (or shuttle), brokerage, logistics, and airfreight operations. Data for the fiscal years ended June 30, 1999, 2000, and 2001 also exclude the revenue and operations of our former flatbed division.

(4) Excludes fuel surcharges.

(5) Total fleet, including equipment operated by independent contractors and our Mexican subsidiary, Jaguar.

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

RISK FACTORS

Any investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and other information included in this prospectus before purchasing our common stock. Although the risks described below are the risks that we believe are material, they are not the only risks relating to our business and our common stock. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition, or results of operations. If any of the events described below occur, our business and financial results could be adversely affected in a material way. This could cause the market price of our common stock to decline, perhaps significantly, and you could lose all or part of your investment.

Risks Related to Our Business

Our business is subject to general economic and business factors, many of which are beyond our control and any of which could have a materially adverse effect on our operating results.

Our business is affected by a number of factors that may have a materially adverse effect on our results of our operations, many of which are beyond our control. These factors include:

- Significant increases or rapid fluctuations in fuel price and the prices and volumes of our fuel hedging and volume purchase commitments, if any;
- Fluctuations in currency exchange rates;
- Increases in insurance costs, liability claims, and self-insurance levels;
- Difficulty in attracting and retaining qualified drivers, including independent contractors;
- Excess tractor and trailer capacity in the trucking industry;
- Declines in the resale value of used equipment;
- Increases in interest rates, fuel taxes, and license and registration fees;
- Strikes or other work stoppages at customer, port, border, or other shipping locations;
- Rising costs of healthcare; and
- Regulatory changes, including the new hours-of-service requirements for drivers imposed by the U.S. Department of Transportation, or DOT, that became effective in January 2004.

We also are affected by recessionary economic cycles and downturns in customers business cycles, particularly in those industries, such as automotive, retail, and manufacturing, where we have a significant concentration of customers, and those regions, such as Mexico, Canada, and the Midwest, where we have a significant amount of business. Economic conditions may adversely affect our customers and their ability to pay for our services. Customers encountering adverse business conditions represent a greater potential for loss, and we may be required to increase our allowance for doubtful accounts.

In addition, we cannot predict the effects of actual or threatened terrorist attacks, efforts to combat terrorism, military action against any foreign state, heightened security requirements, or other related events. Any of these events, however, could negatively impact the economy and consumer confidence in the U.S., Mexico, and/or Canada, and could cause border crossing delays or the temporary closing of a border. Any of these matters would impair our operating efficiency and productivity or result in increased costs to us from security measures. Moreover, our results of operations may be affected by seasonal factors. Customers tend to reduce shipments after the winter holiday season and our operating expenses tend to be higher in the winter months primarily due to colder weather, which causes higher fuel consumption from increased idle time and higher repair and maintenance costs.

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If we are unable to successfully execute our strategic plan, our business and future results of operations are likely to suffer.

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 yield 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. This strategic plan exposes us to a number of risks, including the following:

We may not be able to obtain freight at rates sufficient to replace less profitable freight with more profitable lanes and loads, reduce our reliance on automotive freight, or diversify our customer base;

If the economy slows or demand for our services weakens, we may have to reduce our rates;

Upgrading our tractor and trailer fleets will result in increased expenditures and financial obligations, and we may be unable to generate sufficient cash from operations or obtain financing on favorable terms to fund the fleet upgrade; and

Our sales and marketing efforts may not be successful.

If we are unable to execute our strategic plan, it is unlikely we would be able to improve our profitability, and we may be unsuccessful in growing the size of our business.

We self-insure for a significant portion of our claims exposure, which could significantly reduce our earnings.

Insurance and claims are a significant component of our operating expenses and may vary substantially from period to period. We currently self-insure for a substantial portion of our claims exposure and accrue amounts for liabilities based on our assessment of claims that arise and our insurance coverage for the periods in which the claims arise. Therefore, if the number or severity of accidents we suffer during a particular period is higher than during prior periods, our profitability for that period will be lower. Our current insurance policy provides that we are generally self-insured for personal injury and property damage claims for amounts up to $1.0 million per occurrence. However, the policy also provides for an additional $2.75 million self-insured aggregate amount, with a limit of $1.5 million per occurrence until the $2.75 million aggregate threshold is reached. For example, if we were to experience, during the policy year, three separate personal injury and property damage claims, each resulting in exposure of $4.0 million, we would be self-insured for $2.5 million with respect to the first claim, $2.25 million with respect to the second claim, and $1.0 million with respect to the third claim and any subsequent claims during the policy year. We are responsible for a pro rata portion of legal and administrative expenses relating to all claims. We also are self-insured for cargo loss and damage claims for amounts up to $100,000 per occurrence, and for workers compensation claims for amounts up to $1.5 million per claim. We maintain separate insurance in Mexico consisting of bodily injury and property damage coverage in amounts, and with deductibles, that we consider reasonable, based on previous history. Because of our significant self-insured retention amounts, we have significant exposure to fluctuations in the number and severity of claims. If there is an increase in the frequency and severity of claims, or we are required to accrue or pay additional amounts if the claims prove to be more severe than our original assessments, our profitability would be adversely affected.

We maintain insurance above the amounts for which we self-insure with licensed insurance carriers. Since 2001, insurance carriers have been raising premiums for many businesses, including trucking companies. As a result, our insurance and claims expense could increase when our current primary casualty and workers compensation coverages expire in July 2004, or we could find it necessary to raise our self-insured retention. If these expenses increase, our earnings could be materially and adversely affected.

Our current aggregate primary and excess casualty insurance provides coverage up to a maximum per claim amount of $25.0 million, 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. While we have cargo coverage of $1.0 million, we frequently transport loads with values in excess of $1.0 million. Although we are exposed to claims in excess of $1.0 million, we have substantially mitigated our risk by negotiating contractual limits to exposure on substantially all of our high value loads, in addition to many of our other loads. If any claim were to exceed our coverage limits under our policies, or we were not protected through contractual provisions on cargo claims, we would bear the liability, in addition to our other self-insured amounts. Any such claim could materially and adversely affect our financial condition and results of operations.

Increases in compensation or difficulty in attracting drivers could affect our profitability and ability to grow.

Particularly during periods of an expanding economy, the trucking industry experiences substantial difficulty in attracting and retaining enough qualified drivers, including independent contractors. Driver turnover and shortages may impede our ability to take advantage of the improving U.S. economy. Our ability to attract and retain drivers could be adversely affected by increased availability of alternative employment opportunities in an economic expansion and by the potential need for more drivers due to more restrictive driver hours-of-service requirements imposed by the DOT, effective January 4, 2004. If we are unable to continue to attract drivers and contract with independent contractors in sufficient numbers, we could be required to adjust our driver compensation package, let trucks sit idle, and/or operate with fewer independent contractors and face difficulty meeting shipper demands, any of which could adversely affect our growth and profitability.

Fluctuations in the price or availability of fuel, as well as our hedging activities and fuel surcharge collections, may increase our cost of operation, which could materially and adversely affect our profitability.

Fuel is one of our largest operating expenses, and its price is subject to economic, political, and market factors that are outside of our control. Fuel prices tend to fluctuate, and we utilize fuel surcharges and hedging contracts to attempt to limit the effect of price fluctuations. These arrangements will not fully protect us from fuel price increases and also may result in our not receiving the full benefit of any fuel price decreases. Historically, we have been able to impose fuel surcharges on substantially all of our accounts. Although surcharges permit us to recover a portion of increases in fuel expenses from our customers, they do not fully protect us from price increases, and our results of operations could be materially and adversely affected if fuel prices rise rapidly. From time-to-time, we enter into derivative financial instruments, commonly referred to as hedging contracts, to reduce our exposure to fuel price increases. Conversely, if fuel prices fluctuate downward, we are required to make cash payments to the counter-party to the hedging contract. At March 31, 2004, we had approximately 9% of our estimated fuel purchases hedged through June 2004. The cost of our hedging arrangements could adversely affect our earnings and cash flows.

If we cannot effectively manage the challenges associated with doing business internationally, our revenues and profitability may suffer.

A substantial portion of our business is focused on providing and arranging for long-haul, point-to-point, time sensitive, full truckload transportation of goods between the United States, Mexico, and Canada. As a result, our success will continue to be largely dependent upon our ability to operate efficiently in Mexico and Canada. We face numerous risks associated with conducting these international operations, any of which could adversely affect our financial performance and results of operations. These risks include the following:

- The opening of the U.S. border to Mexican drivers may be further delayed or never happen, or rules relating to the border opening may be burdensome operationally, costly, or both.

- We are subject to a wide variety of foreign regulatory requirements that may change without notice.
- The exchange rates between the U.S. dollar and the foreign currencies that we deal with may fluctuate significantly, and those foreign currencies may be subject to inflationary pressures.
- We are exposed to the effects of political, social, and economic instability in these foreign countries.
- We are subject to various international and United States export and import restrictions.
- International payment cycles are often longer than those in the U.S.
- We may experience difficulty collecting accounts receivable or enforcing contractual obligations in foreign countries.
- We may have difficulty staffing and managing our foreign operations.
- We may experience difficulty managing culturally and geographically diverse operations.
- We are subject to the Foreign Corrupt Practices Act, which may place us at a competitive disadvantage to foreign companies that are not subject to similar regulations.
- Our operations may be adversely affected by restrictive trade policies adopted by U.S. or foreign governments, such as tariffs, duties, taxes, or royalties, although we believe this risk currently is mitigated by the terms of the North American Free Trade Agreement, or NAFTA.

Our recent results of operations have been significantly impacted by the strength of the Canadian dollar versus the U.S. dollar in recent periods. During calendar 2003, the U.S. dollar declined considerably, and during the quarter ended March 31, 2004, the Canadian dollar exchange rate remained at higher than historic levels. We operate approximately 425 tractors from our Canadian headquarters in Kitchener, Ontario. While a significant portion of the revenue generated by our Canadian operations is billed in U.S. dollars because most of the customers are U.S. shippers transporting freight to or from Canada, virtually all of our expenses associated with those operations, such as independent contractor costs, driver compensation, and administrative costs, are paid in Canadian dollars. Therefore, the profitability of our Canadian operations is adversely affected by a weak U.S. dollar. We expect our profitability will continue to be adversely affected if the Canadian dollar exchange rate remains at higher than historic levels.

We may not be able to successfully execute the acquisition component of our strategic plan, which could cause our business and future growth to suffer.

Since 1995, we have acquired seven trucking businesses (including our June 1995 acquisition of Cheetah Transportation, Inc., which we disposed of in June 2001). Accordingly, acquisitions have provided a substantial portion of our growth. Under our strategic plan, we plan to make acquisitions as part of our strategy to offset the planned reductions in automotive freight, balance our lane flows, and diversify our customer base. However, suitable acquisition candidates may not be available on terms and conditions we find acceptable. In pursuing strategic acquisitions, we compete with other companies, many of which have greater financial and other resources than we do. Moreover, the terms of our primary credit facility restrict our ability to make certain significant acquisitions without lender approval. If we are unable to secure sufficient funding for or necessary approvals of potential acquisitions, we may not be able to complete acquisitions that we otherwise find desirable, and our future growth could be below our expectations.

If we succeed in consummating strategic acquisitions, our business, financial condition, and results of operations may be negatively affected because:

- Some of the acquired businesses may not achieve anticipated revenues, earnings, or cash flows.
- We may assume liabilities that were not disclosed to us or that exceed our estimates.
- We may be unable to integrate acquired businesses successfully and realize anticipated economic, operational, and other benefits in a timely manner, which may result in substantial costs and delays or other problems.

- Acquisitions may disrupt our ongoing business, distract our management, and divert our resources.
- We may experience difficulties in operating in markets where we previously had no or only limited direct experience.
- We may lose customers, key employees, and/or drivers of the acquired company.
- We may finance future acquisitions by issuing common stock for some or all of the purchase price, which could dilute the ownership interests of our stockholders.
- We may incur additional debt related to future acquisitions, which will increase our expenses and may decrease our profitability.

We operate in a highly competitive and fragmented industry.

Many competitive factors, including the following, could impair our ability to maintain or improve our current profitability or grow our business.

- We compete with many other truckload carriers of varying sizes and, to a lesser extent, with less-than-truckload carriers, railroads, and other transportation companies, many of which have more equipment and greater capital resources than we do.
- Many of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase our rates or expand our business.
- Over the past several years, many customers have reduced the number of carriers they use by selecting so-called core carriers as approved service providers, and in some instances, we have not been selected and may not be selected in the future.
- Many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress freight rates or result in our loss of business to competitors.
- The trend toward consolidation in the trucking industry may create other large carriers with greater financial resources and other competitive advantages relating to their size.
- Advances in the use of technology in our industry require increased investments to remain competitive, and our customers may not be willing to accept higher freight rates to cover the cost of these investments.
- Competition from non-asset-based logistics and freight brokerage companies may adversely affect our customer relationships and freight rates.

We derive a significant portion of our revenue from our major customers, the loss of one or more of which could have a materially adverse effect on our business.

A significant portion of our revenue is generated from our major customers. In the aggregate, DaimlerChrysler accounted for approximately 12% of our revenue in fiscal 2003, down from 19% of our revenue in fiscal 2002 and 20% of our revenue in fiscal 2001. 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 to transport international freight for the Chrysler division, which expires in October 2006. No other customer accounted for more than 10% of our total revenue during any of our three most recent fiscal years.

For fiscal 2003, our top 25 customers, based on revenue, accounted for approximately 42% of our revenue; our top 10 customers, approximately 32% of our revenue; and our top five customers, approximately 26% of our revenue. With the exception of our arrangement with DaimlerChrysler, we generally do not have long term contractual relationships with our major customers, and we cannot assure you that our customers will continue to use our services at the same levels, if at all. For a limited number of our customers, including DaimlerChrysler, we have entered into multi-year contracts, and we cannot assure you that the rates will remain advantageous. A reduction in or termination of our services by one or more of our major customers could have a materially adverse effect on our business and operating results.

The new DOT hours-of-service regulations may reduce driving time and increase costs of compliance with, or liability for violation of, these and other regulations, which could have a materially adverse effect on our business.

The DOT and various state and local agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety, and insurance requirements. The DOT adopted revised hours-of-service regulations that became effective on January 4, 2004. These changes may reduce the amount of time that drivers can spend driving unless we are able to limit drivers other on-duty activities. Our revenue and profitability will be adversely affected if shippers are unwilling to increase our compensation or assist in managing our drivers non-driving activities, such as loading, unloading, and waiting for loads. Additionally, because we compensate drivers by the mile, any reduction in driving hours (and, therefore, miles) likely would create pressure for increases in our rate of pay per mile. If these changes reduce our drivers compensated miles or otherwise increase our costs, and we cannot offset these consequences through higher rates or the collection of detention or other charges from our customers, our operating results could be materially and adversely affected. We also may become subject to new or more restrictive regulations relating to matters such as fuel emissions and ergonomics. Our company drivers and independent contractors also must comply with the safety and fitness regulations promulgated by the DOT, including those relating to drug and alcohol testing. The DOT also has the power to fine, suspend, and revoke licenses for violations of its regulations. Additional changes in the laws and regulations governing our industry could affect the economics of the industry and our operations and profitability by requiring changes in operating practices or by influencing the demand for, and the costs of providing, services to shippers.

If we are unable to retain our key employees, our business, financial condition, and results of operations could be harmed.

We are highly dependent upon the services of our management team, particularly: Stephen Russell, our Chief Executive Officer and President; Thomas Glaser, our Executive Vice President and Chief Operating Officer; David Shatto, our Executive Vice President Corporate Development; Paul A. Will, our Executive Vice President and Chief Financial Officer; and Sergio Hernandez, our Vice President Mexico. Except for our employment agreements with Mr. Russell and Mr. Hernandez, which provide for the employment of those individuals through January 2006 and June 2005, respectively, we do not have employment agreements with any of these persons. The loss of any of their services could have a materially adverse effect on our operations and fut