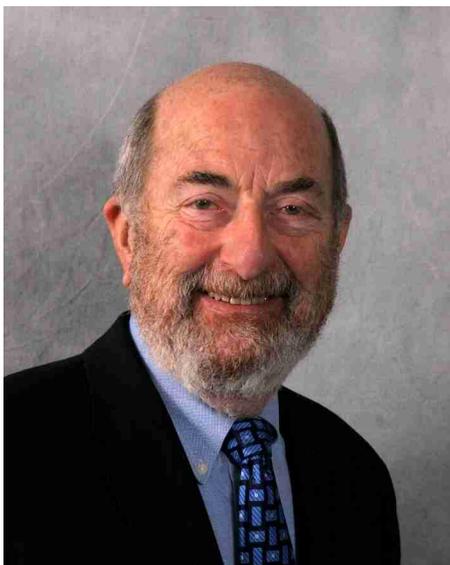


## No Longer Dependent on the Auto Industry, Long Haul and Regional Full-Truckload Freight Service Provider, Celadon Group, Inc. is Now Financially Strong with a Solid Balance Sheet and Significant Cash Flow from Operations



**Services  
 Trucking  
 (CGI-NYSE)**



**Stephen Russell**  
**Founder, Chairman and CEO**

**BIO:**

Steve Russell has served as Chairman and Chief Executive Officer of Celadon Group Inc. (NYSE: CGI) since founding the company in May 1985.

Prior to Celadon, Mr. Russell worked in management positions including, Director of Advanced Product Planning for Ford Motor Company, Chief Financial Officer for RCA Corporation, and President of Hertz (now

Penske) Truck Corporation. He holds a BA in mathematics and an MBA in finance and marketing from Cornell University.

Mr. Russell is a member of the American Trucking Associations' Executive Committee and served as Chairman of the Audit Committee. Mr. Russell currently serves as Chairman, Board of Governors of the Indianapolis Museum of Art. He was selected by the World Trade Club of Indiana as its 2006 Global Business Person of the Year and has been awarded the prestigious Sagamore of the Wabash by Gov. Mitch Daniels in appreciation of his lobbying efforts for Indiana's adoption of daylight-saving time. Mr. Russell was inducted into the Central Indiana Business Hall of Fame on February 11, 2011.

**Company Profile:**

Celadon Group, Inc., through its subsidiaries, provides long haul and regional full-truckload freight service across the United States, Canada and Mexico. The company also owns Celadon Logistics Services, which provides freight brokerage services, less-than-truckload services, as well as supply chain management solutions, including warehousing and dedicated fleet services.

**Interview conducted by:**  
**Lynn Fosse, Senior Editor**  
**CEOCFO Magazine**

**CEOCFO:** Mr. Russell, what was your vision when you started Celadon and where are you today?

**Mr. Russell:** I started Celadon because of an unexpected minor event in life. It was 1985 April and I was liv-

ing in Greenwich Connecticut, but had an office in New York. I would drive in every morning and drive back every night. There was a tollbooth on the Henry Hudson Parkway that was 50 cents at the time, and I always had 50 cents; otherwise, I'd need to get into the change lanes! In April, 1985, driving back home to Greenwich I put my hands in my pockets and I could not find 50 cents, so I had to get into the long change lanes! I got to be the fourth or fifth car and the guy in the car next to me blows his horn lowers his window called out to me, "Steve, Steve". He was running Bekins Logistics, but he had worked for me many years earlier. Bekins had a contract with Chrysler to run automotive freight to Mexico and to allow the trailers to go into Mexico, because in 1985 no American trucker would allow a U.S. trailer into Mexico. Bekin's would not let their home moving vans go in, so the contract was failing. Therefore, he asked if I would start a company that would do nothing but that business, which I did. After graduating from Cornell University, I worked at Ford Motor Company, and I knew the guys that were running Chrysler at the time. Therefore, I started Celadon. I named it Celadon because of a study done in 1973 at the University of California to come up with the prettiest sounding word in the English language. I liked the sound of the word and I thought that if I ever started a company, I'd name it Celadon! What it means is Ancient Chinese Porcelain, cups and bowls in a light green color. I put up \$30,000 to start the Company. I picked Indianapolis, because of where it was on the map. It is the only city in America with four expressways that cross and is within a

day's drive of 50% of the population of America. At any rate, that is how I started the company. We went public on the Nasdaq in 1994; we now trade on the New York Stock Exchange. We have about 4,000 employees, and we are the largest transportation company based in the state of Indiana. Celadon is one of the leading Truckload carriers in North America. In the ironies of life, if I had 50 cents that day in 1985, there wouldn't be Celadon Group and 4,000 employees would be working elsewhere!

**CEOCFO:** Would you tell us about recent acquisitions made by Celadon?

**Mr. Russell:** If you go back to about 2002, our stock was about \$2, and we were financially weak. About 60% of our business was automotive freight. We were doing poorly, and quite dependent on the auto industry.

Paul Will, who was then CFO, now vice chair/President/COO, and I got together and said we have to figure out how we get out of this mess. Therefore, we did a series of acquisitions over the next few years, each one the same way. We would buy the equipment from weak companies that were on the verge of failure. Then, we would sell the equipment for what we paid for it, solicit their customer base and hire the drivers that meet our qualifications. By 2006, the auto industry represented about 3% of our business! Celadon's stock pre-splits comparable to the two bucks, was at \$52, and we changed our customer base significantly. (Adjusted for stock splits, our stock went from \$1 to \$24 between 2002 and 2006.) Now, we are financially strong, with a solid balance sheet and significant cash flow from operations. Since October 2011, we bought the trucks and trailers of four companies that were financially unsuccessful. The equipment acquired is quite old, as the companies couldn't afford to buy new equipment. We opened our own used truck lots to enhance the proceeds from the equipment sales. As a result of this equipment sales structure, we are able to liquidate the equipment for what was paid and use our own

equipment in its place. Therefore, there is no investment in their assets and no goodwill recorded with the acquisitions. We gain new customer relationships, start booking the loads the next morning and we hire the drivers that meet DOT qualifications. Most recently was a company named Teton Transportation, Inc., based in Knoxville. They had approximately 180 trucks, but they were failing. We paid for the tractors and trailers and added lanes on some of the existing customers, many of whom were doing business with Celadon already. We hired about half of their drivers and it took us five business days from hearing of the opportunity to actually close the deal.

**CEOCFO:** Do you expect to do more acquisitions?

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**Mr. Russell:** If you look at the transportation industry, it is mostly oligopolies. The Railroad industry, LTL (less-than-trailer load), Express-parcel, Ocean freight and Airfreight are all oligopolies. If you look at the Truckload industry, it is just the opposite. If you go back to 2006, the top 25 fleets in the Truckload industry had 9% of the industry. What has happened in the last few years between the economy, new government regulations, the difficulty financing trucks, the average over the road truck is about seven years old; now that is very old. It used to be four years old or so. Celadon's average truck is 1.6 years old, because we have the ability to buy trucks, which is because we are financially strong. I think that over the next ten or twenty years the truckload industry will also become an oligopoly, with significant growth for successful public carriers and private

carriers. In addition, there will be a much smaller amount of little guys.

**CEOCFO:** Do your customers know and realize the difference that Celadon brings to the table or is it strictly, because you are available and pricing is good?

**Mr. Russell:** In December of 2010, the Obama administration put into effect a program called CSA (Compliance Safety Administration). What that did was changed from having the states managing the drivers who have CDLs (commercial driver's licenses) to data and reporting to the U.S. Department of Transportation. Beginning in December of 2010, the Department of Transportation implemented CSA, which now gives the drivers a report card every month. This is an industry with hundreds of thousands of drivers,

and CSA has changed the industry. If a driver gets bad scores, it will go on his or her record. If a driver is driving an old truck and gets stopped at a weigh station by the authorities, and there are issues with the truck, it will go on the driver's record. It is making the roads safer in America, and is shrinking the number of drivers.

For thousands of fleets, there is the difficulty of the financing. In 2006 when the economy was good and the average truck much younger than it is today, it would cost roughly \$95,000 to buy a new truck. If you were trading in a three-year-old truck, you would get about \$50,000, so you would need a \$45,000 mortgage. There was a new engine in 2007 and a new engine in 2010, both of which were mandated by the EPA. So, in 2012, the average new truck is now \$125,000 and a three year old truck is worth \$50,000 and you now need a mortgage of \$75,000. In addition, there is no mortgage money around, so the weak fleets have to run older and older trucks.

Maintenance on a truck that is under warranty runs about six cents a mile, with a seven-year old truck it is about eighteen cents a mile. Therefore, these little guys are failing. When

they want to buy a new truck, they have to trade in three or four to get one. So, they are all shrinking and capacity is exiting the industry. On top of that, there has not been a recent meaningful start-up truckload company in over five years

**CEOCFO:** Your site indicates that people can count on Celadon for solutions that you might not expect; what does that mean?

**Mr. Russell:** We take loads from Toronto and Montreal to Mexico City. I think we are the only American trucking company that owns a company in Mexico with 250 tractors and a company in Canada with 250 tractors. We are very high-tech. If you go to [www.celadontrucking.com](http://www.celadontrucking.com), you can see exactly where a tractor is at that moment. We operate about nine warehouses for specific customers, truck brokerage business and stuff like that, but only in the dry van business. About 2200 years ago, Socrates said the two most important words in life are "know thyself". We believe we are the best truckload carrier in America, but we do not offer flatbeds, refrigerators, or tank trucks because we focus on that which we know.

**CEOCFO:** What is the financial picture like today for Celadon Group?

**Mr. Russell:** We have a \$100 million bank line, from which we had drawn zero; we made some acquisitions, so that by the end of December, it was \$35 million that we owed, but it should be back to zero certainly by June. For the bank line that we have, we pay 75 basis points over actual LIBOR. We have around 8,500 trailers, and in the last year, we bought 4,700 trailers, because we sold off 4,700 old ones. However, the new ones have skirts. This is a sheet of aluminum that runs under the rear tires and the front tires of the trailer and it improves the miles per gallon meaningfully.

**CEOCFO:** As you grow and develop, what do you focus on to continue being successful?

**Mr. Russell:** I have four roles in the company. Number one is strategy, number two is happy employees, three is happy customers and four is happy shareholders. If you do not have happy employees, you do not have happy customers. Number two is happy customers, because without them you do not have money to pay those happy employees. Number

three is happy shareholders, as they own about 90% of the company.

**CEOCFO:** Final thoughts; why should potential investors pay attention to Celadon Group right now?

**Mr. Russell:** Regardless of the economy or industry, as Adam Smith said in the eighteenth century, "Pricing is based on supply and demand". So much supply is going out of the truckload industry now, whether GDP goes up or down by 1% or 2% is almost irrelevant. Capacity has gone away, which has created an opportunity from the standpoint of rates. Every penny a mile in rate change up or down for us is worth \$2.7 million a year or about 7 cents in EPS, and reality is that capacity is running out in the industry. The ATA believes that roughly 7% of drivers have been forced off the road or left voluntarily since the CSA began. That is why there is a big driver shortage in addition to the financial issues that these smaller fleets have with buying the trucks. The environment is the best I have ever seen. Therefore, the only two important things in life right now is that, I cannot wait to get to work in the morning and I cannot wait to get home at night.



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