

CELADON GROUP INC
Form 11-K
June 29, 2006

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

FORM 11-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2005**

OR

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 000-23192

Full title of the plan and the address of the plan, if different from that of the issuer

A. named below.

CELADON GROUP, INC. 401(K) EMPLOYEE SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**Celadon Group, Inc.
9503 E. 33rd Street
Indianapolis, IN 46235-4207**

**CELADON GROUP, INC. 401(K)
EMPLOYEE SAVINGS PLAN**

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The Celadon Group, Inc. 401(k) Employee Savings Plan (the “Plan”) is subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Accordingly, in lieu of the requirements of Items 1 - 3 of Form 11-K, the Plan is filing financial statements and supplemental schedules prepared in accordance with the financial reporting requirements of ERISA. The following financial statements and supplemental schedules are filed as part of this annual report:

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Report of Independent Registered Public Accounting Firm

**To the Audit Committee and Celadon Group, Inc. Board of Directors
CELADON GROUP, INC. 401(K) EMPLOYEE SAVINGS PLAN
Indianapolis, Indiana**

We have audited the accompanying statements of net assets available for benefits of CELADON GROUP, INC. 401(K) EMPLOYEE SAVINGS PLAN (Plan) as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly we express no such opinions. 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005 and 2004, and the changes in net assets available for benefits for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held at end of year as of December 31, 2005, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/ s / Somerset CPAs, P.C.

Indianapolis, Indiana

June 26, 2006

CELADON GROUP, INC.
401(k) EMPLOYEE SAVINGS PLAN
Statements of Net Assets Available for Benefits
December 31, 2005 and 2004

| | 2005 | 2004 |
|--|----------------------|----------------------|
| Assets | | |
| Cash | \$ 13,188,834 | \$ 28,001 |
| Investments At Fair Value | - | 11,504,546 |
| Contribution Receivable - Employee | 95,548 | 222,446 |
| Contribution Receivable - Employer | 102,100 | 104,803 |
| Other Assets - Accrued Income | | 11,406 |
| Total Assets | 13,386,482 | 11,871,202 |
| Liabilities | | |
| Excess Match | - | - |
| Net assets available for benefits | \$ 13,386,482 | \$ 11,871,202 |

CELADON GROUP, INC.
401(k) EMPLOYEE SAVINGS PLAN
Statements of Changes in Net Assets Available for Benefits
Years Ended December 31, 2005 and 2004

| | 2005 | 2004 |
|---|------------------|------------------|
| Additions: | | |
| Investment Income | | |
| Interest and dividends | \$ 440,652 | \$ 292,034 |
| Realized gain on sale of assets | 482,325 | 385,341 |
| Net appreciation on investments | - | 417,378 |
| Total investment income | 922,977 | 1,094,753 |
| Contributions | | |
| Participant | 2,557,378 | 2,344,532 |
| Employer | 461,240 | 427,224 |
| Rollovers | 333,448 | 262,524 |
| Forfeitures | (167,775) | (74,977) |
| Total contributions | 3,184,291 | 2,959,303 |
| Total Additions | 4,107,268 | 4,054,056 |
| Deductions: | | |
| Participants' benefits | 2,565,763 | 1,837,978 |
| Administrative fees | 26,225 | 20,025 |
| Total Deductions | 2,591,988 | 1,858,003 |
| Net increase | 1,515,280 | 2,196,053 |
| Net assets available at beginning of year | 11,871,202 | 9,675,149 |
| Net assets available at end of year | \$ 13,386,482 | \$ 11,871,202 |

CELADON GROUP, INC.
401(K) EMPLOYEE SAVINGS PLAN
Notes to Financial Statements
December 31, 2005 and 2004

Note 1 - Description of Plan

The following description of the Celadon Group, Inc. 401(k) Employee Savings Plan (the "Plan") provides only general information. Readers should refer to the Plan Agreement for a more complete description of the Plan's provisions.

General

Effective July 1, 1990, Celadon Group, Inc. (the "Company") adopted the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Company has appointed Merrill Lynch Trust Company as trustee to the Plan.

Participation

The Plan is a defined contribution plan covering substantially all employees. An eligible employee must have attained age 18 and completed three months of service with the Company. The participants can enter the Plan on January 1, April 1, July 1, and October 1.

Contributions

The Plan permits participants to contribute up to 50% of the participant's annual compensation to the Plan. However, the annual contribution per employee cannot exceed \$14,000 and \$13,000 for 2005 and 2004, respectively. Employees who maximize their elective deferrals under the Plan and who have attained the age of 50 before the close of the Plan year are eligible to make catch-up contributions of an additional \$4,000 for 2005 and \$3,000 for 2004. The total maximum amount of contributions for each plan year is the lesser of (a) \$42,000 for 2005 and \$41,000 for 2004 or (b) 100% of the participant's total compensation. In 2005 and 2004, the employee contributions were \$2,557,378 and \$2,344,532, respectively.

Any participant who made an elective deferral contribution would be eligible to receive an employer matching contribution. The Company match can be an amount up to 50% of the first 5% of participant's compensation contributed as an elective deferral. For 2005 and 2004, the Company match was \$374,759 and \$427,224, respectively.

An employer profit sharing contribution may be made at the discretion of the Company for eligible employees. In order for participants to be eligible for the profit sharing contribution, they must be credited with at least 1,000 hours of service and be employed on the last day of the Plan year. For 2005 and 2004, the Company elected not to make a profit sharing contribution.

Investment Elections

Each participant may direct that salary reduction contributions be invested in one or more of the 26 investment options. Participants are also allowed to invest into a self directed program. Allocations must be in increments of 5% of each contribution. A participant may change such allocation at any time directly with the Plan's third party administrator and may transfer all or a portion of the value of his or her account, in increments of 5%, among the 26 funds daily. On each valuation date, the investment earnings will be determined for each fund. A participant's share of these investment earnings for a month is determined based upon the participant's percentage of the total fund balance as of the previous monthly valuation date.

CELADON GROUP, INC.
401(K) EMPLOYEE SAVINGS PLAN
Notes to Financial Statements
December 31, 2005 and 2004

Note 1 - Description of Plan (Continued)

Vesting

Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service.

The vested percentage of the employer's contribution, both the match and profit sharing that will be vested and payable to the participant upon termination will be based on a five year vesting schedule.

Participant Accounts

Each participant's account is credited with the participants' contributions and an allocation of (a) the Company's contributions, (b) Plan earnings, and (c) an allocation of investment expenses. Allocations of Company contributions are based on eligible participant compensation as defined. Allocation of Plan earnings is based on participant account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Forfeitures

Forfeitures attributable to Company matching contribution accounts are used to reduce the employer contribution. Forfeitures were \$167,775 and \$74,977 for 2005 and 2004, respectively.

Note 2 - Summary of Significant Accounting Policies

Method of Accounting

The Plan's policy is to prepare its financial statements on the accrual method of accounting.

Valuation of Investments and Income Recognition

If available, quoted market prices are used to value investments. Those investments that have no quoted market price are stated at fair value as estimated by the management of the Plan.

Purchase and sales of securities are recorded on the trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

Payment of Benefits

A participant's benefits under the Plan are payable to participants, their beneficiaries or their estates upon the termination of employment, normal retirement, early retirement (the attainment of age 55 and the completion of 5 years of employment), disability, death or hardship. Benefits are payable in the form of lump-sum distributions and/or annuities.

In-Service Distributions

In-service distributions may be made from any of the participant's vested accounts at any time upon or after the participant attains the age of 59 ½ years or due to financial hardship.

CELADON GROUP, INC.
401(K) EMPLOYEE SAVINGS PLAN
Notes to Financial Statements
December 31, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

Hardship Withdrawals

A participant may withdraw part or all of the balance in their compensation deferral account prior to termination of employment if the participant is in immediate and heavy financial need arising from specific circumstances designated in the Plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and changes in net assets available for benefits. Actual results could differ from those estimates.

Administration

At December 31, 2005 and 2004, the Plan was administered by Celadon Group, Inc. The Plan has a trust agreement with Merrill Lynch Trust Company whereby the trustee receives contributions, invests Plan assets, and distributes amounts for benefit payments as directed by the Company.

As record keeper and asset custodian of the Plan, Merrill Lynch Trust Company maintains certain accounting and other records of the Plan's transactions and assets. Therefore, the Plan and Plan committee rely on Merrill Lynch Trust to provide the appropriate information for purposes of preparation of the financial statements for the Plan. Although certain procedures are designed to obtain reasonable assurance about whether the information provided by Merrill Lynch Trust is complete and free of material misstatement, the Plan and the Company's ability to verify the information is somewhat limited. For purposes of disclosures made in these financial statements, the Plan and the Company have no reason to believe that the information provided by Merrill Lynch Trust does not fairly represent, in all material respects, the financial condition and results and operations of the Plan.

Administrative Expenses

Administrative expenses and investment management expenses are partially paid by the Plan.

Note 3 - Related Party Transactions

Certain Plan investments are shares of mutual funds managed by Merrill Lynch. Merrill Lynch is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest. Fees paid by the Plan for the investment management services amounted to \$26,225 and \$20,025 for the years ended December 31, 2005 and 2004, respectively.

CELADON GROUP, INC.
401(K) EMPLOYEE SAVINGS PLAN
Notes to Financial Statements
December 31, 2005 and 2004

Note 4 - Party-in-Interest

Participants were allowed up until December 21, 2005 to invest their contributions/account balances in a Celadon Group, Inc. Stock Fund, which primarily held shares of Celadon common stock. At December 31, 2005, this fund held 0 Celadon shares. At December 31, 2004, this fund held 29,778 Celadon shares with a historical cost of \$394,039 and a market value of \$662,567.

Participants were also allowed to invest their contributions/account balances in Merrill Lynch sponsored funds. At December 31, 2005, the Plan held 0 Merrill Lynch funds. At December 31, 2004, the Plan held various Merrill Lynch funds and a Merrill Lynch Common/Collective Trust with a combined historical cost of \$3,350,617 and a combined market value of \$3,350,617.

Note 5 - Investments Representing 5% or More of Net Assets

Investments that represent 5% or more of the Plan's net assets are separately identified below.

| | December 31, 2005 |
|---|----------------------|
| Cash | \$ 13,188,834 |
| | December 31, 2004 |
| ML Retirement Preservation Trust | \$ 3,350,617 |
| Fidelity Advance Growth & Income Class T | 911,860 |
| Celadon Group, Inc. Common Stock | 662,567 |

Note 6 - Excess Contributions

Excess contributions represent matching contributions that exceed the maximum allowable to be contributed to the Plan in accordance with statutory limitations and discrimination rules. These contributions were refunded after the Plan year-end. The excess contributions for the Plan years ended December 31, 2005 and 2004 were \$0.

Note 7 - Plan Termination

The employer reserves the right to terminate the Plan, in whole or in part, at any time. Whole or partial termination of the Plan shall result in immediate 100% vesting of the entire amount credited to each participant. Upon termination of

the Plan, the trustees shall retain sufficient assets to complete all payments due to former participants, beneficiaries, and estates.

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CELADON GROUP, INC.
401(K) EMPLOYEE SAVINGS PLAN
Notes to Financial Statements
December 31, 2005 and 2004

Note 8 - Tax Status

The Plan's assets are qualified pursuant to the appropriate section of the Internal Revenue Code ("IRC"), and, accordingly, the Plan's net investment income is exempt from income taxes. Subsequent to the issuance of the determination letter the Plan was amended. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualifications. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the IRC and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt. Please see Note 10 for disclosure concerning effect of fidelity bond status.

Note 9 - Reconciliation of Financial Statements to Schedule H of Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2005, to Schedule H of Form 5500:

| | |
|---|---------------|
| Net assets available for benefits per the financial statements | \$ 13,386,482 |
| Amounts allocated to withdrawing participants | 0 |
| Net Assets available for benefits per Schedule H to the Form 5500 | \$ 13,386,482 |

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 2005, to Schedule H of Form 5500:

| | |
|--|--------------|
| Benefits paid to participants per the financial statements | \$ 2,565,763 |
| Add: Amounts allocated to withdrawing participants at December 31, 2005 | 0 |
| Less: Amounts allocated to withdrawing participants at December 31, 2004 | (29,719) |
| Benefits paid to participants per Schedule H of Form 5500 | \$ 2,536,044 |

Amounts allocated to withdrawing participants are recorded on the Schedule H of Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, 2004, but not yet paid as of that date.

CELADON GROUP, INC.
401(K) EMPLOYEE SAVINGS PLAN
Notes to Financial Statements
December 31, 2005 and 2004

Note 10 - Fidelity Bond

ERISA requires that fiduciaries of an employee benefit plan and persons who handle funds or other property of a plan must be bonded. The amount of the required fidelity bond for the Plan was \$500,000 for both the years ended December 31, 2005 and 2004. The Company has a bond that insures the fiduciaries and not the Plan. Consequently, this could have an effect on the tax status of the Plan.

Note 11 - Subsequent Event

Effective December 31, 2005, all investments of the plan were liquidated to cash and subsequently transferred to the Plan's new trustee. The Plan was amended and restated in its entirety as of January 1, 2006.

CELADON GROUP, INC.
401(K) EMPLOYEE SAVINGS PLAN
Plan Number 001, EIN 13-3361050
Form 5500, Schedule H
Schedule of Assets Held for Investment Purposes
December 31, 2005

| (a) | (b) Identity of Issue | (c) Description of Investment | (e) Current Value |
|-----|------------------------------|----------------------------------|----------------------|
| | Cash and cash equivalents | | 13,188,834 |
| | | | 13,188,834 \$ |

* Indicates party in interest to plan

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

CELADON GROUP, INC. 401(K)
EMPLOYEE SAVINGS PLAN

CELADON GROUP, INC.

Dated: June 29, 2006

By: /s/ Paul A. Will
Paul A. Will, Administrator