

Annual Report 1973



## **Board of Directors**

**ROBERT L. HINSON**  
Chairman of the Board and President of the Company

**ROBERT G. CONROY**  
President, Motor Carrier Financing, Inc.

**PAUL M. DONOVAN**  
Secretary of the Company;  
Attorney

**HAROLD E. FORSHEY**  
Vice President and Treasurer of the Company

**KENNETH VAUGHN**  
Director of Maintenance of the Company

## **Officers**

**ROBERT L. HINSON**  
Chairman of the Board and President

**HAROLD E. FORSHEY**  
Vice President and Treasurer

**JACK SCHINDLER**  
Vice President—Sales

**PAUL M. DONOVAN**  
Secretary

**KENNETH VAUGHN**  
Assistant Secretary and Assistant Treasurer

**EXECUTIVE OFFICE**  
100 West Lake Road, Penn Yan, New York

**AUDITORS**  
Peat, Marwick, Mitchell & Co., Rochester, New York

**TRANSFER AGENTS**  
Lincoln First Bank, Rochester, New York  
First National City Bank, New York, New York

**GENERAL COUNSEL**  
Paul M. Donovan, Elmira, New York

**I.C.C. COUNSEL**  
Major, Sage and King, Alexandria, Virginia

The Annual Meeting of Shareholders of Penn Yan Express, Inc. will be held Friday, April 26, 1974 at 2 o'clock in the afternoon (E.D.T.) at the Morgan Guaranty Trust Company of New York, 299 Park Avenue, New York, in the Lecture Room on the Second Floor. Formal notice and proxy statement, with proxy, will be mailed to each stockholder prior to the meeting. Stockholders who do not plan to attend the meeting are requested to execute and return proxies.

## To Our Stockholders



We are pleased to report another year of record revenues and profits for Penn Yan Express. Net income for 1973 was approximately \$476,000 up 14.8% over 1972. 1973 operating revenues of approximately \$9,370,000 increased 15% over 1972. Earnings per share for 1973 were \$1.16 based on 410,304 average shares outstanding, compared to 1972 earnings per share of \$1.08 based on 383,223 average shares outstanding. The dilution from the public offering in June 1972 has been absorbed and we should experience no major impact from further dilution.

Regular quarterly dividends of five cents a share have been paid since June 1972. In December 1973, the Board of Directors declared an extra five-cent dividend on Class A stock payable January 31, 1974 to stockholders of record January 16.

Expansion has been the keynote for Penn Yan Express during 1973. On January 3, a new terminal was opened at Phillipsburg, New Jersey

to serve the Allentown, Reading, Bethlehem distribution areas. In September temporary facilities were opened in Utica, New York to serve this important sector of the State. A new modern facility is under construction and will be occupied during April 1974. Recognizing the importance the Syracuse area has on the company's future, a contract was signed to purchase land for the construction of a new terminal in Syracuse. As soon as the land purchase is consummated, a new terminal will be constructed to replace a leased terminal thereby providing improved facilities to serve this important area. The change in business locations in New Jersey has shown that our market area for that region is moving south from our present Carlstadt Terminal. To meet this change in industrial movement, we plan to establish a satellite terminal 40 miles south of Carlstadt in the Edison-New Brunswick area.

A new three-year contract was entered into with the Teamsters Union on July 1, 1973. This contract resulted in a 7.2% increase the first year in wage and fringes for our Teamster employees. The Interstate Commerce Commission granted compensating rate relief on August 13, 1973. We anticipate we will continue to receive rate relief during the life of the contract to offset the wage increases.

The energy crisis, which came to light during the Fall of 1973, has been a major concern to Penn Yan Express. With planning we have been able to secure ample fuel to maintain our operations and service our customers. The present fuel allocation program along with elimination of empty miles and increased payload, will allow Penn Yan Express to maintain a consistent level of service to

our customers during 1974. The Interstate Commerce Commission has granted rate relief in the form of a surcharge to offset the increased cost of fuel. A 6% surcharge on revenue was granted on February 11, 1974, and we anticipate further increases as fuel costs continue to increase.

1974 will be a year of challenge. The economic forecasts are very mixed. However, we at Penn Yan Express are of the opinion that with our management controls, we will be able to react to changes in economic conditions as they arise and continue to provide service to our customers. Revenues for the month of January and February 1974 are 18% ahead of the same period in 1973, and if this trend continues, we are prepared to meet this demand and, conversely, if the economy should decline, we are prepared to make adjustments to assure that Penn Yan Express will again be a profitable carrier in 1974.

We at Penn Yan Express wish to express appreciation to our customers and our employees. Their loyalty, dedication and support have made the company's past successes possible and encourage us again to look forward to another prosperous year.

Respectfully yours,

A handwritten signature in cursive script that reads "Robert L. Hinson".

Robert L. Hinson, President

## History



Penn Yan Express was organized in 1941 and began motor carrier operations in 1944 serving customers within a 50-mile radius of Penn Yan, New York. Mr. Robert L. Hinson purchased this carrier in 1945 operating with 3 tractors and 5 trailers. The original facilities at Penn Yan, New York included a one-bay garage, office and a small dock.

In subsequent years, it was evident that a larger area must be served. In 1952 the first acquisition of a small carrier was made to enlarge the original operating authority. Between 1952 and 1970 an additional four carriers were acquired to bring Penn Yan to its present operating authority.

During 28 years of continuous growth, a total of 10 terminals were opened to serve the industrial areas of New York, New Jersey and Pennsylvania, and in many areas the original terminal was enlarged or replaced with larger terminals.

With Penn Yan, New York as the hub of the operations, the original facilities have been enlarged many times to meet the demand placed on this location. As the fleet grew from 8 revenue vehicles to 474 revenue vehicles, it was necessary to continually add to the maintenance facilities to provide on premise repairs and servicing of the vehicles. The original terminal and dock facilities in Penn Yan were enlarged and eventually replaced with new, modern facilities in 1968. The small office that was originally used in 1944 has now been enlarged to house the executive, traffic and accounting offices of the corporation and again, these offices will be enlarged in 1974.

## Operations



Penn Yan Express has always prided itself on the handling of less truckload shipments or those shipments weighing 10,000 pounds and under. In 1973 less truckload shipments accounted for 57% of our revenue. The handling of the less truckload shipments is accomplished by the use of the Penn Yan dock facilities as a break bulk operation, and the use of 23-foot trailers.

The Operations of Penn Yan Express are built around the premise that a successful motor carrier must provide his customers with dependable and consistent on time service if they are to be a profitable entity.

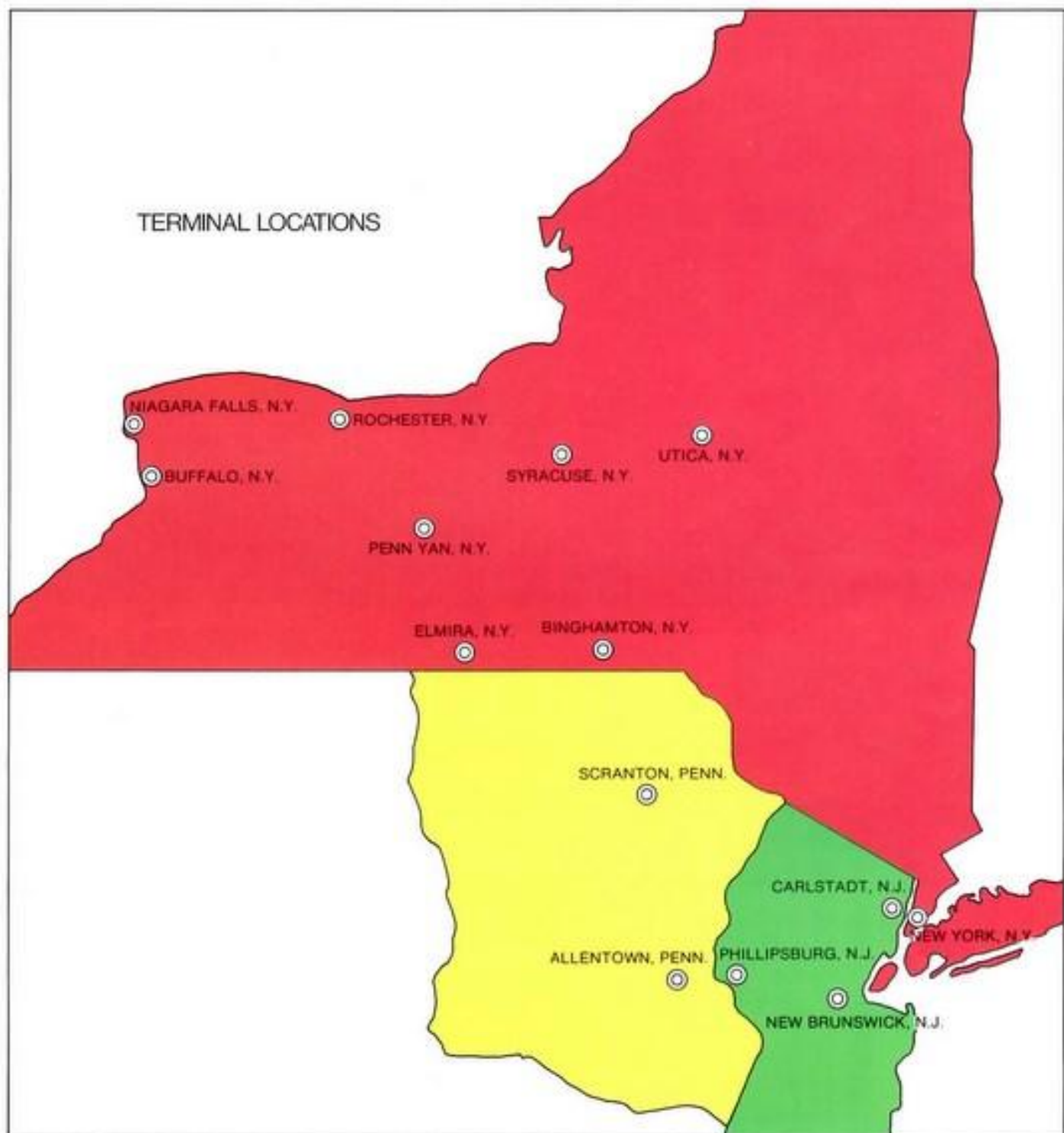
Each upstate New York terminal city has been grided and each customer within that grid has been coded to permit the preloading of shipments for delivery on the 23-foot trailers by the Penn Yan dock crew. This eliminates dock handling at destination as the local driver can now hook on to the trailer and begins his delivery without the freight crossing the local terminal's dock. Again, at the end of the day and after the pickups are made, the 23-foot trailers are hooked together and move directly to Penn Yan without crossing the local terminal's dock. This procedure eliminates the dock handling both at pickup and delivery, minimizes the chance for loss or damage, and permits faster delivery of less truckload shipments.



Each terminal is manned with a manager, drivers, salesmen, dispatchers and clerks to assure the proper handling of the customer's shipment. At Penn Yan, New York we maintain a central dispatch operation for the routing and control of all equipment throughout the system. Central dispatch maintains records of our equipment and schedules the equipment for use at the local terminals. It also coordinates pickup and delivery of the truckload traffic to assure on time delivery.



TERMINAL LOCATIONS





## Equipment

Penn Yan Express has a reputation for providing clean dependable equipment for the use of our customers. Our program of continual replacement of obsolete equipment with new modern equipment has helped decrease the cost of maintenance over the years.

During 1973, 25 tandem axle tractors were purchased to replace 17 older units within the fleet. The additional 8 units were used to meet the growth of the company. Sixty 45-foot trailers were purchased last year of which 35 were replacements of older equipment and 25 trailers were added to the fleet.

Utilization of revenue equipment is extremely important to an efficient and profitable operation. We have built our fleet around the double utilization of single axle tractors.

The tractors utilized in hauling the 23-foot trailers over the road during the night are also used in the city during the day to perform the pickup and delivery operation. This eliminates maintaining a double fleet of power equipment.

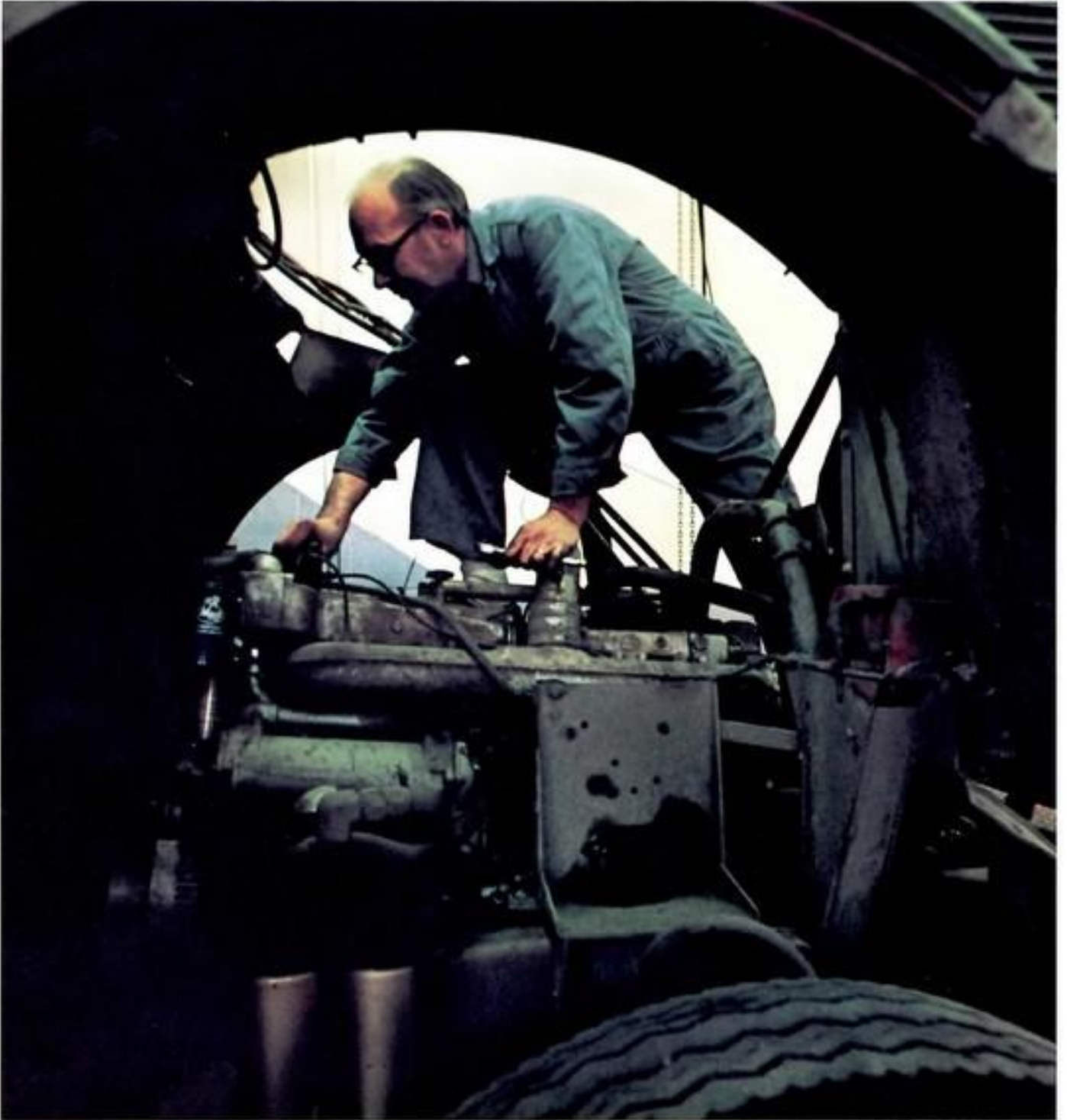
Most of our large trailer equipment is of the van type, however, we do maintain specialized equipment, such as temperature controlled units for use of certain commodities. However, because of the cost of these units and the importance of continually turning them over in revenue service, we have not gone into a major program of specialized equipment.



Revenue Equipment at December 29, 1973

	Total	Approximate Age of Equipment		
		1-3 years	3-6 years	6 years or older
Tractors	136	68	44	24
Line Haul Trailers 40 feet and longer	238	155	80	3
Trailers, 23 foot*	95	95	—	—
Pickup and Delivery Trucks	5	5	—	—
Total	474	323	124	27

\*23 foot trailers are used in both intercity and city service.



## Maintenance

Well maintained, serviceable revenue equipment is one of the most important assets of a motor carrier. Without the proper equipment to meet our customers needs, we would not be able to provide the service that is required. Penn Yan has established a maintenance facility at its headquarters at Penn Yan, New York for the maintenance of all its revenue equipment. A satellite maintenance facility is maintained at Carlstadt, New Jersey. All equipment is scheduled through Penn Yan on a regular basis so that it can meet the rigid preventive maintenance schedules required of our fleet.

We provide all services from greasing and lubrication, complete overhaul of motors, body rebuilding, and the fine tuning of an engine for its most efficient use. We also maintain a tire center in which all tires on the equipment are checked at regular intervals to be sure they are in good condition and will meet the rigid requirements of Penn Yan Express and of the Department of Transportation.

An automated washing facility is operated to keep our trailer fleet clean. Each unit is scheduled through the facility on regular intervals.



## Personnel

The most important part of a motor freight organization is its personnel. Each employee, regardless of his position, makes a significant contribution to the overall performance of the company. The drivers, mechanics, clerks, janitors and management, each working together presents a team that is essential for the company to service each customer so that he is assured of the finest service available.

Our drivers are on the front line of our company and are responsible for the handling of the freight and dealing with the customers on a day to day basis. Each driver has been carefully selected and trained to assure that the customers' freight will receive proper handling.

Sales representatives are located at each of our terminals and are in touch with our customers to answer their questions, and to provide services as to rates and shipping requirements.

Local dispatchers and clerks assist the customer and direct the drivers in performing their function. They also insure that the paper work is handled properly so that each shipment is routed to its proper destination and controlled efficiently without loss or damage.

The mechanics are responsible for the maintenance of revenue equipment so that the equipment is available for the driver to pick up and deliver the customers' shipment.

At the general office, the final rating and billing functions are provided where all special requirements or problems of the customers are handled.

Data pertaining to freight movements, driver production, equipment utilization are fed into the computer to develop information for effective management control of the sales, operations and maintenance functions.



## Seven-Year Summary

Penn Yan Express, Inc. and Subsidiaries

	1973	1972	1971	1970	1969	1968	1967
<b>Financial Data</b>							
Operating Revenues ....	\$9,369,651	8,150,748	7,636,003	7,248,066	6,492,084	5,824,691	5,447,506
Pre-tax Income .....	\$ 851,167	694,315	576,805	459,027	346,360	246,191	325,143
Net Income .....	\$ 476,167	414,815	358,805	230,027	205,360	124,191	202,143
Operating Ratio (ICC Basis) .....	92.6	93.6	94.0	94.8	95.5	95.3	94.5
Net Income per share .....	\$ 1.16	1.08	1.02	.65	.58	.35	.57
Dividends .....	\$ 50,034	25,470	—	—	—	—	—
Average shares outstanding .....	410,304	383,223	352,003	351,552	353,332	355,086	356,029
<b>Operating Data</b>							
Tons of freight .....	278,720	243,505	231,317	247,827	263,581	240,562	235,054
Number of shipments .....	216,782	205,110	201,041	219,296	223,004	223,763	230,214
Average length of haul .....	264.8	239.4	251.8	252.2	237.9	240.1	237.6
Intercity miles .....	4,890,210	4,267,597	3,879,807	4,294,971	4,047,962	4,429,019	4,478,763

## Consolidated Balance Sheets

Penn Yan Express, Inc. and Subsidiaries  
December 29, 1973 and December 31, 1972

<b>ASSETS</b>	<b>1973</b>	<b>1972</b>
<b>Current assets:</b>		
Cash (including time deposits of \$200,000 in 1972) .....	\$ 445,123	645,692
Accounts receivable, less allowance for doubtful accounts (1973-\$15,067, 1972-\$12,100):		
Freight revenue .....	585,635	463,531
Employee stock purchases (note 2) .....	68,750	—
Other .....	118,610	143,743
Operating supplies, the lower of cost (first-in, first-out) or replacement market .....	232,335	179,415
Prepaid expenses:		
Tires in service .....	258,978	210,732
Taxes, licenses, insurance and other .....	144,175	139,554
<b>Total current assets</b> .....	<b>1,853,606</b>	<b>1,782,667</b>
<b>Tangible property, at cost (note 5):</b>		
Land .....	338,130	261,363
Terminals and offices .....	1,468,937	1,254,378
Revenue equipment .....	4,084,745	3,607,598
Other operating equipment .....	1,207,271	1,096,383
	<b>7,099,083</b>	<b>6,219,722</b>
Less accumulated depreciation .....	2,356,922	1,990,960
<b>Net tangible property</b> .....	<b>4,742,161</b>	<b>4,228,762</b>
<b>Intangible assets</b> .....	<b>510,905</b>	<b>510,905</b>
<b>Cash surrender value of life insurance</b> .....	<b>152,500</b>	<b>135,522</b>
	<b>\$7,259,172</b>	<b>6,657,856</b>

See accompanying notes to consolidated financial statements.

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>1973</b>	<b>1972</b>
<b>Current liabilities:</b>		
Accounts payable .....	\$ 500,782	413,263
Dividends payable .....	20,414	10,207
Accrued expenses:		
Wages and vacation pay .....	229,841	170,607
Taxes other than income taxes .....	57,266	66,325
Interest .....	17,037	12,669
Profit-sharing (note 3) .....	64,800	40,000
Income taxes (note 4):		
Current .....	89,895	76,375
Deferred .....	113,000	100,000
Estimated liability for loss and damage claims .....	42,286	23,769
Current maturities of long-term debt (note 5) .....	106,925	102,783
<b>Total current liabilities</b> .....	<u>1,242,246</u>	<u>1,015,998</u>
<b>Long-term debt, less current portion (note 5)</b> .....	<u>2,042,521</u>	<u>2,199,452</u>
<b>Deferred income taxes (note 4)</b> .....	<u>468,850</u>	<u>378,350</u>
<b>Stockholders' equity (notes 5, 6 and 7):</b>		
Class A stock, \$1 par value per share, Authorized 2,000,000 shares; issued 202,000 shares in 1973, 150,000 in 1972 .....	202,000	150,000
Class B stock, \$1 par value per share, Authorized 548,000 shares in 1973, 600,000 shares in 1972; issued 213,970 shares in 1973, 263,344 in 1972 .....	213,970	263,344
Additional paid-in capital .....	476,863	464,123
Retained earnings (note 5) .....	2,612,722	2,186,589
<b>Total stockholders' equity</b> .....	<u>3,505,555</u>	<u>3,064,056</u>
	<u>\$7,259,172</u>	<u>6,657,856</u>

# Consolidated Statements of Earnings

Penn Yan Express, Inc. and Subsidiaries  
Years Ended December 29, 1973 and December 31, 1972

	1973	1972
<b>Operating revenues</b> .....	<u>\$9,369,651</u>	<u>8,150,748</u>
<b>Operating expenses:</b>		
Equipment maintenance .....	648,189	646,206
Transportation .....	3,488,534	2,930,154
Terminal .....	1,207,190	1,105,189
Traffic .....	443,092	356,057
Insurance & safety .....	361,091	330,546
Administrative & general .....	822,028	656,394
Depreciation .....	653,195	614,125
(Gain) loss on disposal of operating equipment .....	(10,572)	24,907
Operating taxes & licenses .....	<u>745,597</u>	<u>634,847</u>
	<u>8,358,344</u>	<u>7,298,425</u>
<b>Operating income</b> .....	1,011,307	852,323
<b>Nonoperating (expense) income:</b>		
Interest expense, principally on long-term debt .....	(175,152)	(163,475)
Interest income .....	13,406	846
Gain on sale of nonoperating property .....	1,606	4,621
<b>Earnings before income taxes</b> .....	<u>851,167</u>	<u>694,315</u>
<b>Income taxes (note 4):</b>		
Current .....	271,500	228,500
Deferred .....	103,500	51,000
	<u>375,000</u>	<u>279,500</u>
<b>Net earnings</b> (\$1.16 per share in 1973, \$1.08 in 1972) .....	<u>\$ 476,167</u>	<u>414,815</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

Penn Yan Express, Inc. and Subsidiaries  
Years Ended December 29, 1973 and December 31, 1972

	Class A Stock	Class B Stock	Additional paid-in capital	Retained earnings
<b>Balance at December 31, 1971</b> .....	\$ 90,000	260,000	—	1,797,244
Net earnings .....	—	—	—	414,815
Exercise of stock options (note 7) .....	—	3,344	25,432	—
Proceeds of sale of Class A stock, less expenses of sale of \$101,309 .....	60,000	—	438,691	—
Dividends declared (\$.15 per share-Class A, \$.0015 per share-Class B) .....	—	—	—	(25,470)
<b>Balance at December 31, 1972</b>	<u>150,000</u>	<u>263,344</u>	<u>464,123</u>	<u>2,186,589</u>
Net earnings .....	—	—	—	476,167
Exercise of stock options (note 7) .....	—	2,626	14,333	—
Net expense applicable to purchase of Class A stock for resale to employees (note 2) .....	—	—	(1,593)	—
Conversion of Class B stock into Class A .....	52,000	(52,000)	—	—
Dividends declared (\$.25 per share-Class A, \$.0025 per share-Class B) .....	—	—	—	(50,034)
<b>Balance at December 29, 1973</b> .....	<u>\$202,000</u>	<u>213,970</u>	<u>476,863</u>	<u>2,612,722</u>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Financial Position

Penn Yan Express, Inc. and Subsidiaries  
Years Ended December 29, 1973 and December 31, 1972

	1973	1972
<b>Funds provided:</b>		
Net earnings .....	\$ 476,167	414,815
Items which do not use working capital:		
Depreciation of tangible assets .....	653,195	614,125
Provision for noncurrent deferred income taxes .....	90,500	44,000
Additional compensation expense resulting from the issuance of stock under stock option plan (note 7) .....	14,333	25,432
Loss on disposal of operating equipment .....	—	24,907
Working capital provided by operations .....	<u>1,234,195</u>	<u>1,123,279</u>
Proceeds from sale of stock, net of expenses of sale of \$101,309 .....	—	498,691
Proceeds from sale of stock to employees, net of expenses of sale of \$1,593 .....	67,157	—
Proceeds from sale of stock under stock option plan (note 7) .....	2,626	3,344
Proceeds from sales and other disposals of tangible property (net of gains of \$12,178 in 1973 and \$4,621 in 1972) .....	343,315	485,658
Proceeds from long-term borrowing .....	—	150,000
Proceeds from officer's life insurance policies redeemed .....	—	29,759
Funds provided .....	<u>1,647,293</u>	<u>2,290,731</u>
<b>Funds used:</b>		
Additions to tangible property .....	1,509,909	1,134,459
Payments on and retirement of long-term debt .....	156,931	473,994
Increase in cash surrender value of life insurance .....	16,978	14,959
Repurchase of stock for sale to employees .....	68,750	—
Dividends declared .....	50,034	25,470
Funds used .....	<u>1,802,602</u>	<u>1,648,882</u>
<b>Increase (decrease) in working capital (note 8) .....</b>	<u>\$ (155,309)</u>	<u>641,849</u>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Penn Yan Express, Inc. and Subsidiaries  
December 29, 1973 and December 31, 1972

## 1. Summary of Accounting Policies

**A. Fiscal year change**—In 1973, the Company changed its year end from a calendar year to a fiscal year ending on the last Saturday in December. The fiscal year will consist of 13 four-week periods for a total of 52 weeks. Once every five or six years an extra week will be included in order to keep the fiscal year in near alignment with the calendar year. The effect on results of operations of the shorter current year, January 1 to December 29, 1973, is not significant when compared with the prior calendar year ending December 31, 1972.

**B. Principles of consolidation**—The accompanying financial statements include the accounts of Penn Yan Express, Inc. and three wholly-owned subsidiaries after elimination of all intercompany accounts and transactions.

**C. Specialized industry accounting principles**—The consolidated financial statements have been prepared in conformity with generally accepted accounting principles which differ from accounting regulations of the Interstate Commerce Commission with respect to classification of current maturities of long-term debt, deferred income taxes, and the recording of certain operating rights acquired.

**D. Tires in service**—Tires in service are accounted for by expensing them over their useful lives for financial statement purposes and deducting them at the time they are placed in service for tax purposes.

**E. Tangible property and depreciation**—Tangible property is carried at cost. Major additions and betterments are charged to property accounts while maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. When property is retired or otherwise disposed of, the difference between cost less accumulated depreciation and proceeds of sale or trade-in allowances is charged or credited to earnings for financial statement purposes. For income tax purposes, the basis of the asset acquired is adjusted by the amount of the gain or loss on trade-ins of revenue equipment.

The provision for depreciation is based principally on the straight line method for financial statement purposes and principally on accelerated methods for tax purposes. The estimated useful lives used in computing depreciation are:

Terminals and offices .....	20-25 years
Revenue equipment .....	6- 8 years
Other operating equipment .....	3-10 years

**F. Intangible assets**—Intangible assets consist principally of operating rights purchased. All present intangible assets were acquired prior to the effective date of Accounting Principles Board Opinion No. 17, and accordingly will be amortized only to the extent that a decline in value becomes evident or a definite term of existence is indicated. In the opinion of management, there has been no decline in values or indication of a limited term of existence of these assets at December 29, 1973.

**G. Income taxes**—Provisions for income taxes are based on the tax effects of transactions which are included in the determination of pre-tax accounting income, and appropriate provision is made for deferred income taxes.

Deferred income taxes result principally from the use of accelerated depreciation methods for tax purposes and primarily straight line methods for financial statement purposes, adjusting the basis of revenue equipment acquired for gains and losses on trade-ins for tax purposes and charging or crediting income for financial statement purposes and deducting tire costs at the time tires are placed in service for tax purposes and recognizing tires as an asset and expensing them over their useful lives for financial statement purposes.

The investment tax credit is treated by the Company as a reduction of Federal income taxes in the period in which the credit arises.

**H. Estimated liability for loss and damage claims**—The Company maintains a \$1,000 deductible policy for cargo loss and damage claims and charges operations for estimated amounts not covered by insurance for financial statement purposes. For income tax purposes, such losses are deducted when paid.

**1. Continued**

1. Net income per share is calculated by dividing net income by the average number of common shares outstanding during the year. Stock options outstanding during the period have not been included in this computation since their effect is immaterial.

**2. Employee Stock Purchase**

During 1973, the Company purchased 10,000 shares of its Class A stock for resale to employees at the acquisition cost to the Company. The stock is registered in the name of the employee, but held in escrow until fully paid. At December 29, 1973 all 10,000 shares were held in escrow by the Company.

**3. Profit Sharing Plan**

The Company has a noncontributory Profit Sharing Plan for all eligible non-union employees which has been in effect since 1964. The Plan is qualified under the Internal Revenue Code of 1954.

The Plan provides for contributions by the Company in such amounts as the Board of Directors may annually determine, within the limits of the Plan, as defined to be a minimum of 3% of net operating profit before tax of the parent company and a maximum of 15% of the total compensation of participants in the Plan. The Company's contributions to the Plan were \$70,000 in 1973 and \$55,000 in 1972.

**4. Income Tax Expense**

Income tax expense is made up of the following components:

	1973	1972
Federal—Current .....	\$ 245,500	205,500
—Deferred .....	93,500	45,500
	<u>339,000</u>	<u>251,000</u>
State—Current .....	26,000	23,000
—Deferred .....	10,000	5,500
	<u>36,000</u>	<u>28,500</u>
Total Income Taxes .....	<u>\$ 375,000</u>	<u>279,500</u>

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes, as more fully explained in note 1 to the financial statements. The sources of these differences and the tax effect of each were as follows:

	1973	1972
Depreciation .....	\$ 77,000	76,000
Gains or (losses) on trade-ins .....	7,500	(35,000)
Tire costs .....	24,000	17,000
Other timing differences .....	(5,000)	(7,000)
	<u>\$ 103,500</u>	<u>51,000</u>

Total Federal income tax expense amounted to \$339,000 in 1973 and \$251,000 in 1972 (an effective rate of 39.8% and 36.2% respectively), a total less than the amount of \$409,000 in 1973 and \$333,000 in 1972 computed by applying the U.S. Federal income tax rate of 48% to income before tax. The reasons for this difference are as follows:

	1973		1972	
	Amount	% of pre tax income	Amount	% of pre tax income
Computed "expected" tax expense .....	\$409,000	48.0%	\$333,000	48.0%
Investment credit .....	(39,000)	(4.6)	(47,000)	(6.8)
State income tax net of federal income tax benefit ..	(19,000)	(2.2)	(15,000)	(2.1)
Miscellaneous items .....	(12,000)	(1.4)	(20,000)	(2.9)
Actual tax expense .....	<u>\$339,000</u>	<u>39.8%</u>	<u>\$251,000</u>	<u>36.2%</u>

#### 5. Long-Term Debt

Long-term debt consisted of the following:

	1973	1972
Mortgage loans secured by certain tangible property, 6% to 7½% payable through 1992.....	\$ 402,394	462,186
Bank loan under revolving credit agreement (A) .....	1,550,000	1,600,000
Other obligations, at varying interest rates to 4% payable through 1979 .....	197,052	240,049
	<u>2,149,446</u>	<u>2,302,235</u>
Less current portion .....	<u>106,925</u>	<u>102,783</u>
	<u>\$2,042,521</u>	<u>2,199,452</u>

A. The bank revolving credit agreement provides for interest at the commercial prime rate plus 1% (10¾% at December 29, 1973) and allows Penn Yan Express, Inc., and subsidiaries to borrow up to \$2,500,000 unless otherwise limited by the borrowing base, defined in the agreement to be 90% of the net book value of the assigned equipment.

The Company has granted a security interest in its equipment to secure payment and performance of the bank loan. This security interest will not attach, however, until written notice is given by the bank.

So long as the Company maintains the required borrowing base and is not in default of other provisions of the agreement, payments on the principal of the revolving credit loan are not due. Accordingly, no portion of this loan is classified as a current liability. At the election of either the Company or the bank monthly principal payments will become due in varying amounts over a 60 month period. At December 29, 1973, neither the bank nor the Company had elected to terminate the agreement.

Dividends are restricted to 50% of the cumulative net income earned after December 31, 1971. Under terms of this loan agreement, at December 29, 1973, \$369,987 was free from restrictions on the payment of cash dividends.

**6. Common Stock**

Class A stock and Class B stock have identical rights and privileges except as to cash dividends, which are payable on Class B stock at a rate of 1% of cash dividends payable on Class A stock.

Beginning January 1, 1973, Class B stock may be converted, at the option of the holder, into Class A stock on a share for share basis. The number of shares which may be so converted in any calendar year may not exceed 52,000 shares plus the number of shares which might have been but were not converted during any preceding year or years. The right of conversion during any year prior to 1978 is conditioned on a dividend of not less than \$.05 per quarter having been paid on Class A stock prior to the year of conversion. On January 4, 1973, 52,000 shares of Class B stock were converted to Class A. On February 8, 1974, 52,000 additional shares of Class B stock were converted to Class A.

**7. Stock Option Plans**

In 1969, the Company adopted a nonqualified stock option plan for key employees. Options are for the purchase of Class B stock, expire five years after the date of grant and are generally exercisable in noncumulative increments of 20% beginning at the date of grant. No further options are to be granted under this plan.

The tabulation below shows options granted, outstanding, exercisable and exercised from December 31, 1971:

	Number of Class B shares	Option price		Fair market value (A)	
		Per share	Total	Per share	Total
Options granted and outstanding:					
Balance, December 31, 1971 .....	10,346	\$1.00	10,346	6.53-7.76	75,099
Exercised 1972 .....	(3,344)	1.00	(3,344)	6.53-7.76	(24,379)
Balance, December 31, 1972 .....	7,002	1.00	7,002	6.53-7.76	50,720
Exercised 1973 .....	(2,626)	\$1.00	(2,626)	6.53-7.76	(18,813)
Balance, December 29, 1973 .....	<u>4,376</u>		<u>4,376</u>	<u>6.53-7.76</u>	<u>31,907</u>
Options exercisable:					
Options which became exercisable and were exercised during the year ended: December 31, 1972 .....					
	<u>3,344</u>	<u>\$1.00</u>	<u>3,344</u>	<u>8.42-8.75</u>	<u>25,432</u>
December 29, 1973 .....	<u>2,626</u>	<u>\$1.00</u>	<u>2,626</u>	<u>5.25-7.50</u>	<u>18,122</u>

**A.** At date of grant with respect to options granted, and at date options became exercisable or were exercised with respect to exercisable and exercised options.

The difference between the fair market value and the option prices at date of grant under the non-qualified option plan is being charged to operating expense over the lives of the option agreements. Amounts so charged were \$14,333 in 1973 and \$25,432 in 1972.

During 1972, the Company adopted a stock option plan qualified under Section 422 of the Internal Revenue Code of 1954. Under the plan, 25,000 shares of Class B stock were reserved for issuance and 25,000 shares of Class A stock have been reserved for conversion of the Class B shares. No option agreements have yet been entered into under this plan.

**8. Working Capital**

The increases and decreases in working capital shown in the consolidated statements of changes in financial position consist of:

	1973	1972
Increase (decrease) in current assets:		
Cash .....	\$ (200,569)	284,850
Accounts receivable .....	165,721	76,909
Operating supplies .....	52,920	(12,872)
Prepaid expenses .....	52,867	20,813
	<u>70,939</u>	<u>369,700</u>
Increase (decrease) in current liabilities:		
Notes payable .....	—	(192,457)
Accounts payable .....	87,519	(76,483)
Dividends payable .....	10,207	10,207
Accrued liabilities (including loss and damage claims) .....	97,860	(34,142)
Income taxes .....	26,520	29,891
Current maturities of long-term debt .....	4,142	(9,165)
	<u>226,248</u>	<u>(272,149)</u>
Increase (decrease) in working capital .....	<u>\$ (155,309)</u>	<u>641,849</u>

**Accountants' Report**

The Board of Directors  
Penn Yan Express, Inc.:

We have examined the consolidated balance sheets of Penn Yan Express, Inc. and subsidiaries as of December 29, 1973 and December 31, 1972, and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Penn Yan Express, Inc. and subsidiaries at December 29, 1973 and December 31, 1972, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Pat, Marwick, Mitchell & Co.*

Rochester, New York  
March 1, 1974

## **TERMINALS**

<b>ALLENTOWN, PENNSYLVANIA</b>	(215) 258-2983
<b>BINGHAMTON, NEW YORK</b> 1301 Arterial Highway	(607) 723-5491
<b>BUFFALO, NEW YORK</b> 176 Vulcan Street	(716) 877-5111
<b>CARLSTADT, NEW JERSEY</b> 50 Kero Road	(201) 933-5770
<b>ELMIRA, NEW YORK</b> 1510 Grand Central Ave.	(607) 733-6501
<b>NEW YORK, NEW YORK</b>	(212) 244-5767
<b>NIAGARA FALLS, NEW YORK</b>	(716) 285-4726
<b>PENN YAN, NEW YORK</b> 100 West Lake Road	(315) 536-3321
<b>PHILLIPSBURG, NEW JERSEY</b> Alpha Industrial Center, R.D. 1	(201) 454-8800
<b>ROCHESTER, NEW YORK</b> 16 Deep Rock Road	(716) 436-7724
<b>SCRANTON, PENNSYLVANIA</b> 749 North Keyser	(717) 346-7604
<b>SYRACUSE, NEW YORK</b> 752 Hiawatha Blvd., W.	(315) 474-7840
<b>UTICA, NEW YORK</b> Wells Avenue	(315) 735-6179