

# **PENN YAN EXPRESS, INC.**

**Annual Report 1974**

## **Board of Directors**

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

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

**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

**DONALD F. McBETH**  
Vice President

**JACK SCHINDLER**  
Vice President — Regional 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

Penn Yan Express Class A Stock is traded on the  
Over-the-Counter market and the NASDAQ  
symbol is PYANA.

## To Our Stockholders



We are pleased to report another year of record profits and revenues for Penn Yan Express. Net income for 1974 was \$482,311, up 1.3% over 1973. 1974 Operating revenues of \$10,180,111 increased 8.6% over 1973. Earnings per share for 1974 were \$1.15 based on 418,565 average shares outstanding, compared to 1973 earnings per share of \$1.16 based on 410,304 shares outstanding. The increase in the average number of shares outstanding was primarily due to the Second Employee Stock Offering, authorized in 1974.

Regular quarterly dividends have been paid since June, 1972. In 1974, additional dividends on Class A Common Stock were declared, based on improved earnings and totaled \$.32 per share, as compared to \$.25 per share in 1973.

Expenditures of \$2,344,458 during 1974 for revenue equipment and terminal facilities were invested for the future growth of the Company. Construction of terminals and start up of operations were completed at Utica and Syracuse, New York. In September 1974, facilities were purchased and operations started at Sayreville, New Jersey, to serve this important growing industrial area of Southern New Jersey. Construction of a modern 10-door facility is planned for completion during the third quarter of 1975.

Inflation and the depressed economy have been two major factors on Penn Yan Express' earnings during 1974. Interest costs increased 46.9%, due to the increase in prime rate and the construction of new terminals; fuel costs have tripled over 1973; and other costs have increased in excess of 20%. Union wages increased 7.5% during 1974. During the year, the Interstate Commerce Commission and New York State Department of Transportation granted rate increases totaling 10.8% to offset these increased costs.

In 1974, we received a condemnation award from the State of New York for land taken during 1968 for construction of a new highway in Penn Yan, New York. This award amounted to \$51,656 after deductions for expenses, and has been reported under Other Income in our Financial Statements.

During the past year, our Company has actively pursued expanding its operations and the areas we serve. In August, 1974, the New York State Department of Transportation approved the purchase of the operating rights of Gravelle's Motor Express, an intrastate motor carrier operating between Rochester and Fulton-Oswego, New York. In March 1975, applications were filed to merge the Interstate and Intrastate Authorities of Albany Binghamton Express, Inc., Binghamton, New York, into Penn Yan Express, Inc. This merger is subject to approval of the shareholders, the Interstate Commerce Commission, and the New York State Department of Transportation. Albany Binghamton Express, Inc., is a regulated common carrier serving the cities of Albany, Binghamton, Elmira, and Buffalo, New York. The merger of the two companies will provide for future growth and increased earnings, while expanding operations between the Albany area and the areas presently served by Penn Yan Express in New York State, Eastern Pennsylvania, and New Jersey.

We at Penn Yan Express wish to express our appreciation to our customers and our employees. Their loyalty and dedication have made the Company's past success possible and encourage us to again look forward to a profitable year.

Respectfully yours,

A handwritten signature in cursive script, reading "Robert L. Hinson". The signature is written in dark ink on a light background.

Robert L. Hinson, President

## Capital Improvements

During 1974, Penn Yan Express expended \$2,344,458 net in capital improvements. Revenue equipment expenditures amounted to \$873,700, covering the purchase of twenty-four single-axle tractors, replacing a like number of 1966 and 1967 model tractors, and ten single-axle city tractors, replacing eleven 1969 city units. Five tandem-axle tractors have also been added to the fleet. Our trailer fleet was enlarged by eighteen trailers through the purchase of thirty-six 45-foot trailers, which replaced thirty 40-foot trailers, and an additional twelve 21-foot trailers were also purchased. The short 23-foot trailers were modified to 21-foot to allow for greater flexibility in operations. Approximately 57% of the fleet is now less than four years old.

Capital improvements to real property amounted to \$1,470,758, covering the construction of a new terminal at Utica, New York, consisting of a ten-door dock, office, and garage facilities on approximately two acres of ground, and a new terminal at Syracuse, New York, consisting of a seventeen-door terminal with administrative offices and garage.

Approximately six acres of land and garage buildings were purchased at Sayreville, New Jersey for future construction of a 10-door terminal. Alterations were made to an existing building at Carlstadt, New Jersey to provide administrative offices for this region. At Penn Yan, New York, an 80-foot addition was added to our break-bulk terminal to allow for additional freight at this terminal. An addition to the General Office, begun

in 1974 to relieve overcrowding at this facility, will be completed during the first half of 1975.



New Terminal at Utica, New York



New Terminal at Syracuse, New York

Revenue Equipment at December 28, 1974

	Approximate Age of Equipment			
	Total	1-3 years	3-6 years	6 years or older
Tractors	141	80	60	1
Line Haul Trailers 40 feet and longer	243	167	73	3
Trailers, 21 foot*	107	37	70	—
Pickup and Delivery Trucks	5	—	5	—
<b>Total</b>	<b>496</b>	<b>284</b>	<b>208</b>	<b>4</b>

\*21 foot trailers are used in both intercity and city service

## Scope of Operations

Penn Yan Express is a regional short haul common carrier transporting general commodities in interstate commerce over regular and irregular routes between various points in the State of New York, New Jersey, and Eastern Pennsylvania. The Company's operations are conducted under authority granted by the Interstate Commerce Commission (ICC). The Company also operates in intrastate commerce within the State of New York and its operations are under the authority of the New York State Department of Transportation. The Company serves approximately 9,000 accounts from a variety of industries and businesses in approximately 600 cities and towns. No one industry or group of commodities account for more than 4% of the Company's total revenue.

Approximately 60% of the Company's revenues are derived from the less than truckload (LTL) shipments, which are shipments weighing less than 10,000 pounds. The expense of handling LTL shipments is greater than for truckload shipments, however, LTL shipments command higher rates and are generally less vulnerable to competition from other modes of transportation. The Company competes with numerous other regulated motor carriers and since these carriers charge basically uniform rates and use basically the same type of equipment, the Company seeks to maintain its existing business and secure new customers by the service it provides.

### Range of Bid and Asked Quotations on Class A Stock

	1st Qtr.		2nd Qtr.		3rd Qtr.		4th Qtr.	
	Bid	Asked	Bid	Asked	Bid	Asked	Bid	Asked
1973 Low	7	7½	5½	6½	5	5½	3½	4½
High	7½	7½	6½	7½	5½	6½	6½	7½
1974 Low	3½	4½	4½	5	3½	4	3½	4
High	4½	5½	4½	5½	4½	5½	3½	4

### Dividends Paid — Class A Stock

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1973	\$0.05	\$0.05	\$0.05	\$0.05
1974	\$0.05 Reg. \$0.05 Extra	\$0.05	\$0.07	\$0.10

# TERMINALS



## Five-Year Summary

	1974	1973	1972	1971	1970
<b>Financial Data</b>					
Operating revenues .....	\$10,180,111	9,369,651	8,150,748	7,636,003	7,248,066
Operating income .....	954,144	1,011,307	852,323	737,572	657,985
Interest expense .....	257,284	175,152	163,475	177,274	198,958
Other income net .....	58,451	15,012	5,467	16,507	—
Earnings before income taxes .....	755,311	851,167	694,315	576,805	459,027
Income taxes .....	273,000	375,000	279,500	218,000	229,000
Net earnings .....	\$ 482,311	476,167	414,815	358,805	230,027
Earnings per share .....	\$ 1.15	1.16	1.08	1.02	.65
Average shares outstanding .....	418,565	410,304	383,223	352,003	351,552
<b>Operating Data</b>					
Tons of freight .....	257,561	278,720	243,505	231,317	247,827
Number of shipments .....	227,803	216,782	205,110	201,041	219,296
Average length of haul .....	259.4	264.8	239.4	251.8	252.2
Intercity miles .....	4,701,562	4,890,210	4,267,597	3,879,807	4,294,971

## Management Discussion and Analysis of the Financial Summary

### 1973 versus 1972

Operating revenues in 1973 increased 15.0% over 1972, which was attributable to an increase in tonnage of 14.5%. Operating expenses increased only 14.5%, thereby allowing for a greater increase in operating income.

Other income net increased due to interest income because funds were available for temporary cash investment during the latter part of 1973, whereas in 1972, the funds were not available for investment. Income taxes increased, principally due to the increase in profits and due to an \$8,000 reduction in investment tax credit over 1972, resulting in effective tax rate in 1973 of 44.1%, compared to 40.3% in 1972.

### 1974 versus 1973

Operating revenues in 1974 increased 8.6% over 1973 revenues, whereas tonnage decreased approximately 7.5%. The increase in operating revenues was brought about by an increase of approximately 10.8% in rates and the change in the mix of traffic to a greater emphasis on LTL tonnage.

Operating expenses increased approximately 10.3%, principally due to inflationary increases that affected all areas of cost. Interest expense increased 46.9%, due to the change in prime rate on the Revolving Credit line and additional borrowing required for construction and alterations to our real property.

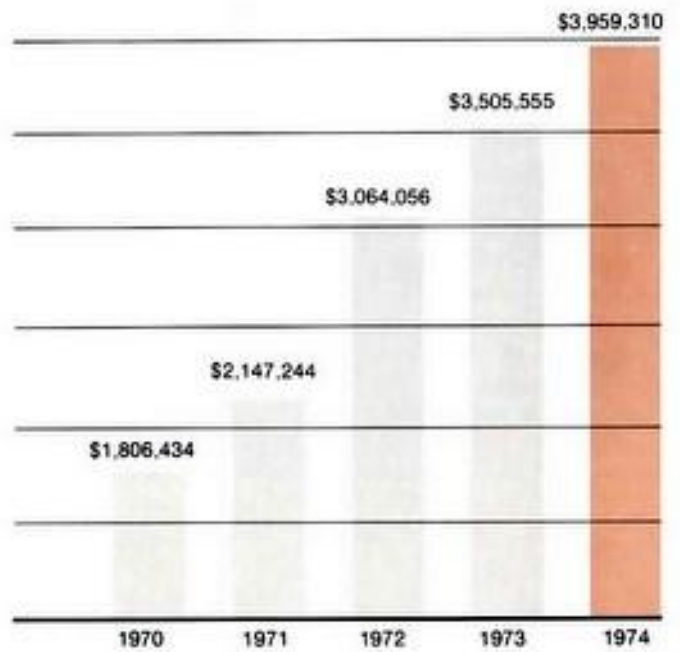
Other income net increased, principally due to the \$51,656 condemnation award from the State of New York. Income taxes decreased significantly, due to an additional \$53,000 in investment tax credit received in 1974 over 1973.

## Financial Highlights

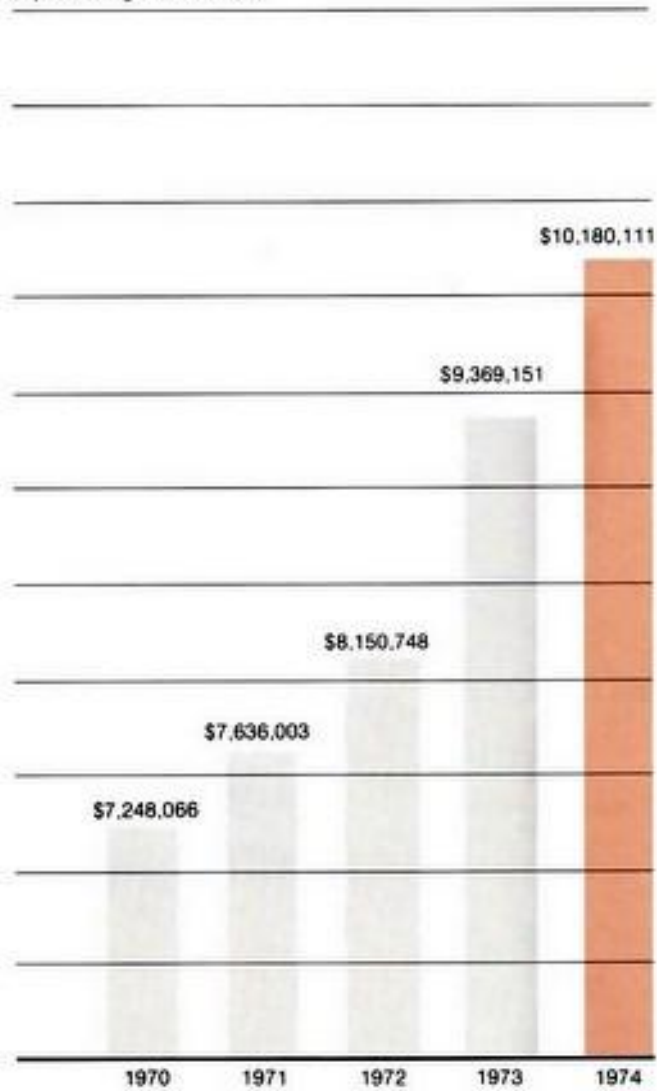
### Net Property and Equipment



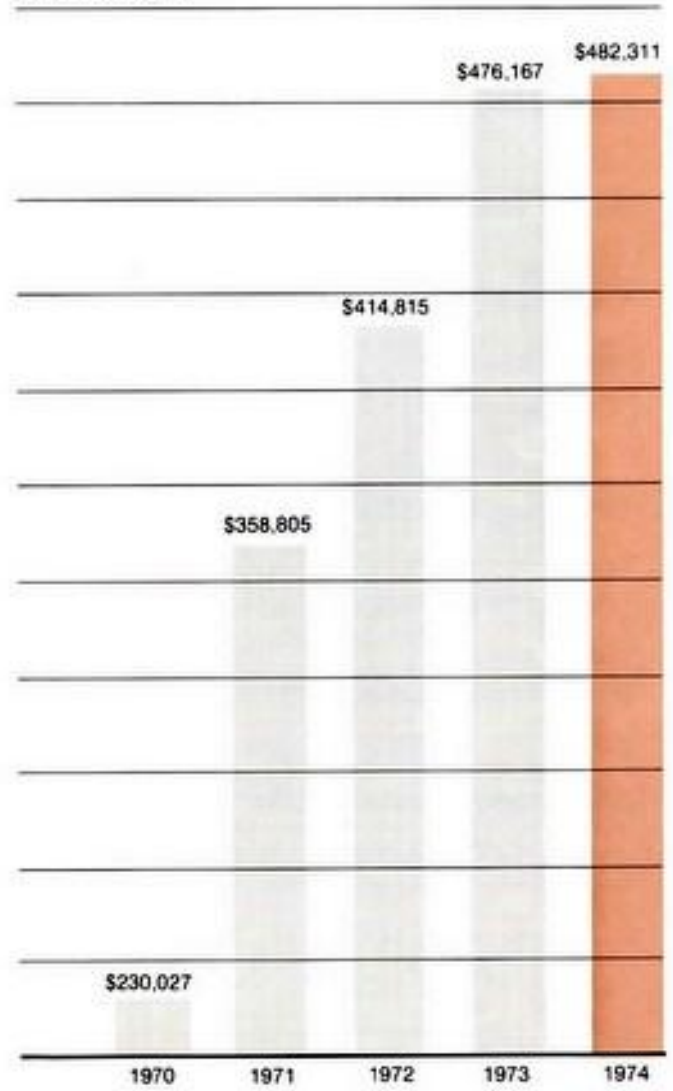
### Stockholders' Equity



### Operating Revenues



### Net Earnings



## Consolidated Balance Sheets

Penn Yan Express, Inc. and Subsidiaries  
December 28, 1974 and December 29, 1973

ASSETS	1974	1973
<b>Current assets:</b>		
Cash .....	\$ 433,227	445,123
Accounts receivable, less allowance for doubtful accounts (1974-\$21,656, 1973-\$15,067):		
Freight revenue .....	532,519	585,635
Employee stock purchases (note 2) .....	60,970	68,750
Other .....	166,021	118,610
Operating supplies, the lower of cost (first-in, first-out) or market .....	272,859	232,335
Prepaid expenses:		
Tires in service .....	278,418	258,978
Taxes, licenses, insurance and other .....	185,697	144,175
<b>Total current assets</b> .....	<u>1,929,711</u>	<u>1,853,606</u>
<b>Tangible property, at cost (note 5):</b>		
Land .....	639,887	338,130
Terminals and offices .....	2,284,536	1,468,937
Revenue equipment .....	4,566,767	4,084,745
Other operating equipment .....	1,602,717	1,207,271
	<u>9,093,707</u>	<u>7,099,083</u>
Less accumulated depreciation .....	<u>2,595,811</u>	<u>2,356,922</u>
<b>Net tangible property</b> .....	<u>6,497,896</u>	<u>4,742,161</u>
<b>Intangible assets, at cost, less amortization of \$245 in 1974</b> .....	536,415	510,905
<b>Cash surrender value of life insurance</b> .....	<u>168,039</u>	<u>152,500</u>
	<u>\$9,132,061</u>	<u>7,259,172</u>

See accompanying notes to consolidated financial statements

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>1974</b>	<b>1973</b>
<b>Current liabilities:</b>		
Accounts payable .....	\$ 915,671	500,782
Dividends payable .....	26,565	20,414
<b>Accrued expenses:</b>		
Wages and vacation pay .....	211,326	229,841
Taxes other than income taxes .....	60,995	57,266
Interest .....	31,077	17,037
Profit sharing (note 3) .....	60,000	64,800
<b>Income taxes (note 4):</b>		
Current .....	59,531	89,895
Deferred .....	109,000	113,000
Estimated liability for loss and damage claims.....	43,176	42,286
Current maturities of long-term debt (note 5) .....	148,664	106,925
<b>Total current liabilities</b> .....	<b>1,666,005</b>	<b>1,242,246</b>
<b>Long-term debt, less current portion (note 5)</b> .....	<b>2,947,746</b>	<b>2,042,521</b>
<b>Deferred income taxes (note 4)</b> .....	<b>559,000</b>	<b>468,850</b>
<b>Stockholders' equity (notes 2, 5, 6, 7):</b>		
Class A stock, \$1 par value per share.		
Authorized 2,000,000 shares; issued 264,000 shares in 1974, 202,000 in 1973 .....	264,000	202,000
Class B stock, \$1 par value per share.		
Authorized 496,000 shares in 1974, 548,000 shares in 1973; issued 164,596 shares in 1974 and 213,970 in 1973 .....	164,596	213,970
Additional paid-in capital .....	523,638	476,863
Retained earnings .....	3,007,076	2,612,722
<b>Total stockholders' equity</b> .....	<b>3,959,310</b>	<b>3,505,555</b>
	<b>\$9,132,061</b>	<b>7,259,172</b>

## Consolidated Statements of Earnings

Penn Yan Express, Inc., and Subsidiaries  
Years ended December 28, 1974 and December 29, 1973

	1974	1973
<b>Operating revenues</b> .....	<u>\$10,180,111</u>	<u>9,369,651</u>
<b>Operating expenses:</b>		
Equipment maintenance .....	780,793	648,189
Transportation .....	3,854,529	3,488,534
Terminal .....	1,385,240	1,207,190
Traffic .....	525,284	443,092
Insurance and safety .....	288,214	361,091
Administrative and general .....	928,776	822,028
Depreciation .....	694,808	653,195
(Gain) loss on disposal of operating equipment .....	(11,444)	(10,572)
Operating taxes and licenses .....	<u>779,767</u>	<u>745,597</u>
	<u>9,225,967</u>	<u>8,358,344</u>
<b>Operating income</b> .....	954,144	1,011,307
<b>Nonoperating (expense) income:</b>		
Interest expense, principally on long-term debt .....	(257,284)	(175,152)
Interest income .....	3,723	13,406
Gain on sale of nonoperating property .....	3,072	1,606
Condemnation settlement (note 8) .....	<u>51,656</u>	<u>—</u>
<b>Earnings before income taxes</b> .....	755,311	851,167
<b>Income taxes (note 4)</b> .....	<u>273,000</u>	<u>375,000</u>
<b>Net earnings</b> (\$1.15 per share in 1974, \$1.16 per share in 1973) .....	<u>\$ 482,311</u>	<u>476,167</u>

See accompanying notes to consolidated financial statements

**Consolidated Statements  
of Stockholders' Equity**

Penn Yan Express, Inc., and Subsidiaries  
Years ended December 28, 1974 and December 29, 1973

	<b>Class A Stock</b>	<b>Class B Stock</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>
<b>Balance at December 31, 1973</b> .....	\$150,000	263,344	464,123	2,186,589
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>
Net earnings .....	—	—	—	482,311
Exercise of stock options (note 7) .....	—	2,626	14,333	—
Sale of Class A stock to employees (note 2) .....	10,000	—	32,442	—
Conversion of Class B stock into Class A .....	52,000	(52,000)	—	—
Dividends declared (\$.32 per share- Class A, \$.0032 per share-Class B) .....	—	—	—	(87,957)
<b>Balance at December 28, 1974</b> .....	<u>\$264,000</u>	<u>164,596</u>	<u>523,638</u>	<u>3,007,076</u>

See accompanying notes to consolidated financial statements

**Consolidated Statements  
of Changes in Financial Position**

Penn Yan Express, Inc., and Subsidiaries  
Years ended December 28, 1974 and December 29, 1973

	1974	1973
<b>Sources of working capital:</b>		
Net earnings .....	\$ 482,311	476,167
Items which do not use working capital:		
Depreciation of tangible property and amortization of intangible assets	695,053	653,195
Provision for noncurrent deferred income taxes .....	90,150	90,500
Additional compensation expense resulting from the issuance of stock under stock option plan .....	14,333	14,333
Working capital provided by operations .....	1,281,847	1,234,195
Net proceeds from sale of stock to employees and under stock option plan	45,068	69,783
Proceeds from sales and other disposals of tangible property (net of gains of \$14,516 in 1974 and \$12,178 in 1973) .....	241,953	343,315
Proceeds from long-term borrowing .....	1,029,785	—
Decrease in working capital .....	347,654	155,309
	<u>\$2,946,307</u>	<u>1,802,602</u>
<b>Uses of working capital:</b>		
Additions to tangible property .....	2,692,496	1,509,909
Additions to intangible assets .....	25,755	—
Current maturities and repayment of long-term debt .....	124,560	156,931
Increase in cash surrender value of life insurance .....	15,539	16,978
Dividends declared .....	87,957	50,034
Repurchase of stock for sale to employees .....	—	68,750
	<u>\$2,946,307</u>	<u>1,802,602</u>
<b>Changes in components of working capital:</b>		
Increase (decrease) in current assets:		
Cash .....	(11,896)	(200,569)
Accounts receivable .....	(13,485)	165,721
Operating supplies .....	40,524	52,920
Prepaid expenses .....	60,962	52,867
Increase (decrease) in current liabilities:	76,105	70,939
Accounts payable and accrued liabilities .....	410,233	185,379
Dividends payable .....	6,151	10,207
Income taxes .....	(34,364)	26,520
Current maturities of long-term debt .....	41,739	4,142
	<u>423,759</u>	<u>226,248</u>
<b>Decrease in working capital .....</b>	<b>\$ 347,654</b>	<b>155,309</b>

## 1. Summary of Accounting Policies

**A. Fiscal year** — The Company's fiscal year ends on the last Saturday in December and consists 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.

**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, 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.

**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.

The provision for depreciation is based principally on the straight line method. The estimated useful lives used in computing depreciation are:

Terminals and offices	20-40 years
Revenue equipment	6-8 years
Other operating equipment	3-10 years

**F. Intangible assets**—The intangible assets consist principally of operating rights purchased. Intangibles originating prior to November 1, 1970 are not being amortized because in the opinion of management there has been no decrease in their value. Intangibles arising after October 31, 1970 (\$25,755) are being amortized by the straight line method over forty years.

**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 \$5,000 deductible policy for cargo loss and damage claims and charges operations for estimated amounts not covered by insurance.

**I. 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 Purchases

During 1973, the Company purchased 10,000 shares of its Class A stock which was resold to its employees at the acquisition cost to the Company. In 1974, an additional 10,000 Class A shares were issued by the Company and sold to employees at the market price on the date the employee offered to purchase the shares. The shares are registered in the name of the employee but held in escrow by the Company until fully paid. At December 28, 1974, 16,250 shares were held in escrow.

## 3. Profit Sharing and Pension 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

\$60,000 in 1974 and \$70,000 in 1973. Contributions vest with participants at the rate of 20% after two years to 100% after 10 years. Forfeited contributions are distributed among remaining participants.

The Company is required under union contracts to make payments into a pension fund which is not administered or controlled by the Company.

#### 4. Income Taxes

Income tax expense amounted to \$273,000 for 1974 (an effective rate of 36.1%) and \$375,000 for 1973 (an effective rate of 44.1%). The actual tax expense for both 1974 and 1973 differs from the "expected" tax expense for those years (computed by applying the U.S. Federal Corporate tax rate of 48% to earnings before income taxes) as follows:

	<u>1974</u>	<u>1973</u>
Computed "expected" tax .....	\$363,000	409,000
Investment tax credit .....	(92,000)	(39,000)
State income tax (net of Federal income tax benefit) .....	20,000	17,000
Miscellaneous .....	(18,000)	(12,000)
Actual tax expense .....	<u>\$273,000</u>	<u>375,000</u>

Components of income tax expense are as follows:

	<u>1974</u>		<u>1973</u>	
	<u>Federal</u>	<u>State</u>	<u>Federal</u>	<u>State</u>
Current tax expense .....	\$149,350	37,500	245,500	26,000
Deferred tax expense, resulting from:				
Depreciation .....	59,150	2,800	71,000	6,000
Condemnation gain .....	16,600	3,000	—	—
Tire costs .....	7,050	550	21,500	2,500
Other timing differences .....	1,850	(4,850)	1,000	1,500
	<u>\$234,000</u>	<u>39,000</u>	<u>339,000</u>	<u>36,000</u>

#### 5. Long-term Debt

Long-term debt consisted of the following:

	<u>1974</u>	<u>1973</u>
Mortgage loans secured by certain tangible property, 6% to 10½% payable through 1990 .....	\$1,020,760	402,394
Bank loan under revolving credit agreement (A) .....	1,550,000	1,550,000
Bank loan secured by certain parcels of land 11% .....	380,000	—
Other obligations, at varying interest rates to 4%, payable through 1979 .....	145,650	197,052
	<u>3,096,410</u>	<u>2,149,446</u>
Less current portion .....	148,664	106,925
	<u>\$2,947,746</u>	<u>2,042,521</u>

A. The bank revolving credit agreement provides for interest at the commercial prime rate plus  $\frac{1}{2}\%$  (11% at December 28, 1974) and allows the Company 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 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 28, 1974, 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 28, 1974, \$523,185 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.

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. During each of the calendar years, 1973 and 1974, 52,000 shares of Class B stock were converted into Class A stock. Additionally, on January 13, 1975, 2,626 shares of Class B stock were converted into 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 non-cumulative 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, 1972:

	Number of Class B shares	Option price		Fair market value (A)	
		Per share	Total	Per share	Total
Options granted and outstanding:					
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 .....	4,376	1.00	4,376	6.53-7.76	31,907
Exercised 1974 .....	(2,626)	1.00	(2,626)	6.53-7.76	(18,814)
Balance December 28, 1974 .....	1,750	\$1.00	1,750	7.25-7.76	13,093
Options exercisable:					
Options which became exercisable and were exercised during the year ended December 29, 1973 .....	2,626	\$1.00	2,626	5.25-7.50	18,122
December 28, 1974 .....	2,626	\$1.00	2,626	3.88-4.13	10,351

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 nonqualified option plan is being charged to operating expense over the lives of the option agreements. Amounts so charged were \$14,333 in 1974 and 1973.

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. Condemnation Settlement**

The Company received an award from the State of New York during 1974 as a result of the condemnation of part of its property in Penn Yan, New York several years ago. The condemnation resulted in the Company constructing a new terminal as access to the former terminal was impaired by the State's action. The gain has been used to the extent available to reduce the carrying value of the new terminal for tax purposes.

#### **9. Subsequent Event — Acquisition**

The Company has entered into an agreement to acquire the operating rights of Albany Binghamton Express, Inc., by merger. Consideration given is the assumption of \$30,000 of liabilities and the issuance of 3,700 of a new Class C 7% cumulative preferred stock, par value \$100 per share with conversion to Class A stock at a ratio of eight shares of Class A to one share of Class C, and is callable at the election of the Company at \$105 per share after five years, reducing to \$100 per share after ten years. The above agreement is subject to the approval of the respective stockholders and the various regulatory authorities. In addition, application has been made with the respective regulatory authorities to lease and operate the operating rights of Albany Binghamton Express, Inc., during the period awaiting the final approval of said regulatory authorities. Based on unaudited 1974 financial statements, the operating revenues and results of operation of Albany Binghamton Express, Inc., are not considered material in relation to those of the Company.

#### **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 28, 1974 and December 29, 1973, 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 28, 1974 and December 29, 1973, 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.

*Peat, Marwick, Mitchell & Co.*

Rochester, New York  
February 28, 1975

## **TERMINALS**

<b>ALBANY, NEW YORK</b> Terminal Road, Colonie	(518) 869-9553
<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 Avenue	(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>SAYREVILLE, NEW JERSEY</b> Raritan and Gowin Streets	(201) 721-9240
<b>SCRANTON, PENNSYLVANIA</b> 749 North Keyser	(717) 346-7604
<b>SYRACUSE, NEW YORK</b> 126 Bear Street	(315) 474-7840
<b>UTICA, NEW YORK</b> Welles Avenue	(315) 735-6179