

PENN YAN EXPRESS, INC.

ANNUAL REPORT

1976

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

J. CLIFFORD SIGNOR, JR.
Regional Manager 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

J.J. HOUSTON
Vice President—Marketing

JACK SCHINDLER
Vice President—National 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 AGENT
Lincoln First Bank of Rochester, Rochester, 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.

*Resigned March, 1977

To Our Stockholders

We are pleased to announce that revenues and earnings reached record high levels for the year 1976. Operating revenues totaled \$13,911,984 for the year, an increase of 32.7% over operating revenues of \$10,483,054 recorded during the year 1975.

Earnings for the year totaled \$503,107, or \$1.17 per share based on 430,346 average shares outstanding, whereas earnings for 1975 totaled \$180,862, or \$.42 per share based on 429,830 average shares outstanding.

Net capital improvements of \$2,226,865 were made during 1976 for additions to revenue equipment and the purchase and expansion of our Binghamton, New York terminal and the expansion of our Elmira, New York terminal.

On April 3, 1976, an agreement was consummated covering our Teamsters labor contract which resulted in an overall increase of approximately 10.1% for wages and Health, Welfare, and Pension benefits. During the negotiations, Penn Yan Express' operations were closed for two days due to the nationwide Teamsters strike. Rate increases of approximately 5% were received during the middle of April from the Interstate Commerce Commission and the New York State Department of Transportation to absorb the additional labor costs.

During September, 1976, final approval of the acquisition of B & M Transport, Inc., of Syracuse, New York, was received and this company was merged into Penn Yan Express. The B & M acquisition has and will continue to provide outstanding growth potential for our Central New York State customers.

During the year, the Eastern Pennsylvania region experienced a heavy increase in traffic. After completion of a marketing study of this region, Penn Yan Express purchased a 23-door terminal in Reading, Pennsylvania and operations began on February 21, 1977. Our expansion into this region will improve the service to our existing customers and will permit the development of new business within this important region of Eastern Pennsylvania.

The Central and Southern New Jersey areas also experienced outstanding growth during 1976. We anticipate that this rate of growth will continue and Penn Yan Express will re-open the Southern New Jersey market area by the construction of a new 20-door terminal. Operations are expected to begin by September, 1977.

Construction of a new terminal in Albany, New

York is progressing and operations are scheduled to begin during September, 1977. This new terminal will replace a leased facility which is now obsolete for our needs.

Orders have been placed for thirty-five 45' trailers and forty-four diesel tractors and trucks to allow for the continued growth of the company.

Operating revenues and earnings for the first quarter of 1977 have increased approximately 25% over 1976, despite the high operating costs incurred during the severe winter storms experienced in our Upstate region.

We, at Penn Yan Express, wish to express our appreciation to our customers and employees, as their loyalty and dedication have made the Company's success possible and continue to encourage us to look forward to future profitable years.

Respectfully yours,



Robert L. Hinson, President

Capital Improvements

During 1976, Penn Yan Express, Inc., expended \$2,226,865 net in capital improvements for revenue equipment and facilities.

Revenue equipment expenditures totaled \$1,365,050. Twenty new tandem-axle tractors and thirty new single-axle tractors were purchased, against which fifteen used single-axle tractors were traded. Six 21' trailers were lengthened to 26' to allow for better utilization of the short trailers in our terminal pickup and delivery operation. Also, three used trucks were acquired through the merger of B & M Transport, Inc.

Capital improvements to real estate totaled \$562,754 during 1976. These improvements covered the purchase and expansion of a terminal at Vestal, New York to serve the Binghamton, New York area. In addition, the Elmira, New York terminal was enlarged and improved to permit more efficient handling of the increased business resulting from the acquisition of B & M Transport, Inc. Paving at three of our facilities was completed during the year, as well as improvements to existing structures.

Other miscellaneous equipment purchases totaled \$299,061, which covered the replacement of thirty-

five automobiles plus the addition of five new automobiles and three service trucks. New shop and garage equipment, office furniture, and miscellaneous freight handling equipment was purchased for use at our terminals.

Revenue Equipment at January 1, 1977

	Approximate Age of Equipment			
	Total	1-3 Years	4-6 Years	Over 6 Years
Tractors	193	92	77	24
Line Haul Trailers, 40 foot and longer	267	71	139	57
Trailers, 21 foot and 26 foot	103	12	91	—
Pickup and Delivery Trucks	7	2	5	—
Total	570	177	312	81

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 69% of the Company's revenues and 40% of the Company's tonnage 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
1975	Low	3¼	4¼	4¼	5	3	3¼	3¼	4
	High	4¼	5½	4¼	5½	4½	5¼	3¾	4½
1976	Low	3¼	4¼	3¾	4½	3¾	4½	4¼	4¾
	High	4¼	5	4½	5¼	4¼	5	5	5½

Dividends Paid—Class A Stock

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1975	\$0.10	\$0.10	\$0.10	\$0.10
1976	\$0.10	\$0.10	\$0.10	\$0.10

TERMINALS



Five-Year Summary

	1976	1975	1974	1973	1972
Financial Data					
Operating revenues	\$ 13,911,984	10,483,054	10,180,111	9,369,651	8,150,748
Operating income	1,006,469	534,889	954,144	1,011,307	852,323
Interest expense	331,541	294,912	257,284	175,152	163,475
Other income net	2,179	1,885	58,451	15,012	5,467
Earnings before income taxes	677,107	241,862	755,311	851,167	694,315
Income taxes	174,000	61,000	273,000	375,000	279,500
Net earnings	\$ 503,107	180,862	482,311	476,167	414,815
Earnings per common share assuming no dilution	\$ 1.17	.42	1.15	1.16	1.08
Earnings per common share full dilution	\$ 1.09	.40			
Average shares outstanding assuming no dilution	430,346	429,830	418,565	410,304	383,223
Average shares outstanding full dilution	459,946	448,534			
Operating Data					
Tons of freight	273,610	221,512	240,713	278,720	243,505
Numbers of shipments	327,929	246,226	227,803	216,782	205,110
Average length of haul	223.8	236.1	259.4	264.8	239.4
Intercity miles	4,969,088	4,497,201	4,701,562	4,890,210	4,267,597

Management's Discussion and Analysis of the Financial Summary

1976 versus 1975

Operating revenues increased approximately 32.7% over 1975, whereas tonnage increased 23.5%. This increase was primarily attributable to the change in mix between LTL and TL revenues. In 1976, LTL revenues increased 42.0%, whereas LTL tonnage increased 32.4%. LTL revenue now represents 68.6% of the total revenues compared to 64.4% of the total revenues in 1975. Rate increases of 5% were received to offset the increased labor costs that were granted under the terms of the Teamster contract.

Operating expenses increased 29.7% during 1976. This increase is principally due to an increase in Teamsters wages, effective April 1, 1976, of 9.1%. Fringe costs increased 39.3% due to an increase in Union Welfare and Pension contributions, an increase in Social Security taxes, and the cost of full coverage of the non-union hospital program. Cost of insurance increased, principally due to increased premiums under our Public Liability and Property Damage insurance and an increase in cargo claims, resulting in an overall increase of 94.6% in insurance costs. Rents increased, primarily due to the payment of approximately \$54,000 to pay off the lease on the Binghamton, New York terminal which was no longer needed after the purchase of the new terminal.

Interest costs increased approximately 12.4% over 1975, due to additional borrowing of \$936,000, offset by a reduction in interest rates from an average rate of 8.342% in 1975 to 7.352% in 1976.

Income taxes increased, primarily due to the increased profits but still represented an effective tax rate of 25.7% in 1976 versus 25.2% in 1975.

1975 versus 1974

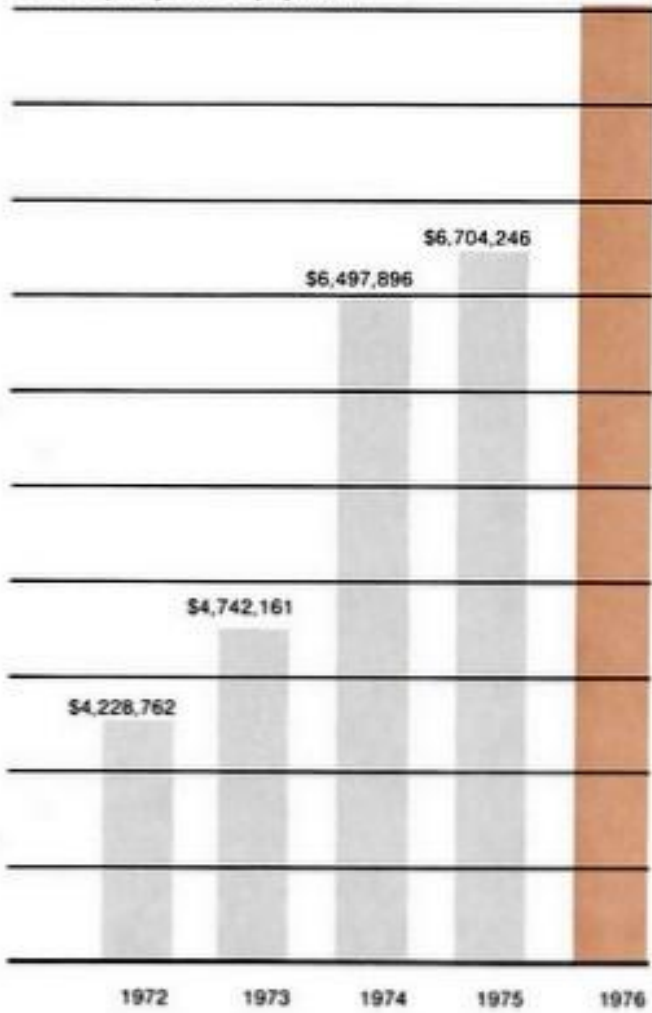
Operating revenues increased approximately 2.9% over 1974, and tonnage decreased approximately 8.0%. This increase in operating revenues was primarily attributable to the change in mix between LTL and TL revenues. LTL revenues represented 64.4% of total revenues compared to 60.3% in 1974. The average length of haul also decreased, primarily due to the increase in New York intrastate traffic. Operating revenues increased approximately 8% from rate increases granted in 1975 to overcome the increased Union costs.

Operating expenses increased approximately 7.8%, principally due to the inflationary increases that affected all areas of costs. Interest expense increased approximately 14.6%, due to additional borrowing of \$820,000, even though there was a reduction in interest rates during 1975.

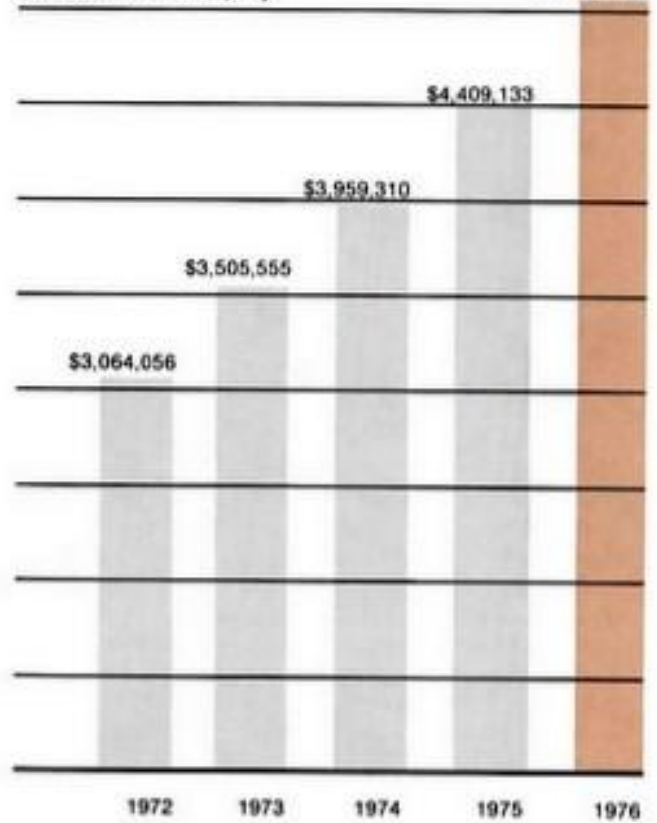
Changes in other income net was due to the \$51,656 condemnation award from the State of New York, reported in 1974. Income taxes decreased significantly due to the decrease in earnings.

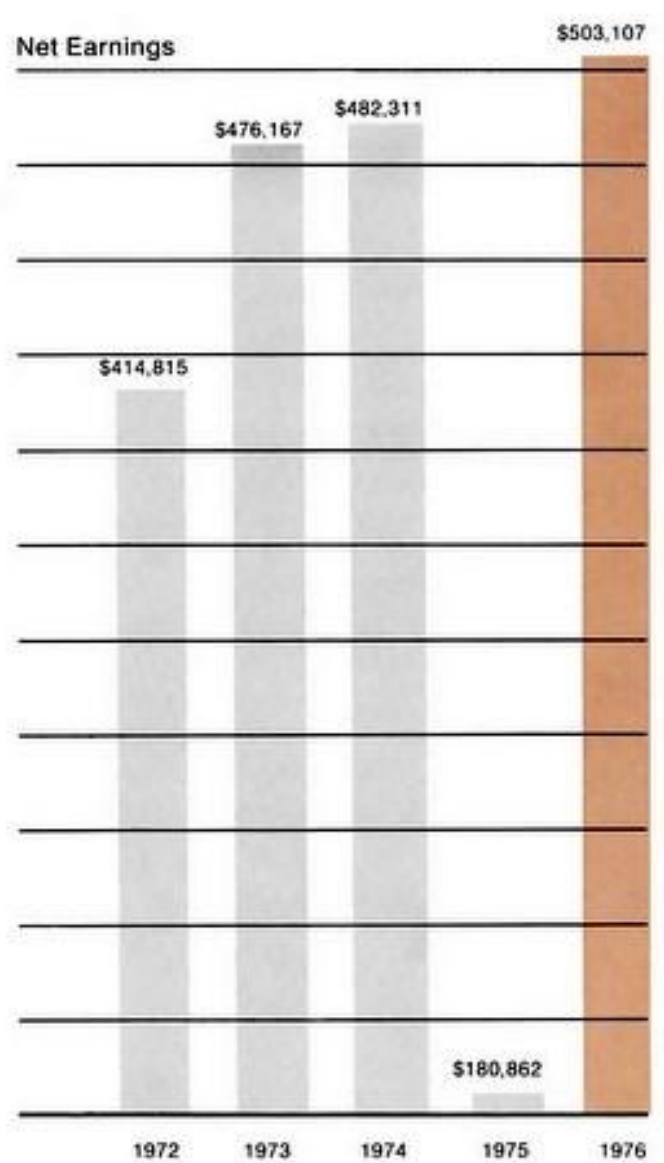
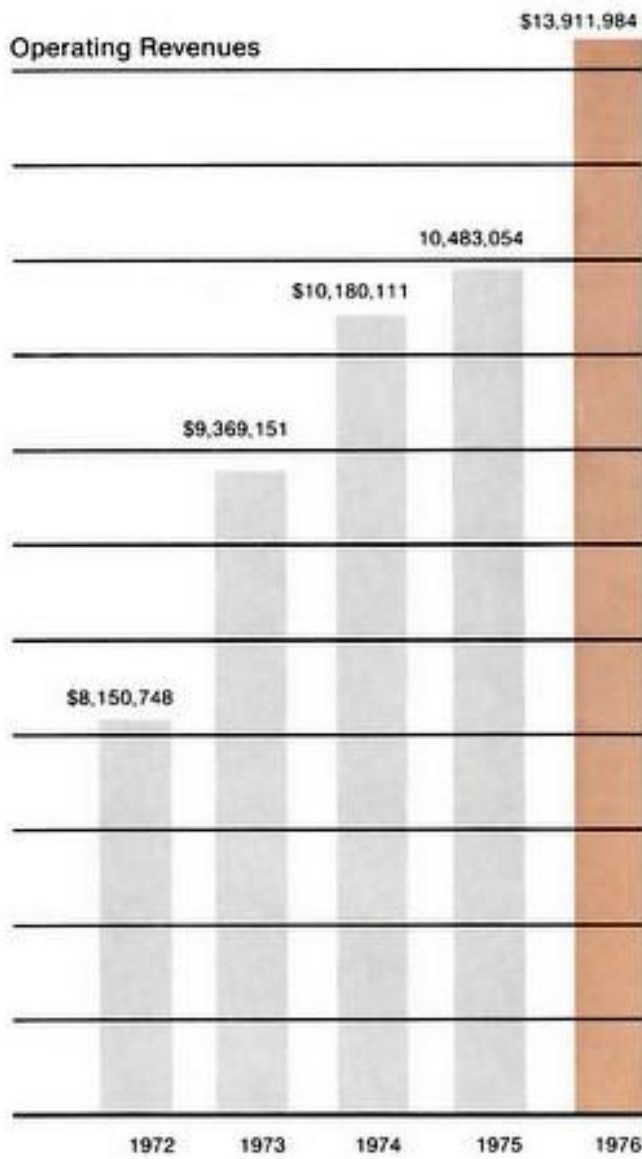
Financial Highlights

Net Property and Equipment \$8,020,581



Stockholders' Equity \$4,769,683





Consolidated Balance Sheets

Penn Yan Express, Inc., and Subsidiaries
January 1, 1977 and December 27, 1975

ASSETS	1976	1975
Current assets:		
Cash	\$ 521,639	422,065
Accounts receivable, less allowance for doubtful accounts (1976 - \$38,985; 1975 - \$24,613)		
Freight revenue	919,380	678,472
Employee stock purchases	5,474	15,860
Other	103,121	114,022
Operating supplies, the lower of cost (first-in, first-out) or market	364,800	460,644
Prepaid expenses:		
Tires in service	333,783	295,276
Taxes, licenses, insurance and other	244,542	209,914
Total current assets	2,492,739	2,196,253
Tangible property, at cost:		
Land	748,777	697,055
Terminals and offices	3,043,302	2,661,899
Revenue equipment	5,583,281	4,930,750
Other operating equipment	2,023,407	1,724,555
	11,398,767	10,014,259
Less accumulated depreciation	3,378,186	3,310,013
Net tangible property	8,020,581	6,704,246
Intangible assets, at cost, less accumulated amortization of \$22,397 in 1976 and \$7,092 in 1975		
	1,147,749	955,425
Cash surrender value of life insurance	198,954	183,586
	\$ 11,860,023	10,039,510

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	1976	1975
Current liabilities:		
Accounts payable	\$ 709,198	528,997
Dividends payable	39,610	28,011
Accrued expenses:		
Wages and vacation pay	386,349	253,365
Taxes other than income taxes	86,851	63,532
Interest	35,004	23,958
Profit sharing	74,000	28,000
Income taxes:		
Current	135,381	48,993
Deferred	146,000	122,000
Estimated liability for loss and damage claims	23,959	32,666
Current maturities of long-term debt	200,301	134,118
Total current liabilities	1,836,653	1,263,640
Long-term debt, less current portion	4,652,687	3,782,737
Deferred income taxes	601,000	584,000
Stockholders' equity:		
Preferred stock	370,000	370,000
Common stock:		
Class A	330,346	278,596
Class B	100,000	151,750
Additional paid-in capital	531,968	531,968
Retained earnings	3,437,369	3,076,819
Total stockholders' equity	4,769,683	4,409,133
	\$11,860,023	10,039,510

Consolidated Statements of Earnings

Penn Yan Express, Inc., and Subsidiaries
Years ended January 1, 1977 and December 27, 1975

	1976	1975
Operating revenues	\$ 13,911,984	10,483,054
Operating expenses:		
Salaries and wages	6,654,477	5,073,696
Fringes	1,923,124	1,380,860
Operating supplies	1,310,813	1,029,908
General supplies and expenses	575,247	508,591
Operating taxes and licenses	588,267	497,721
Insurance	229,481	117,898
Communications and utilities	313,394	247,573
Depreciation	910,530	809,855
Rents	302,509	205,935
Gain on disposal of operating equipment	(6,392)	(7,795)
Miscellaneous expenses	104,065	83,923
	<u>12,905,515</u>	<u>9,948,165</u>
Operating income	1,006,469	534,889
Nonoperating expense:		
Interest expense, principally on long-term debt	329,362	293,027
Earnings before income taxes	677,107	241,862
Income taxes	174,000	61,000
Net earnings	\$ 503,107	180,862
Per common share:		
Earnings per common share		
— assuming no dilution	<u>\$ 1.17</u>	<u>.42</u>
Earnings per common share		
— assuming full dilution	<u>\$ 1.09</u>	<u>.40</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements
of Stockholders' Equity**

Penn Yan Express, Inc., and Subsidiaries
Years ended January 1, 1977 and December 27, 1975

	Common Stock Class A	Common Stock Class B	Preferred Stock	Additional paid-in capital	Retained earnings
Balance at December 28, 1974	\$ 264,000	164,596	—	523,638	3,007,076
Net earnings - 1975	—	—	—	—	180,862
Exercise of stock options	—	1,750	—	8,330	—
Issuance of preferred stock	—	—	370,000	—	—
Conversion of Class B stock to Class A	14,596	(14,596)	—	—	—
Dividends declared (\$.40 per share - Class A; \$.0040 per share - Class B)	—	—	—	—	(111,119)
Balance at December 27, 1975	278,596	151,750	370,000	531,968	3,076,819
Net earnings - 1976	—	—	—	—	503,107
Conversion of Class B stock to Class A	51,750	(51,750)	—	—	—
Dividends declared:					
Preferred \$4.00 per share	—	—	—	—	(14,795)
Common (\$.40 per share - Class A; \$.0040 per share - Class B)	—	—	—	—	(127,762)
Balance at January 1, 1977	<u>\$ 330,346</u>	<u>100,000</u>	<u>370,000</u>	<u>531,968</u>	<u>3,437,369</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements
of Changes in Financial Position**

Penn Yan Express, Inc., and Subsidiaries
Years ended January 1, 1977 and December 27, 1975

	1976	1975
Sources of working capital:		
Net earnings	\$ 503,107	180,862
Items which do not use working capital:		
Depreciation of tangible property and amortization of intangible assets	925,835	816,702
Provision for noncurrent deferred income taxes	17,000	25,000
Additional compensation expense resulting from the issuance of stock under stock option plan	—	8,330
Working capital provided by operations	1,445,942	1,030,894
Preferred stock issued in acquisition of Albany Binghamton	—	370,000
Note issued and debt assumed in acquisition of B & M Transport, Inc. ..	224,596	—
Net proceeds from sale of stock to employees and under stock option plan	—	1,750
Proceeds from sales and other disposals of tangible property (net of gains of \$6,392 in 1976 and \$7,795 in 1975)	213,090	160,162
Proceeds from long-term borrowing	874,000	976,586
Total working capital provided	2,757,628	2,539,392
Uses of working capital:		
Additions to tangible property	2,439,955	1,176,367
Additions to intangible assets	207,629	425,857
Current maturities and repayment of long-term debt	228,646	141,595
Increase in cash surrender value of life insurance	15,368	15,547
Dividends declared	142,557	111,119
Working capital used	3,034,155	1,870,485
Increase (decrease) in working capital	\$ (276,527)	668,907
Increase (decrease) in working capital components:		
Current assets:		
Cash	99,574	(11,162)
Receivables	219,621	48,844
Operating supplies	(95,844)	187,785
Prepaid expenses	73,135	41,075
	<u>296,486</u>	<u>266,542</u>
Current Liabilities:		
Accounts payable and accrued liabilities	384,843	(391,727)
Dividends payable	11,599	1,446
Income taxes	110,388	2,462
Current maturities of long-term debt	66,183	(14,546)
	<u>573,013</u>	<u>(402,365)</u>
Increase (decrease) in working capital	\$ (276,527)	668,907

See accompanying notes to consolidated financial statements.

1. Summary of Accounting Policies

A. Fiscal year — The Company's fiscal year normally 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. The year ended January 1, 1977 included 53 weeks.

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 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 (\$659,240) 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 account-

ing 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. Revenue recognition — Operating revenues and related costs are recognized as of the date the freight is picked up.

J. Earnings per common share is calculated by dividing earnings by the average number of common shares outstanding during the year. Earnings per common share — assuming full dilution are computed by assuming the conversion of Preferred Stock on the date of issuance.

2. Acquisitions

During 1976, the Company consummated an agreement to purchase for \$273,000 all of the outstanding stock of B&M Transport, Inc. The transaction was accounted for as a purchase and involved issuance by the Company of an 8% note in the amount of \$200,000 due in four equal annual installments through 1980. Of the purchase price, \$190,352 was assigned to the operating rights acquired as well as the legal expenses associated with the purchase. Temporary and permanent operating authority was obtained during the current year. Operations of B&M Transport, Inc. (which are immaterial to those of the Company) are included in the accompanying financial statements as of April 1, 1976, the date of temporary operating authority.

In 1975, the Company entered into an agreement to acquire the operating rights of Albany Binghamton Express, Inc. in exchange for 3,700

**Notes to Consolidated
Financial Statements (Continued)**

Penn Yan Express, Inc., and Subsidiaries

shares of Class C preferred stock and assumption of \$30,000 liabilities of Albany Binghamton. Temporary operating authority was granted the Company by the I.C.C. on May 12, 1975 and final approval was granted in March 1976. The acquisition of the operating rights has been reflected in the accompanying financial statements as of March 12, 1975, the date temporary operating authority was granted by the I.C.C. and include \$396,322 assigned to operating rights and \$3,677 to fixed assets. Additionally \$34,830 legal expenses associated with the purchase have been charged to the intangible asset.

3. Employee Stock Purchases

During 1974, 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 January 1, 1977, 2,450 shares were held in escrow (7,050 at December 27, 1975).

4. Profit Sharing and Pension Plan

The Company has a noncontributory Profit Sharing Plan for all eligible non-union employees.

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 operating income and a maximum of 15% of the total compensation of participants in the Plan. The Company's contributions to the Plan were \$74,000 in 1976 and \$28,000 in 1975. 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.

5. Income Taxes

Income tax expense amounted to \$174,000 for 1976 (an effective rate of 25.7%) and \$61,000 for 1975 (an effective rate of 25.2%). The actual tax expense for both 1976 and 1975 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>1976</u>	<u>1975</u>
Computed "expected" tax	\$325,000	116,000
Surtax exemption	(18,000)	(14,000)
Investment tax credit	(129,000)	(43,000)
State income tax (net of Federal income tax benefit)	18,000	13,000
Miscellaneous	(22,000)	(11,000)
Actual tax expense	<u>\$174,000</u>	<u>61,000</u>

Components of income tax expense are as follows:

	<u>1976</u>		<u>1975</u>	
	<u>Federal</u>	<u>State</u>	<u>Federal</u>	<u>State</u>
Current tax expense	\$ 98,000	35,000	(3,000)	26,000
Deferred tax expense resulting from:				
Depreciation	20,000	(3,000)	27,000	(2,000)
Tire costs	18,000	1,400	8,000	1,000
Other timing differences	4,000	600	4,000	—
	<u>\$140,000</u>	<u>34,000</u>	<u>36,000</u>	<u>25,000</u>

**Notes to Consolidated
Financial Statements (Continued)**

Penn Yan Express, Inc., and Subsidiaries

6. Long-Term Debt

	<u>1976</u>	<u>1975</u>
Long-term debt consisted of the following:		
Mortgage loans secured by certain tangible property, 6% - 10½% payable through 1995	\$ 1,506,478	1,480,785
Bank loan under revolving credit agreement (A)	3,075,000	2,325,000
Other obligations at varying interest rates to 8% payable through 1980	271,510	111,070
	4,852,988	3,916,855
Less current portion	200,301	134,118
	<u>\$ 4,652,687</u>	<u>3,782,737</u>

A. The bank revolving credit agreement provides for interest at the commercial prime rate plus ½% (6 ¾% at January 1, 1977) and allows the Company and subsidiaries to borrow up to \$3,500,000 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. The Company or the bank may terminate the agreement according to the following provisions:

1. The Company can exercise its election right at any time while in compliance with the agreement. If elected, the first monthly payment is due on the first day of the month following the effective date. The Company does not intend to exercise their election right in the next fiscal year
2. If the bank exercises its election between January 1 and February 28, the first payment is due on the first day of the month following the effective date. At any other time the first payment is due on January 1 of the year following the bank notification.

At the date of this report, the bank has not 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 January 1, 1977, \$611,494 was free from restrictions on the payment of cash dividends.

7. Common and Preferred Stock

The Company's capital stock is as follows:

Preferred stock:

Class C stock; \$100 par value per share; authorized 3,700 shares; 7% cumulative dividend per share; convertible into Class A stock at a rate of 8 Class A shares for 1 Class C preferred share at the holder's option; callable by issuer at \$105 per share in 1981 reducing to \$100 per share in 1986. From date of issue until March 1, 1982, the company will repurchase the stock for \$100 per share at the holder's option.

Common stock:

Class A stock, \$1 par value; 2,000,000 shares authorized; 330,346 issued and outstanding January 1, 1977 and 278,596 issued and outstanding December 27, 1975. 129,600 reserved at January 1, 1977 for conversion of Class B common and Class C preferred stock.

Class B stock; \$1 par value per share; authorized 429,654 at January 1, 1977 and 481,404 shares at December 27, 1975; issued and outstanding, 100,000 at January 1, 1977 and 151,750 at December 27, 1975.

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. In 1976, 51,750 shares of Class B stock (14,596 in 1975) were converted into Class A stock.

8. 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 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.

At December 28, 1974 there were 1,750 options outstanding, all of which were exercised during 1975. At the date granted, the option price was \$1.00 per share with a fair market value ranging from \$7.25 to \$7.76. When exercised during 1975 the fair market value was \$3.63 to \$3.88 per share. The difference between the fair market and the option prices at date of grant was charged to operating expense over the lives of the option agreements. During 1975 this amounted to \$8,330.

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.

9. Commitments

The Company has entered or intends to enter into contracts relating to the purchase or construction of new terminals and additional revenue equipment. The total capital expenditure is anticipated to approximate \$1,500,000 with the majority to be financed by outside sources.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
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ONE MARINE MIDLAND PLAZA
ROCHESTER, NEW YORK 14604

The Board of Directors
Penn Yan Express, Inc.

We have examined the consolidated balance sheets of Penn Yan Express, Inc. and subsidiaries as of January 1, 1977 and December 27, 1975, 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 January 1, 1977 and December 27, 1975, and the results of their operations and 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.

February 25, 1977

TERMINALS

ALBANY, NEW YORK Terminal Road, Colonie	(518) 869-9553
BINGHAMTON, NEW YORK 612 Vestal Parkway W. Vestal, New York	(607) 748-7441
BUFFALO, NEW YORK 176 Vulcan Street	(716) 877-5111
CARLSTADT, NEW JERSEY 50 Kero Road	(201) 933-5770
ELMIRA, NEW YORK 1510 Grand Central Avenue	(607) 733-6501
NEW YORK, NEW YORK	(212) 244-5767
NIAGARA FALLS, NEW YORK	(716) 285-4726
PENN YAN, NEW YORK 98 West Lake Road	(315) 536-3321
PHILLIPSBURG, NEW JERSEY Alpha Industrial Center, R.D.1	(201) 454-8800
READING, PENNSYLVANIA Front and Union Streets	(215) 375-4237
ROCHESTER, NEW YORK 16 Deep Rock Road	(716) 436-7724
SAYREVILLE, NEW JERSEY Raritan and Gowin Streets	(201) 721-9240
SCRANTON, PENNSYLVANIA 749 North Keyser	(717) 346-7604
SYRACUSE, NEW YORK 126 Bear Street	(315) 474-7849
UTICA, NEW YORK Wells Avenue	(315) 735-6179