

**PENN YAN EXPRESS, INC.**

**ANNUAL  
REPORT 1977**

## **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

**J.J. HOUSTON**  
Vice President—Marketing

**R.B. SAVAGE**  
Vice President—Operations

**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 AGENTS**  
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.

## To Our Stockholders

We are pleased to announce that revenues and earnings reached record high levels for the year 1977. Operating revenues were \$16,982,312, a 22.1% increase over 1976 revenues of \$13,911,984. Earnings for the year increased 19.6% to \$601,919, or \$1.36 per share, compared to 1976 earnings of \$503,107, or \$1.13 per share.

Net capital expenditures of \$2,473,074 were invested during 1977 for twenty tractors, thirty trailers, construction of two new terminals in Albany, New York and Sayreville, New Jersey, a good used terminal in Reading, Pennsylvania, and miscellaneous operating and service equipment.

In April, 1977, the Interstate Commerce Commission approved rate increases to offset a 10.5% increase in Teamster wages and fringes due April 1, 1977. In July, 1977, the Interstate Commerce Commission again approved a 2% rate increase to help offset other fixed and operating costs.

Throughout the year 1977 the Interstate Commerce Commission has supported many de-regulation changes that may create a detrimental effect upon our industry; however, with our aggressive marketing program and effective productivity controls, we feel confident that we will be able to continue to provide the same quality service to our customers and maintain the level of earnings as in the past.

Revenues were up approximately 15% during the first quarter of 1978 compared with the first quarter of 1977, and this increased revenue is expected to continue through 1978. The severe weather conditions had an adverse effect on earnings during January and February, but earnings were back to normal in March and April. On April 15, 1978, the Phillipsburg and Reading sales and operations were consolidated at our Reading facility which will lower operating costs with no loss of service to our customers within this area.

In contemplation of the Company's expected growth during 1978, approximately \$1,000,000 is to be spent in net capital improvements for the purchase of twenty new tractors and fifty-two new trailers which will be in service during the second quarter of 1978. Construction of an additional 3,000 square foot addition to our Penn Yan, New York maintenance facility will be made during the third quarter to meet the growth in our fleet.

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

Respectfully yours,



Robert L. Hinson, President

## Capital Improvements

During 1977, Penn Yan Express expended \$2,473,074 net in capital improvements for revenue equipment, facilities, and other miscellaneous equipment.

Net Revenue equipment expenditures totaled \$1,150,888. Seventeen used 1973 single-axle tractors and twenty-four 1977 single-axle tractors were purchased, along with two tandem-axle tractors and two straight trucks. Against these we traded twenty single-axle tractors resulting in a net increase of our tractor fleet of twenty-five units. In addition, we purchased thirty-five new 1977 45' trailers and eight 1972 used 40' reefer trailers. These purchases increased our trailer fleet by a total of forty-three units.

Net capital improvements to real estate totaled \$1,153,016. This covered the purchases of a terminal at Reading, Pennsylvania and the construction of two new terminals at Albany, New York, and Sayreville, New Jersey.

Other miscellaneous equipment purchases totaled \$169,170 and covered the net addition of five new automobiles, a pickup truck, and one fuel tanker to augment our distribution of fuel within the facilities. Additional items covered office equipment, fork lifts, and other dock handling equipment to cover the additions of the two new terminals within the operation.

Revenue Equipment at December 31, 1977

	Approximate Age of Equipment			
	Total	1-3 Years	4-6 Years	Over 6 Years
Tractors	211	75	84	52
Line Haul Trailers, 40 foot and longer	310	70	160	80
Trailers, 21 foot and 26 foot	103	—	37	66
Pickup and Delivery Trucks	6	2	2	2
<b>Total</b>	<b>630</b>	<b>147</b>	<b>283</b>	<b>200</b>

## Five-Year Summary

	1977	1976	1975	1974	1973
<b>Financial Data</b>					
Operating revenues	\$ 16,982,312	13,911,984	10,483,054	10,180,111	9,369,651
Operating income	1,254,770	1,006,469	534,889	954,144	1,011,307
Interest expense	473,007	331,541	294,912	257,284	175,152
Other income net	156	2,179	1,885	58,451	15,012
Earnings before income taxes	781,919	677,107	241,862	755,311	851,167
Income taxes	180,000	174,000	61,000	273,000	375,000
Net earnings	\$ 601,919	503,107	180,862	482,311	476,167
Earnings per common share assuming no dilution	\$ 1.36	1.13	.42	1.15	1.16
Earnings per common share assuming full dilution	\$ 1.33	1.09	.40		
Average shares outstanding assuming no dilution	430,346	430,346	429,830	418,565	410,304
Average shares outstanding assuming full dilution	450,944	459,946	448,534		
<b>Operating Data</b>					
Tons of freight	317,585	273,610	221,512	240,713	278,720
Number of shipments	349,482	327,929	246,226	227,803	216,782
Average length of haul	221.0	223.8	236.1	259.4	264.8
Intercity miles	5,528,424	4,969,088	4,497,201	4,701,562	4,890,210

## Management's Discussion and Analysis of the Financial Summary

### 1977 versus 1976

Operating revenues increased approximately 22.1% over 1976 with an increase in tonnage of approximately 16.0%. Rate increases of approximately 7.42% were granted to offset the April 1, 1977 Teamster Union labor increase and a 2.0% increase was granted in July, 1977 to offset other cost increases.

Operating expenses increased approximately 21.9% during 1977, principally due to a Teamster Union wage increase of 9.5%, effective April 1, 1977. In addition, two new terminals were opened in February and September, 1977, respectively, resulting in an overall labor increase of 23.0% over 1976. Fringes increased 27.1%, primarily due to a 9.5% increase in weekly Union Welfare and Pension contributions, increased Social Security contributions, and a 10.8% increase in contributions to the Profit Sharing Plan. Other items of cost increased, primarily due to inflation and the opening of the two new terminals. Rents decreased because of the extra cost recorded in 1976 for the liquidation of the Binghamton, New York, lease.

Interest cost was a major increase amounting to 42.6% over 1976, due to additional net borrowings of \$1,888,000 and an increase in the average rate of interest on the Revolving Credit Agreement from 7.352% in 1976 to 7.509% in 1977.

Total income taxes remained approximately the same, resulting in an effective tax rate of 23.0% in 1977 compared to 25.7% in 1976. The 1977 reduction in tax was primarily attributable to a \$52,000 job tax credit.

### 1976 versus 1975

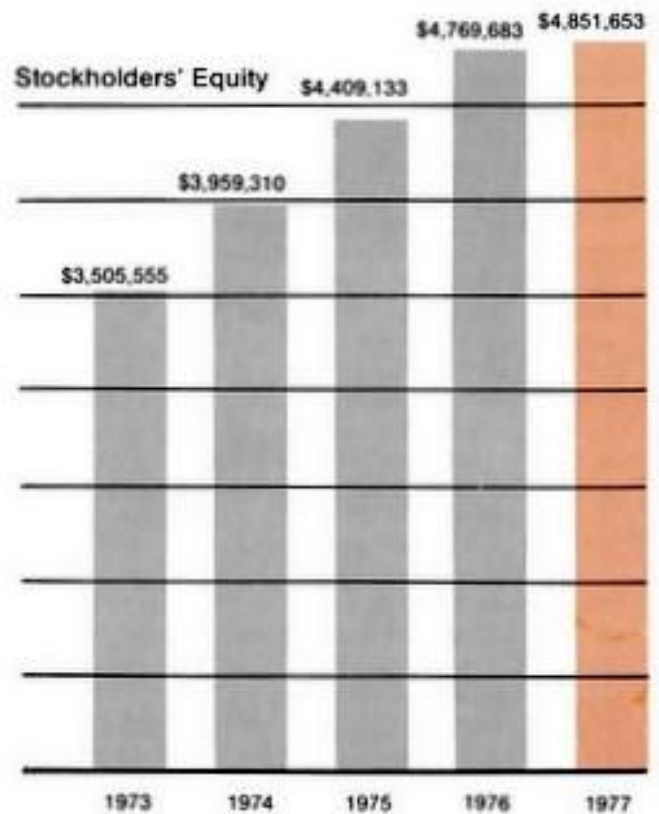
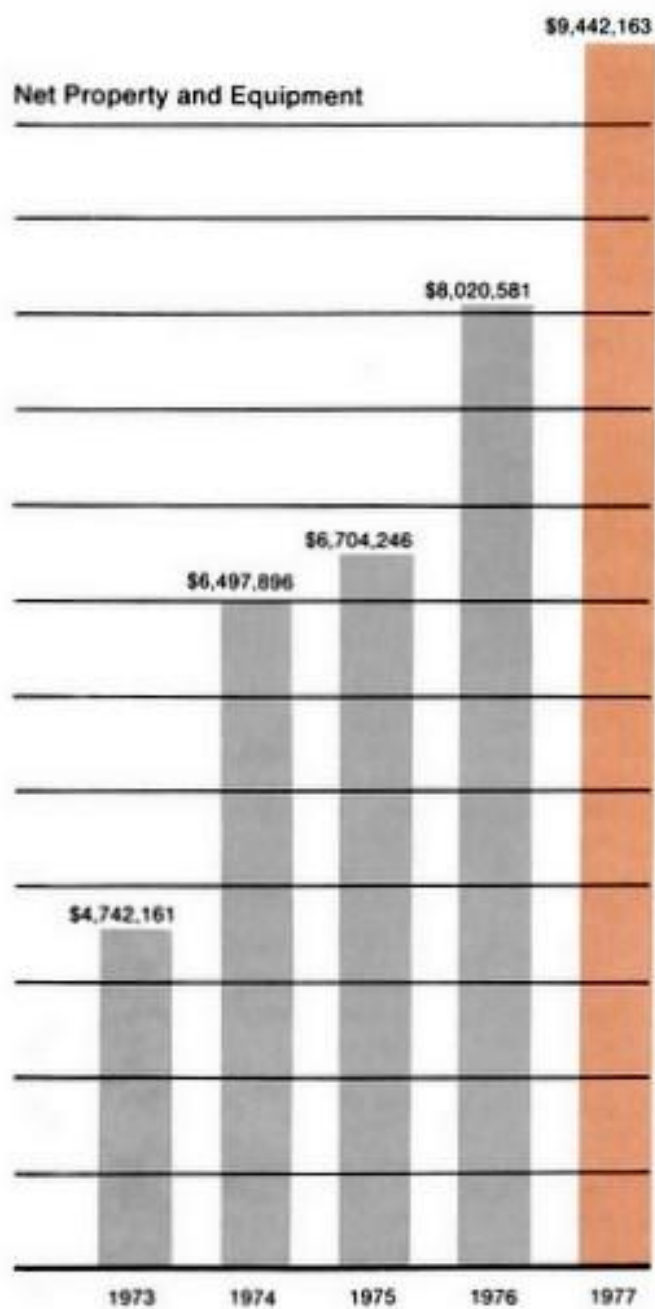
Operating revenues increased approximately 32.7% over 1975, whereas tonnage increased 23.5%. This increase was primarily attributable to the change in mix between LTL and TL revenues. In 1976, LTL revenues increased 42.0%, whereas LTL tonnage increased 32.4%. LTL revenue now represents 68.6% of the total 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.

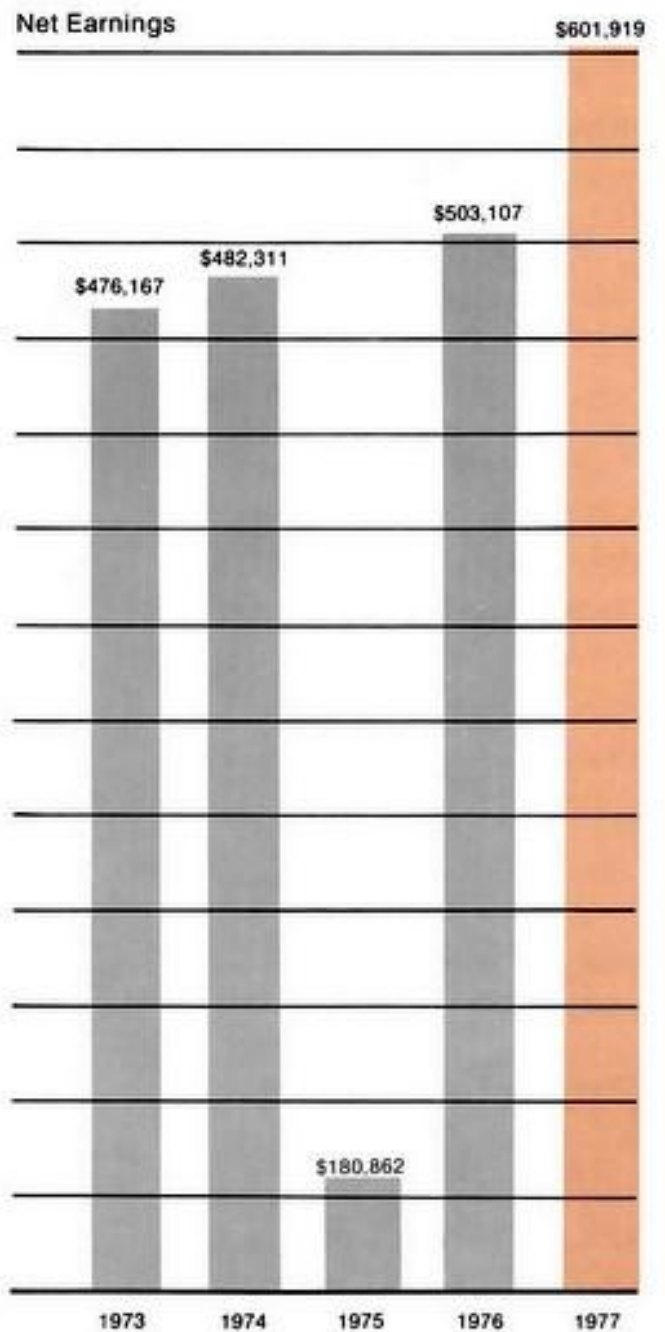
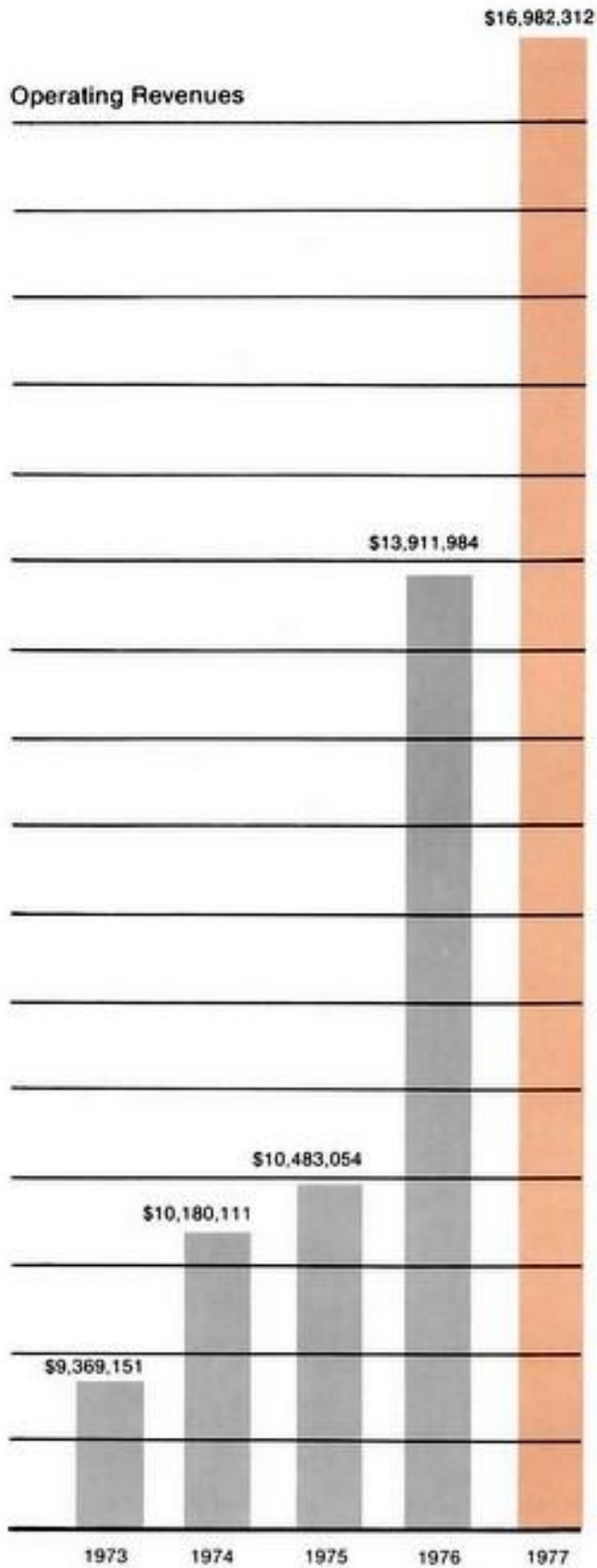
Operating expenses increased 29.7% during 1976. This increase is principally due to an increase in Teamsters wages, effective April 1, 1976, of 9.1%. Fringe costs increased 39.3% due to an increase in Union Welfare and Pension contributions, an increase in Social Security taxes, and the cost of full 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 liquidate 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.

## Financial Highlights





## Consolidated Balance Sheets

Penn Yan Express, Inc. and Subsidiaries  
December 31, 1977 and January 1, 1977

ASSETS	1977	1976
<b>Current assets:</b>		
Cash .....	\$ 696,851	521,639
Accounts receivable, less allowance for doubtful accounts (1977 - \$56,700; 1976 - \$38,985):		
Freight revenue .....	1,215,823	919,380
Other .....	151,085	108,595
Operating supplies, the lower of cost (first-in, first-out) or market .....	309,564	364,800
<b>Prepaid expenses:</b>		
Tires in service .....	405,554	333,783
Taxes, licenses, insurance and other .....	309,731	244,542
<b>Total current assets</b> .....	<u>3,088,608</u>	<u>2,492,739</u>
 <b>Property, plant and equipment:</b>		
Land .....	901,891	748,777
Terminals and offices .....	3,816,299	3,043,302
Revenue equipment .....	6,452,138	5,583,281
Other operating equipment .....	2,384,720	2,023,407
	<u>13,555,048</u>	<u>11,398,767</u>
Less accumulated depreciation .....	4,112,885	3,378,186
<b>Net property, plant and equipment</b> .....	<u>9,442,163</u>	<u>8,020,581</u>
<b>Intangible assets, at cost, less accumulated amortization of \$38,869 in 1977 and \$22,397 in 1976</b> .....	1,131,277	1,147,749
<b>Cash surrender value of life insurance</b> .....	215,362	198,954
	<u>\$ 13,877,410</u>	<u>11,860,023</u>

See accompanying notes to consolidated financial statements.

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>1977</b>	<b>1976</b>
<b>Current liabilities:</b>		
Current maturities of long-term debt .....	\$ 280,211	200,301
Accounts payable .....	574,581	709,198
Dividends payable .....	33,135	39,610
Accrued expenses:		
Wages and vacation pay .....	501,608	386,349
Taxes other than income taxes .....	99,076	86,851
Interest .....	57,086	35,004
Profit sharing .....	82,000	74,000
Income taxes:		
Current .....	33,205	135,381
Deferred .....	173,000	146,000
Estimated liability for loss and damage claims .....	43,888	23,959
<b>Total current liabilities</b> .....	<b>1,877,790</b>	<b>1,836,653</b>
<b>Long-term debt, less current portion</b> .....	<b>6,460,967</b>	<b>4,652,687</b>
<b>Deferred income taxes</b> .....	<b>687,000</b>	<b>601,000</b>
<b>Stockholders' equity:</b>		
Preferred stock .....	—	370,000
Common stock:		
Class A .....	330,346	330,346
Class B .....	100,000	100,000
Additional paid-in capital .....	531,968	531,968
Retained earnings .....	3,889,339	3,437,369
<b>Total stockholders' equity</b> .....	<b>4,851,653</b>	<b>4,769,683</b>
	<b>\$13,877,410</b>	<b>11,860,023</b>

## Consolidated Statements of Earnings

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 31, 1977 and January 1, 1977

	1977	1976
<b>Operating revenues</b> .....	<b>\$ 16,982,312</b>	<b>13,911,984</b>
<b>Operating expenses:</b>		
Salaries and wages .....	8,185,368	6,654,477
Fringes .....	2,444,758	1,923,124
Operating supplies .....	1,634,361	1,310,813
General supplies and expenses .....	692,368	575,247
Operating taxes and licenses .....	670,047	588,267
Insurance .....	271,689	229,481
Communications and utilities .....	373,721	313,394
Depreciation .....	1,051,492	910,530
Rents .....	279,958	302,509
Gain on disposal of operating equipment .....	(26,323)	(6,392)
Miscellaneous expenses .....	150,103	104,065
	<b>15,727,542</b>	<b>12,905,515</b>
<b>Operating income</b> .....	<b>1,254,770</b>	<b>1,006,469</b>
<b>Nonoperating expense:</b>		
Interest expense, principally on long-term debt .....	469,560	329,362
Loss on sale of nonoperating property .....	3,291	—
<b>Nonoperating expense</b> .....	<b>472,851</b>	<b>329,362</b>
<b>Earnings before income taxes</b> .....	<b>781,919</b>	<b>677,107</b>
<b>Income taxes</b> .....	<b>180,000</b>	<b>174,000</b>
<b>Net earnings</b> .....	<b>\$ 601,919</b>	<b>503,107</b>
<b>Earnings per common share:</b>		
— Assuming no dilution	\$ 1.36	1.13
— Assuming full dilution	\$ 1.33	1.09

See accompanying notes to consolidated financial statements.

**Consolidated Statements  
of Stockholders' Equity**

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 31, 1977 and January 1, 1977

	Common Stock Class A	Common Stock Class B	Preferred Stock	Additional paid-in capital	Retained earnings
<b>Balance at December 27, 1975</b> .....	\$ 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; \$.004 per share - Class B) .....	—	—	—	—	(127,762)
<b>Balance at January 1, 1977</b> .....	330,346	100,000	370,000	531,968	3,437,369
Net earnings - 1977 .....	—	—	—	—	601,919
Dividends declared:					
Preferred \$4.71 per share .....	—	—	—	—	(17,411)
Common (\$.40 per share - Class A; \$.004 per share - Class B) .....	—	—	—	—	(132,538)
Preferred stock repurchased and retired .....	—	—	(370,000)	—	—
<b>Balance at December 31, 1977</b> .....	<u>\$ 330,346</u>	<u>100,000</u>	<u>—0—</u>	<u>531,968</u>	<u>3,889,339</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements  
of Changes in Financial Position**

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 31, 1977 and January 1, 1977

	1977	1976
<b>Sources of working capital:</b>		
Net earnings .....	\$ 601,919	503,107
Items which do not use working capital:		
Depreciation of tangible property and amortization of intangible assets .....	1,067,964	925,835
Provision for noncurrent deferred income taxes .....	86,000	17,000
Working capital provided by operations .....	1,755,883	1,445,942
Note issued and debt assumed in acquisition of B & M Transport, Inc. ..	—	224,596
Proceeds from sales and other disposals of tangible property (net of gains of \$23,032 in 1977 and \$6,392 in 1976) .....	315,450	213,090
Proceeds from long-term borrowing .....	2,332,171	874,000
<b>Total working capital provided</b> .....	<b>4,403,504</b>	<b>2,757,628</b>
<b>Uses of working capital:</b>		
Additions to tangible property .....	2,788,524	2,439,955
Additions to intangible assets .....	—	207,629
Current maturities and repayment of long-term debt .....	523,891	228,646
Increase in cash surrender value of life insurance .....	16,408	15,368
Dividends declared .....	149,949	142,557
Preferred stock repurchased and retired .....	370,000	—
<b>Working capital used</b> .....	<b>3,848,772</b>	<b>3,034,155</b>
Increase (decrease) in working capital .....	<b>\$ 554,732</b>	<b>(276,527)</b>
<b>Increase (decrease) in working capital components:</b>		
Current assets:		
Cash .....	175,212	99,574
Receivables .....	338,933	219,621
Operating supplies .....	(55,236)	(95,844)
Prepaid expenses .....	136,960	73,135
	<b>595,869</b>	<b>296,486</b>
Current liabilities:		
Current maturities of long-term debt .....	79,910	66,183
Accounts payable and accrued liabilities .....	42,878	384,843
Dividends payable .....	(6,475)	11,599
Income taxes .....	(75,176)	110,388
	<b>41,137</b>	<b>573,013</b>
<b>Increase (decrease) in working capital</b> .....	<b>\$ 554,732</b>	<b>(276,527)</b>

See accompanying notes to consolidated financial statements.

## 1. Summary of Significant 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 significant 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 capitalizing them in the year of acquisition, and 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 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** — During 1977 and 1976 the Company maintained a \$5,000 deductible policy for cargo loss and damage claims and charged operations for amounts not covered by insurance.

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

## 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 were the legal expenses associated with the purchase. Temporary and permanent operating authority was obtained during 1976. 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.

### 3. Earnings Per Share

Earnings per common share, assuming no dilution, is calculated by dividing earnings, less preferred dividends, by the weighted average number of common shares outstanding during the year. Earnings per common share, assuming full dilution, is computed by dividing earnings by the weighted average number of common shares outstanding and preferred shares assuming conversion.

The 1976 earnings per share, assuming no dilution, has been recomputed to \$1.13 from \$1.17, to reflect the impact on earnings of the dividends on preferred stock.

### 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 \$82,000 in 1977 and \$74,000 in 1976. 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 \$180,000 for 1977 (an effective rate of 23.0%) and \$174,000 for 1976 (an effective rate of 25.7%). The actual tax expense for both 1977 and 1976 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:

	1977	1976
Computed "expected" tax .....	\$375,000	325,000
Surtax exemption .....	(14,000)	(18,000)
Investment tax credit .....	(144,000)	(129,000)
Job tax credit .....	(52,000)	—
State income tax (net of Federal income tax benefit) .....	21,000	18,000
Miscellaneous .....	(6,000)	(22,000)
Actual tax expense .....	<u>\$180,000</u>	<u>174,000</u>

Components of income tax expense are as follows:

	1977		1976	
	Federal	State	Federal	State
Current tax expense .....	\$ 36,000	31,000	98,000	35,000
Deferred tax expense resulting from:				
Depreciation .....	80,600	5,400	20,000	(3,000)
Tire costs .....	33,000	5,000	18,000	1,400
Miscellaneous .....	(10,000)	(1,000)	4,000	600
	<u>\$139,600</u>	<u>40,400</u>	<u>140,000</u>	<u>34,000</u>

**6. Long-Term Debt**

	1977	1976
Long-term debt consisted of the following:		
Mortgage loans secured by certain tangible property, 6% - 9% payable through 1995 .....	\$ 2,354,248	1,506,478
Bank loan under revolving credit agreement (A) .....	4,000,000	3,075,000
Other obligations at varying interest rates to 8% payable through 1980 .....	386,930	271,510
	6,741,178	4,852,988
Less current portion .....	280,211	200,301
	<u>\$ 6,460,967</u>	<u>4,652,687</u>

A. The bank revolving credit agreement provides for interest at the commercial prime rate plus ¾% (8½% at December 31, 1977) and allows the Company and subsidiaries to borrow up to \$4,500,000 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 no legal compensating balance arrangement but is informally expected to maintain a compensating balance of approximately 10% of the outstanding borrowings, as determined from the bank's ledger records.

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.

While 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 equal 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 December 31, 1977, \$762,505 was free from restrictions on the payment of cash dividends.

**7. Common and Preferred Stock**

The Company's capital stock is as follows:

Common stock:

Class A stock; \$1 par value; 2,000,000 shares authorized; 330,346 issued and outstanding December 31, 1977 and January 1, 1977. 125,000 shares reserved at December 31, 1977 for conversion of Class B common stock.

Class B stock; \$1 par value; 429,654 shares authorized; 100,000 issued and outstanding December 31, 1977 and January 1, 1977. 25,000 shares reserved at December 31, 1977 for issuance under the stock option plan.

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 were converted into Class A stock.

**Preferred stock:**

During 1977, the Company repurchased all its outstanding preferred stock for \$370,000 plus accrued dividends. The Company has retired the issue of preferred stock.

**8. Stock Option Plan**

During 1972, the Company adopted a stock option plan expiring in 1982 and qualified under Section 422 of the Internal Revenue Code of 1954. No options have been exercised under the plan and none were outstanding at December 31, 1977.

**9. Commitments**

The Company has entered or intends to enter into contracts relating to the purchase of revenue equipment and improvements to present facilities. The total capital expenditure is anticipated to approximate \$1,200,000.

**10. Other Matters**

**Purchase of Property**

During 1977, the Company purchased land for a terminal site. The site was purchased from a member of the board of directors who is an officer of the Company. Total cost of the property was approximately \$95,000. The purchase price was fixed at an amount equal to the seller's cost.

**Self-Insurance**

Effective January 1, 1978, the Company has changed its insurance coverage on Automobile, Personal Injury, Property Damage, Cargo Loss and Damage, and Workmen's Compensation. For Workmen's Compensation in the States of Pennsylvania and New York, the Company will retain self-insurance up to \$100,000 per individual claim. The Company has applied to the respective state compensation boards for approval. The policies in all other categories provide for the Company to retain self-insurance up to \$50,000 per individual claim.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

SUITE 1400

ONE MARINE MIDLAND PLAZA

ROCHESTER, NEW YORK 14604

**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 31, 1977 and January 1, 1977, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examinations were 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 31, 1977 and January 1, 1977, 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.*

February 28, 1978

## TERMINALS

<b>ALBANY, NEW YORK</b> 845 Watervliet Shaker Road	(518) 783-0201
<b>BINGHAMTON, NEW YORK</b> 612 Vestal Parkway W. Vestal, New York	(607) 748-7441
<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> 98 West Lake Road	(315) 536-3321
<b>READING, PENNSYLVANIA</b> Front and Union Streets	(215) 375-4237
<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> 121 Bear Street	(315) 474-7849
<b>UTICA, NEW YORK</b> Wells Avenue	(315) 735-6179

PENN YAN EXPRESS, INC.  
Executive Office, 100 West Lake Road  
Penn Yan, New York 14527