

ANNUAL
REPORT 1978

PENN YAN
EXPRESS

Board of Directors

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

ROBERT G. CONROY
President, Cooper-Jarrett, Inc.

PAUL M. DONOVAN
Secretary of the Company;
Attorney

HAROLD E. FORSHEY
Vice President and Treasurer of the Company

KENNETH VAUGHN
Vice President 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

MICHAEL J. FAUL
Vice President—Operations

JACK SCHINDLER
Vice President—National Sales

KENNETH VAUGHN
Vice President—Maintenance

PAUL M. DONOVAN
Secretary

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

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

TRANSFER AGENTS
Lincoln First Bank N.A., 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.

Dividends Paid—Class A Stock

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1977	\$0.10	\$0.10	\$0.10	\$0.10
1978	\$0.10	\$0.10	\$0.10	\$0.05

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
1977 Low	4%	5%	5	5½	5%	5½	5%	6½
High	5½	5%	5½	5%	6%	7¼	6½	7¼
1978 Low	5	5%	5½	6%	5½	6	4½	5¼
High	5½	6½	5%	6%	5½	6½	5½	6%

To Our Stockholders:

The year 1978 was an extremely challenging year for Penn Yan Express. Inflation had a significant impact on our operation.

Net income for 1978 was \$320,882, compared to \$601,919 for 1977. Operating revenues for the year 1978 increased approximately 7% to 18,133,977 over 1977's operating revenues of \$16,982,312. Earnings per share for 1978 totaled \$.70 per share compared to \$1.36 in 1977.

During the first half of 1978 our tonnage increased approximately 3.8% over 1977. However, during the second half of 1978 our tonnage dropped significantly producing an overall decrease for the year of 1.0%. Less-than-Truckload (LTL) revenues represented 70% of the total revenue, and LTL tonnage represented 41% of the total tonnage. In an effort to reduce cost, our Phillipsburg, New Jersey, operation was combined with the Reading, Pennsylvania, operation, and the Sayreville, New Jersey, operation was moved to Carlstadt, New Jersey. The Phillipsburg terminal was sold at a significant gain and the Sayreville terminal is now being leased.

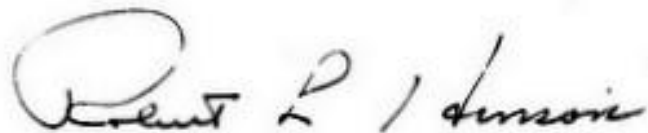
The revenue increase in 1978 within Eastern Pennsylvania made it possible to open the Philadelphia, Pennsylvania, operation during October 1978, utilizing a cartage carrier to pick up and deliver our freight within this important market area. To keep pace with the growth in the Philadelphia-Baltimore area, an agreement was entered into with B & P Motor Express, Inc., to purchase a portion of their operating authority between Philadelphia, Pennsylvania; Baltimore, Maryland; Washington, D.C. and Richmond,

Virginia. Operations which commenced March 8, 1979, will provide expanded service for our customers between Upstate New York and this important regional market center on the East Coast. The projected revenue increase within these two areas will greatly improve our operating revenues for the year 1979.

The uncertainties facing the motor carrier industry during 1979, due to the Federal Administration's desire to deregulate the industry, the fuel shortage, inflation, the Teamsters' strike and the new Teamsters' contract, all present new obstacles for Penn Yan Express to overcome. We are prepared to meet this challenge by maintaining a continued emphasis on cost controls, and an aggressive marketing program so that Penn Yan Express will maintain its growth throughout 1979 and produce adequate profits.

Orders for approximately \$1,200,000 in new equipment have been placed for delivery in 1979. These orders cover the purchase of twenty new tandem axle tractors and fifty 45' trailers. The addition to the Administrative and Maintenance facilities at Penn Yan has been completed which will relieve the overcrowded conditions in the Administrative offices, and provide improved facilities for maintenance of our growing 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 continues to encourage us to look forward to profitable years.



Robert L. Hinson, President

Capital Improvements

During 1978, Penn Yan Express expended \$1,708,580 net in capital improvements for revenue equipment, facilities, and other miscellaneous equipment.

Net revenue equipment expenditures totaled \$941,662. During the year, twenty 1978 single-axle tractors and one tandem-axle tractor were purchased along with fifty-two 45' trailers. Concurrent with these purchases, nine tractors and twenty-seven trailers were traded, and seven tractors and four trailers were sold, resulting in a net increase in our tractor fleet of three units and twenty-one units in our trailer fleet.

Net capital improvements to real estate totaled \$505,068. The major expenditure was toward the General Office and Maintenance building additions at Penn Yan, New York. Improvements were also made at various terminals within the system. The Phillipsburg terminal and excess property at Sayreville, along with miscellaneous real estate, were sold during the year.

Miscellaneous equipment purchases totaled \$261,850. Ten automobiles were purchased against which were traded nine automobiles, and an additional seventeen automobiles were sold and replaced by lease cars. A heavy-duty snow blower and trailer were purchased to eliminate the high cost of terminal snow removal. Other purchases covered office equipment and two fork lifts.

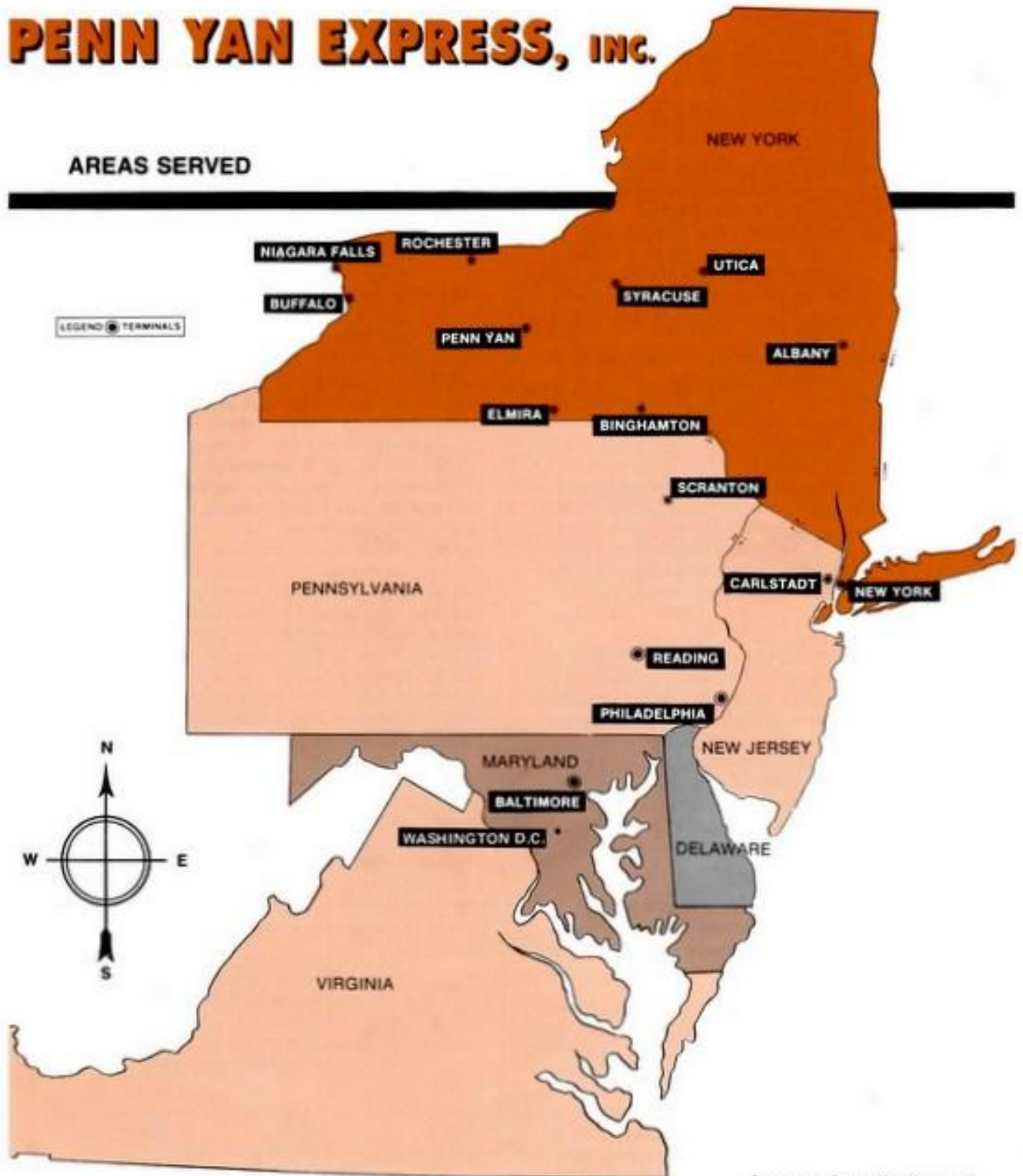
Scope of Operations

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 States of New York, New Jersey, Eastern Pennsylvania, Maryland, Delaware, Washington, D.C., and Virginia. 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 10,000 accounts from a variety of industries and businesses in approximately 1200 cities and towns. No one industry or group of commodities account for more than 4% of the Company's total revenue.

Approximately 70% of the Company's revenues and 41% 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.

PENN YAN EXPRESS, INC.

AREAS SERVED



A complete listing of our terminals can be found in the back of this report

Management's Discussion and Analysis of the Financial Summary

1978 versus 1977

Operating revenues increased approximately 7% over 1977 with a decrease in tonnage of approximately 1%. Rate increases of approximately 7% were granted to offset the April 1, 1978 Teamster Union labor increase, and a 2% increase was granted in November, 1977 to offset other cost increases. The decrease in tonnage was primarily due to the downturn in the Metropolitan New York and New Jersey market area.

Operating expenses increased approximately 10.4% over 1977. Salaries, Wages and Fringes increased approximately 10.4% principally due to the Teamster Union wage increase of 10.3% and an 8.5% increase in Health, Welfare, and Pension contributions, effective as of April 1, 1978. Non-Union employees received a 5% cost of living increase to coincide with the Teamster cost of living increase, plus a wage increase of approximately 5% on their anniversary date. Fringe cost increases were also due to additional contributions for Social Security taxes and increased premiums on the Group Insurance Program.

All other expenses increased principally due to inflation and the opening of the Reading and Sayreville terminals during 1977. However, these increases were partially offset by merging the Phillipsburg, New Jersey operations with the Reading, Pennsylvania operations in April, 1978 and merging the Sayreville, New Jersey operations with the Carlstadt, New Jersey operations in September, 1978. Rent expenses increased, due to converting the automobile fleet to leased automobiles thereby eliminating their depreciation expense.

The gain on the sale of non-operating property came principally from the sale of the Phillipsburg, New Jersey terminal and from the disposal of other miscellaneous parcels of real estate.

Interest expense increased approximately 37.4% over 1977 due to net borrowings of \$200,000 on the revolving credit line, plus increased interest rates on this line, averaging 9.632% in 1978 versus 7.509% in 1977. In addition, \$950,000 in mortgage debt carrying interest rates of 9% and 9½% which were added during the latter part of 1977, impacted the full year of 1978. The construction in progress on the new addition to the Penn Yan, New York Administrative and Maintenance facilities required interim financing of \$504,000.

Income taxes reflect a benefit in 1978 due to reduced earnings, and realizing the maximum job tax credit, and investment tax credit available on acquisition of new equipment.

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.

Five-Year Summary

	1978	1977	1976	1975	1974
Financial Data					
Operating revenues	\$18,133,977	16,982,312	13,911,984	10,483,054	10,180,111
Operating income	775,082	1,254,770	1,006,469	534,889	954,144
Interest expense	649,766	473,007	331,541	294,912	257,284
Other income net	86,566	156	2,179	1,885	58,451
Earnings before income taxes .	211,882	781,919	677,107	241,862	755,311
Income taxes	(91,000)	180,000	174,000	61,000	273,000
Net earnings	\$ 302,882	601,919	503,107	180,862	482,311
Earnings per common share assuming no dilution	\$.70	1.36	1.13	.42	1.15
Earnings per common share assuming full dilution	\$.70	1.33	1.09	.40	
Average shares outstanding assuming no dilution	430,346	430,346	430,346	429,830	418,565
Average shares outstanding assuming full dilution	430,346	450,944	459,946	448,534	
Operating Data					
Tons of freight	316,254	317,585	273,610	221,512	240,713
Number of shipments	337,144	349,482	327,929	246,226	227,803
Average length of haul	226.4	221.0	223.8	236.1	259.4
Intercity miles	5,632,183	5,528,424	4,969,088	4,497,201	4,701,562

Revenue Equipment at December 30, 1978

	Approximate Age of Equipment			
	Total	1-3 Years	4-6 Years	Over 6 Years
Tractors	214	96	82	36
Line Haul Trailers, 40 foot and longer	331	87	123	121
Trailers, 21 foot and 26 foot	103	—	12	91
Pickup and Delivery Trucks	5	2	1	2
Total	653	185	218	250

Consolidated Balance Sheets

Penn Yan Express, Inc. and Subsidiaries
December 30, 1978 and December 31, 1977

ASSETS	1978	1977
Current assets:		
Cash	\$ 628,992	696,851
Accounts receivable, less allowance for doubtful accounts (1978 - \$59,000; 1977 - \$56,700):		
Freight revenue	1,234,310	1,215,823
Federal tax refund	126,000	55,605
Other	190,926	95,480
Operating supplies, at the lower of cost (first-in, first-out) or market	374,053	309,564
Prepaid expenses:		
Tires in service	458,355	405,554
Taxes, licenses, insurance and other	329,339	309,731
Total current assets	3,341,975	3,088,608
Tangible property, at cost:		
Land	848,736	901,891
Terminals and offices	3,637,043	3,816,299
Revenue equipment	7,141,273	6,452,138
Other operating equipment	2,561,203	2,384,720
Construction in progress	672,682	—
	14,860,937	13,555,048
Less accumulated depreciation	4,821,189	4,112,885
Net tangible property	10,039,748	9,442,163
Intangible assets, at cost, less accumulated amortization (1978 - \$55,340; 1977 - \$38,869)	1,114,806	1,131,277
Cash surrender value of life insurance	229,860	215,362
	\$14,726,389	13,877,410

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY**1978****1977****Current liabilities:**

Current maturities of long-term debt.....	\$ 295,114	280,211
Accounts payable	803,664	574,581
Dividends payable	16,567	33,135
Accrued expenses:		
Wages and vacation pay	463,656	501,608
Taxes other than income taxes	98,507	99,076
Interest	75,853	57,086
Profit sharing	56,000	82,000
Income taxes:		
Current	46,047	33,205
Deferred	151,000	173,000
Estimated liability for injury, loss and damage claims	<u>100,015</u>	<u>43,888</u>
Total current liabilities	<u>2,106,423</u>	<u>1,877,790</u>
Long-term debt, less current portion	<u>6,904,402</u>	<u>6,460,967</u>
Deferred income taxes	<u>677,000</u>	<u>687,000</u>
Stockholders' equity:		
Preferred stock	—	—
Common stock :		
Class A	330,346	330,346
Class B	100,000	100,000
Additional paid-in capital	531,968	531,968
Retained earnings	<u>4,076,250</u>	<u>3,889,339</u>
Total stockholders' equity	<u>5,038,564</u>	<u>4,851,653</u>
	<u>\$14,726,389</u>	<u>13,877,410</u>

**Consolidated Statements
of Earnings**

Penn Yan Express, Inc. and Subsidiaries
Years Ended December 30, 1978 and December 31, 1977

	1978	1977
Operating revenues	<u>\$18,133,977</u>	<u>16,982,312</u>
Operating expenses:		
Salaries and wages	8,962,022	8,185,368
Fringes	2,772,688	2,444,758
Operating supplies	1,696,198	1,634,361
General supplies and expenses	754,014	692,368
Operating taxes and licenses	703,160	670,047
Insurance	355,120	271,689
Communications and utilities	421,772	373,721
Depreciation	1,110,995	1,051,492
Rents	407,623	279,958
Gain on disposal of operating equipment	(37,628)	(26,323)
Miscellaneous expenses	<u>212,931</u>	<u>150,103</u>
	<u>17,358,895</u>	<u>15,727,542</u>
Operating income	775,082	1,254,770
Nonoperating (income) expense:		
Interest expense, principally on long-term debt	648,737	469,560
(Gain) loss on sale of nonoperating property	<u>(85,537)</u>	<u>3,291</u>
Nonoperating expense	<u>563,200</u>	<u>472,851</u>
Earnings before income taxes	211,882	781,919
Income taxes (benefit)	<u>(91,000)</u>	<u>180,000</u>
Net earnings	<u>\$ 302,882</u>	<u>601,919</u>
Earnings per common share:		
Assuming no dilution	\$ <u>.70</u>	<u>1.36</u>
Assuming full dilution	\$ <u>.70</u>	<u>1.33</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements
of Stockholders' Equity**

Penn Yan Express, Inc. and Subsidiaries
Years ended December 30, 1978 and December 31, 1977

	Preferred Stock	Common Class A	Stock Class B	Additional Paid-In Capital	Retained Earnings
Balance at January 1, 1977	\$370,000	330,346	100,000	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	<u>(370,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at December 31, 1977	<u>—0—</u>	330,346	100,000	531,968	3,889,339
Net earnings - 1978	—	—	—	—	302,882
Dividends declared:					
Common (\$.35 per share - Class A; \$.0035 per share - Class B)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(115,971)</u>
Balance at December 30, 1978	<u>\$ —0—</u>	<u>330,346</u>	<u>100,000</u>	<u>531,968</u>	<u>4,076,250</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements
of Changes in Financial Position**

Penn Yan Express, Inc. and Subsidiaries
Years ended December 30, 1978 and December 31, 1977

	1978	1977
Sources of working capital:		
Net earnings	\$ 302,882	601,919
Items which do not use working capital:		
Depreciation of tangible property and amortization of intangible assets	1,127,466	1,067,964
Provision for noncurrent deferred income taxes	<u>(10,000)</u>	<u>86,000</u>
Working capital provided by operations	1,420,348	1,755,883
Proceeds from sales and other disposals of tangible property (net of gains of \$123,165 in 1978 and \$23,032 in 1977)	461,783	315,450
Proceeds from long-term borrowing	<u>1,039,143</u>	<u>2,332,171</u>
Total working capital provided	<u>2,921,274</u>	<u>4,403,504</u>
Uses of working capital:		
Additions to tangible property	2,170,363	2,788,524
Current maturities and repayment of long-term debt	595,708	523,891
Increase in cash surrender value of life insurance	14,498	16,408
Dividends declared	115,971	149,949
Preferred stock repurchased and retired	<u>—</u>	<u>370,000</u>
Working capital used	<u>2,896,540</u>	<u>3,848,772</u>
Increase in working capital	<u>\$ 24,734</u>	<u>554,732</u>
Increase (decrease) in working capital components:		
Current assets:		
Cash	(67,859)	175,212
Receivables	184,328	338,933
Operating supplies	64,489	(55,236)
Prepaid expenses	<u>72,409</u>	<u>136,960</u>
	<u>253,367</u>	<u>595,869</u>
Current liabilities:		
Current maturities of long-term debt	14,903	79,910
Accounts payable and accrued expenses	239,456	42,878
Dividends payable	(16,568)	(6,475)
Income taxes	<u>(9,158)</u>	<u>(75,176)</u>
	<u>228,633</u>	<u>41,137</u>
Increase in working capital	<u>\$ 24,734</u>	<u>554,732</u>

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.

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 inter-company 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: (a) the use of accelerated depreciation methods for tax purposes and primarily straight-line methods for financial statement purposes; (b) 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; (c) deducting for tax purposes amounts relating to self-insured claims in year of payment and providing for estimated liability for such claims in the periods of incidents for financial statement purposes; and (d) 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 Injury, Loss and Damage Claims — For the self-insured portion of cargo loss and damage claims, amounts are provided for liabilities expected to be incurred for loss and damage. Amounts provided are based, primarily on historical payment experience applied to unsettled claims and an estimate for claims unreported.

For the self-insured portion of other claims the Company provides estimated amounts of liabilities expected to be incurred based on specific identification of incidents which have occurred.

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

2. 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 \$56,000 in 1978 and \$82,000 in 1977. Contributions vest with participants at the rate of 20% after two years to 100% after 10 years. Forfeited contributions are distributed among remaining participants.

Effective January 1, 1979 the Company is planning to adopt a non-contributory pension plan covering substantially all employees not covered by a union sponsored fund. The Plan provides for the payment of specific amounts to employees upon retirement. The Plan coordinates the benefits to be received with the Profit Sharing Plan, and Social Security benefits.

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

3. Income Taxes

Income tax benefits amounted to \$91,000 for 1978. Income tax expense amounted to \$180,000 for 1977 (an effective rate of 23.0%). The actual tax benefit for 1978 and expense for 1977 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:

The Company has an investment tax credit carry-forward of \$78,000 (for income tax purposes) expiring in 1985 which has been recorded for financial accounting purposes as a reduction of previously recorded and current year deferred tax credits that will reverse in the investment tax credit carry-forward period.

	<u>1978</u>	<u>1977</u>
Computed "expected" tax	\$102,000	375,000
Surtax exemption	(14,000)	(14,000)
Investment tax credit	(116,000)	(144,000)
Job tax credit	(52,000)	(52,000)
State income tax (net of Federal income tax benefit)	14,000	21,000
Capital gains taxed at capital gain rate	(15,000)	—
Miscellaneous	(10,000)	(6,000)
Actual tax (benefit) expense	<u>\$ (91,000)</u>	<u>180,000</u>

Components of income tax (benefit) expense are as follows:

	<u>1978</u>		<u>1977</u>	
	<u>Federal</u>	<u>State</u>	<u>Federal</u>	<u>State</u>
Current tax (benefit) expense	\$ (82,000)	23,000	36,000	31,000
Deferred tax (benefit) expense resulting from:				
Depreciation	51,000	2,000	80,600	5,400
Tire costs	24,000	2,000	33,000	5,000
Self-insured claim provisions	(26,000)	(2,000)	(9,000)	(1,000)
Investment tax credits	(78,000)	—	—	—
Miscellaneous	(6,000)	1,000	(1,000)	—
	<u>\$ (117,000)</u>	<u>26,000</u>	<u>139,600</u>	<u>40,400</u>

4. Long-Term Debt	1978	1977
Long-term debt consisted of the following:		
Bank loan under revolving credit agreement (A)	\$4,200,000	4,000,000
Mortgage loans secured by certain tangible property, 6% - 9% payable through 1998 (B)	2,697,165	2,354,248
Other obligations at varying interest rates to 8%	302,351	386,930
	7,199,516	6,741,178
Less current portion	295,114	280,211
	\$6,904,402	6,460,967

A. The bank revolving credit agreement provides for interest at the commercial prime rate plus $\frac{1}{4}\%$ (12 $\frac{1}{4}\%$ at December 30, 1978) 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 its 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 30, 1978, \$797,974 was free from restrictions on the payment of cash dividends.

B. An informal compensating balance arrangement exists on a mortgage loan with an outstanding balance at December 30, 1978 of \$325,000 (\$372,000 in 1977). The Company is informally expected to maintain a compensating balance of approximately 10% of the outstanding mortgage loan balance, as determined from the bank's ledger records.

5. Common and Preferred Stock

The Company's capital stock is as follows:

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. At December 30, 1978, 3,700 shares remained authorized for issuance.

Common stock:

Class A stock; \$1 par value; 2,000,000 shares authorized; 330,346 issued and outstanding December 30, 1978 and December 31, 1977. 125,000 shares reserved at December 30, 1978 for conversion of Class B common stock.

Class B stock; \$1 par value; 429,654 shares authorized; 100,000 issued and outstanding December 30, 1978 and December 31, 1977. 25,000 shares reserved at December 30, 1978 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.

6. 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 are outstanding at December 30, 1978.

7. Fourth Quarter Results of Operations

In the Fourth Quarter 1978 the Company recorded year end adjustments which increased net earnings by \$142,000. These adjustments related principally, to tax benefits resulting from investment tax credits and New Job tax credits.

8. Injury, Loss and Damage Insurance Program

Effective January 1, 1978, the Company 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 retains self-insurance up to \$100,000 per individual claim. The policies in all other categories provide for the Company to retain self-insurance up to \$50,000 per individual claim. The Company has provided \$100,015 for estimated losses to be incurred.

During 1978, an incident occurred which could potentially result in a claim, the resolution of which could have a significant impact on the Company's results of operations. The liability, if any, resulting from this incident is not presently determinable and no provision has been made in the financial statements.

9. Other Matters

Pending Acquisitions

In December 1978, the Company entered into an agreement to purchase the operating rights of B&P Motor Express, Inc. The agreement is subject to the Company obtaining permanent operating authority. Subsequent to December 30, 1978, the Company was granted temporary operating authority. The total purchase price of the rights per terms of the agreement is \$350,000 of which the Company deposited \$35,000 prior to year end.

Construction in Progress

The Company has begun a capital expansion program for administrative and maintenance facilities. The total anticipated cost of the facilities is \$1,250,000. The cost of the facilities will be financed through industrial revenue bonds issued by the Yates County Industrial Development Agency of Yates County, New York (the Agency). The bonds were sold subsequent to year end. The bonds have a face value of \$1,000,000 with a stated interest rate of 8¼%.

As of December 30, 1978, the Company has obtained interim financing of \$504,000 for costs incurred related to construction. The interim financing was provided by the purchaser of the bonds; \$454,000 is classified as long-term debt in the financial statements and \$50,000 is classified as a current installment of long-term debt.

Under provision of the agreement between the Company and the Agency, title to the facility will be held by the Agency and leased to the Company for a period of 15 years. Rental payments will be sufficient to provide for amortization of bonds becoming due each year plus interest on the outstanding bonds and miscellaneous costs connected with the lease. Total rental payments for 1979 will approximate \$130,000. At the end of the lease period, the Company may acquire the facility for a nominal amount. Accordingly, upon the completion of the construction and sale of the bonds, the facility and related debt will be reflected in the Company's financial statements as assets and obligations under capital leases.

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 expenditures is anticipated to approximate \$750,000.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
SUITE 1400
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 December 30, 1978 and December 31, 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.

As discussed in note (8) an uncertainty exists at December 30, 1978 related to the self-insured portion of the injury, loss and damage claims. The final outcome of the matter is not presently determinable and no provision has been made in the financial statements for the effect, if any, thereof.

In our opinion, subject to the effect, if any, on the financial statements, of the ultimate resolution of the matter discussed in the preceding paragraph, the aforementioned consolidated financial statements present fairly the financial position of Penn Yan Express, Inc. and subsidiaries at December 30, 1978 and December 31, 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, 1979

TERMINALS

ALBANY, NEW YORK 845 Watervliet Shaker Road	(518) 783-0201
BALTIMORE, MARYLAND 2669 Merchant Drive	(301) 646-3322
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
PHILADELPHIA, PENNSYLVANIA 3200 South 20th Street	(215) 336-4446
READING, PENNSYLVANIA Front and Union Streets	(215) 375-4237
ROCHESTER, NEW YORK 16 Deep Rock Road	(716) 436-7724
SCRANTON, PENNSYLVANIA 749 North Keyser	(717) 346-7604
SYRACUSE, NEW YORK 121 Bear Street	(315) 474-7849
UTICA, NEW YORK Wells Avenue	(315) 735-6179

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