

PENN YAN

EXPRESS

**ANNUAL
REPORT 1979**

Board of Directors

ROBERT L. HINSON

Chairman of the Board and President of the Company

HAROLD E. FORSHEY

Vice President-Administration and Treasurer of the Company

PAUL M. DONOVAN

Vice President and Secretary of the Company;
Attorney

KENNETH VAUGHN

Vice President of Maintenance of the Company

Officers

ROBERT L. HINSON

Chairman of the Board and President

HAROLD E. FORSHEY

Vice President-Administration and Treasurer

PAUL M. DONOVAN

Vice President, and Secretary

MICHAEL M. FAUL

Vice President-Operations

DAVID G. KULIK

Vice President-Sales

JACK SCHINDLER

Vice President-National Sales

KENNETH VAUGHN

Vice President-Maintenance

EXECUTIVE OFFICE

100 West Lake Road, Penn Yan, New York

AUDITORS

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

TRANSFER AGENT

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

S.E.C. COUNSEL

Jacobs Persinger & Parker, New York, New York

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.
1978	\$0.10	\$0.10	\$0.10	\$0.05
1979	\$0.05	\$0.05	\$0.05	\$0.075

Range of Bid and Asked Quotations on Class A Stock

	1st Qtr.		2nd Qtr.		3d Qtr.		4th Qtr.	
	Bid	Asked	Bid	Asked	Bid	Asked	Bid	Asked
1978 Low	5	5 1/4	5 1/2	6 1/4	5 1/4	6	4 1/2	5 1/4
High	5 1/4	6 1/2	5 3/4	6 1/2	5 3/4	6 1/2	5 1/4	6 1/2
1979 Low	3 1/4	4	3 1/4	4 1/4	3 1/2	4 1/4	3 1/2	4
High	4 1/2	5 1/4	3 3/4	4 1/4	3 3/4	4 1/2	4 1/4	5

To Our Stockholders:

We are pleased to announce that 1979 revenues reached a record high level for Penn Yan Express. Revenues totaled \$23,238,036, a 28.1% increase over 1978 revenues of \$18,133,977. Total tonnage increased 19.2% over 1978.

1979 earnings were \$372,985, a 23.2% increase over the \$302,882 earned in 1978. Earnings per share totaled \$.87 based on 427,824 average shares outstanding compared to \$.70 per share earned in 1978, based on 430,346 average shares outstanding.

The contract with the International Brotherhood of Teamsters was renegotiated in 1979, and after a short strike, in which Penn Yan Express did not participate, a labor increase of 8.5% and 23% on fringe benefits over the previous contract were granted.

The contract calls for semi-annual adjustments in wages based on increases in the cost of living, and on October 1, 1979, a 4.8% cost of living adjustment was made. The Interstate Commerce Commission granted offsetting rate increases of 5.5% on April 12, 1979, and 2.8% on October 1, 1979, to meet these increases. In addition, we received a total of 3.4% rate increase for non-labor costs on June 11, 1979 and July 13, 1979. To keep pace with the constantly changing prices of fuel, a Fuel Surcharge was authorized by the Interstate Commerce Commission effective June 20, 1979, with an initial rate of 2.7% on LTL revenue and 6% on TL revenue. Subsequent increases were made to bring the TL rate to 10.5% and the LTL rate to 1.8%. The Fuel Surcharge averaged out to an equivalent 4.4% increase in Penn Yan's revenue.

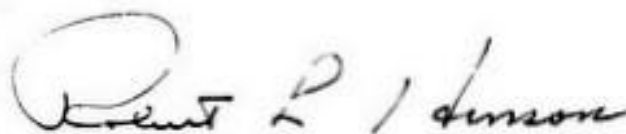
In conjunction with the opening of our Philadelphia operation in October, 1978, and with the temporary operation of authorities purchased from B & P Motor Express, Inc., and O.N.C. Freight Systems, we commenced operations at Baltimore, Maryland, in March, 1979, and Harrisburg, Pennsylvania, in July, 1979. Each of these operations utilize cartage agents to pick up and deliver our

freight. The growth within the Pennsylvania market as a result of these acquisitions has necessitated the construction of a terminal at Cinnaminson, New Jersey, to serve the Southern New Jersey and metropolitan Philadelphia market, and land has been purchased to construct a terminal at Harrisburg, Pennsylvania, which will provide improved service to our customers. In addition, authority was granted by the Interstate Commerce Commission to commence operations at Chicago, Illinois, in March, 1979, in conjunction with intermodal service between the Midwest and the territory Penn Yan serves.

The motor carrier industry continues to operate under the threat of deregulation that is being promoted by the Federal Administration. In addition, we incurred significant increases in the cost of diesel fuel required for our operation. The present uncertainties of the economy and the increases in interest rates will test the capabilities of Penn Yan Express during 1980. We are confident that we are in a position to roll with these adverse conditions by continuing our emphasis on a strong Sales and Marketing program and maintaining effective cost controls that will permit Penn Yan Express to maintain its growth during 1980.

In line with this growth, new equipment has been ordered totaling \$1,800,000 for delivery in early 1980. These orders cover the purchase of 15 new tandem axle tractors, 20 single axle tractors and 50 — 45' trailers. These purchases, along with the two terminal facilities, will result in capital expenditures of approximately \$3,600,000 during 1980, of which \$950,000 of that equipment was received during December, 1979.

Again, we at Penn Yan Express wish to express our appreciation to our customers and employees. Their loyalty and dedication have made this company successful and continues to encourage us to look forward to further profitable years.



Robert L. Hinson, President

Capital Improvements

During 1979, Penn Yan Express expended \$3,323,492 net in capital improvements for revenue equipment, facilities and other miscellaneous items of equipment. Net revenue equipment expenditures totaled \$2,159,283, covering the purchase of 20 — single axle tractors, 30 — tandem axle tractors and 38 — 45' trailers. Against this equipment we traded six tractors and sold two trucks and one tractor, plus four older trailers producing a net increase of 43 tractors and 34 trailers.

Net capital improvements to our real estate totaled \$870,037. The majority of this expenditure was towards improvements at the General Office and Maintenance building addition, as well as improvements to various terminals.

In conjunction with the addition to the General Office and Maintenance facility, approximately \$250,000 was expended for equipment in the Maintenance Department, and office furniture and equipment in the General Office. In addition, various items of material handling equipment were added during the year. Twenty-one automobiles were sold and replaced with leased automobiles.

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, Virginia; the District of Columbia; and Chicago, Illinois. 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 15,000 accounts from a variety of industries and businesses in approximately 2000 cities and towns. No one industry or group of commodities account for more than 4% of the Company's total revenues.

Approximately 66% of the Company's revenues and 38% 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.

Management's Discussion and Analysis of the Financial Summary

1979 versus 1978

Operating revenues increased approximately 28.1% over 1978, and total tonnage increased approximately 19.2%. Rate increases were granted on April 12, 1979, to cover the wage and fringe increase negotiated by the International Brotherhood of Teamsters and additional increases were granted in June, July and October, which averaged to an effective 8.0% increase in revenue during the year. In addition, a Fuel Surcharge was instituted in June, 1979, to cover the continued increase in fuel prices resulting in an increase of 2.7% on less-than-truckload (LTL) traffic and 6% on truckload traffic. During the remainder of the year, increases were made in the truckload Fuel Surcharge to a level of 10.5%, and the LTL rates were adjusted downward to a level of 1.8%. The Fuel Surcharge added approximately 4.4% to revenue since June, 1979.

Operating expenses increased approximately 26.1% over 1978. Salaries and wages increased approximately 18.0%, principally due to the International Brotherhood of Teamsters Union wage increase of 8.5% granted April 1, 1979, and a cost of living adjustment of 4.8% granted October 1, 1979. The Teamster Health, Welfare and Pension contribution, plus additional holidays, added approximately 23.1% increase in fringe costs. Non-Union employees received a 3% cost of living increase on May 5, 1979 and an average 5% merit increase on their anniversary date. Other fringe increases were due to additional contributions for Social Security and an increase in self-insurance reserve on Worker's Compensation.

Other expenses increased principally due to inflation. Fuel costs increased approximately 1.5% as a percentage of revenue. The opening of terminals at Harrisburg and Philadelphia, Pennsylvania; Baltimore, Maryland; and Chicago, Illinois, and the utilization of cartage agents which are classified under the Rents category, increased costs to 4.5% of revenue compared to an average of 1.7% of revenue in 1978. A significant increase was reported under Miscellaneous expenses which is attributable to \$49,000 in rentals paid on the operating rights leased from B & P Motor Express and O.N.C. Freight Systems during the period of Temporary Authority. In addition, \$75,000 for consulting fees were expended to strengthen our Sales and Marketing programs.

Interest expense increased 39.9% from 1979 due to net increase in borrowings of \$600,000 on the Revolving Credit Line plus increased interest rates on this line which averaged 13.847% in 1979 compared to 9.632% in 1978. In addition, the completion of the General Office and Maintenance addition was financed through a \$1,000,000 Industrial Development Bond at a rate of 8¼%. Income taxes reflect an effective tax rate of approximately 13.9% due to the significant flow through of investment tax credit on the equipment purchased during 1979.

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, 1979, and merging the Sayreville, New Jersey, operations with 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 9¼% 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.

Five-Year Summary

	1979	1978	1977	1976	1975
Financial Data					
Operating revenues	\$23,238,036	18,133,977	16,982,312	13,911,984	10,483,054
Operating income	1,340,794	775,082	1,254,770	1,006,469	534,889
Interest expense	911,303	649,766	473,007	331,541	294,912
Other income net	3,494	86,566	156	2,179	1,885
Earnings before income taxes .	432,985	211,882	781,919	677,107	241,862
Income taxes	60,000	(91,000)	180,000	174,000	61,000
Net earnings	\$ 372,985	302,882	601,919	503,107	180,862
Earnings per common share					
assuming no dilution	\$.87	.70	1.36	1.13	.42
assuming full dilution	\$.87	.70	1.33	1.09	.40
Average shares outstanding					
assuming no dilution	427,824	430,346	430,346	430,346	429,830
assuming full dilution	427,824	430,346	450,944	459,946	448,534
Operating Data					
Tons of freight	376,064	316,254	317,585	273,610	221,512
Number of shipments	361,846	337,144	349,482	327,929	246,226
Average length of haul	231.1	226.4	221.0	223.8	236.1
Intercity miles	6,650,016	5,632,183	5,528,424	4,969,088	4,497,201

Revenue Equipment at December 29, 1979

	Approximate Age of Equipment			
	Total	1-3 Years	4-6 Years	Over 6 Years
Tractors	257	97	90	70
Line Haul Trailers, 40 foot and longer	365	125	71	169
Trailers, 21 foot and 26 foot	103	—	12	91
Pickup and Delivery Trucks	3	2	—	1
Total	728	224	173	331

Consolidated Balance Sheets

Penn Yan Express, Inc. and Subsidiaries
December 29, 1979 and December 30, 1978

ASSETS	1979	1978
Current assets:		
Cash	\$ 515,176	628,992
Accounts receivable, less allowance for doubtful accounts (1979 - \$90,000; 1978 - \$59,000):		
Freight revenue	1,835,465	1,234,310
Federal tax refund	—	126,000
Other	93,503	190,926
Operating supplies, at lower of cost (first-in, first-out) or market	631,534	374,053
Prepaid expenses:		
Tires in service	507,340	458,355
Taxes, licenses, insurance and other	338,575	329,339
Total current assets	<u>3,921,593</u>	<u>3,341,975</u>
 Property, plant and equipment:		
Land	880,698	848,736
Terminals and offices	5,000,553	3,637,043
Revenue equipment	9,119,266	7,141,273
Other operating equipment	2,927,075	2,561,203
Construction in progress	—	672,682
	<u>17,927,592</u>	<u>14,860,937</u>
Less accumulated depreciation	5,773,903	4,821,189
Net property, plant and equipment	<u>12,153,689</u>	<u>10,039,748</u>
Intangible assets, at cost, less accumulated amortization (1979 - \$71,811; 1978 - \$55,340)	1,595,118	1,114,806
Cash surrender value of life insurance	242,899	229,860
	<u>\$ 17,913,299</u>	<u>14,726,389</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	1979	1978
Current liabilities:		
Current installments on long-term and other debt	\$ 717,219	295,114
Accounts payable	1,045,696	803,664
Dividends payable	24,592	16,567
Accrued expenses:		
Wages and vacation pay	590,350	463,656
Taxes other than income taxes	101,608	98,507
Interest	91,740	75,853
Accrued profit sharing and pension	136,392	56,000
Income taxes:		
Current	101,527	46,047
Deferred	84,000	151,000
Estimated liability for loss, damage and injury claims	260,000	100,015
Total current liabilities	3,153,124	2,106,423
Long-term debt, less current installments	8,723,899	6,904,402
Deferred income taxes	722,000	677,000
Stockholders' equity:		
Preferred stock	—	—
Common stock:		
Class A	326,896	330,346
Class B	100,000	100,000
Additional paid-in capital	520,199	531,968
Retained earnings	4,367,181	4,076,250
Total stockholders' equity	5,314,276	5,038,564
Commitments and contingencies (notes 7 and 8)		
	\$ 17,913,299	14,726,389

**Consolidated Statements
of Earnings**

Penn Yan Express, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

	1979	1978
Operating revenues	<u>\$ 23,238,036</u>	<u>18,133,977</u>
Operating expenses:		
Salaries and wages	10,571,587	8,962,022
Fringes	3,683,040	2,772,688
Operating supplies	2,348,236	1,696,198
General supplies and expenses	1,012,454	754,014
Operating taxes and licenses	742,498	703,160
Insurance	433,102	355,120
Communications and utilities	452,957	421,772
Depreciation	1,209,551	1,110,995
Rents	1,155,452	407,623
Gain on disposal of operating equipment	(48,926)	(37,628)
Miscellaneous expenses	<u>337,291</u>	<u>212,931</u>
	<u>21,897,242</u>	<u>17,358,895</u>
Operating income	1,340,794	775,082
Nonoperating (income) expense:		
Interest expense, principally on long-term debt	907,809	648,737
Gain on sale of nonoperating property	—	(85,537)
Nonoperating expense, net	<u>907,809</u>	<u>563,200</u>
Earnings before income taxes	432,985	211,882
Income taxes (benefit)	<u>60,000</u>	<u>(91,000)</u>
Net earnings	<u>\$ 372,985</u>	<u>302,882</u>
Earnings per common share	<u>\$.87</u>	<u>.70</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements
of Stockholders' Equity**

Penn Yan Express, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

	Common stock		Additional	Retained
	Class A	Class B	paid-in capital	earnings
Balance at December 31, 1977	\$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)	—	—	—	(115,971)
Balance at December 30, 1978	330,346	100,000	531,968	4,076,250
Net earnings - 1979	—	—	—	372,985
Dividends declared: Common (\$.25 per share - Class A; \$.0025 per share - Class B)	—	—	—	(82,054)
Purchase of 3,450 shares of Common stock - Class A	(3,450)	—	(11,769)	—
Balance at December 29, 1979	<u>\$326,896</u>	<u>100,000</u>	<u>520,199</u>	<u>4,367,181</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements
of Changes in Financial Position**

Penn Yan Express, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

	1979	1978
Sources of working capital:		
Net earnings	\$ 372,985	302,882
Items which do not use working capital:		
Depreciation of tangible property and amortization of intangible assets	1,226,022	1,127,466
Provision for noncurrent deferred income taxes	45,000	(10,000)
Working capital provided by operations	1,644,007	1,420,348
Proceeds from sales and other disposals of tangible property (net of gains of \$48,926 in 1979 and \$123,165 in 1978)	219,973	461,783
Proceeds from long-term borrowing	2,391,194	1,039,143
Total working capital provided	4,255,174	2,921,274
Uses of working capital:		
Additions to intangible assets	496,783	—
Additions to tangible property	3,543,465	2,170,363
Current installments and repayment of long-term debt	571,697	595,708
Increase in cash surrender value of life insurance	13,039	14,498
Dividends declared	82,054	115,971
Capital stock repurchased	15,219	—
Total working capital used	4,722,257	2,896,540
Increase (decrease) in working capital	\$ (467,083)	24,734
Increase (decrease) in working capital components:		
Current assets:		
Cash	\$ (113,816)	(67,859)
Receivables	377,732	184,328
Operating supplies	257,481	64,489
Prepaid expenses	58,221	72,409
	579,618	253,367
Current liabilities:		
Current installments on long-term and other debt	422,105	14,903
Accounts payable and accrued liabilities	628,091	239,456
Dividends payable	8,025	(16,568)
Income taxes	(11,520)	(9,158)
	1,046,701	228,633
Increase (decrease) in working capital	\$ (467,083)	24,734

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 intercompany balances 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 recorded as prepaid expenses in the year installed, and expensed over their useful lives.
- (e) Tangible Property and Depreciation — Tangible property is stated 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, the difference between cost less accumulated depreciation and proceeds of sale or trade-in allowances is charged or credited to earnings.

Depreciation is based principally on the straight-line method over the following estimated useful lives (in years):

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

- (f) Intangible Assets — Intangible assets consist principally of operating rights purchased. Intangibles originating prior to November 1, 1970 are not amortized because, in the opinion of management,

there has been no decrease in their value. Intangibles arising after October 31, 1970 (\$1,156,023) are amortized by the straight-line method over a forty year period.

- (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, including appropriate provision for deferred income taxes.

Deferred income taxes result from timing differences between financial and taxable income determinations. These differences arise principally from depreciation methods, the treatment of gains and losses on trade-ins of revenue equipment, the treatment of claims payable under the Company's insurance programs, and the treatment of tires in service.

Investment tax credits are treated by the Company as a reduction of Federal income taxes in the period in which the credits arise.

- (h) Estimated Liability for Loss, Damage and Injury Claims — Liability for the self-insured portion of cargo loss and damage claims is based on amounts estimated to be incurred utilizing primarily historical payment experience for unsettled claims and an estimate for claims unreported.

Liability for the self-insured portion of other claims, is provided for amounts estimated to be incurred based on specific identification of incidents which have occurred.

- (i) Revenue and Expense Recognition — Operating revenue is recognized as of the date the freight is picked up with recognition of cost incurred only through the date of the financial statements.

- (j) Pension Expense — Pension expense charged to operations reflects the required contribution to provide projected benefits for covered employees as determined under a frozen initial liability method. The Company's policy is to fund normal costs and amortization, over a 30 year period, of prior service costs.

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

Penn Yan Express, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

(2) Long-Term Debt

	1979	1978
Long-term debt consisted of the following:		
Bank loan under revolving credit agreement (A)	\$ 4,800,000	4,200,000
Mortgage loans secured by certain tangible property, 6% - 9 1/8% payable through 1998 (B)	2,001,047	2,697,165
Obligation under capital lease (C)	950,000	—
Current liabilities to be refinanced by long-term debt (D)	994,571	—
Operating rights obligations (E)	445,500	—
Other obligations at varying interest rates to 8%	250,000	302,351
	9,441,118	7,199,516
Less current installments	717,219	295,114
	\$ 8,723,899	6,904,402

(A) The bank revolving credit agreement provides for interest at the bank's prime rate plus 1/2% (15 3/4% at December 29, 1979) and allows the Company and subsidiaries to borrow up to \$5,500,000 (see (D) below) unless otherwise limited by the borrowing base, defined in the agreement to be 95% 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. 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.

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:

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.

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. As of February 28, 1980, the bank has not elected to terminate the agreement.

Under terms of the agreement, dividends are restricted to 30% of the consolidated net income after taxes for each fiscal year.

(B) An informal compensating balance arrangement exists on a mortgage loan with an outstanding balance at December 29, 1979 of \$276,294 (\$325,000 in 1978). 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.

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

Penn Yan Express, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

(C) During 1979 the Company completed its capital expansion program for administrative and maintenance facilities at an approximate cost of \$1,295,000. Financing for the project was provided, in part, by an Industrial Development Bond issued by the Yates County (New York) Industrial Development Agency, (the Agency) in the amount of \$1,000,000 with a stated interest rate of 8¼%. Under provisions of the agreement between the Company and the Agency, title to the facilities is held by the Agency and the facilities are leased to the Company for a period of fifteen years. At the end of the lease term the Company may acquire the facilities for a nominal amount. Accordingly the facilities and related debt are reflected in the accompanying financial statements as assets and obligations under a capital lease. Amortization of the cost of the facilities is included in depreciation expense. The Bond is secured by assignment of the lease by the agency to the bond holder. Annual lease payments are required in amounts sufficient to provide for the payment of principal amounts becoming due and accrued interest (payable quarterly). Early redemption of the Bond, in whole or in part, may be made without premium subsequent to November 30, 1983. Minimum lease payments for the periods indicated are:

Fiscal Year Ending	Lease Amount
1980	\$ 128,000
1981	124,000
1982	120,000
1983	116,000
1984	112,000
1985-1993	1,072,000

- (D) The Company has excluded from current liabilities at December 29, 1979, equipment obligations aggregating \$994,571 which are to be or have been refinanced by long-term debt in 1980. Subsequent to December 29, 1979, approximately \$639,000 of the liability have been refinanced by long-term debt under the revolving credit agreement described in (A) above. The remaining amount, approximately \$355,000 is to be refinanced by long-term debt under the revolving credit agreement in March, 1980. Effective January 2, 1980 the borrowing limitation of the revolving credit agreement was increased to \$7,000,000.
- (E) The Company has entered into agreements to purchase certain operating rights of B&P Motor Express, Inc. and O.N.C. Freight Systems. The agreements are subject to the Company obtaining approval, without limitations, from the I.C.C. for permanent operating authorities. During 1979 the Company was granted temporary operating authorities. In the accompanying financial statements, the cost of these rights (less estimated monthly rental payments until permanent authorities are granted) are reflected as intangible assets. The related obligations are included in current liabilities.

(3) Income Taxes

Income tax expense (benefit) differs from the "expected" tax expense (computed by applying the U.S. Federal Corporate tax rate of 46% in 1979 and 48% in 1978 to earnings before income taxes) for the years ended December 29, 1979 and December 30, 1978 as follows:

	1979	1978
Computed "expected" tax	\$ 199,000	102,000
Surtax exemption	(19,000)	(14,000)
Investment tax credit	(133,000)	(116,000)
Job tax credit	—	(52,000)
State income tax (net of Federal income tax benefit)	15,000	14,000
Capital gains taxed at capital gain rate	—	(15,000)
Miscellaneous	(2,000)	(10,000)
Actual tax expense (benefit)	\$ 60,000	(91,000)
Effective rate	13.9%	—

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

Penn Yan Express, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

Components of income tax expense (benefit) are as follows:	1979		1978	
	Federal	State	Federal	State
Current tax expense (benefit)	\$ 56,000	26,000	(82,000)	23,000
Deferred tax expense (benefit) resulting from:				
Depreciation	77,000	7,000	51,000	2,000
Tire costs	13,000	2,000	24,000	2,000
Self-insured claim provisions	(69,000)	(7,000)	(26,000)	(2,000)
Investment tax credits	(37,000)	—	(78,000)	—
Miscellaneous	(7,000)	(1,000)	(6,000)	1,000
	<u>\$33,000</u>	<u>27,000</u>	<u>(117,000)</u>	<u>26,000</u>

The Company has an investment tax credit carryforward of \$115,000 for tax purposes expiring in 1986 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 carryforward period.

(4) Profit Sharing and Pension Plans

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 \$92,000 in 1979 and \$56,000 in 1978. Contributions vest with participants at the rate of 20% after 2 years to 100% after 10 years. Forfeited contributions are distributed among remaining participants.

Effective January 1, 1979 the Company adopted a noncontributory pension plan covering substantially all nonunion employees. The approval of the plan as a qualified plan under Section 401 of the Internal Revenue Code is pending as of December 29, 1979. Total pension expense in 1979 was \$47,000. The actuarially computed value of vested benefits under the plan exceeded pension fund assets by approximately \$466,000 at January 1, 1979.

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

(5) Common and Preferred Stock

The Company's capital stock is as follows:

Preferred stock:

\$100 par value — at December 29, 1979 and at December 30, 1978 there were 3,700 shares authorized for issuance.

Common stock:

Class A stock; \$1 par value; 2,000,000 shares authorized; at December 29, 1979: 330,346 issued, 326,896 outstanding, and 3,450 treasury shares reacquired in 1979 for \$15,219; at December 30, 1978: 330,346 shares issued and outstanding. At December 29, 1979 and December 30, 1978 there were 125,000 shares reserved for conversion of Class B common stock.

The Company intends to retire in 1980 the shares reacquired during 1979 and the accompanying financial statements reflect the retirement as of December 29, 1979.

Class B stock; \$1 par value; 429,654 shares authorized; 100,000 issued and outstanding December 29, 1979 and December 30, 1978. At December 29, 1979 and December 30, 1978, there were 25,000 shares reserved 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.

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

Penn Yan Express, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

(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 29, 1979.

(7) Commitments

The Company has entered or intends to enter into contracts relating to the purchase of revenue equipment and terminal facilities. Total capital expenditures are anticipated to approximate \$2,760,000.

(8) Contingencies

The Company maintains self-insurance coverage on Automobile, Personal Injury, Property Damage, Cargo Loss and Damage, and

Workers Compensation. For Workers 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 \$260,000 for estimated losses as of December 29, 1979.

During 1978 an incident occurred which could significantly impact the Company's results of operations. At December 30, 1978 the liability, if any, resulting from this incident was not determinable and no provision was made in the financial statements. As of December 29, 1979 a claim has not been filed regarding this incident and the Company's excess insurance carrier eliminated its reserve for the incident. Therefore, in the opinion of management, a loss contingency no longer exists.

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 29, 1979 and December 30, 1978, 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 report dated February 28, 1979, our opinion on the 1978 financial statements was qualified subject to an uncertainty, the outcome of which was not determinable. As explained in note 8, a determination in this matter was made in the current year. Accordingly, our present opinion on the 1978 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Penn Yan Express, Inc. and subsidiaries at December 29, 1979 and December 30, 1978 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.

February 28, 1980

Peat, Marwick, Mitchell & Co.

TERMINALS

ALBANY, NEW YORK 845 Watervliet Shaker Road	(518) 783-0201
BALTIMORE, MARYLAND 56 Pebble Drive	(301) 789-9083
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
CHICAGO, ILLINOIS 3333 W. 36th Street	(312) 927-6881
ELMIRA, NEW YORK 1510 Grand Central Avenue	(607) 733-6501
HARRISBURG, PENNSYLVANIA 1027 S. 10th Street	(717) 232-8691
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 Avenue	(717) 346-7604
SYRACUSE, NEW YORK 121 Bear Street	(315) 474-7849
UTICA, NEW YORK Wells Avenue	(315) 735-6179
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