

# **PENN YAN EXPRESS**

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**1980**

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**ANNUAL REPORT**

## Board of Directors

ROBERT L. HINSON  
Chairman of the Board and President 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

PAUL M. DONOVAN  
Vice President and Secretary

THOMAS A. PODSIADLO  
Treasurer

MICHAEL M. FAUL  
Vice President-Operations

DAVID G. KULIK  
Vice President-Sales

JACK SCHINDLER  
Vice President-National Sales

RONALD L. HINSON  
Vice President-Marketing

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  
Harris, Beach, Wilcox, Rubin & Levey

I.C.C. COUNSEL  
Major, Sage and King, Alexandria, Virginia

## Dividends Paid and Market Prices of Stock

The following table displays the range of bid and asked price quotations for Penn Yan Express, Inc.'s Class A stock and the dividends paid on Class A and Class B stock in each of the quarters for the years 1979 and 1980. The price quotations were obtained from the NASDAQ system.

	1st Qtr.		2nd Qtr.		3rd Qtr.		4th Qtr.	
	Bid	Asked	Bid	Asked	Bid	Asked	Bid	Asked
1979 Low	3 1/4	4	3 1/4	4 1/4	3 1/2	4 1/4	3 1/4	4
High	4 1/2	5 1/4	3 1/2	4 1/4	3 3/4	4 1/2	4 1/4	5
1980 Low	4	4 1/4	3 3/4	4 1/2	3	3 3/4	2 1/2	3
High	4 3/4	5 1/2	4	4 3/4	3 3/4	4 1/2	3 1/4	3 3/4

### Dividends Paid-Class A Stock

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1979	\$0.05	\$0.05	\$0.05	\$0.075
1980	\$0.075	—	—	—

### Dividends Paid-Class B Stock

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1979	\$0.0005	\$0.0005	\$0.0005	\$0.00075
1980	\$0.00075	—	—	—

The price quotations represent prices between dealers. They do not include retail mark-ups, mark-downs and commissions, and they do not necessarily represent actual transactions in the Class A Stock of the company.

Penn Yan Express Class A Stock is traded in the over-the-counter market and is quoted on the NASDAQ system. The NASDAQ symbol is PYANA. Penn Yan Express Class B Stock is not actively traded and no price quotations are available. As of May 15, 1981, there were approximately 595 Class A stockholders and 1 Class B stockholder.

Under the terms of the Company's Bank Revolving Credit Agreement, dividends are restricted to 30% of consolidated net income after taxes and before extraordinary items in each fiscal year.

## TO OUR SHAREHOLDERS:

1980 was a good year. Our revenues and total tonnage increased while the motor carrier industry as a whole experienced decreased tonnage. Revenues for 1980 totaled \$27,361,373, a 17.7% increase over 1979 revenues of \$23,238,036. Earnings before extraordinary item totaled \$174,079 for 1980, or \$.41 per common share. Inflationary cost pressures, particularly diesel fuel prices and abnormally high and volatile interest rates, depressed our earnings to a level under 1979.

During 1980, Congress passed the Federal Motor Carrier Act of 1980 (the Act) which became effective July 1, 1980. Prior to July 1, 1980, the Interstate Commerce Commission controlled entry into the motor carrier industry, and required and enforced service and safety standards. This Act effectively decreased entry controls making it relatively easy to enter the motor carrier industry. As a result of this Act, and as required by the Statement of Financial Accounting Standards No. 44, the unamortized book value of our operating rights as of December 27, 1980, was written off by an extraordinary charge to income in 1980 of \$1,585,296. This extraordinary charge was equal to \$3.71 per common share.

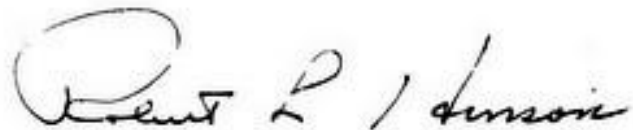
A tax benefit as a result of the write-off of this extraordinary item could not be recorded on the books at December 27, 1980, according to current Financial Accounting Standards. However, our Federal tax return will include the charge, and we will file for an immediate refund of \$218,000 by carrying back a portion of this loss against Federal taxes paid in previous years. The balance of the loss will offset Federal tax payments in forthcoming years, thereby minimizing our future cash flow for Federal taxes. Legislation to allow this specific deduction has been presented to Congress and is actively supported by the motor carrier industry.

Our Company acted aggressively to take advantage of the new freedom to expand operations under

the Act by making application for increased authority to service portions of Ohio, West Virginia and Western Pennsylvania. On March 12, 1981, the Interstate Commerce Commission granted authority to operate in the areas applied for.

During 1980, we placed in service twenty new single axle tractors, fifteen tandem axle tractors and fifty 45' trailers. Investment tax credit generated from the purchase of new equipment in 1980 is mainly responsible for the tax benefit of \$186,000 which resulted in earnings before extraordinary item of \$174,079. We completed construction and opened our new terminal in Cinnaminson, New Jersey. This terminal is modern in design, efficient to operate and favorably financed under the New Jersey Economic Development Authority at an interest rate of 9%. This terminal will service the Southern New Jersey and metropolitan Philadelphia market utilizing predominately our own drivers and equipment to better service our customers in that area. We also began construction of a new terminal at Harrisburg, Pennsylvania. This terminal will be completed in mid 1981, and is principally financed by the York County Industrial Development Authority at a favorable interest rate of 10%. This terminal will allow us to provide more efficient service to our customers in the area, accommodate future growth and will add to our competitive position in the area.

1981 is another year of challenge for the motor carrier industry and Penn Yan Express. We face a recession in the economy, continued high inflation, price competition, volatile interest rates and a deregulated environment, but Management looks to the year as an opportunity. An opportunity to grow. We have a clean, modern fleet; hard-working, dedicated and loyal employees; and modern, efficient terminals, all of which made this Company successful in the past and are expected to keep this Company profitable in the future.



Robert L. Hinson, President

## CAPITAL IMPROVEMENTS

During 1980, Penn Yan Express expended \$2,225,000 in continuation of its capital improvement program. Net revenue equipment expenditures totaled \$755,000, and together with the \$950,000 expended in late 1979, completed the purchase of twenty single axle tractors, fifteen tandem axle tractors and fifty 45' trailers. Disposal of operating equipment included eleven tractors, twenty-nine trailers and one truck.

Real property additions and improvements totaled \$1,226,000, and included the construction of a terminal in Cinnaminson, New Jersey; acquisition of land and partial construction of a terminal in Harrisburg, Pennsylvania; and various improvements to other terminal facilities within the system.

Capital improvement expenditures for miscellaneous equipment totaled \$244,000, and included new office furnishings for the Cinnaminson, New Jersey; Harrisburg, Pennsylvania; and Buffalo, New York, terminals. Additional purchases included an audio-visual presentation program for our Sales and Marketing program, a net of three service vehicles, additional material handling equipment and various items of office equipment.

## 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, Pennsylvania, Ohio, West Virginia, 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 23,500 accounts from a variety of industries and businesses in approximately 4,800 cities and towns. No one industry or group of commodities account for more than 4% of the Company's total revenues.

Approximately 68% 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.

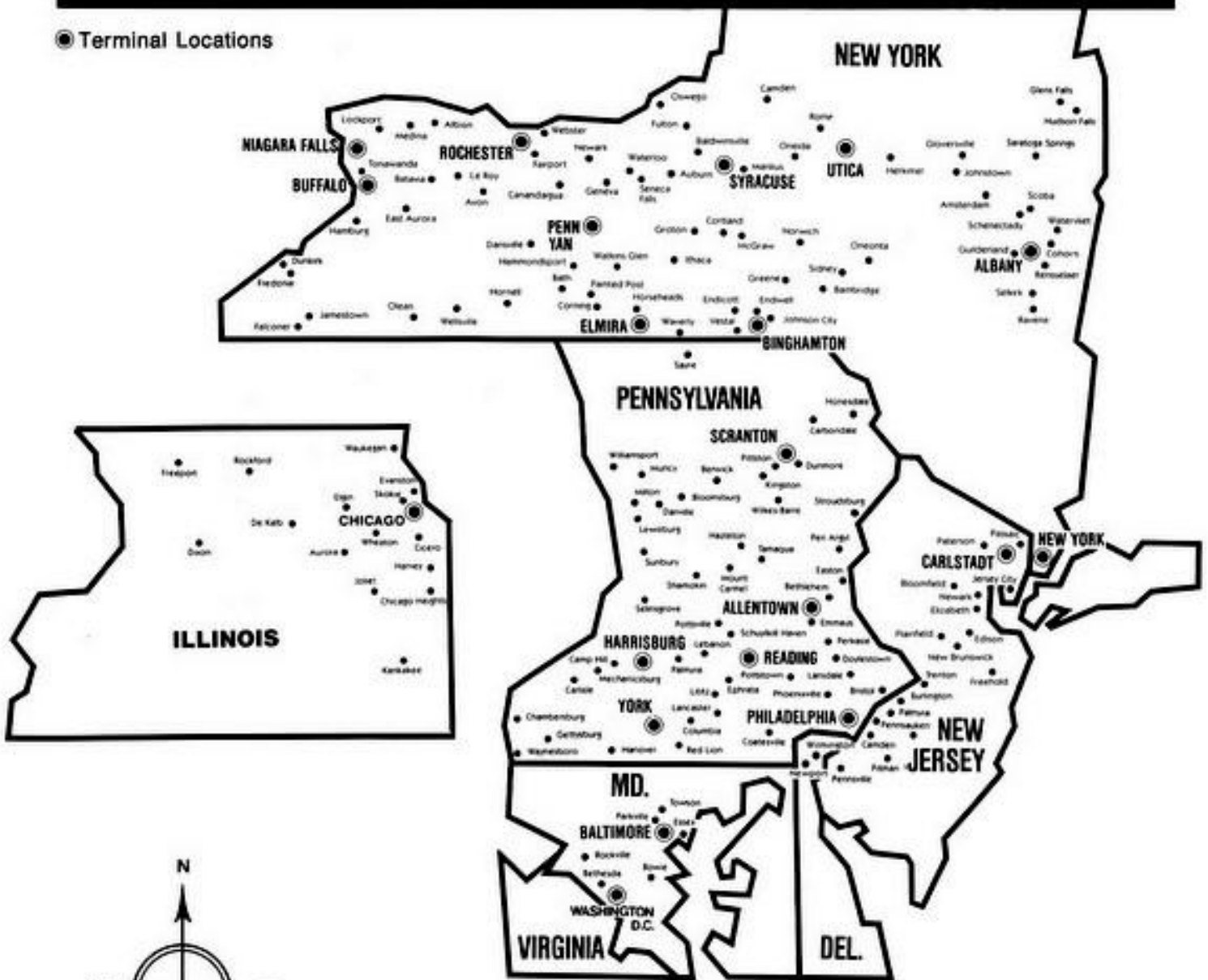
Revenue Equipment at December 27, 1980

	Approximate Age of Equipment			
	Total	1-3 Years	4-6 Years	Over 6 Years
Tractors	250	76	75	99
Line Haul Trailers, 40 foot and longer	382	132	70	180
Trailers, 21 foot and 26 foot	99	—	—	99
Pickup and Delivery Trucks	2	—	2	—
Total	733	208	147	378

# PENN YAN EXPRESS, INC.

## AREAS SERVED

● Terminal Locations



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

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Summary

The following table sets forth for the periods indicated the percentages which certain items reflected in the financial data bear to operating revenues of the Company and the percentage increase (decrease) of such items as compared to the indicated prior period.

	Relationship To Operating Revenues			Year To Year Increase (Decrease)	
	1980	1979	1978	1979-80	1978-79
Operating revenues .....	100.0%	100.0%	100.0%	17.7%	28.1%
Operating expenses:					
Salaries and wages .....	45.7	45.5	49.4	18.3	18.0
Fringes .....	15.2	15.8	15.3	13.2	32.8
Operating supplies .....	11.3	10.1	9.4	31.5	38.4
General supplies and expenses .....	4.2	4.3	4.2	14.2	34.3
Operating taxes and licenses .....	2.9	3.2	3.9	8.4	5.6
Insurance .....	1.6	1.9	2.0	1.5	22.0
Communications and utilities .....	1.9	1.9	2.3	15.5	7.4
Depreciation .....	4.9	5.2	6.1	11.0	8.9
Rents .....	6.6	5.0	2.2	55.4	183.5
Gain on disposal of operating equipment .....	(.1)	(.2)	(.2)	(17.5)	30.0
Miscellaneous expenses .....	1.2	1.5	1.1	(10.4)	58.4
	<u>95.4</u>	<u>94.2</u>	<u>95.7</u>	<u>19.2</u>	<u>26.1</u>
Operating income .....	4.6	5.8	4.3	(5.2)	73.0
Nonoperating (income) expense:					
Interest expense, principally on long-term debt .....	4.7	3.9	3.6	41.3	39.9
Gain on sale of nonoperating property ...	—	—	(.5)	—	—
Nonoperating expense, net .....	4.7	3.9	3.1	41.3	61.2
Earnings (loss) before income taxes ...	(.1)	1.9	1.2	(102.8)	104.4
Income taxes (benefit) .....	(.7)	.3	(.5)	—	—
Earnings before extraordinary item ....	.6	1.6	1.7	(53.3)	23.1
Extraordinary item .....	(5.8)	—	—	—	—
Net earnings (loss) .....	<u>(5.2)</u>	<u>1.6</u>	<u>1.7</u>		

## RESULTS OF OPERATIONS

Operating revenues over the three years have increased due to an increase in tonnage and rate increases granted by the regulatory authorities. The significant increase in 1979 over 1978 of 28.1% is attributable to the Company expanding its operations into new market areas and opening terminals at Philadelphia, PA; Baltimore, MD; Harrisburg, PA; and Chicago, IL. The 1980 increase in revenues of 17.7% reflects a more normal year to year change without the addition of new terminals and market areas. The Company did experience a softening in the rate of revenue growth during the latter part of 1980, reflecting the economic conditions during that time.

Operating expenses closely followed the increases in operating revenues. From 1978 to 1979 operating expenses increased 26.1% on revenue growth of 28.1%, and from 1979 to 1980, operating expenses increased 19.2% on revenue growth of 17.7%. Operating expenses as a percent of operating revenues were 95.7% in 1978, 94.2% in 1979, and 95.4% in 1980.

Salaries, Wages and Fringes, combined accounted for 64.7% of operating revenues in 1978, 61.3% in 1979 and 60.9% in 1980. This trend reflects both increased efficiencies in the operation and the increased utilization of cartage agents, especially when opening new terminal and market areas. A cartage agent performs the Company's pickup and delivery service, eliminating direct salaries and fringes. The cartage agent's cost is accounted for under the rent expense category. This use of cartage agents for opening the new market area also explains the increase in the Company's rent expense expressed as a percent of operating revenue from 2.2% in 1978 to 5.0% in 1979, and to 6.6% in 1980.

Operating supplies increased as a percentage of operating revenues from 9.4% in 1978 to 10.1% in 1979, and to 11.3% in 1980 due to the continued increase in fuel cost. Although part of the fuel cost is offset by a fuel surcharge on revenue, the expense as a percentage of revenue increases.

The other items of operating expenses varied directly with the increase in revenues and remained relatively consistent as a percentage of revenues.

All of the operating costs of the Company are influenced by general inflationary pressures. Rate increases to offset rises in the cost of labor, materials, and equipment are filed with the Interstate Commerce Commission from time to time. A surcharge on revenue is applied to each freight bill to compensate for the increase in fuel cost. This fuel surcharge is adjusted whenever justified by a change in fuel prices.

Interest expense increased substantially over the three years; 39.9% from 1978 to 1979, and 41.3% from 1979 to 1980. This increase is due to both the increased level of long-term debt used to finance the upgraded fleet and additional terminal and office properties, as well as the volatile change in the prime interest rate during these periods.

The extraordinary item in 1980 results from the 1980 Federal Motor Carrier Act. The provisions of this Act permanently reduced the value of the operating rights of the Company, and their full value was written off to income as an extraordinary item.

## LIQUIDITY

The Company's working capital at December 27, 1980, was \$1,225,719, and its ratio of current assets to current liabilities was 1.4 to 1. Management considers this a healthy liquidity position.

During 1980, the Company has been converting debt tied to the prime interest rate to fixed debt. This will allow the Company to better plan and manage its cash needs and provides for a scheduled repayment of its indebtedness. Also, in response to the uncertain economic condition in 1981, the Company is taking action to tighten operations to assure continued liquidity.

## CAPITAL RESOURCES

No major capital commitments are planned for the year 1981. The remaining capital commitment from 1980 is the completion of the Harrisburg, PA, terminal during the second quarter. Financing has been secured for this commitment from the York County Industrial Development Authority. This new terminal will replace a leased terminal in that city.

## Five-Year Summary

	1980	1979	1978	1977	1976
<b>Selected Financial Data:</b>					
Operating revenues .....	\$ 27,361,373	23,238,036	18,133,977	16,982,312	13,911,984
Operating expenses .....	26,090,906	21,897,242	17,358,895	15,727,542	12,905,515
Operating income .....	1,270,467	1,340,794	775,082	1,254,770	1,006,469
Interest expense .....	1,282,388	911,303	648,737	469,560	329,362
Other income (expense) net ...	—	3,494	85,537	(3,291)	—
Earnings before income taxes ..	(11,921)	432,985	211,882	781,919	677,107
Income taxes (benefit) .....	(186,000)	60,000	(91,000)	180,000	174,000
Earnings before extraordinary item .....	174,079	372,985	302,882	601,919	503,107
Extraordinary item .....	(1,585,296)	—	—	—	—
Net earnings (loss) .....	\$ (1,411,217)	372,985	302,882	601,919	503,107
Earnings per common share assuming no dilution:					
Earnings before extraordinary item .....	.41	.87	.70	1.36	1.13
Extraordinary item .....	(3.71)	—	—	—	—
Net earnings (loss) .....	\$ (3.30)	.87	.70	1.36	1.13
Earnings per common share assuming full dilution:					
Earnings before extraordinary item .....	.41	.87	.70	1.33	1.09
Extraordinary item .....	(3.71)	—	—	—	—
Net earnings (loss) .....	\$ (3.30)	.87	.70	1.33	1.09
Cash dividends per common share:					
Class A .....	\$ .075	.25	.35	.40	.40
Class B .....	.00075	.0025	.0035	.004	.004
<b>Selected Balance Sheet Data:</b>					
Current assets .....	\$ 4,146,069	3,921,593	3,341,975	3,088,608	2,492,739
Current liabilities .....	2,920,350	3,153,124	2,106,423	1,877,790	1,836,653
Working capital .....	1,225,719	768,469	1,235,552	1,210,818	656,086
Total assets .....	17,437,711	17,913,299	14,726,389	13,877,410	11,860,023
Long-term debt .....	10,134,894	8,723,899	6,904,402	6,460,967	4,652,687
Stockholders' equity .....	3,878,467	5,314,276	5,038,564	4,851,653	4,769,683
<b>Selected Operating Data:</b>					
Tons of freight .....	376,350	376,064	316,254	317,585	273,610
Number of shipments .....	389,518	361,846	337,144	349,482	327,929
Average length of haul .....	218.5	231.1	226.4	221.0	223.8
Intercity miles .....	7,023,392	6,650,016	5,632,183	5,528,424	4,969,088



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

Suite 1400  
One Marine Midland Plaza  
Rochester, New York 14604  
716-454-1644

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 27, 1980 and December 29, 1979, and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for each of the three years in the period ended December 27, 1980. 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 27, 1980 and December 29, 1979 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 27, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat, Marwick, Mitchell & Co.*

March 2, 1981

# Consolidated Balance Sheets

Penn Yan Express, Inc. and Subsidiaries  
December 27, 1980 and December 29, 1979

<b>ASSETS</b>	<b>1980</b>	<b>1979</b>
<b>Current assets:</b>		
Cash .....	<b>\$ 330,411</b>	515,176
Accounts receivable, less allowance for doubtful accounts (1980 — \$105,000; 1979 — \$90,000):		
Freight revenue .....	<b>2,110,226</b>	1,835,465
Other .....	<b>112,781</b>	93,503
Operating supplies, at lower of cost (first-in, first-out) or market .....	<b>530,777</b>	631,534
<b>Prepaid expenses:</b>		
Tires in service .....	<b>646,243</b>	507,340
Taxes, licenses, insurance and other .....	<b>415,631</b>	338,575
<b>Total current assets</b> .....	<b><u>4,146,069</u></b>	<u>3,921,593</u>
<b>Property, plant and equipment:</b>		
Land .....	<b>1,009,604</b>	880,698
Terminals and offices .....	<b>5,559,427</b>	5,000,553
Revenue equipment .....	<b>9,360,119</b>	9,119,266
Other operating equipment .....	<b>3,316,693</b>	2,927,075
Construction in progress .....	<b>354,326</b>	—
	<b><u>19,600,169</u></b>	<u>17,927,592</u>
Less accumulated depreciation .....	<b>6,564,365</b>	5,773,903
<b>Net property, plant and equipment</b> .....	<b><u>13,035,804</u></b>	<u>12,153,689</u>
<b>Intangible assets, at cost, less accumulated amortization (1979 - \$71,811)</b> .....	<b>—</b>	1,595,118
<b>Cash surrender value of life insurance</b> .....	<b>255,838</b>	242,899
	<b><u>\$ 17,437,711</u></b>	<u>17,913,299</u>

See accompanying notes to consolidated financial statements.

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>1980</b>	<b>1979</b>
<b>Current liabilities:</b>		
Current installments on long-term and other debt .....	<b>\$ 242,614</b>	717,219
Accounts payable .....	<b>1,344,929</b>	1,045,696
Dividends payable .....	—	24,592
Accrued expenses:		
Wages and vacation pay .....	<b>609,251</b>	590,350
Taxes other than income taxes .....	<b>123,169</b>	101,608
Interest .....	<b>137,867</b>	91,740
Accrued profit sharing and pension .....	<b>85,297</b>	136,392
Income taxes:		
Current .....	<b>37,223</b>	101,527
Deferred .....	<b>100,000</b>	84,000
Estimated liability for loss, damage and injury claims .....	<b>240,000</b>	260,000
<b>Total current liabilities</b> .....	<b><u>2,920,350</u></b>	<u>3,153,124</u>
<b>Long-term debt, less current installments</b> .....	<b><u>10,134,894</u></b>	<u>8,723,899</u>
<b>Deferred income taxes</b> .....	<b><u>504,000</u></b>	<u>722,000</u>
<b>Stockholders' equity:</b>		
Preferred stock .....	—	—
Common stock:		
Class A .....	<b>326,896</b>	326,896
Class B .....	<b>100,000</b>	100,000
Additional paid-in capital .....	<b>520,199</b>	520,199
Retained earnings .....	<b><u>2,931,372</u></b>	<u>4,367,181</u>
<b>Total stockholders' equity</b> .....	<b><u>3,878,467</u></b>	<u>5,314,276</u>
	<b><u>\$ 17,437,711</u></b>	<u>17,913,299</u>

**Consolidated Statements  
of Earnings**

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 27, 1980, December 29, 1979  
and December 30, 1978

	1980	1979	1978
<b>Operating revenues</b> .....	<b>\$ 27,361,373</b>	<b>23,238,036</b>	<b>18,133,977</b>
<b>Operating expenses:</b>			
Salaries and wages .....	12,508,754	10,571,587	8,962,022
Fringes .....	4,170,710	3,683,040	2,772,688
Operating supplies .....	3,087,332	2,348,236	1,696,198
General supplies and expenses .....	1,156,471	1,012,454	754,014
Operating taxes and licenses .....	804,620	742,498	703,160
Insurance .....	439,669	433,102	355,120
Communications and utilities .....	523,147	452,957	421,772
Depreciation .....	1,343,140	1,209,551	1,110,995
Rents .....	1,795,193	1,155,452	407,623
Gain on disposal of operating equipment .....	(40,384)	(48,926)	(37,628)
Miscellaneous expenses .....	302,234	337,291	212,931
	<u>26,090,908</u>	<u>21,897,242</u>	<u>17,358,895</u>
<b>Operating income</b> .....	<b>1,270,467</b>	<b>1,340,794</b>	<b>775,082</b>
<b>Nonoperating (income) expense:</b>			
Interest expense, principally on long-term debt .	1,282,388	907,809	648,737
Gain on sale of nonoperating property .....	—	—	(85,537)
<b>Nonoperating expense, net</b> .....	<b>1,282,388</b>	<b>907,809</b>	<b>563,200</b>
<b>Earnings (loss) before income taxes</b> ....	<b>(11,921)</b>	<b>432,985</b>	<b>211,882</b>
<b>Income taxes (benefit)</b> .....	<b>(186,000)</b>	<b>60,000</b>	<b>(91,000)</b>
<b>Earnings before extraordinary item</b> .....	<b>174,079</b>	<b>372,985</b>	<b>302,882</b>
<b>Extraordinary item</b> .....	<b>(1,585,296)</b>	<b>—</b>	<b>—</b>
<b>Net earnings (loss)</b> .....	<b>\$ (1,411,217)</b>	<b>372,985</b>	<b>302,882</b>
<b>Earnings (loss) per common share:</b>			
Earnings before extraordinary item .....	\$ .41	.87	.70
Extraordinary item .....	(3.71)	—	—
<b>Net earnings (loss)</b> .....	<b>(3.30)</b>	<b>.87</b>	<b>.70</b>

See accompanying notes to consolidated financial statements.

**Consolidated Statements  
of Stockholders' Equity**

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 27, 1980, December 29, 1979  
and December 30, 1978

	Common stock		Additional	Retained
	Class A	Class B	paid-in capital	earnings
<b>Balance at December 31, 1977</b> .....	\$ 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)
<b>Balance at December 30, 1978</b> .....	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)
Retirement of 3,450 shares of common stock - Class A .....	(3,450)	—	(11,769)	—
<b>Balance at December 29, 1979</b> .....	326,896	100,000	520,199	4,367,181
Net loss — 1980 .....	—	—	—	(1,411,217)
Dividends declared: Common (\$.075 per share — Class A; \$.00075 per share — Class B) .....	—	—	—	(24,592)
<b>Balance at December 27, 1980</b> .....	<u>\$ 326,896</u>	<u>100,000</u>	<u>520,199</u>	<u>2,931,372</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements  
of Changes in Financial Position**

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 27, 1980, December 29, 1979  
and December 30, 1978

	1980	1979	1978
<b>Sources of working capital:</b>			
Earnings before extraordinary item (1) .....	\$ 174,079	372,985	302,882
Items which do not use working capital:			
Depreciation and amortization .....	1,367,921	1,226,022	1,127,466
Provision for (benefit from) noncurrent deferred income taxes .....	(218,000)	45,000	(10,000)
<b>Working capital provided     by operations</b> .....	<b>1,324,000</b>	<b>1,644,007</b>	<b>1,420,348</b>
Proceeds from sales and other disposals of tangible property, net of gains .....	82,220	219,973	461,783
Proceeds from long-term borrowing .....	2,466,474	2,391,194	1,039,143
<b>Total working capital provided</b> .....	<b>3,872,694</b>	<b>4,255,174</b>	<b>2,921,274</b>
<b>Uses of working capital:</b>			
Additions to intangible assets .....	14,959	496,783	—
Additions to tangible property .....	2,307,475	3,543,465	2,170,363
Current installments and repayment of long-term debt .....	1,055,479	571,697	595,708
Increase in cash surrender value of life insurance .....	12,939	13,039	14,498
Dividends declared .....	24,592	82,054	115,971
Capital stock retirement .....	—	15,219	—
<b>Total working capital used</b> .....	<b>3,415,444</b>	<b>4,722,257</b>	<b>2,896,540</b>
<b>Increase (decrease) in working capital</b> .....	<b>\$ 457,250</b>	<b>(467,083)</b>	<b>24,734</b>
<b>Increase (decrease) in working capital components:</b>			
Current assets:			
Cash .....	\$ (184,765)	(113,816)	(67,859)
Receivables .....	294,039	377,732	184,328
Operating supplies .....	(100,757)	257,481	64,489
Prepaid expenses .....	215,959	58,221	72,409
	<b>224,476</b>	<b>579,618</b>	<b>253,367</b>
Current liabilities:			
Current installments on long-term and other debt .....	(474,805)	422,105	14,903
Accounts payable and accrued liabilities .....	314,727	628,091	239,456
Dividends payable .....	(24,592)	8,025	(16,568)
Income taxes .....	(48,304)	(11,520)	(9,158)
	<b>(232,774)</b>	<b>1,046,701</b>	<b>228,633</b>
<b>Increase (decrease) in working capital</b> .....	<b>\$ 457,250</b>	<b>(467,083)</b>	<b>24,734</b>

**Notes:** (1) The extraordinary item in 1980 of \$1,585,296 has no effect on working capital.  
(2) See accompanying notes to consolidated financial statements.

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

Penn Yan Express, Inc. and Subsidiaries  
December 27, 1980, December 29, 1979  
and December 30, 1978

**(2) Long-Term Debt**

	1980	1979
Long-term debt consisted of the following:		
Bank loan under revolving credit agreement (A) .....	<b>\$ 6,050,000</b>	4,800,000
Mortgage loans secured by certain tangible property, 6% - 16% payable through 1995 (B) .....	<b>3,227,508</b>	2,001,047
Obligation under lease purchase agreement (C) .....	<b>900,000</b>	950,000
Current liabilities to be refinanced by long-term debt .....	—	994,571
Operating rights obligations .....	—	445,500
Other obligations at varying interest rates to 8% .....	<b>200,000</b>	250,000
	<b>10,377,508</b>	9,441,118
Less current installments .....	<b>242,614</b>	717,219
	<b><u>\$10,134,894</u></b>	<b><u>8,723,899</u></b>

(A) The bank revolving credit agreement, as amended February 27, 1981, provides for interest at the bank's prime rate plus ½% (22% at December 27, 1980) and allows the Company and subsidiaries to borrow up to \$7,000,000 until January 2, 1981, reducing to \$5,500,000 after that date unless otherwise limited by the defined borrowing base. 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.

Subsequent to December 27, 1980, the Company secured additional long-term mortgage financing aggregating \$1,250,000, and as of February 27, 1981, reduced the outstanding balance under the agreement to \$5,500,000. Accordingly, the entire balance of the revolving

agreement is classified as long-term as of December 27, 1980.

While the Company maintains the required borrowing base and is not in default of other provisions of the agreement, as amended, payments on the principal of the revolving credit loan are not due. 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.

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

Penn Yan Express, Inc. and Subsidiaries  
December 27, 1980, December 29, 1979  
and December 30, 1978

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, 1981, 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 and before extraordinary item for each fiscal year.

- (B) An informal compensating balance arrangement exists on mortgage loans with outstanding balances at December 27, 1980 of \$965,582 (\$276,294 in 1979). The Company is informally expected to maintain compensating balances of approximately 10% of the total outstanding mortgage loan balances as determined from the bank's ledger records. In addition, the Company has granted a security interest on any and all Company assets which the bank currently or

may in the future hold to secure payment of the mortgage loans.

- (C) Under the terms of a fifteen year lease purchase agreement with a county agency, the Company is obligated to pay \$50,000 annually through 1992 with a \$300,000 payment due in 1993 and interest, payable quarterly, at an annual rate of 8¼%. Building costs capitalized totaled \$1,295,000. Early redemption of the agreement, in whole or in part, may be made without premium subsequent to November 30, 1983.

**(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 1980 and 1979, and 48% in 1978 to earnings before income taxes and extraordinary item) for the years ended December 27, 1980, December 29, 1979 and December 30, 1978, as follows:

	1980	1979	1978
Computed "expected" tax .....	\$ (5,000)	199,000	102,000
Surtax exemption .....	—	(19,000)	(14,000)
Investment tax credit .....	(209,000)	(133,000)	(116,000)
Job tax credit .....	—	—	(52,000)
State income tax (net of Federal income tax benefit) .....	19,000	15,000	14,000
Capital gains taxed at capital gain rate .....	—	—	(15,000)
Net operating loss recognized against prior year's deferred tax credits .....	10,000	—	—
Miscellaneous .....	(1,000)	(2,000)	(10,000)
Actual tax expense (benefit) .....	<u>\$ (186,000)</u>	<u>60,000</u>	<u>(91,000)</u>
Effective rate .....	<u>—</u>	<u>13.9%</u>	<u>—</u>

## TERMINALS

<b>ALBANY, NEW YORK</b> 845 Watervliet Shaker Road	(518) 783-0201
<b>BALTIMORE, MARYLAND</b> 4546 Annapolis Road	(301) 789-9083
<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>CHICAGO, ILLINOIS</b> 3333 W. 36th Street	(212) 927-6881
<b>ELMIRA, NEW YORK</b> 1510 Grand Central Avenue	(607) 733-6501
<b>HARRISBURG, PENNSYLVANIA</b> 1400 Quarry Road	(717) 939-1383
<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>PHILADELPHIA, PENNSYLVANIA</b> 1403 Industrial Highway Cinnaminson, New Jersey	(215) 336-4446 (609) 786-8063
<b>READING, PENNSYLVANIA</b> Front and Union Streets	(215) 375-4237
<b>ROCHESTER, NEW YORK</b> 16 Deep Rock Road	(716) 436-7724
<b>SCRANTON, PENNSYLVANIA</b> 749 North Keyser Avenue	(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.  
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Penn Yan, New York 14527