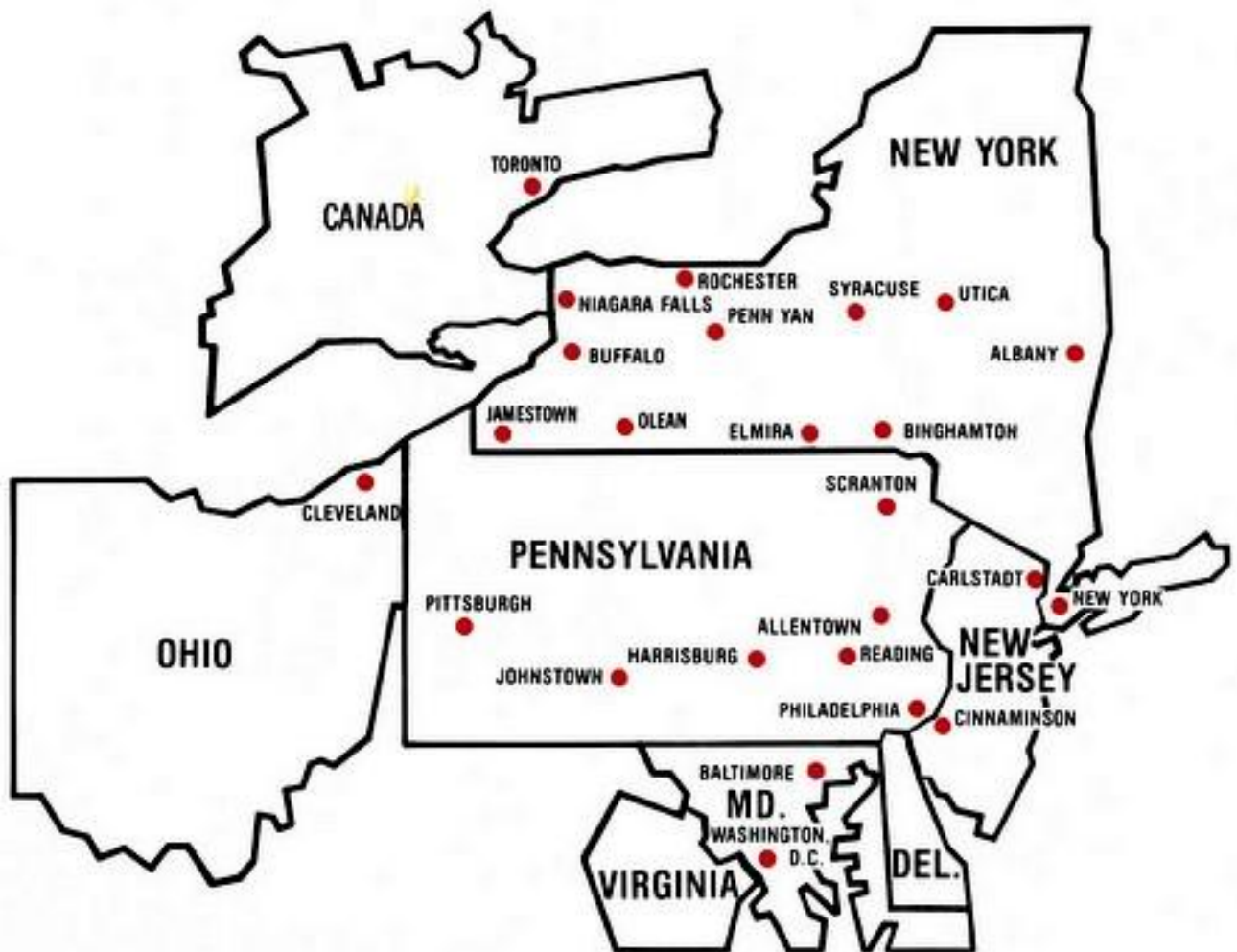


# PENN YAN EXPRESS

## 1981 ANNUAL REPORT



● Terminal Locations

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

### **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

**THOMAS A. PODSIADLO**  
Vice President-Finance and Treasurer of the Company

### **Officers**

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

**PAUL M. DONOVAN**  
Vice President and Secretary

**THOMAS A. PODSIADLO**  
Vice President-Finance and Treasurer

**MICHAEL M. FAUL**  
Vice President-Operations

**JACK SCHINDLER**  
Vice President-National Sales

**RONALD L. HINSON**  
Vice President-Marketing

**KENNETH VAUGHN**  
Vice President-Maintenance

**WILLIAM J. KAYS**  
Vice President-Personnel

**EDMUND G. HULTON**  
Vice President-Management Information Systems

**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

## TO OUR SHAREHOLDERS:

The recession, the resulting decrease in freight available for transport, severe rate cutting within the motor carrier industry to maintain market share and revenue levels, exceptionally high and volatile interest rates, as well as an industry adjusting to deregulation after years of operating in a regulated environment, describe the arena within which the motor carrier industry and Penn Yan Express operated during 1981. It was a difficult year.

Operating revenue totaled \$28,392,977, an increase of 3.8% over 1980. This increase in the revenue of our Company is impressive since the revenue of the motor carrier industry as a whole decreased. Net earnings, after the extraordinary item explained below, were \$25,913 (\$.06 per common share). While the net result for the year is not impressive, it did add to our Company's equity base during a difficult year.

The extraordinary item in 1981 is a tax credit of \$672,000 (\$1.57 per common share) permitted by the Economic Recovery Tax Act of 1981. This Act allows a Federal Income Tax deduction, over a 60-month period, to motor carriers who wrote off their operating rights in 1980. During 1980 our Company wrote off as an extraordinary charge against earnings \$1,585,296 (\$3.71 per common share), representing the full book value of our operating rights without a tax benefit since deductibility at that time was not certain. This deduction of the value of operating rights over a 60-month period for Federal Tax purposes will benefit the Company over the next five years by reducing the cash needed for Federal Income Tax payments.

Even though the economy was in a recession during 1981, our Company looked ahead to the future. We took advantage of the opportunities presented and made several investments to better position the Company for future growth. The moves taken were not without cost in the short-term, but the investments were undertaken to add to the long-term growth of the Company. The investments span several areas of the Company:

### • SALES AND OPERATIONS

The Company took advantage of deregulation by expanding operations into the Ohio and Western Pennsylvania markets in September, 1981.

### • NEW FACILITIES

Construction of a new terminal facility in Harrisburg, Pennsylvania, was completed during 1981. This terminal is efficient in design and will accommodate future growth in that market area.

### • FINANCE

The amount of debt tied to the prime interest rate was reduced by \$1,150,000 through a combination of payments and conversion to fixed rate financing.

During 1981 we requested and received a commitment from the Yates County Industrial Development Agency to issue tax exempt Industrial Development Bonds in an amount not to exceed \$10,000,000 to be issued from time to time for the purpose of acquiring necessary revenue equipment. While none of these bonds have yet been issued, this action provides the Company with a potential source of financing at favorable rates.

### • MANAGEMENT INFORMATION SYSTEMS

During 1981 the Company developed and installed an on-line Less-Than-Truckload costing system. This system allows management to monitor the L.T.L. freight moving through our system and compare revenues against our costs and profit objectives. It gives management the tool to evaluate new rate proposals or to propose rates using our costs and profit objectives.

Development also began on a new on-line billing and message switching communication system during 1981. The system was developed completely within the Company by our employees and is scheduled for implementation during May and June, 1982. This system will add efficiencies to many areas of the Company; Billing, Terminal Operations, Revenue Accounting, Tracing and Customer Service, and allows for efficient future growth.

The year 1982 opened with abnormally severe weather in our operating territory, and coupled with a deepening recession, further contracted the amount of freight available for transport. Earnings for 1982, particularly during the first quarter, will be adversely affected by these uncontrollable environmental and economic conditions. However, we do see signs which give us cautious optimism for the balance of the year and into 1983. We see the recession and industry price cutting taking its toll on the financially weak motor carriers, and as the industry shakes out, the excess capacity should diminish and rates should stabilize. We experienced a decrease in the price of fuel. The industry and the Teamsters agreed to a reasonable new 37-month contract. Economists say the economy will break out from the recession sometime during 1982. These facts, together with the investments made in 1981 and the support of our loyal employees, will help Penn Yan Express, Inc. emerge from these difficult times as an even stronger first class regional motor carrier. With help from the economy our Company could end 1982 in a good upturn with positive earnings prospects for 1983.



Robert L. Hinson, President

## CAPITAL IMPROVEMENTS

Company capital expenditures for 1981 totaled \$958,049, and consisted of the construction of a new terminal facility in Harrisburg, Pennsylvania, and the purchase of our computer system.

Due to the Company's extensive equipment modernization and upgrade during 1979 and 1980, additional revenue equipment was not needed during 1981. The new equipment purchased as part of the capital improvement programs of 1979 and 1980 provided the Company with an economical and modern fleet, and relieved the Company of the need to enter the high-priced equipment and financing market during 1981. Our fleet is in good condition and sufficient to meet the normal requirements of 1982. Our rigid maintenance standards were maintained during 1981 thereby adding to the dependability of the fleet.

## 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 25,000 accounts from a variety of industries and businesses in approximately 7,500 cities and towns. No one industry or group of commodities account for more than 4% of the Company's total revenues.

Approximately 73% of the Company's revenues and 45% 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. Due to the Motor Carrier Act of 1980, the regulatory and competitive environment in which motor carriers operate was significantly changed. Today there is much freer entry into the industry and into new markets. Competition among motor carriers now includes rate actions, primarily discounts, in addition to the traditional service competition.

The Company seeks to maintain its existing business and secure new customers by a combination of competitive rates and service tailored to customer needs and requirements.

Revenue Equipment at December 26, 1981

	Approximate Age of Equipment			
	Total	1-3 Years	4-6 Years	Over 6 Years
Tractors	241	56	90	95
Line Haul Trailers, 40 foot and longer	381	80	87	214
Trailers, 21 foot and 26 foot	98	—	—	98
Pickup and Delivery Trucks	2	—	2	—
Total	722	136	179	407

## FIVE-YEAR SUMMARY

	1981	1980	1979	1978	1977
<b>Selected Financial Data:</b>					
Operating revenues .....	\$ 28,392,977	27,361,373	23,238,036	18,133,977	16,982,312
Operating expenses .....	27,647,641	26,090,906	21,897,242	17,358,895	15,727,542
Operating income .....	745,336	1,270,467	1,340,794	775,082	1,254,770
Interest expense .....	1,541,423	1,282,388	911,303	648,737	469,560
Other income (expense) net ...	—	—	3,494	85,537	(3,291)
Earnings (loss) before income taxes .....	(796,087)	(11,921)	432,985	211,882	781,919
Income taxes (benefit) .....	(150,000)	(186,000)	60,000	(91,000)	180,000
Earnings (loss) before extraordinary item .....	(646,087)	174,079	372,985	302,882	601,919
Extraordinary item .....	672,000	(1,585,296)	—	—	—
Net earnings (loss) .....	\$ 25,913	(1,411,217)	372,985	302,882	601,919
Earnings (loss) per common share assuming no dilution:					
Earnings (loss) before extraordinary item .....	\$ (1.51)	.41	.87	.70	1.36
Extraordinary item .....	1.57	(3.71)	—	—	—
Net earnings (loss) .....	\$ .06	(3.30)	.87	.70	1.36
Earnings (loss) per common share assuming full dilution:					
Earnings (loss) before extraordinary item .....	\$ (1.51)	.41	.87	.70	1.33
Extraordinary item .....	1.57	(3.71)	—	—	—
Net earnings (loss) .....	\$ .06	(3.30)	.87	.70	1.33
Cash dividends per common share:					
Class A .....	\$ —	.075	.25	.35	.40
Class B .....	—	.00075	.0025	.0035	.004
<b>Selected Balance Sheet Data:</b>					
Current assets .....	\$ 5,064,934	4,288,069	3,921,593	3,341,975	3,088,608
Current liabilities .....	3,178,196	3,062,350	3,153,124	2,106,423	1,877,790
Working capital .....	1,886,738	1,225,719	768,469	1,235,552	1,210,818
Total assets .....	17,872,556	17,579,711	17,913,299	14,726,389	13,877,410
Long-term debt .....	10,538,980	10,134,894	8,723,899	6,904,402	6,460,967
Stockholders' equity .....	3,904,380	3,878,467	5,314,276	5,038,564	4,851,653
<b>Selected Operating Data:</b>					
Tons of freight .....	348,233	376,350	376,064	316,254	317,585
Number of shipments .....	377,136	389,518	361,846	337,144	349,482
Average length of haul .....	215.3	218.5	231.1	226.4	221.0
Intercity miles .....	6,486,944	7,023,392	6,650,016	5,632,183	5,528,424

## 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)	
	1981	1980	1979	1980-81	1979-80
Operating revenues .....	100.0%	100.0%	100.0%	3.8%	17.7%
Operating expenses:					
Salaries and wages .....	45.7	45.7	45.5	3.6	18.3
Fringes .....	15.1	15.2	15.8	2.5	13.2
Operating supplies .....	12.8	11.3	10.1	18.0	31.5
General supplies and expenses .....	3.8	4.2	4.3	(6.4)	14.2
Operating taxes and licenses .....	3.2	2.9	3.2	13.5	8.4
Insurance .....	1.6	1.6	1.9	3.6	1.5
Communications and utilities .....	2.2	1.9	1.9	16.9	15.5
Depreciation .....	4.8	4.9	5.2	.8	11.0
Rents .....	7.2	6.6	5.0	15.0	55.4
Gain on disposal of operating equipment	—	(.1)	(.2)	(83.0)	(17.5)
Miscellaneous expenses .....	1.0	1.2	1.5	(4.1)	(10.4)
	<u>97.4</u>	<u>95.4</u>	<u>94.2</u>	<u>6.0</u>	<u>19.2</u>
Operating income .....	2.6	4.6	5.8	(41.3)	(5.2)
Nonoperating expense:					
Interest expense, principally on long-term debt .....	5.4	4.7	3.9	<u>20.2</u>	<u>41.3</u>
Earnings (loss) before income taxes ...	(2.8)	(.1)	1.9		
Income taxes (benefit) .....	<u>(.5)</u>	<u>(.7)</u>	<u>.3</u>		
Earnings (loss) before extraordinary item .....	(2.3)	.6	1.6		
Extraordinary item .....	<u>2.4</u>	<u>(5.8)</u>	<u>—</u>		
Net earnings (loss) .....	<u>.1</u>	<u>(5.2)</u>	<u>1.6</u>		

## RESULTS OF OPERATIONS

Operating revenues from 1979 to 1980 increased 17.7%. This increase in revenues reflects both an increase in freight handled (tonnage) as well as rate increases granted by the regulatory authorities. While the 1979 to 1980 increase in operating revenues was significant, there was a general softening in the rate of revenue growth during the latter part of 1980, brought about by the declining economy and the change to deregulation within the motor carrier industry.

Operating revenues from 1980 to 1981 increased 3.8%. The recession of 1981 yielded less freight, and the newly deregulated motor carrier industry responded with severe rate competition causing a slower rate of revenue growth for the Company during 1981.

The Company's operating expenses as a percentage of operating revenues, "the operating ratio," increased from 94.2% in 1979 to 95.4% in 1980 to 97.4% in 1981. This increased operating ratio yielded a reduced operating margin.

Salaries, Wages and Fringes, the Company's largest expense, accounted for 61.3% of operating revenues in 1979, 60.9% in 1980, and 60.8% in 1981. This trend reflects the Company's continuing effort to control labor costs through increased efficiencies and productivity, as well as the use of cartage agents in new market areas. The cartage agent performs the Company's pickup and delivery service which eliminates direct salaries and fringes. This use of cartage agents accounts for the increase in the Company's Rent expense from 5.0% of operating revenues in 1979 to 6.6% in 1980 to 7.2% in 1981.

Operating supplies continued to increase as a percentage of operating revenues during this three year period from 10.1% in 1979 to 11.3% in 1980 to 12.8% in 1981, mainly due to the increased cost of fuel. A portion of the fuel cost increase is offset by a fuel surcharge on revenue, however, this fuel surcharge was also the victim of competitive rate cutting actions during 1981.

General supplies and expenses decreased as a percentage of operating revenues due to the Company's emphasis on cost controls. The Company's cost of insurance as a percent of operating revenues decreased in 1980 and 1981 due to favorable experience in the areas self-insured and a reduction in premiums for risks covered by commercial insurance. This decrease is attributable in part to the Company's strict safety program and rigid maintenance standards.

All of the operating costs of the Company are influenced by general inflationary pressures and requirements of negotiated union agreements. Rate adjustments to offset these increases in operating costs are filed from time to time with the Interstate Commerce Commission.

The Company's interest expense increased substantially over the three years, both in dollar amount and as a percent of operating revenues. This results from the higher level of debt needed to finance the rolling fleet and additional properties, as well as the volatile and extremely high prime interest rate. The program undertaken in 1981 to convert a portion of the debt tied to the prime rate to fixed rate debt helped to hold down the increase in interest cost from 1980 to 1981.

The extraordinary item in 1980 results from the 1980 Federal Motor Carrier Act which effectively reduced the value of the Company's operating rights, and caused their full value to be written off to income.

The extraordinary item in 1981 results from the Economic Recovery Tax Act of 1981 which allows a Federal income tax deduction over a 60-month period to motor carriers who wrote off their operating rights in 1980. This tax benefit for the write-off of operating rights was recorded in 1981 as an extraordinary item.

## LIQUIDITY

The Company's working capital at December 26, 1981, was \$1,886,738, an increase of \$661,019 from the previous year. The ratio of current assets to current liabilities also improved to 1.6 to 1 at the end of 1981 from 1.4 to 1 at the end of 1980. Management considers the Company's liquidity position healthy and feels the improvement in liquidity from 1980 to 1981 is a result of its actions to tighten operations.

Also during 1981, certain of the Company's employees agreed to a deferment of a contractual wage increase entitlement which would have been due commencing April 1, 1981.

## CAPITAL RESOURCES

No major capital commitments are planned for the year 1982.

During 1981 Yates County, New York, the location of the Company's main office and terminal, authorized the issuance of tax exempt Industrial Development Bonds in one or more series to be issued from time to time for the purpose of acquiring tractors and trailers in an amount not to exceed \$10,000,000. This action provides the Company with a potential source of financing at favorable rates for future expansion purposes. None of the bonds have yet been issued.

## 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 1980 and 1981. 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
1980 Low	4	4 3/4	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 3/4	3 3/4
1981 Low	2 1/2	3	3 1/4	3 3/4	3 1/4	4	3 1/4	3 3/4
High	3 1/4	4	3 3/4	4	3 3/4	4	3 3/4	4

### Dividends Paid-Class A Stock

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1980	\$0.075	—	—	—
1981	—	—	—	—

### Dividends Paid-Class B Stock

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1980	\$0.00075	—	—	—
1981	—	—	—	—

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 14, 1982, there were approximately 552 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.



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 26, 1981 and December 27, 1980, and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for each of the years in the three-year period ended December 26, 1981. 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 26, 1981 and December 27, 1980 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 26, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat, Marwick, Mitchell & Co.*

March 1, 1982

## Consolidated Balance Sheets

Penn Yan Express, Inc. and Subsidiaries  
December 26, 1981 and December 27, 1980

<b>ASSETS</b>	<b>1981</b>	<b>1980</b>
<b>Current assets:</b>		
Cash, including certificates of deposit (1981 — \$452,000; 1980 — None) .....	<b>\$ 903,143</b>	330,411
Accounts receivable, less allowance for doubtful accounts (1981 — \$108,000; 1980 — \$105,000):		
Freight revenue .....	<b>2,211,638</b>	2,110,226
Other .....	<b>50,129</b>	112,781
Operating supplies, at lower of cost (first-in, first-out) or market .....	<b>528,909</b>	530,777
Prepaid expenses:		
Tires in service .....	<b>608,520</b>	646,243
Taxes, licenses, insurance and other .....	<b>475,595</b>	415,631
Deferred income tax benefits .....	<b>287,000</b>	142,000
<b>Total current assets</b> .....	<b><u>5,064,934</u></b>	<u>4,288,069</u>
<b>Property, plant and equipment:</b>		
Land .....	<b>1,141,855</b>	1,009,604
Terminals and offices .....	<b>6,032,700</b>	5,559,427
Revenue equipment .....	<b>9,171,744</b>	9,360,119
Other operating equipment .....	<b>3,956,567</b>	3,316,693
Construction in progress .....	<b>—</b>	354,326
	<b><u>20,302,666</u></b>	<u>19,600,169</u>
Less accumulated depreciation .....	<b>7,763,820</b>	6,564,365
<b>Net property, plant and equipment</b> .....	<b><u>12,538,846</u></b>	<u>13,035,804</u>
<b>Cash surrender value of life insurance</b> .....	<b>268,776</b>	255,838
	<b><u>\$ 17,872,556</u></b>	<u>17,579,711</u>

See accompanying notes to consolidated financial statements.

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>1981</b>	<b>1980</b>
<b>Current liabilities:</b>		
Current installments on long-term and other debt .....	<b>\$ 387,987</b>	242,614
Accounts payable .....	<b>1,174,273</b>	1,344,929
Accrued expenses:		
Wages and vacation pay .....	<b>1,095,527</b>	609,251
Taxes other than income taxes .....	<b>107,122</b>	123,169
Interest .....	<b>104,680</b>	137,867
Accrued profit sharing and pension .....	<b>85,607</b>	85,297
Income taxes:		
Current .....	<b>—</b>	37,223
Deferred .....	<b>68,000</b>	242,000
Estimated liability for loss, damage and injury claims .....	<b>155,000</b>	240,000
<b>Total current liabilities</b> .....	<b><u>3,178,196</u></b>	<u>3,062,350</u>
<b>Long-term debt, less current installments</b> .....	<b><u>10,538,980</u></b>	<u>10,134,894</u>
<b>Deferred income taxes</b> .....	<b><u>251,000</u></b>	<u>504,000</u>
<b>Stockholders' equity:</b>		
Preferred stock .....	<b>—</b>	—
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>2,957,285</b>	2,931,372
<b>Total stockholders' equity</b> .....	<b><u>3,904,380</u></b>	<u>3,878,467</u>
	<b><u>\$ 17,872,556</u></b>	<u>17,579,711</u>

# Consolidated Statements of Earnings

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 26, 1981, December 27, 1980  
and December 29, 1979

	1981	1980	1979
<b>Operating revenues</b> .....	<b>\$ 28,392,977</b>	<b>27,361,373</b>	<b>23,238,036</b>
<b>Operating expenses:</b>			
Salaries and wages .....	12,963,435	12,508,754	10,571,587
Fringes .....	4,274,810	4,170,710	3,683,040
Operating supplies .....	3,644,550	3,087,332	2,348,236
General supplies and expenses .....	1,082,179	1,156,471	1,012,454
Operating taxes and licenses .....	913,033	804,620	742,498
Insurance .....	455,427	439,669	433,102
Communications and utilities .....	611,412	523,147	452,957
Depreciation .....	1,354,451	1,343,140	1,209,551
Rents .....	2,065,251	1,795,193	1,155,452
Gain on disposal of operating equipment .....	(6,846)	(40,364)	(48,926)
Miscellaneous expenses .....	289,939	302,234	337,291
	<u>27,647,641</u>	<u>26,090,906</u>	<u>21,897,242</u>
<b>Operating income</b> .....	<b>745,336</b>	<b>1,270,467</b>	<b>1,340,794</b>
<b>Nonoperating expense:</b>			
Interest expense, principally on long-term debt ..	1,541,423	1,282,388	907,809
<b>Earnings (loss) before income taxes</b> ....	<b>(796,087)</b>	<b>(11,921)</b>	<b>432,985</b>
<b>Income taxes (benefit)</b> .....	<b>(150,000)</b>	<b>(186,000)</b>	<b>60,000</b>
<b>Earnings (loss) before extraordinary item</b> .....	<b>(646,087)</b>	<b>174,079</b>	<b>372,985</b>
<b>Extraordinary item</b> .....	<b>672,000</b>	<b>(1,585,296)</b>	<b>—</b>
<b>Net earnings (loss)</b> .....	<b>\$ 25,913</b>	<b>(1,411,217)</b>	<b>372,985</b>
<b>Earnings (loss) per common share:</b>			
Earnings (loss) before extraordinary item .....	\$ (1.51)	.41	.87
Extraordinary item .....	1.57	(3.71)	—
<b>Net earnings (loss)</b> .....	<b>.06</b>	<b>(3.30)</b>	<b>.87</b>

See accompanying notes to consolidated financial statements.

**Consolidated Statements  
of Stockholders' Equity**

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 26, 1981, December 27, 1980  
and December 29, 1979

	Common stock		Additional	Retained
	Class A	Class B	paid-in capital	earnings
<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> .....	326,896	100,000	520,199	2,931,372
Net earnings — 1981 .....	—	—	—	25,913
<b>Balance at December 26, 1981</b> .....	\$ <u>326,896</u>	<u>100,000</u>	<u>520,199</u>	<u>2,957,285</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements  
of Changes in Financial Position**

Penn Yan Express, Inc. and Subsidiaries  
Years ended December 26, 1981, December 27, 1980  
and December 29, 1979

	1981	1980	1979
<b>Sources of working capital:</b>			
Earnings (loss) before extraordinary item (1) . . . .	\$ (646,087)	174,079	372,985
Items which do not use (provide) working capital:			
Depreciation and amortization . . . . .	1,354,451	1,367,921	1,226,022
Provision for (benefit from) noncurrent deferred income taxes . . . . .	11,000	(218,000)	45,000
<b>Working capital provided     by operations . . . . .</b>	<b>719,364</b>	<b>1,324,000</b>	<b>1,644,007</b>
Extraordinary item . . . . .	672,000	—	—
Less reduction of noncurrent deferred income taxes . . . . .	(264,000)	—	—
	<b>408,000</b>	—	—
Proceeds from sales and other disposals of tangible property, net of gains . . . . .	100,558	82,220	219,973
Proceeds from long-term borrowing . . . . .	2,113,151	2,466,474	2,391,194
<b>Total working capital provided . . . . .</b>	<b>3,341,071</b>	<b>3,872,694</b>	<b>4,255,174</b>
<b>Uses of working capital:</b>			
Additions to intangible assets . . . . .	—	14,959	496,783
Additions to tangible property . . . . .	958,049	2,307,475	3,543,465
Current installments and repayment of long-term debt . . . . .	1,709,065	1,055,479	571,697
Increase in cash surrender value of life insurance . . . . .	12,938	12,939	13,039
Dividends declared . . . . .	—	24,592	82,054
Capital stock retirement . . . . .	—	—	15,219
<b>Total working capital used . . . . .</b>	<b>2,680,052</b>	<b>3,415,444</b>	<b>4,722,257</b>
<b>Increase (decrease) in working capital . . . . .</b>	<b>\$ 661,019</b>	<b>457,250</b>	<b>(467,083)</b>
<b>Current assets:</b>			
Cash . . . . .	\$ 572,732	(184,765)	(113,816)
Receivables . . . . .	38,760	294,039	377,732
Operating supplies . . . . .	(1,868)	(100,757)	257,481
Prepaid expenses . . . . .	22,241	215,959	58,221
Deferred income tax benefits . . . . .	145,000	142,000	—
	<b>776,865</b>	<b>366,476</b>	<b>579,618</b>
<b>Current liabilities:</b>			
Current installments on long-term and other debt . . . . .	145,373	(474,605)	422,105
Accounts payable and accrued liabilities . . . . .	181,696	314,727	628,091
Dividends payable . . . . .	—	(24,592)	8,025
Income taxes . . . . .	(211,223)	93,696	(11,520)
	<b>115,846</b>	<b>(90,774)</b>	<b>1,046,701</b>
<b>Increase (decrease) in working capital . . . . .</b>	<b>\$ 661,019</b>	<b>457,250</b>	<b>(467,083)</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.

**(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 to keep the fiscal year in near alignment with the calendar year.
- (b) Principles of Consolidation — The accompanying consolidated 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) Certain 1980 deferred income tax accounts are reclassified in order to conform with the 1981 account classifications.
- (d) Tires in Service — Tires in service are recorded as prepaid expenses in the year installed, and expensed over their useful lives.
- (e) Property, Plant, and Equipment — Property, plant, and equipment are 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 properties 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) 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, deferred compensation agreements, 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.

- (g) 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.

- (h) 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.

- (i) 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  
December 26, 1981, December 27, 1980  
and December 29, 1979

**(2) Long-Term Debt**

	1981	1980
Long-term debt consisted of the following:		
Bank loan under revolving credit agreement (A) .....	\$ 4,900,000	6,050,000
Mortgage loans secured by certain tangible property, 6% - 16%, payable through 1996 (B) .....	4,454,847	3,227,508
Obligation under lease purchase agreement (C) .....	850,000	900,000
Other obligations at varying interest rates to 14.8% (D) .....	722,120	200,000
	<u>10,926,967</u>	<u>10,377,508</u>
Less current installments .....	<u>387,987</u>	<u>242,614</u>
	<u>\$ 10,538,980</u>	<u>10,134,894</u>

(A) The bank revolving credit agreement, as amended March 1, 1982, provides for interest at the bank's prime rate plus 1/4% (16 1/4% at December 26, 1981). The agreement allows the Company and subsidiaries to borrow up to \$7,000,000 until January 2, 1981, \$5,500,000 after that date until December 26, 1981, and reducing to \$4,900,000 thereafter unless otherwise limited by the defined borrowing base. The Company has granted a security interest in its equipment and in a terminal 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, 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.

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, 1982, 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.

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

Penn Yan Express, Inc. and Subsidiaries  
December 26, 1981, December 27, 1980  
and December 29, 1979

- (B) An informal compensating balance arrangement exists on mortgage loans with outstanding balances at December 26, 1981 of \$902,589 (\$965,582 in 1980). 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.

- (D) In 1981 the Company negotiated an agreement to purchase computer equipment for \$476,500. Monthly payments over a five year period, are due beginning January 1, 1982.

**(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% to earnings before income taxes and extraordinary item) for the years ended December 26, 1981, December 27, 1980 and December 29, 1979, as follows:

	1981	1980	1979
Computed "expected" tax expense (benefit) .....	\$ (366,000)	(5,000)	199,000
Surtax exemption .....	—	—	(19,000)
Investment tax credit .....	—	(209,000)	(133,000)
State income tax (benefit) (net of Federal income tax) .....	(8,000)	19,000	15,000
Tax effect of operating loss not recognized for financial accounting purposes .....	223,000	—	—
Net operating loss recognized against prior year's deferred tax credits .....	—	10,000	—
Miscellaneous .....	1,000	(1,000)	(2,000)
Actual tax expense (benefit) .....	<u>\$ (150,000)</u>	<u>(186,000)</u>	<u>60,000</u>
Effective rate .....	<u>—</u>	<u>—</u>	<u>13.9%</u>

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

Penn Yan Express, Inc. and Subsidiaries  
December 26, 1981, December 27, 1980  
and December 29, 1979

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

	1981		1980		1979	
	Federal	State	Federal	State	Federal	State
Current tax expense .....	\$ —	—	—	16,000	56,000	26,000
Deferred tax expense (benefit) resulting from:						
Depreciation .....	10,000	1,000	82,000	11,000	77,000	7,000
Tire costs .....	(16,000)	—	61,000	6,000	13,000	2,000
Self-insured claim provisions .....	37,000	4,000	8,000	2,000	(69,000)	(7,000)
Deferred compensation ..	(172,000)	(20,000)	—	—	—	—
Investment tax credits ...	—	—	(209,000)	—	(37,000)	—
Net operating loss recognized against current year deferred tax expense .....	—	—	(159,000)	—	—	—
Miscellaneous .....	5,000	1,000	(4,000)	—	(7,000)	(1,000)
	<u>\$ (136,000)</u>	<u>(14,000)</u>	<u>(221,000)</u>	<u>35,000</u>	<u>33,000</u>	<u>27,000</u>

The Company has investment tax credit carryforwards for tax purposes expiring in 1992, \$93,000; 1993, \$119,000; 1994, \$136,000; and 1995, \$211,000. These amounts have been recorded for financial accounting purposes as reductions of Federal income tax expense or reductions of deferred tax credits that will reverse in the investment tax credit carryforward period. The 1981 investment credit carryforward for tax purposes of \$31,000, expiring in 1996, has not been recorded for financial accounting purposes.

**(4) Profit Sharing and Pension Plans**

The Company has a noncontributory Profit Sharing Plan for all eligible nonunion 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 \$24,000 in 1981, \$38,000 in 1980, and \$92,000 in 1979. 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 defined benefit pension plan covering substantially all nonunion employees. The total pension expense was \$62,000 in 1981 and \$47,000 in both 1980 and 1979. The Company makes annual contributions to the Plan equal to the amounts accrued for the pension expense.

In 1981, the Company changed the actuarial assumption for the assumed investment rate of return from 6½% to 9%. As a result of the change, the actuarial present value of accumulated Plan benefits at January 1, 1980 decreased by \$137,276.

Benefit and asset information for the Pension Plan as of the most recent actuarial valuation dates are as follows:

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

Penn Yan Express, Inc. and Subsidiaries  
December 26, 1981, December 27, 1980  
and December 29, 1979

	January 1,	
	1981	1980
Actuarial present value of accumulated Plan benefits:		
Vested	\$417,848	413,040
Non-vested	25,452	12,756
	<u>\$443,300</u>	<u>425,796</u>
Net assets available for benefits	<u>\$ 93,071</u>	<u>45,392</u>

The Company is required under union contracts to make payments to a multi-employer pension plan which is not administered or controlled by the Company. Under the Multi-Employer Pension Plan Amendments Act of 1980 the Company, upon withdrawal from the plan, would be liable for its share of unfunded vested liabilities. At the present time, the plan has not determined the Company's share of unfunded vested liabilities. The Company has no current intentions to withdraw from the plan.

**(5) Common and Preferred Stock**

The Company's capital stock is as follows:

Preferred stock:

\$100 par value — at December 26, 1981 and at December 27, 1980 there were 3,700 shares authorized for issuance.

Common stock:

Class A stock; \$1 par value; 2,000,000 shares authorized; 326,896 issued and outstanding at December 26, 1981 and December 27, 1980. At December 26, 1981 and December 27, 1980 there were 125,000 shares reserved for conversion of Class B common stock.

Class B stock; \$1 par value; 429,654 shares authorized; 100,000 issued and outstanding at December 26, 1981 and December 27, 1980. At December 26, 1981 and December 27, 1980, 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.

**(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.

As of December 26, 1981, 21,344 shares were under option at \$3.375 per share with options of 4,268 shares exercisable. No options were exercised during the year ended December 26, 1981.

**(7) Extraordinary Item-Write off of Intangible Assets**

On July 1, 1980, the Federal Motor Carrier Act of 1980 (the Act) became effective. Due to the provisions of the Act which include easier access to the trucking industry by new companies and ease restriction on expansion of services by existing carriers, the Company has determined the value of its operating rights has been permanently impaired. Accordingly, during 1980 the Company charged the unamortized cost of its operating rights (\$1,585,296) to income as an extraordinary item per the requirements of Statement of Financial Accounting Standards No. 44.

On August 13, 1981, the Economic Recovery Tax Act of 1981 became effective. The Act allows a Federal income tax deduction, over a 60-month period, to motor carriers who wrote off their operating rights in 1980.

The tax benefit attributable to the Company's write-off of operating rights amounts to \$672,000 and was recorded in 1981 as an extraordinary item. The tax benefit was recorded as a reduction of deferred income tax credits which will reverse in the 60-month deduction period.

**(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 \$150,000 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 \$155,000 for estimated losses as of December 26, 1981.

**(9) Capitalization of Interest**

Total interest cost incurred during the years ended December 26, 1981 and December 27, 1980 amounted to \$1,582,941 and \$1,320,929, respectively, of which \$41,518 and \$38,541 were capitalized as part of the construction cost of various terminal facilities.

## TERMINALS

<b>ALBANY, NEW YORK</b> 845 Watervliet Shaker Road	(518) 783-0201
<b>BALTIMORE, MARYLAND</b> 3210 Hammond Ferry Road	(301) 242-7705
<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>CLEVELAND, OHIO</b> 6200 Roland Avenue	(216) 641-0084
<b>ELMIRA, NEW YORK</b> 1510 Grand Central Avenue	(607) 733-6501
<b>HARRISBURG, PENNSYLVANIA</b> 160 Lamont Street New Cumberland, Pennsylvania	(717) 774-1740
<b>NEW YORK, NEW YORK</b>	(212) 244-5767
<b>NIAGARA FALLS, NEW YORK</b>	(716) 285-4726
<b>OLEAN, NEW YORK</b>	(716) 373-4121
<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>TORONTO, ONTARIO</b> 5920 Dixie Road	(416) 676-1811
<b>UTICA, NEW YORK</b> Welfs Avenue	(315) 735-6179