

PENN YAN EXPRESS

**1982
ANNUAL REPORT**

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;
Partner, Harris, Beach, Wilcox, Rubin and Levey
Attorneys at Law

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-Sales and Operations

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Vice President-National Sales

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Vice President-Marketing

KENNETH VAUGHN
Vice President-Maintenance

WILLIAM J. KAYS
Vice President-Personnel

EDMUND G. HULTON, JR.
Vice President-Management Information Systems

FRED V. HERTWIG, JR.
Vice President-Linehaul and Terminal Operations

AUDITORS

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

TRANSFER AGENT

Lincoln First Bank, N.A., Rochester, New York

GENERAL COUNSEL

Harris, Beach, Wilcox, Rubin and Levey, Rochester, New York

I.C.C. COUNSEL

Major, Sage and King, Alexandria, Virginia

Upon the written request of any shareholder of the Company, the Company will provide to such shareholder a copy of the Company's Annual Report on Form 10-K for 1982, including the financial statements and the schedules thereto, filed with the Securities and Exchange Commission. Any such request should be directed to Thomas A. Podsiadlo, Treasurer, Penn Yan Express, Inc., 100 West Lake Road, Penn Yan, New York. There will be no charge for such report unless one or more exhibits thereto are requested, in which case the Company's reasonable expenses in furnishing such exhibits may be charged.

TO OUR SHAREHOLDERS:

1982 was a difficult year for the economy, for the motor carrier industry, and for Penn Yan Express. The economy was bogged down in a recession throughout the year, and the motor carrier industry attempted to adjust to a partially deregulated environment while facing a 10.8% decrease in tonnage hauled. As a result, the motor carrier industry reported the worst financial results in its history in 1982. Yet, 1982 was also a year of progress for Penn Yan Express. Our Company stood up and faced the recession, made the necessary adjustments to operate in a deregulated environment, and took steps to better position itself for further growth in the future.

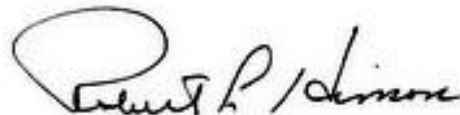
For the year 1982, operating revenues totaled \$31,302,914, an increase of 10.2% over 1981. Volume (tonnage hauled) increased 1.2%. Our increase in revenue and tonnage was accomplished in spite of a decrease of 5.8% in revenue and 10.8% in tonnage recorded for the motor carrier industry. During 1982, our Company opened terminals in Jamestown and Olean, New York, which strengthened our market share in New York State. We opened new markets in both Ohio and Canada and expanded our Chicago operation.

Financially, the results of 1982 were disappointing. We incurred a loss of \$722,504 (\$1.69 per share). This loss is mainly attributable to the severe recession which dampened the economic activity over the whole year of 1982, to the harsh weather conditions experienced during the early months of 1982, to the rate discounting which followed as a result of deregulation and eased entry requirements, to interest rates which remained high during most of the year, and to the cost of fuel which remained at a high level until the latter months of 1982. Also included in the costs for 1982 are expenses to set up a joint venture with a Canadian company and to apply for international authority.

However, financially, we also made progress during 1982. Management held down spending and capital expenditures were minimized. This action allowed the Company to reduce total debt outstanding by \$214,000 and to convert \$800,000 of debt tied to the prime interest rate to lower rates.

During 1982, Penn Yan Express took advantage of the eased entry and expansion availability brought about by the Motor Carrier Act of 1980 and applied for and recently received authority to operate in a total of 31 states, basically the eastern half of the United States. The hearings concerning our joint application for international authority into Canada are now complete and we expect to hear the results shortly. A new contract with the unionized employees was signed during 1982 which grants certain work rule flexibilities allowing us to be more competitive, and which limits wage and benefit increases to an annual cost of living increase, a portion of which is first applied to the Health, Welfare and Pension Plans. The investments and progress made in 1982 position our Company well to take advantage of any improvement in the economy.

The results of the early months of 1983 appear encouraging. The economy seems to be improving. Revenue levels were 20% ahead of 1982 during the first quarter. Tonnage increased 6.4% during the same period. Management is continuing its emphasis on cost control. The weather has been relatively mild throughout the Company's operating territory and the price of fuel has declined significantly. Rate increases effective in early April should more than offset the increase in union labor benefits and fuel tax increases. These trends, together with the continued commitment and dedication of our employees, should put our Company on the road to profitability during 1983.



Robert L. Hinson, President

CAPITAL IMPROVEMENTS

Capital expenditures were held to a minimum level during 1982 due to the high interest rates and the depressed economy. Capital expenditures for 1982 totaled \$327,639 and consisted mainly of replacement items.

The Company's fleet of equipment was not expanded or traded during 1982. The fleet served the Company's needs for 1982 adequately and the rigid

maintenance standards were maintained throughout the year.

The fleet has aged but is considered in good condition due to the Company's continued emphasis and priority on preventive maintenance. The fleet is considered sufficient to meet the normal requirements for 1983.

Revenue Equipment at January 1, 1983

	Approximate Age of Equipment			
	Total	1-3 Years	4-6 Years	Over 6 Years
Tractors	252	35	77	140
Line Haul Trailers, 40 foot and longer	392	50	117	225
Trailers, 21 foot and 26 foot	98	—	—	98
Pickup and Delivery Trucks	2	—	2	—
Total	744	85	196	463

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.

During 1982, the Company applied for and recently received additional operating authority to transport general commodities in interstate commerce over the eastern half of the United States. As a result of this grant of additional operating authority, the Company is now authorized to operate in a total of 31 states.

During 1982, the Company actively solicited freight, both truckload and less-than-truckload, to and from Ontario, Canada, pursuant to interline relationships with certain Canadian motor carriers. Under such interline relationships the Company exchanges freight with the Canadian carriers at border points.

The Company serves approximately 45,000 accounts from a variety of industries and businesses in

approximately 7,000 cities and towns. No one industry or group of commodities account for more than 4% of the Company's total revenues.

Approximately 74% of the Company's revenues and 46% 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 centers around rate discounting 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 consistent levels of service tailored to customer needs and requirements.

At December 31, 1982, one of the subsidiaries of the Company was sold. This transaction had no significant affect on the assets and/or earnings of the Company.

FIVE-YEAR SUMMARY

	1982	1981	1980	1979	1978
Selected Financial Data:					
Operating revenues	\$ 31,302,914	28,392,977	27,361,373	23,238,036	18,133,977
Operating expenses	30,574,802	27,647,641	26,090,906	21,897,242	17,358,895
Operating income	728,112	745,336	1,270,467	1,340,794	775,082
Interest expense	1,450,616	1,541,423	1,282,388	911,303	648,737
Other income net	—	—	—	3,494	85,537
Earnings (loss) before income taxes	(722,504)	(796,087)	(11,921)	432,985	211,882
Income taxes (benefit)	—	(150,000)	(186,000)	60,000	(91,000)
Earnings (loss) before extraordinary item	(722,504)	(646,087)	174,079	372,985	302,882
Extraordinary item	—	672,000	(1,585,296)	—	—
Net earnings (loss)	\$ (722,504)	25,913	(1,411,217)	372,985	302,882
Earnings (loss) per common share:					
Earnings (loss) before extraordinary item	\$ (1.69)	(1.51)	.41	.87	.70
Extraordinary item	—	1.57	(3.71)	—	—
Net earnings (loss)	\$ (1.69)	.06	(3.30)	.87	.70
Cash dividends per common share:					
Class A	\$ —	—	.075	.25	.35
Class B	—	—	.00075	.0025	.0035
Selected Balance Sheet Data:					
Current assets	\$ 4,849,088	5,064,934	4,288,069	3,921,593	3,341,975
Current liabilities	3,910,538	3,178,196	3,062,350	3,153,124	2,106,423
Working capital	938,550	1,886,738	1,225,719	768,469	1,235,552
Total assets	17,006,671	17,872,556	17,579,711	17,913,299	14,726,389
Long-term debt	9,442,257	10,538,980	10,134,894	8,723,899	6,904,402
Stockholders' equity	3,181,876	3,904,380	3,878,467	5,314,276	5,038,564
Selected Operating Data:					
Tons of freight	352,584	348,233	376,350	376,064	316,254
Number of shipments	390,881	377,136	389,518	361,846	337,144
Average length of haul	225.0	215.3	218.5	231.1	226.4
Intercity miles	9,020,556	6,486,944	7,023,392	6,650,016	5,632,183

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)	
	1982	1981	1980	1981-82	1980-81
Operating revenues	100.0%	100.0%	100.0%	10.2%	3.8%
Operating expenses:					
Salaries and wages	45.3	45.7	45.7	9.3	3.6
Fringes	15.7	15.1	15.2	14.8	2.5
Operating supplies	13.4	12.8	11.3	15.4	18.0
General supplies and expenses	3.9	3.8	4.2	11.5	(6.4)
Operating taxes and licenses	3.0	3.2	2.9	4.5	13.5
Insurance	1.7	1.6	1.6	19.0	3.6
Communications and utilities	2.2	2.2	1.9	14.0	16.9
Depreciation	4.4	4.8	4.9	1.8	.8
Rents	6.8	7.2	6.6	2.3	15.0
Gain on disposal of operating equipment	—	—	(.1)	(48.4)	(83.0)
Miscellaneous expenses	1.3	1.0	1.2	41.7	(4.1)
	<u>97.7</u>	<u>97.4</u>	<u>95.4</u>	<u>10.6</u>	<u>6.0</u>
Operating income	2.3	2.6	4.6	(2.3)	(41.3)
Nonoperating expense:					
Interest expense, principally on long-term debt	4.6	5.4	4.7	(5.9)	20.2
Earnings (loss) before income taxes ...	(2.3)	(2.8)	(.1)		
Income taxes (benefit)	—	(.5)	(.7)		
Earnings (loss) before extraordinary item	(2.3)	(2.3)	.6		
Extraordinary item	—	2.4	(5.8)		
Net earnings (loss)	<u>(2.3)</u>	<u>.1</u>	<u>(5.2)</u>		

RESULTS OF OPERATIONS

Operating revenues from 1980 to 1981 increased 3.8%. The relatively depressed rate of revenue growth for 1981 was due to a recession which yielded less freight, and a newly deregulated motor carrier industry responding with intense rate competition.

Operating revenues from 1981 to 1982 increased 10.2%. This increase in revenue reflects an approximate 1.2% increase in total tonnage handled, together with certain rate increases, and was accomplished despite an overall decrease in tonnage and revenue experienced by the motor carrier industry. The opening of the Ohio and Canadian markets and expansion of the Chicago operation contributed to the Company's growth during 1982. Also for 1982, one extra week is included in the Company's operation in order to bring the fiscal year in alignment with the calendar year.

The Company's operating expenses as a percentage of operating revenues, known in the motor carrier industry as the "Operating Ratio," increased from 95.4% in 1980 to 97.4% in 1981, and to 97.7% in 1982. These increased operating ratios resulted in a trend of decreased operating income.

Salaries, wages and fringes, the Company's largest category of expense, was held in line during the three years presented and accounted for 60.9% of operating revenues in 1980, 60.8% in 1981 and 61.0% in 1982. This constant labor cost reflects the Company's continuing efforts to control labor cost through increased efficiencies and productivity to offset contractual union wage and benefit increases and mandated payroll tax increases.

Operating supplies increased from 11.3% of operating revenue in 1980 to 12.8% in 1981, and to 13.4% in 1982. This increasing trend in the cost of operating supplies in relationship to operating revenues results mainly from an increase in the cost of fuel over the periods presented, as well as an increase in the cost of repair parts for the older fleet. During the latter months of 1982 and into 1983 the Company experienced a decrease in the cost of fuel which, if continued, will favorably improve the cost of operating supplies for 1983.

General supplies and expenses decreased from 4.2% of revenue in 1980 to 3.8% in 1981 and to 3.9% in 1982. This decrease reflects the Company's continued emphasis on cost control.

Depreciation decreased as a percent of operating revenue from 4.9% in 1980 to 4.8% in 1981 to 4.4% in 1982. This decrease reflects the increased age of the operating fleet as a result of the Company's freeze on capital expenditures during 1981 and 1982.

Rents increased from 6.6% of operating revenue in 1980 to 7.2% in 1981 as a result of the increased use of cartage agents, mainly for the opening of new market areas. Rents subsequently decreased to 6.8% of operating revenue in 1982 as the cartage agents in certain new markets were replaced with Company labor.

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

The Company's interest expense increased from 4.7% of revenue in 1980 to 5.4% in 1981, the result of a higher level of debt due to the financing of additional terminal properties, as well as an extremely high prime interest rate during this period. As a result of the program undertaken in 1981 to convert a portion of debt tied to the prime rate to fixed rate debt, to freeze capital expenditures and to pay off debt with available funds, the Company's interest cost decreased to 4.6% of operating revenue in 1982.

A tax benefit for 1982 is not recognized for financial reporting purposes since the net operating loss cannot be offset against deferred tax credits which reverse in the carryforward period. The 1982 net operating loss and investment tax credits remain available to offset future income taxes.

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 January 1, 1983 was \$938,550, a decrease of \$948,188 from the previous year. The ratio of current assets to current liabilities was 1.2 to 1 at the end of 1982 compared to 1.6 to 1 at December 26, 1981. This decrease in working capital is mainly due to a restructuring of the bank revolving credit agreement which requires payments of \$800,000 during 1983. Accordingly, this payment is classified as a current liability at January 1, 1983. Although working capital has decreased, management considers the Company's liquidity and working capital position adequate.

In 1982 the Company entered into a voluntary agreement with certain of its employees to defer a portion of their contractual wage entitlements retroactive to April 1, 1981. This deferred wage agreement is a source of working capital for the Company and will continue to provide working capital until terminated.

CAPITAL RESOURCES

No major capital commitments are planned for 1983.

During 1981, Yates County Industrial Development Agency 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.

During 1982, 100,000 shares of nonvoting cumulative preferred stock, \$100 par value, were authorized. A single series of preferred stock (Series A), consisting of 15,000 shares, was established in 1982. To date, no preferred shares have 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 in each of the quarters for the years 1981 and 1982. 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
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 1/4	4	3 3/4	4	3 3/4	4
1982 Low	2 3/4	3 1/2	2 3/4	3	1 3/4	2 1/4	2	2 1/4
High	3 1/4	3 3/4	3	3 1/2	2	2 1/2	4 1/2	5 1/4

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 13, 1983, there were approximately 519 Class A stockholders and 1 Class B stockholder.

The Company did not pay any dividends on its Class A or Class B stock during 1981 or 1982.

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 January 1, 1983 and December 26, 1981, 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 January 1, 1983. 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 January 1, 1983 and December 26, 1981 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended January 1, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

March 11, 1983

Consolidated Balance Sheets

Penn Yan Express, Inc. and Subsidiaries
January 1, 1983 and December 26, 1981

ASSETS	1982	1981
Current assets:		
Cash, including certificates of deposit of \$452,000 in 1981	\$ 499,123	903,143
Accounts receivable, less allowance for doubtful accounts (1982 — \$130,000; 1981 — \$108,000):		
Freight revenue	2,491,904	2,211,638
Other	62,518	50,129
Operating supplies, at lower of cost (first-in, first-out) or market	550,975	528,909
Prepaid expenses:		
Tires in service	617,512	608,520
Taxes, licenses, insurance and other	501,056	475,595
Deferred income tax benefits	126,000	287,000
Total current assets	<u>4,849,088</u>	<u>5,064,934</u>
Property, plant and equipment:		
Land	1,106,855	1,141,655
Terminals and offices	6,004,706	6,032,700
Revenue equipment	9,231,497	9,171,744
Other operating equipment	4,164,325	3,956,567
	<u>20,507,183</u>	<u>20,302,666</u>
Less accumulated depreciation	9,096,178	7,763,820
Net property, plant and equipment	<u>11,411,005</u>	<u>12,538,846</u>
Deferred income tax benefits	465,000	—
Cash surrender value of life insurance	281,578	268,776
	<u>\$ 17,006,671</u>	<u>17,872,556</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	1982	1981
Current liabilities:		
Current installments on long-term debt	\$ 1,270,892	387,987
Accounts payable	1,248,370	1,174,273
Accrued expenses:		
Wages and vacation pay	722,605	1,095,527
Taxes other than income taxes	112,928	107,122
Interest	114,269	104,680
Accrued profit sharing and pension	67,474	85,607
Deferred income taxes	151,000	68,000
Estimated liability for loss, damage and injury claims	223,000	155,000
Total current liabilities	<u>3,910,538</u>	<u>3,178,196</u>
Long-term debt, less current installments	<u>9,442,257</u>	<u>10,538,980</u>
Deferred income taxes	<u>472,000</u>	<u>251,000</u>
Stockholders' equity:		
Preferred stock	—	—
Common stock:		
Class A	326,896	326,896
Class B	100,000	100,000
Additional paid-in capital	520,199	520,199
Retained earnings	2,234,781	2,957,285
Total stockholders' equity	<u>3,181,876</u>	<u>3,904,380</u>
	<u>\$ 17,006,671</u>	<u>17,872,556</u>

Consolidated Statements of Earnings

Penn Yan Express, Inc. and Subsidiaries
Years ended January 1, 1983, December 26, 1981
and December 27, 1980

	1982	1981	1980
Operating revenues	\$ 31,302,914	28,392,977	27,361,373
Operating expenses:			
Salaries and wages	14,163,053	12,963,435	12,508,754
Fringes	4,909,125	4,274,810	4,170,710
Operating supplies	4,204,767	3,644,550	3,087,332
General supplies and expenses	1,206,581	1,082,179	1,156,471
Operating taxes and licenses	953,816	913,033	804,620
Insurance	541,951	455,427	439,669
Communications and utilities	696,981	611,412	523,147
Depreciation	1,378,354	1,354,451	1,343,140
Rents	2,112,818	2,065,251	1,795,193
Gain on disposal of operating equipment	(3,534)	(6,846)	(40,364)
Miscellaneous expenses	410,890	289,939	302,234
	<u>30,574,802</u>	<u>27,647,641</u>	<u>26,090,906</u>
Operating income	728,112	745,336	1,270,467
Nonoperating expense:			
Interest expense, principally on long-term debt .	1,450,616	1,541,423	1,282,388
	<u>1,450,616</u>	<u>1,541,423</u>	<u>1,282,388</u>
Earnings (loss) before income taxes	(722,504)	(796,087)	(11,921)
Income taxes (benefit)	—	(150,000)	(186,000)
	<u>—</u>	<u>(150,000)</u>	<u>(186,000)</u>
Earnings (loss) before extraordinary item	(722,504)	(646,087)	174,079
Extraordinary item	—	672,000	(1,585,296)
	<u>—</u>	<u>672,000</u>	<u>(1,585,296)</u>
Net earnings (loss)	\$ (722,504)	25,913	(1,411,217)
	<u><u>(722,504)</u></u>	<u><u>25,913</u></u>	<u><u>(1,411,217)</u></u>
Earnings (loss) per common share:			
Earnings (loss) before extraordinary item	\$ (1.69)	(1.51)	.41
Extraordinary item	—	1.57	(3.71)
Net earnings (loss)	<u>(1.69)</u>	<u>.06</u>	<u>(3.30)</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements
of Stockholders' Equity**

Penn Yan Express, Inc. and Subsidiaries
Years ended January 1, 1983, December 26, 1981
and December 27, 1980

	Common stock		Additional	Retained
	Class A	Class B	paid-in capital	earnings
Balance at December 29, 1979	\$ 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)
Balance at December 27, 1980	326,896	100,000	520,199	2,931,372
Net earnings — 1981	—	—	—	25,913
Balance at December 26, 1981	326,896	100,000	520,199	2,957,285
Net loss — 1982	—	—	—	(722,504)
Balance at January 1, 1983	<u>\$ 326,896</u>	<u>100,000</u>	<u>520,199</u>	<u>2,234,781</u>

See accompanying notes to consolidated financial statements.

**Consolidated Statements
of Changes in Financial Position**

Penn Yan Express, Inc. and Subsidiaries
Years ended January 1, 1983, December 26, 1981
and December 27, 1980

	1982	1981	1980
Sources of working capital:			
Earnings (loss) before extraordinary item (1)	\$ (722,504)	(646,087)	174,079
Items which do not use (provide) working capital:			
Depreciation and amortization	1,378,354	1,354,451	1,367,921
Provision for (benefit from) noncurrent deferred income taxes	—	11,000	(218,000)
Working capital provided by operations	655,850	719,364	1,324,000
Extraordinary item	—	672,000	—
Less reduction of noncurrent deferred income taxes	—	(264,000)	—
	—	408,000	—
Reversal of net operating loss carryforward previously recorded against noncurrent deferred income taxes	(244,000)	—	—
Proceeds from sales and other disposals of tangible property, net of gains	77,126	100,556	82,220
Proceeds from long-term borrowing	1,079,483	2,113,151	2,466,474
Total working capital provided	1,568,459	3,341,071	3,872,694
Uses of working capital:			
Additions to intangible assets	—	—	14,959
Additions to tangible property	327,639	958,049	2,307,475
Current installments and repayment of long-term debt	2,176,206	1,709,065	1,055,479
Increase in cash surrender value of life insurance	12,802	12,938	12,939
Dividends declared	—	—	24,592
Total working capital used	2,516,647	2,680,052	3,415,444
Increase (decrease) in working capital	\$ (948,188)	661,019	457,250
Increase (decrease) in working capital components:			
Current assets:			
Cash	\$ (404,020)	572,732	(184,765)
Accounts receivable	292,655	38,760	294,039
Operating supplies	22,066	(1,868)	(100,757)
Prepaid expenses	34,453	22,241	215,959
Deferred income tax benefits	(161,000)	145,000	142,000
	(215,846)	776,865	366,476
Current liabilities:			
Current installments on long-term debt	882,905	145,373	(474,605)
Accounts payable and accrued liabilities	(233,563)	181,696	314,727
Dividends payable	—	—	(24,592)
Income taxes	83,000	(211,223)	93,696
	732,342	115,846	(90,774)
Increase (decrease) in working capital	\$ (948,188)	661,019	457,250

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

Penn Yan Express, Inc. and Subsidiaries
January 1, 1983, December 26, 1981
and December 27, 1980

(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. The fiscal year ended January 1, 1983, contained 53 weeks.
- (b) **Principles of Consolidation** — The accompanying consolidated financial statements include the accounts of Penn Yan Express, Inc. and two wholly-owned subsidiaries after elimination of all significant intercompany balances and transactions for the year ended January 1, 1983. For the years ended December 26, 1981 and December 27, 1980, three wholly-owned subsidiaries were consolidated with the accounts of Penn Yan Express, Inc. During 1982 the Company sold one of its wholly-owned subsidiaries.
- (c) **Tires in Service** — Tires in service are recorded as prepaid expenses in the year installed, and expensed over their useful lives.
- (d) **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

- (e) **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.

- (f) **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.

- (g) **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.
- (h) **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
January 1, 1983, December 26, 1981
and December 27, 1980

(2) Long-Term Debt

	1982	1981
Long-term debt consisted of the following:		
Bank loan under revolving credit agreement (A)	\$ 4,100,000	4,900,000
Mortgage loans secured by certain tangible property, 6% - 16%, payable through 1996 (B)	4,101,929	4,454,847
Obligation under lease purchase agreement (C)	800,000	850,000
Other obligations at varying interest rates to 19.75%	781,441	722,120
Deferred wages (D)	929,779	—
	<u>10,713,149</u>	<u>10,926,967</u>
Less current installments	<u>1,270,892</u>	<u>387,987</u>
	<u>\$ 9,442,257</u>	<u>10,538,980</u>

(A) The bank revolving credit agreement provides for interest at the bank's prime rate plus 1/2% (12 1/2% at January 1, 1983). The agreement allows the Company and subsidiaries to borrow up to \$4,900,000 until February 22, 1983; decreasing to \$4,100,000 at June 30, 1983; and reducing at quarterly intervals to \$3,300,000 at December 31, 1983, and thereafter unless otherwise limited by the defined borrowing base. Accordingly, \$800,000 is classified as a current liability at January 1, 1983. 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, 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 March 10, 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 March 10, 1983, 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

January 1, 1983 of \$825,636 (\$902,589 in 1981). 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 in 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 8 1/4%. 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 1982 the Company entered into a voluntary agreement with certain of its employees to defer payment of a portion of their contractual wage entitlement retroactive to April 1, 1981. The agreement continues until March 31, 1985. The Company may cease deferring wages or pay all or a portion of wages previously deferred at its discretion. The employee may demand payment prior to termination of this agreement only upon retirement, resignation, discharge or hardship. Interest is payable on the wages deferred at 7% through March 31, 1982, increasing 1% each April 1st thereafter.

Total wages deferred amount to \$929,779 at January 1, 1983, and are included as long-term debt since the Company does not anticipate early payment. The amount deferred at December 26, 1981 amounted to \$415,740 and is included as wages payable since the long-term agreement was not in effect at that time.

Maturities of long-term debt over the next five years are: 1983-\$1,270,892; 1984-\$466,000; 1985-\$510,092; 1986-\$583,122; 1987-\$459,797. These maturities do not include amounts due under the bank revolving credit agreement after 1983 and do not include any maturities for deferred wages since payment under these agreements are not fixed and determinable at this time.

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

Penn Yan Express, Inc. and Subsidiaries
January 1, 1983, December 26, 1981
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(3) Income Taxes

Income tax expense (benefit) differs from the "expected" tax expense (benefit) (computed by applying the U.S. Federal corporate tax rate of 46% to

earnings before income taxes and extraordinary item) for the years ended January 1, 1983, December 26, 1981 and December 27, 1980, as follows:

	1982	1981	1980
Computed "expected" tax (benefit)	\$ (332,000)	(366,000)	(5,000)
Investment tax credit	—	—	(209,000)
State income tax (benefit) (net of Federal income tax)	—	(8,000)	19,000
Tax effect of operating loss not recognized for financial accounting purposes	332,000	223,000	—
Net operating loss recognized against prior year's deferred tax credits	—	—	10,000
Miscellaneous	—	1,000	(1,000)
Actual tax expense (benefit)	<u>\$ —</u>	<u>(150,000)</u>	<u>(186,000)</u>

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

	1982		1981		1980	
	Federal	State	Federal	State	Federal	State
Current tax expense	\$ —	—	—	—	—	16,000
Deferred tax expense (benefit) resulting from:						
Depreciation	(78,000)	(8,000)	10,000	1,000	82,000	11,000
Tire costs	—	—	(16,000)	—	61,000	6,000
Self-insured claim provisions	(30,000)	(3,000)	37,000	4,000	8,000	2,000
Deferred compensation ..	(244,000)	(26,000)	(172,000)	(20,000)	—	—
Investment tax credits ...	—	—	—	—	(209,000)	—
Reversal of net operating loss carryforward previously recorded against deferred taxes	353,000	37,000	—	—	—	—
Net operating loss recognized against current year deferred tax expense	—	—	—	—	(159,000)	—
Miscellaneous	(1,000)	—	5,000	1,000	(4,000)	—
	<u>\$ —</u>	<u>—</u>	<u>(136,000)</u>	<u>(14,000)</u>	<u>(221,000)</u>	<u>35,000</u>

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

Penn Yan Express, Inc. and Subsidiaries
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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 1982 and 1981 investment credit carryforward for tax purposes of \$25,000 expiring 1997 and \$32,000 expiring 1996, have not been recorded for financial accounting purposes.

At January 1, 1983, the Company has net operating loss carryforwards for tax purposes of \$383,000 (\$206,000 expiring in 1996 and \$177,000 expiring in 1997). In addition, the Company will have available Federal income tax deductions of \$292,434 in 1983 and 1984, and \$146,217 in 1985. The losses and deductions must be offset against future taxable income for the Company to realize tax benefits. The Company has net operating loss carryforwards for financial accounting purposes of \$1,484,000 at January 1, 1983.

(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 \$23,000 in 1982, \$24,000 in 1981, and \$38,000 in 1980. 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 \$44,474 in 1982, \$62,000 in 1981, and \$47,000 in 1980. The Company makes annual contributions to the Plan equal to the amounts accrued for the pension expense.

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

	January 1,	
	1982	1981
Actuarial present value of accumulated Plan benefits:		
Vested	\$362,445	417,848
Non-vested	29,340	25,452
	<u>\$391,785</u>	<u>443,300</u>
Net assets available for benefits	<u>\$162,481</u>	<u>93,071</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 intention to withdraw from the plan.

(5) Common and Preferred Stock

The Company's capital stock is as follows:

Preferred stock:

Class C stock; \$100 par value; 3,700 shares authorized for issuance at December 26, 1981. The 3,700 shares of authorized Class C preferred stock were cancelled and the entire Class C stock authorization was deleted during 1982.

Nonvoting cumulative preferred stock; \$100 par value; 100,000 shares authorized. These preferred shares are issuable in series. Series A (15,000 shares) was established in 1982 and is preferred over Class A and Class B common stock in connection with the payment of dividends and upon liquidation. The preferred stock is not convertible into any other class of stock. No shares of preferred stock have been issued to date.

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

Penn Yan Express, Inc. and Subsidiaries
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Common stock:

Class A stock; \$1 par value; 2,000,000 shares authorized; 326,896 issued and outstanding at January 1, 1983 and December 26, 1981. At January 1, 1983 and December 26, 1981 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 January 1, 1983 and December 26, 1981.

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 January 1, 1983, there were no shares under option. No options were exercised during the year ended January 1, 1983.

(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 determined the value of its operating rights was 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 allowed 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 amounted 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 \$223,000 for estimated losses as of January 1, 1983.

(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. No interest was capitalized during 1982.

(10) Related Party Transactions

During 1982, the Company entered into a consulting and non-compete agreement with its President. The agreement will commence upon his retirement and continue for a ten year period.

During 1982, the Company entered into various operating leases with certain general partnerships of terminal facilities, revenue equipment and automotive equipment with rent expense of approximately \$99,000 during 1982. The partnerships are comprised of individuals who are also officers and directors of the Company.

At January 1, 1983, the future minimum lease commitments under these noncancelable leases are as follows:

	<u>Amount</u>
1983	\$ 122,660
1984	94,800
1985	91,565
1986	91,565
1987	91,565
Thereafter	841,450
	<u>\$1,333,605</u>

TERMINALS

ALBANY, NEW YORK 845 Watervliet Shaker Road	(518) 783-0201
BALTIMORE, MARYLAND 2931 Whittington Avenue	(301) 646-3322
BINGHAMTON, NEW YORK 612 Vestal Parkway W Vestal, New York	(607) 748-7441
BUFFALO, NEW YORK 176 Vulcan Street	(716) 877-5111
CARLSTADT, NEW JERSEY 50 Kero Road	(201) 933-5770
CHICAGO, ILLINOIS 3333 W. 36th Street	(312) 927-6881
CLEVELAND, OHIO 6200 Roland Avenue	(216) 641-0084
ELMIRA, NEW YORK 1510 Grand Central Avenue	(607) 733-6501
HARRISBURG, PENNSYLVANIA 160 Lamont Street New Cumberland, Pennsylvania	(717) 774-1740
JAMESTOWN, NEW YORK 234 Hopkins Street	(716) 665-4009
NEW YORK, NEW YORK	(212) 244-5767
NIAGARA FALLS, NEW YORK	(716) 285-4726
OLEAN, NEW YORK Gargoyle Park Road Allegany, New York	(716) 372-5000
PENN YAN, NEW YORK 98 West Lake Road	(315) 536-3321
PHILADELPHIA, PENNSYLVANIA 1403 Industrial Highway Cinnaminson, New Jersey	(215) 336-4446 (609) 786-8063
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
TORONTO, ONTARIO 5920 Dixie Road	(416) 676-1811
UTICA, NEW YORK Wells Avenue	(315) 735-6179