

ADAMS EXPRESS CO  
Form N-30B-2  
April 14, 2004

THE ADAMS EXPRESS COMPANY

**Board of Directors**

Enrique R. Arzac <sup>1,2</sup>	W. Perry Neff <sup>2,4</sup>
Phyllis O. Bonanno <sup>1,3</sup>	Douglas G. Ober <sup>1</sup>
Daniel E. Emerson <sup>1,3</sup>	Landon Peters <sup>2,3</sup>
Thomas H. Lenagh <sup>1,4</sup>	John J. Roberts <sup>1</sup>
W.D. MacCallan <sup>3,4</sup>	Susan C. Schwab <sup>2,4</sup>
Kathleen T. McGahran <sup>2,4</sup>	Robert J.M. Wilson <sup>1,3</sup>
1.	<i>Member of Executive Committee</i>
2.	<i>Member of Audit Committee</i>
3.	<i>Member of Compensation Committee</i>
4.	<i>Member of Retirement Benefits Committee</i>

**Officers**

Douglas G. Ober	<i>Chairman and Chief Executive Officer</i>
Joseph M. Truta	<i>President</i>
Stephen E. Kohler	<i>Vice President Research</i>
D. Cotton Swindell	<i>Vice President Research</i>
Lawrence L. Hooper, Jr.	<i>Vice President, General Counsel and Secretary</i>
Maureen A. Jones	<i>Vice President, Chief Financial Officer and Treasurer</i>
Christine M. Sloan	<i>Assistant Treasurer</i>
Geraldine H. Paré	<i>Assistant Secretary</i>

**Stock Data**

Market Price (3/31/04)	\$ 12.68
Net Asset Value (3/31/04)	\$ 14.56
Discount:	12.9%

New York Stock Exchange and Pacific Exchange ticker symbol: ADX  
NASDAQ Mutual Fund Quotation Symbol: XADEX

Newspaper stock listings are generally under the abbreviation: AdaEx

**Distributions in 2004**

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From Investment Income (paid or declared)	\$ 0.08
From Net Realized Gains	0.02
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Total	\$ 0.10
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**2004 Dividend Payment Dates**

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March 1, 2004

June 1, 2004

September 1, 2004\*

December 27, 2004\*

\*Anticipated

LETTER TO STOCKHOLDERS

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We submit herewith the financial statements of the Company for the three months ended March 31, 2004. Also provided are a schedule of investments and summary financial information.

Net assets of the Company at March 31, 2004 were \$14.56 per share on 84,629,512 shares outstanding, compared with \$14.36 per share at December 31, 2003 on 84,886,412 shares outstanding. On March 1, 2004, a distribution of \$0.05 per share was paid, consisting of \$0.01 from 2003 long-term capital gain, \$0.01 from 2003 short-term capital gain, and \$0.03 from 2003 investment income, all taxable in 2004. A 2004 investment income dividend of \$0.05 per share has been declared to shareholders of record May 17, 2004, payable on June 1, 2004.

Net investment income for the three months ended March 31, 2004 amounted to \$3,798,426, compared with \$3,658,419 for the same period in 2003. These earnings are equal to \$0.04 and \$0.04 per share, respectively, on the average number of shares outstanding during each period.

Net capital gain realized on investments for the three months ended March 31, 2004 amounted to \$14,495,877, the equivalent of \$0.17 per share.

The Annual Meeting, held on March 30, 2004 in Baltimore, was well attended by shareholders. In recognition of the 150<sup>th</sup> anniversary of its incorporation, on display at the meeting were historical items from the Company's past, including a restored delivery wagon. A brief history of the Company from its inception was presented during the Chairman's discussion of the performance of the fund and management's outlook. These remarks will be available in the near future on the Company's website. The results of the voting at the Annual Meeting are shown on page 14.

Current and potential shareholders can find information about the Company, including the daily net asset value (NAV) per share, the market price, and the discount/premium to the NAV, at its site on the Internet. The address for the website is [www.adamsexpress.com](http://www.adamsexpress.com). Also available at the website are a brief history of the Company, historical financial information, and more general industry material. Further information regarding shareholder services is located on page 15 of this report.

Effective March 10, 2004, Edward J. Kelly, III, resigned from the Board of Directors due to time constraints from his position as President and Chief Executive Officer of Mercantile Bankshares Corporation. Mr. Kelly served on our Board from 2001 to 2004 and his many contributions to the Board will be greatly missed.

We are pleased to announce effective March 30, 2004, the Board of Directors elected Mr. D. Cotton Swindell to Vice President Research. Mr. Swindell has been a senior research analyst with the Company since 2002.

The Company is an internally-managed equity fund whose investment policy is based on the primary objectives of preservation of capital, the attainment of reasonable income from investments, and an opportunity for capital appreciation.

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By order of the Board of Directors,

Douglas G. Ober,

*Chairman and*

*Chief Executive Officer*

Joseph M. Truta,

*President*

April 16, 2004

## STATEMENT OF ASSETS AND LIABILITIES

March 31, 2004

(unaudited)

**Assets**

Investments\* at value:

Common stocks and convertible securities (cost \$891,803,599)	\$ 1,157,762,827	
Non-controlled affiliate, Petroleum & Resources Corporation (cost \$27,963,162)	46,809,938	
Short-term investments (cost \$20,047,577)	20,047,577	
Securities lending collateral (cost \$77,775,330)	77,775,330	\$ 1,302,395,672

Cash		294,527
Receivables:		
Investment securities sold		2,762,751
Dividends and interest		1,162,615
Prepaid expenses and other assets		7,020,522

<i>Total Assets</i>		1,313,636,087
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**Liabilities**

Investment securities purchased		299,174
Open written option contracts at value (proceeds \$581,124)		556,250
Obligations to return securities lending collateral		77,775,330
Accrued expenses		2,648,694

<i>Total Liabilities</i>		81,279,448
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<b>Net Assets</b>		<b>\$ 1,232,356,639</b>
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**Net Assets**

Common Stock at par value \$1.00 per share, authorized 150,000,000 shares; issued and outstanding 84,629,512 shares	\$ 84,629,512
Additional capital surplus	840,721,949
Undistributed net investment income	7,646,002
Undistributed net realized gain on investments	14,528,298
Unrealized appreciation on investments	284,830,878

<b>Net Assets Applicable to Common Stock</b>	<b>\$ 1,232,356,639</b>
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<b>Net Asset Value Per Share of Common Stock</b>	<b>\$14.56</b>
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\*See Schedule of Investments on pages 8 through 10.

*The accompanying notes are an integral part of the financial statements.*

## STATEMENT OF OPERATIONS

Three Months Ended March 31, 2004

(unaudited)

<b>Investment Income</b>	
Income:	
Dividends:	
From unaffiliated issuers	\$ 4,995,615
From non-controlled affiliate	119,160
Interest and other income	117,714
<b>Total income</b>	<b>5,232,489</b>
Expenses:	
Investment research	568,362
Administration and operations	270,832
Directors' fees	82,500
Reports and stockholder communications	150,591
Transfer agent, registrar and custodian expenses	93,429
Auditing and accounting services	28,231
Legal services	12,515
Occupancy and other office expenses	154,489
Travel, telephone and postage	21,626
Other	51,488
<b>Total expenses</b>	<b>1,434,063</b>
<b>Net Investment Income</b>	<b>3,798,426</b>
<b>Realized Gain and Change in Unrealized Appreciation on Investments</b>	
Net realized gain on security transactions	14,356,857
Net realized gain distributed by regulated investment company (non-controlled affiliate)	139,020
Change in unrealized appreciation on investments	2,718,387
<b>Net Gain on Investments</b>	<b>17,214,264</b>
<b>Change in Net Assets Resulting from Operations</b>	<b>\$ 21,012,690</b>

The accompanying notes are an integral part of the financial statements.

## STATEMENTS OF CHANGES IN NET ASSETS

	Three Months Ended March 31, 2004	Year Ended December 31, 2003
	(unaudited)	
<b>From Operations:</b>		
Net investment income	\$ 3,798,426	\$ 15,613,355
Net realized gain on investments	14,495,877	49,120,443
Change in unrealized appreciation on investments	2,718,387	187,524,953
<i>Change in net assets resulting from operations</i>	21,012,690	252,258,751
<b>Distributions to Stockholders from:</b>		
Net investment income	(2,538,885)	(14,099,163)
Net realized gain from investment transactions	(1,692,590)	(50,229,205)
<i>Decrease in net assets from distributions</i>	(4,231,475)	(64,328,368)
<b>From Capital Share Transactions:</b>		
Value of shares issued in payment of distributions		32,667,930
Cost of shares purchased (Note 4)	(3,287,032)	(26,545,949)
<i>Change in net assets from capital share transactions</i>	(3,287,032)	6,121,981
<b>Total Increase in Net Assets</b>	13,494,183	194,052,364
<b>Net Assets:</b>		
Beginning of period	1,218,862,456	1,024,810,092
End of period (including undistributed net investment income of \$7,646,002 and \$6,386,461, respectively)	\$ 1,232,356,639	\$ 1,218,862,456

The accompanying notes are an integral part of the financial statements.



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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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### 1. Significant Accounting Policies

The Adams Express Company (the Company) is registered under the Investment Company Act of 1940 as a diversified investment company. The Company's investment objectives as well as the nature and risk of its investment transactions are set forth in the Company's registration statement.

**Security Valuation** Investments in securities traded on a national security exchange are valued at the last reported sale price on the day of valuation. Over-the-counter and listed securities for which a sale price is not available are valued at the last quoted bid price. Short-term investments (excluding purchased options) are valued at amortized cost. Purchased and written options are valued at the last quoted asked price.

**Affiliated Companies** Investments in companies 5% or more of whose outstanding voting securities are held by the Company are defined as Affiliated Companies in Section 2(a)(3) of the Investment Company Act of 1940.

**Security Transactions and Investment Income** Investment transactions are accounted for on the trade date. Gain or loss on sales of securities and options is determined on the basis of identified cost. Dividend income and distributions to shareholders are recognized on the ex-dividend date, and interest income is recognized on the accrual basis.

### 2. Federal Income Taxes

The Company's policy is to distribute all of its taxable income to its shareholders in compliance with the requirements of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. For federal income tax purposes, the identified cost of securities, including options, at March 31, 2004 was \$939,883,337 and net unrealized appreciation aggregated \$285,318,129, of which the related gross unrealized appreciation and depreciation were \$417,374,625 and \$132,056,496, respectively.

Distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. Accordingly, annual reclassifications are made within the Company's capital accounts to reflect income and gains available for distribution under income tax regulations.

### 3. Investment Transactions

The Company's investment decisions are made by a committee, and no one person is primarily responsible for making recommendations to that committee.

Purchases and sales of portfolio securities, other than options and short-term investments, during the three months ended March 31, 2004 were \$52,088,333 and \$33,986,841, respectively. Options may be written (sold) or purchased by the Company. The Company, as writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. The risk associated with purchasing an option is limited to the premium originally

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paid. A schedule of outstanding option contracts as of March 31, 2004 can be found on page 11.

Transactions in written covered call and collateralized put options during the three months ended March 31, 2004 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2003	1,850	\$ 229,289	3,100	\$ 385,022
Options written	2,215	252,131	2,900	313,211
Options terminated in closing purchase transactions	(250)	(26,874)	(250)	(26,729)
Options expired	(450)	(51,565)	(2,200)	(291,791)
Options exercised	(1,350)	(174,916)	(250)	(26,654)
<b>Options outstanding, March 31, 2004</b>	<b>2,015</b>	<b>\$ 228,065</b>	<b>3,300</b>	<b>\$ 353,059</b>

#### 4. Capital Stock

The Company has 10,000,000 authorized and unissued preferred shares without par value.

On December 27, 2003, the Company issued 2,702,062 shares of its Common Stock at a price of \$12.09 per share (the average market price on December 8, 2003) to stockholders of record on November 24, 2003 who elected to take stock in payment of the distribution from 2003 capital gain and investment income.

The Company may purchase shares of its Common Stock from time to time at such prices and amounts as the Board of Directors may deem advisable.

Transactions in Common Stock for 2004 and 2003 were as follows:

	Shares		Amount	
	Three months ended March 31, 2004	Year ended December 31, 2003	Three months ended March 31, 2004	Year ended December 31, 2003
Shares issued in payment of dividends		2,702,062	\$	\$ 32,667,930
Shares purchased (at a weighted average discount from net asset value of 12.6% and 11.2%, respectively)	(256,900)	(2,351,900)	(3,287,032)	(26,545,949)
<b>Net change</b>	<b>(256,900)</b>	<b>350,162</b>	<b>\$ (3,287,032)</b>	<b>\$ 6,121,981</b>



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

On March 31, 2004, the Company held a total of 603,750 shares of its Common Stock at a cost of \$7,574,270. The Company held 346,850 shares of its Common Stock at a cost of \$4,287,238 on December 31, 2003.

The Company has an employee incentive stock option and stock appreciation rights plan which provides for the issuance of options and stock appreciation rights for the purchase of up to 2,610,146 shares of the Company's Common Stock at 100% of the fair market value at date of grant. Options are exercisable beginning not less than one year after the date of grant and extend and vest over ten years from the date of grant. Stock appreciation rights are exercisable beginning not less than two years after the date of grant and extend over the period during which the option is exercisable. The stock appreciation rights allow the holders to surrender their rights to exercise their options and receive cash or shares in an amount equal to the difference between the option price and the fair market value of the Common Stock at the date of surrender.

Under the plan, the exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gain paid by the Company during subsequent years. At the beginning of 2004, 229,364 options were outstanding, with a weighted average exercise price of \$12.07 per share. During the three months ended March 31, 2004, the Company granted options including stock appreciation rights for 53,834 shares of Common Stock at an original exercise price of \$12.63. At March 31, 2004, there were outstanding exercisable options to purchase 127,417 common shares at \$3.79-\$18.41 per share (weighted average price of \$12.43), and unexercisable options to purchase 155,781 common shares at \$5.38-\$18.41 per share (weighted average price of \$11.93). The weighted average remaining contractual life of outstanding exercisable and unexercisable options is 6.43 years and 7.45 years, respectively. Total compensation expense recognized for the three months ended March 31, 2004 related to the stock options and stock appreciation rights plan was \$53,857. At March 31, 2004, there were 1,188,918 shares available for future option grants.

### 5. Retirement Plans

The Company's non-contributory qualified defined benefit pension plan covers substantially all full-time employees with at least one year of service. Benefits are based on length of service and compensation during the last five years of employment. The Company's policy is to contribute annually to the plan only those amounts that can be deducted for federal income tax purposes, plus additional amounts as the Company deems appropriate in order to provide assets sufficient to meet benefits to be paid to plan participants. As of March 31, 2004, no contributions to the plan have been made. The Company presently does not anticipate making any contributions to the plan in 2004.

In addition, the Company has a nonqualified defined benefit plan which provides eligible employees with retirement benefits to supplement the qualified plan.

The following table aggregates the components of the plans' net periodic pension cost for the three months ended March 31:

	March 31, 2004
Service cost	\$ 76,769
Interest cost	112,929
Expected return on plan assets	(186,710)
Amortization of prior service cost	31,994
Amortization of net loss	28,300
Net periodic pension cost	\$ 63,282

The Company also sponsors a defined contribution plan that covers substantially all employees. For the three months ended March 31, 2004, the Company expensed matching contributions of \$37,681. The Company does not provide postretirement medical benefits.

#### **6. Expenses**

The cumulative amount of accrued expenses at March 31, 2004 for employees and former employees of the Company was \$2,382,864. Aggregate remuneration paid or accrued during the three months ended March 31, 2004 to directors and key employees amounted to \$643,862.

#### **7. Portfolio Securities Loaned**

The Company makes loans of securities to brokers, secured by cash deposits, U.S. Government securities, or bank letters of credit. The Company accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Company also continues to receive interest or dividends on the securities loaned. The loans are secured at all times by collateral of at least 102% of the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Company. At March 31, 2004, the Company had securities on loan of \$75,219,307 and held collateral of \$77,775,330, consisting of repurchase agreements, time deposits, commercial paper and asset-backed securities.

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**FINANCIAL HIGHLIGHTS**


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	<b>Three Months Ended</b>		<b>Year Ended December 31</b>				
	<b>(unaudited)</b>						
	<b>March 31, 2004</b>	<b>March 31, 2003</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Per Share Operating Performance*</b>							
Net asset value, beginning of period	\$14.36	\$12.12	\$12.12	\$16.05	\$23.72	\$26.85	\$21.69
Net investment income	0.04	0.04	0.19	0.20	0.26	0.26	0.25
Net realized gains and change in unrealized appreciation	0.20	(0.55)	2.85	(3.38)	(6.21)	(1.51)	6.71
Total from investment operations	0.24	(0.51)	3.04	(3.18)	(5.95)	(1.25)	6.96
Less distributions							
Dividends from net investment income	(0.03)	(0.02)	(0.17)	(0.19)	(0.26)	(0.22)	(0.26)
Distributions from net realized gains	(0.02)	(0.03)	(0.61)	(0.57)	(1.39)	(1.63)	(1.37)
Total distributions	(0.05)	(0.05)	(0.78)	(0.76)	(1.65)	(1.85)	(1.63)
Capital share repurchases	0.01	0.01	0.04	0.05	0.04	0.10	
Reinvestment of distributions			(0.06)	(0.04)	(0.11)	(0.13)	