

ADAMS EXPRESS CO
Form N-CSR
February 26, 2014

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT
COMPANIES**

Investment Company Act file number: 811-00248

THE ADAMS EXPRESS COMPANY

(Exact name of registrant as specified in charter)

7 Saint Paul Street, Suite 1140, Baltimore, Maryland 21202

(Address of principal executive offices)

**Lawrence L. Hooper, Jr.
The Adams Express Company
7 Saint Paul Street, Suite 1140
Baltimore, Maryland 21202**

(Name and address of agent for service)

Registrant's telephone number, including area code: (410) 752-5900

Date of fiscal year end: December 31

Date of reporting period: December 31, 2013

Item 1. Reports to Stockholders.

2013 AT A GLANCE**The Fund**

a closed-end equity investment company
 objectives: preservation of capital
 reasonable income

opportunity for capital gain

internally-managed
 annual distribution rate of at least 6%

Stock Data (12/31/13)

NYSE Symbol ADX
 Market Price \$13.07
 52-Week Range \$10.72 \$13.32
 Discount 13.4%
 Shares Outstanding 94,223,617

Summary Financial Information

	Year Ended December 31,	
	2013	2012
Net asset value per share	\$ 15.09	\$ 12.43
Total net assets	1,421,550,920	1,155,997,037
Unrealized appreciation on investments	393,843,628	143,061,370
Net investment income	18,656,769	17,547,510
Net realized gain	57,371,366	47,997,411
Total return (based on market price)	31.8%	16.9%
Total return (based on net asset value)	29.7%	14.7%
Ratio of expenses to average net assets	0.69%	0.65%
Annual distribution rate	7.1%	6.3%

2013 Dividends and Distributions

Paid	Amount (per share)	Type
March 1, 2013	\$ 0.01	Long-term capital gain
March 1, 2013	0.01	Short-term capital gain
March 1, 2013	0.03	Investment income
June 3, 2013	0.05	Investment income

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September 3, 2013	0.05	Investment income
December 27, 2013	0.44	Long-term capital gain
December 27, 2013	0.16	Short-term capital gain
December 27, 2013	0.09	Investment income
	\$ 0.84	

2014 Annual Meeting of Shareholders

Location: Four Seasons Hotel, Baltimore, Maryland

Date: April 10, 2014

Time: 9:00 a.m.

PORTFOLIO REVIEW

December 31, 2013

(unaudited)

Ten Largest Equity Portfolio Holdings

	<i>Market Value</i>	<i>% of Net Assets</i>
Petroleum & Resources Corp.*	\$ 59,873,872	4.2%
Apple Inc.	55,157,113	3.9
JPMorgan Chase & Co.	35,088,000	2.5
Pfizer Inc.	32,274,831	2.3
Gilead Sciences, Inc.	31,112,100	2.2
Citigroup Inc.	30,744,900	2.1
Wells Fargo & Co.	30,418,000	2.1
Chevron Corp.	29,353,850	2.1
Walt Disney Co.	28,848,640	2.0
Google Inc. (Class A)	28,578,105	2.0
	\$ 361,449,411	25.4%

* Non-controlled affiliated closed-end fund

Sector Weightings

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

By any measure, 2013 was a banner year for the U.S. stock market. Few would have expected such a robust stock market in the face of the many things that transpired during 2013. Markets experienced a strong start to 2013 as the fiscal cliff and the potential consequences of federal spending cuts and tax increases were averted. Concerns of a weakening U.S. economy subsided with the flow of solid corporate earnings growth and a modest economic recovery. High unemployment rates and low inflation reinforced the Federal Reserve's (Fed) resolve to continue accommodative monetary policy, keeping a lid on interest rates. Stabilization in Europe and a managed slowdown in China fostered optimism for investors.

The rally was sustained in February, but at a significantly reduced rate. Investor enthusiasm was tempered as retailers expressed caution, economic growth slowed in China, and many European countries were in a recession. However, slow but positive growth in the U.S. was sufficient to offset sequestration cuts and the Fed's meeting minutes that revealed discussions of winding down asset purchases. The S&P 500 gained 10.6% through the first quarter as cash flowed back into the equity markets.

The second quarter presented a different story. Despite weakened labor markets, slowing retail sales, and an easing in manufacturing growth, investor sentiment remained bullish through April. The market's exuberance started to diminish as China's growth rate continued to contract. Investors balanced economic news with a myopic focus on the Fed's stimulus program. Comments in May suggesting an end to the stimulus program roiled markets. By the end of the second quarter, dovish comments by the Fed had calmed investor uncertainty.

U.S. equities hit record highs in July as positive earnings reports by companies coincided with improving economic indicators. The unemployment rate fell to the lowest level in five years and interest rates remained low. The S&P 500 exited July with a 19.6% year-to-date gain.

Turbulence quickly followed as investors struggled to balance Fed comments, economic news, and escalating worldwide geopolitical tensions. Volatility stemmed from civil war in Syria and violence in Egypt following a military coup. Rising geopolitical instability in the Middle East/North Africa region put upward pressure on oil prices, creating a headwind for global economic growth. By late September, violence in Egypt subsided and Syria's risks diminished, supporting a recovery in U.S. markets back to July levels. Europe showed evidence of an upturn, China's growth stabilized, and the Fed's tapering was delayed.

The fall also brought the roll-out of the Affordable Care Act (ACA). Rarely has a law been as divisive as the ACA. While the problems with the online exchange grabbed most of the headlines, the reimbursement cuts and additional fees mandated by the ACA had a larger impact on health care companies. Specifically, the Managed Care companies suffered, at least initially, as these new costs were not offset by the promised increase in individuals covered.

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A 16-day shutdown by the U.S. Government in early October and concerns of a budget resolution did little to slow the rise of the markets for the remainder of the year. Stocks hit a new high as government funding was restored. Key economic data, corporate earnings, and labor market results buoyed investors' sentiment. Reflected in the equity market gains was approval of Janet Yellen's nomination to head the Fed. As a Bernanke loyalist, she makes continuity at the Fed likely in 2014. The passing by Congress of a two-year budget deal near year-end enhanced the outlook, contributing to the full year gain of 32.4% for the S&P 500.

Against this backdrop, Adams Express had a good 2013, distributing 7.1% to shareholders and generating a total return on market price of 31.8%. The Lipper Large-Cap Core Mutual Fund Average, our peer group, returned 31.4%. The Adams Express total return on net asset value was 29.7%.

The two best performing sectors in the Fund were Health Care and Industrials. Increased investor appetite for biotechnology stocks powered the Health Care sector again in 2013, rising 46.2%. Our overweight in the Aerospace and Defense industry group within Industrials paced the Fund's holdings in that sector, with additional help from our Electrical Equipment holdings, allowing that sector to advance 45.1%. While Utilities underperformed the S&P 500, our holdings outperformed the sector and contributed positively to the Fund's performance. A conscious decision to have more of a mid-cap focus with our Utilities stock selection served the Fund well as those holdings were up 19.0% for the year.

The Fund's Consumer Discretionary holdings were up 35.4% during the year but trailed their sector peer group. Good calls in Lowe's Companies and Dollar General Corporation helped limit the relative shortfall. Our holding in The Walt Disney Company, advancing 55.3%, was also helpful in the Media industry group that had a remarkable year. Although advancing 30.3% and 23.7%, respectfully, our holdings in Financials and Information Technology trailed the market.

LETTER TO SHAREHOLDERS (CONTINUED)

Portfolio holdings in Diversified Financials and Capital Markets disappointed, while our Insurance names offset some of the disappointing stock selection. Difficulty in Software & Services and Semiconductors contributed to our underperformance in Information Technology. A bright spot was the Fund's position in MasterCard Incorporated within IT Services.

Looking Forward to 2014

As we look forward to 2014, there are several themes in the portfolio to keep an eye on. First, we remain convinced that the earnings growth in biotechnology is real and that we should have an overweight in that Health Care industry group. As of this writing, Gilead Sciences, Inc., Celgene Corp. and Biogen Idec Inc. remain compelling opportunities for us. Each addresses complex issues, with Gilead a leader in Hepatitis C, Celgene in multiple myeloma, and Biogen in multiple sclerosis. It is very difficult to find the kind of revenue and earnings growth within Health Care that biotechnology offers. Despite strong gains recently, we believe the market continues to underappreciate the opportunities these stocks provide. As we look out over the horizon, another area that appears promising is the immuno-oncology arena. We are intrigued with the breakthrough in cancer treatment that this opportunity suggests and will look for attractive investments in this arena.

Within Industrials, we benefited during 2013 by an overweight in Aerospace and Defense and believe that theme continues to be warranted. The Boeing Company again will play a meaningful role in our Industrials exposure. Boeing has many years of increasing free cash flow growth in front of it and also continues to enjoy a record production backlog. New growth in emerging markets and established market replacement demand gives us comfort that Boeing has a long runway of opportunity.

Although the Consumer Discretionary sector has enjoyed an unprecedented four-year run of outperformance, we believe there are a few areas that should continue to be a positive source of excess return. One such area is home improvement. Our investment in Lowe's Companies addresses this thought. The home improvement market remains quite good as the housing market continues to move in a positive direction. Our belief is that Lowe's has a number of drivers for increased margins and, with a commitment to increased service levels and merchandising, they could deliver strong earnings growth in 2014. Building on this theme is our recent investment in Whirlpool Corporation. We expect a powerful household appliance replacement cycle in North America as well as in international markets. With the supportive fundamentals, we believe Whirlpool will deliver strong free cash flow and earnings beyond what investors are expecting.

Financials is a sector that has gotten a great deal of scrutiny and bears watching as more reforms make their way to reality. A good bit has been made of the work that JP Morgan Chase & Co. has done to put its legal issues behind it. We think this is very positive and positions the nation's largest bank well for 2014. The global depth and breadth of its businesses gives us comfort that the bank will continue to execute and drive earnings per share growth in the coming year. In addition to JP Morgan, we see a compelling investment opportunity in the Life Insurance industry group within Financials. We believe these stocks will benefit from the upward pressure on interest rates resulting from continued tapering by the Fed.

The Fund was active in repurchasing its shares in 2013 and repurchased a total of 948,339 shares. The Board of Directors has approved the repurchase of up to 5% of the outstanding shares for 2014.

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Our investment philosophy and process is very focused on free cash flow generation, earnings growth, valuation, and being properly paid for the risks we are taking. Within this framework, we strive to identify high quality companies we can own for an extended period of time. With that said, we also look for opportunities to take advantage of market anomalies for the benefit of our shareholders. We are encouraged by the increasing strength in the economy, both home and abroad, and remain optimistic about what that will mean for the Fund in 2014.

By order of the Board of Directors,

Mark E. Stoeckle
Chief Executive Officer

January 24, 2014

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2013

Assets

Investments* at value:		
Common stocks (cost \$984,732,959)	\$ 1,353,460,139	
Non-controlled affiliate, Petroleum & Resources Corp. (cost \$34,735,404)	59,873,872	
Short-term investments (cost \$9,819,486)	9,819,486	\$ 1,423,153,497
Cash		669,267
Dividends and interest receivable		1,795,577
Prepaid pension cost		1,614,800
Prepaid expenses and other assets		3,580,539
Total Assets		1,430,813,680

Liabilities

Investment securities purchased	4,597,831	
Open written option contracts* at value (proceeds \$7,300)	29,320	
Accrued pension liabilities	2,733,408	
Accrued expenses and other liabilities	1,902,201	
Total Liabilities	9,262,760	
Net Assets		\$ 1,421,550,920

Net Assets

Common Stock at par value \$0.001 per share, authorized 150,000,000 shares; issued and outstanding 94,223,617 shares (includes 159,401 nonvested restricted shares, 18,000 nonvested or deferred restricted stock units, and 17,964 deferred stock units) (note 6)	\$ 94,224	
Additional capital surplus	1,029,332,121	
Accumulated other comprehensive income (note 5)	(1,535,718)	
Undistributed net investment income	734,051	
Undistributed net realized gain on investments	(917,386)	
Unrealized appreciation on investments	393,843,628	
Net Assets Applicable to Common Stock	\$ 1,421,550,920	
Net Asset Value Per Share of Common Stock		\$15.09

*See Schedule of Investments on page 14 and Schedule of Outstanding Written Option Contracts on page 17.

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

STATEMENT OF OPERATIONS

Year Ended December 31, 2013

Investment Income

Income:

Dividends:

From unaffiliated issuers (net of \$46,048 in foreign taxes)	\$ 25,502,274
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From non-controlled affiliate	1,246,462
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Other income	781,225
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<i>Total income</i>	27,529,961
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Expenses:

Investment research	4,617,083
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Administration and operations	1,949,761
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Travel, training, and other office expenses	589,829
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Directors' fees	379,030
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Transfer agent, registrar, and custodian	321,712
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Reports and shareholder communications	279,177
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Investment data services	216,676
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Occupancy	155,017
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Audit and accounting services	128,763
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Insurance	107,563
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Legal services	94,010
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Other	34,571
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<i>Total expenses</i>	8,873,192
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Net Investment Income	18,656,769
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Realized Gain and Change in Unrealized Appreciation on Investments

Net realized gain on security transactions	53,717,544
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Net realized gain distributed by regulated investment company (non-controlled affiliate)	2,864,674
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Net realized gain on written option contracts	789,148
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Change in unrealized appreciation on securities	251,052,425
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Change in unrealized appreciation on written option contracts	(270,167)
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Net Gain on Investments	308,153,624
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Other Comprehensive Income (note 5)

Defined benefit pension plans:

Net actuarial gain arising during period	345,260
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Amortization of net loss	260,068
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Effect of settlement (non-recurring)	740,825
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Other Comprehensive Income	1,346,153
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Change in Net Assets Resulting from Operations	\$ 328,156,546
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The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS

	For the Year Ended December 31,	
	2013	2012
From Operations:		
Net investment income	\$ 18,656,769	\$ 17,547,510
Net realized gain on investments	57,371,366	47,997,411
Change in unrealized appreciation on investments	250,782,258	80,550,174
Change in accumulated other comprehensive income (note 5)	1,346,153	(243,338)
<i>Increase in net assets resulting from operations</i>	<i>328,156,546</i>	<i>145,851,757</i>
Distributions to Shareholders from:		
Net investment income	(20,354,079)	(16,392,876)
Net realized gain from investment transactions	(57,121,286)	(44,625,641)
<i>Decrease in net assets from distributions</i>	<i>(77,475,365)</i>	<i>(61,018,517)</i>
From Capital Share Transactions:		
Value of shares issued in payment of distributions (note 4)	26,419,945	20,118,651
Cost of shares purchased (note 4)	(11,659,522)	
Deferred compensation (notes 4, 6)	112,279	311,468
<i>Increase in net assets from capital share transactions</i>	<i>14,872,702</i>	<i>20,430,119</i>
Total Increase in Net Assets	265,553,883	105,263,359
Net Assets:		
Beginning of year	1,155,997,037	1,050,733,678
End of year (including undistributed net investment income of \$734,051 and \$2,836,318, respectively)	\$ 1,421,550,920	\$ 1,155,997,037

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

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

The Adams Express Company (the Fund) is registered under the Investment Company Act of 1940 as a diversified investment company. The Fund is an internally-managed closed-end fund whose investment objectives are preservation of capital, the attainment of reasonable income from investments, and an opportunity for capital appreciation.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates made by Fund management. Management believes that estimates and security valuations are appropriate; however, actual results may differ from those estimates, and the security valuations reflected in the financial statements may differ from the value the Fund ultimately realizes upon sale of the securities.

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

Expenses The Fund shares certain costs for investment research and data services, administration and operations, travel, training, office expenses, occupancy, accounting and legal services, insurance, and other miscellaneous items with its non-controlled affiliate, Petroleum & Resources Corporation. Shared expenses that are not solely attributable to one fund are allocated to each fund based on relative net asset values or, in the case of investment research staff and related costs, relative market values of portfolio securities in the particular sector of coverage. Changes in expense allocations are updated quarterly, as appropriate, except for those related to payroll, which are updated annually.

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 specific identification. Dividend income and distributions to shareholders are recognized on the ex-dividend date, and interest income is recognized on the accrual basis.

Security Valuation The Fund's investments are reported at fair value as defined under accounting principles generally accepted in the United States of America. Investments in securities traded on national security exchanges 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 and money market funds) are valued at amortized cost, which approximates fair value. Purchased and written options are valued at the last quoted bid and asked price, respectively. Money market funds are valued at net asset value on the day of valuation.

Various inputs are used to determine the fair value of the Fund's investments. These inputs are summarized in the following three levels:

Level 1 fair value is determined based on market data obtained from independent sources; for example, quoted prices in active markets for identical investments,

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Level 2 fair value is determined using other assumptions obtained from independent sources; for example, quoted prices for similar investments,

Level 3 fair value is determined using the Fund's own assumptions, developed based on the best information available in the circumstances.

The Fund's investments at December 31, 2013 were classified as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	\$ 1,413,334,011	\$	\$	\$ 1,413,334,011
Short-term investments	9,819,486			9,819,486
Total investments	\$ 1,423,153,497	\$	\$	\$ 1,423,153,497
Written options	\$ (29,320)	\$	\$	\$ (29,320)

There were no transfers into or from Level 1 or Level 2 during the year ended December 31, 2013.

New Accounting Pronouncements In February 2013, the Financial Accounting Standards Board issued new guidance, effective for annual and interim periods beginning after December 15, 2012, requiring disclosure of items reclassified out of accumulated other comprehensive income. Adoption of this guidance had no effect on Fund net assets or results of operations and no material impact on the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Federal Income Taxes

No federal income tax provision is required since the Fund's policy is to qualify as a regulated investment company under the Internal Revenue Code and to distribute substantially all of its taxable income to its shareholders. Additionally, management has analyzed and concluded that tax positions included in federal income tax returns from the previous three years that remain subject to examination do not require any provision. Any income tax-related interest or penalties would be recognized as income tax expense. As of December 31, 2013, the identified cost of securities for federal income tax purposes was \$1,031,804,342 and net unrealized appreciation aggregated \$391,349,155, consisting of gross unrealized appreciation of \$397,654,046 and gross unrealized depreciation of \$6,304,891.

Distributions are determined in accordance with our annual 6% minimum distribution rate commitment, based on the Fund's average market price, and income tax regulations, which may differ from generally accepted accounting principles. Such differences are primarily related to the Fund's retirement plans, equity-based compensation, and loss deferrals for wash sales. Differences that are permanent, while not material for the year ended December 31, 2013, are reclassified in the capital accounts of the Fund's financial statements and have no impact on net assets. For tax purposes, distributions paid by the Fund during the years ended December 31, 2013 and December 31, 2012 were classified as ordinary income of \$36,005,425 and \$25,489,925, respectively, and as long-term capital gain of \$41,470,068 and \$35,504,402, respectively. The tax basis of distributable earnings at December 31, 2013 was \$1,404,905 of undistributed ordinary income and \$1,405,220 of undistributed long-term capital gain.

3. Investment Transactions

The Fund's investment decisions are made by the portfolio management team with recommendations from the research staff. Purchases and sales of portfolio securities, other than options and short-term investments, during the year ended December 31, 2013 were \$720,527,760 and \$765,212,378, respectively.

The Fund is subject to changes in the value of equity securities held (equity price risk) in the normal course of pursuing its investment objectives. The Fund may purchase and write option contracts to increase or decrease its equity price risk exposure or may write option contracts to generate additional income. Option contracts generally entail risks associated with counterparty credit, liquidity, and unfavorable equity price movements. The Fund has mitigated counterparty credit and liquidity risks by trading its options through an exchange. The risk of unfavorable equity price movements is limited for purchased options to the premium paid and for written options by writing only covered call or collateralized put option contracts, which require the Fund to segregate certain securities or cash at its custodian when the option is written. A schedule of outstanding option contracts as of December 31, 2013 can be found on page 17.

When the Fund writes (purchases) an option, an amount equal to the premium received (paid) by the Fund is recorded as a liability (asset) and is subsequently marked to market daily in the Statement of Assets and Liabilities, with any related change recorded as an unrealized gain or loss in the Statement of Operations. Premiums received (paid) from unexercised options are treated as realized gains (losses) on the expiration date and are separately identified in the Statement of Operations. Upon the exercise of written put (purchased call) option contracts, premiums received (paid) are deducted from (added to) the cost basis of the underlying securities purchased. Upon the exercise of written call (purchased put) option contracts, premiums received (paid) are added to (deducted from) the proceeds from the sale of underlying securities in determining

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whether there is a realized gain or loss.

Transactions in written covered call and collateralized put options during the year ended December 31, 2013 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2012	1,775	\$ 212,261	1,946	\$ 310,460
Options written	4,217	342,499	3,755	471,526
Options terminated in closing purchase transactions	(1,905)	(157,740)		
Options expired	(3,704)	(369,221)	(5,561)	(765,796)
Options exercised	(343)	(25,239)	(100)	(11,450)
Options outstanding, December 31, 2013	40	\$ 2,560	40	\$ 4,740

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Stock

The Fund has 10,000,000 authorized and unissued preferred shares, \$0.001 par value.

On December 27, 2013, the Fund issued 2,093,644 shares of its Common Stock at a price of \$12.61 per share (the average market price on December 9, 2013) to shareholders of record November 25, 2013 who elected to take stock in payment of the distribution from 2013 capital gain and investment income. During 2013, 1,567 shares were issued at a weighted average price of \$12.15 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

On December 27, 2012, the Fund issued 1,923,171 shares of its Common Stock at a price of \$10.455 per share (the average market price on December 10, 2012) to shareholders of record November 19, 2012 who elected to take stock in payment of the distribution from 2012 capital gain and investment income. During 2012, 1,125 shares were issued at a weighted average price of \$10.53 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

The Fund may purchase shares of its Common Stock from time to time at such prices and amounts as the Board of Directors may deem advisable. In 2013, the Fund purchased 948,339 shares of its Common Stock, including 66,191 shares from the Fund's defined benefit plan trust and 26,271 shares from Petroleum & Resources Corporation's defined benefit plan trust. The cost of the shares purchased from the trusts was \$1,163,172, based on the closing market price on the date of the transaction. Transactions in Common Stock for 2013 and 2012 were as follows:

	Shares		Amount	
	2013	2012	2013	2012
Shares issued in payment of distributions	2,095,211	1,924,296	\$26,419,945	\$20,118,651
Shares purchased (at a weighted average discount from net asset value of 13.6%)	(948,339)		(11,659,522)	
Net activity under the 2005 Equity Incentive Compensation Plan	47,021	31,529	112,279	311,468
Net change	1,193,893	1,955,825	\$14,872,702	\$20,430,119

5. Retirement Plans

Defined Contribution Plans The Fund sponsors a qualified defined contribution plan for all employees with at least six months of service and a nonqualified defined contribution plan for eligible employees to supplement the qualified plan. The Fund expensed contributions to the plans in the amount of \$252,260, a portion thereof based on company performance, for the year ended December 31, 2013. The Fund does not provide postretirement medical benefits.

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Defined Benefit Plans On October 1, 2009, the Fund froze its non-contributory qualified and nonqualified defined benefit pension plans. Benefits are based on length of service and compensation during the last five years of employment through September 30, 2009, with no additional benefits being accrued beyond that date. The process of terminating the plans will begin in 2014. Upon receiving the required regulatory approvals, all benefits under the plans will be paid out and all related pension liabilities will be relieved.

The funded status of the plans is recognized as an asset (overfunded plan) or a liability (underfunded plan) in the Statement of Assets and Liabilities. Changes in the prior service costs and accumulated actuarial gains and losses are recognized as accumulated other comprehensive income, a component of net assets, in the year in which the changes occur and are subsequently amortized into net periodic pension cost. Non-recurring settlement costs are recognized in net periodic pension cost when a plan participant receives a lump-sum benefit payment and includes the amount of which is in excess of the present value of the projected benefit and any unamortized actuarial losses attributable to the portion of the projected benefit obligation being satisfied.

The Fund's policy is to contribute annually to the plans those amounts that can be deducted for federal income tax purposes, plus additional amounts as the Fund deems appropriate in order to provide assets sufficient to meet benefits to be paid to plan participants. The Fund contributed \$0 to the qualified plan and \$85,167 to the nonqualified plan in 2013 and anticipates making contributions of \$198,394 to the nonqualified plan in 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Fund uses a December 31 measurement date for its plans. Details in aggregate for the plans were as follows:

	2013	2012
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 10,865,411	\$ 10,207,237
Interest cost	319,801	359,366
Actuarial (gain) loss	(430,184)	1,029,954
Benefits paid	(200,120)	(177,079)
Effect of settlement (non-recurring)	(2,276,773)	(554,067)
Benefit obligation at end of year	\$ 8,278,135	\$ 10,865,411
Change in qualified plan assets		
Fair value of qualified plan assets at beginning of year	\$ 9,304,946	\$ 8,148,262
Actual return on plan assets	246,307	615,406
Employer contributions		1,225,000
Benefits paid	(114,953)	(129,655)
Settlement (non-recurring)	(2,276,773)	(554,067)
Fair value of qualified plan assets at end of year	\$ 7,159,527	\$ 9,304,946
Funded status	\$ (1,118,608)	\$ (1,560,465)

The accumulated benefit obligation for all defined benefit pension plans was \$8,278,135 and \$10,865,411 at December 31, 2013 and 2012, respectively.

The primary investment objective of the Fund's qualified pension plan assets is capital preservation, achieved through a portfolio of mutual funds and pooled separate accounts (PSA). PSAs, like mutual funds, are made up of a wide variety of underlying investments in securities. The Fund's targeted asset allocation for 2014 is to maintain approximately 60% of plan assets invested in short-term fixed income securities and approximately 40% of plan assets invested in cash and money market securities.

The net asset value of mutual funds and PSAs are based on the fair value of its underlying investments. The fair value of the plan assets is determined using various inputs, summarized into the three levels described in footnote 1. The plan assets at December 31, 2013 were classified as follows:

	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 2,964,212	\$ 4,185,736	\$	\$ 4,185,736
Money market securities		9,579		2,973,791
Total	\$ 2,964,212	\$ 4,195,315	\$	\$ 7,159,527

Items impacting the Fund's net investment income and accumulated other comprehensive income were:

2013

2012

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Components of net periodic pension cost		
Interest cost	\$ 319,801	\$ 359,366
Expected return on plan assets	(323,274)	(278,506)
Net loss component	260,068	268,331
Effect of settlement (non-recurring)	740,825	187,740
Net periodic pension cost	\$ 997,420	\$ 536,931
	2013	2012
Accumulated other comprehensive income		
Defined benefit pension plans:		
Balance at beginning of year	\$ (2,881,871)	\$ (2,638,533)
Net actuarial gain/(loss) arising during period	345,260	(699,409)
Reclassifications to net periodic pension cost:		
Amortization of net loss	260,068	268,331
Effect of settlement (non-recurring)	740,825	187,740
Balance at end of year	\$ (1,535,718)	\$ (2,881,871)

Accumulated other comprehensive income was comprised of net actuarial losses of \$(1,535,718) and \$(2,881,871) at December 31, 2013 and 2012, respectively. In 2014, the Fund estimates that \$151,830 of net losses will be amortized from accumulated other comprehensive income into net periodic pension cost. Any remaining net losses will be recognized upon termination of the plans.

Assumptions used to determine benefit obligations were:

	2013	2012
Discount rate	4.25%	3.75%
Rate of compensation increase		

The assumptions used to determine net periodic pension cost were:

	2013	2012
Discount rate	3.58%	4.20%
Expected long-term return on plan assets	4.00%	4.00%
Rate of compensation increase		

The assumption used to determine expected long-term return on plan assets was based on historical and future expected returns of multiple asset classes in order to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The following benefit payments are eligible to be paid in the years indicated:

	Pension Benefits
2014	\$ 960,000
2015	990,000
2016	320,000
2017	1,240,000
2018	690,000
Years 2019-2023	1,590,000

6. Equity-Based Compensation

The 2005 Equity Incentive Compensation Plan (2005 Plan), adopted at the 2005 Annual Meeting and re-approved at the 2010 Annual Meeting, permits the grant of restricted stock awards (both performance and nonperformance-based), as well as stock options and other stock incentives, to all employees and non-employee directors. Performance-based restricted stock awards vest at the end of a specified three year period, with the ultimate number of shares earned contingent on achieving certain performance targets. If performance targets are not achieved, all or a portion of the performance-based restricted shares are forfeited and become available for future grants. Nonperformance-based restricted stock awards typically vest ratably over a three year period and nonperformance-based restricted stock units (granted to non-employee directors) vest over a one year period. Payment of awards may be deferred, if elected. The 2005 Plan provides for accelerated vesting in the event of death or retirement. Non-employee directors also may elect to defer a portion of their cash compensation, with such deferred amount to be paid by delivery of deferred stock units. Outstanding awards are granted at fair market value on grant date. The 2005 Plan provides for the issuance of up to 3,413,131 shares of the Fund's Common Stock, of which 3,060,320 remain available for future grants at December 31, 2013.

A summary of the status of the Fund's awards granted under the 2005 Plan as of December 31, 2013, and changes during the year then ended, is presented below:

Awards	Shares/Units	Weighted Average Grant-Date Fair Value
Balance at December 31, 2012	170,199	\$ 10.57
Granted:		
Restricted stock	136,418	11.51
Restricted stock units	5,250	11.67
Deferred stock units	6,020	11.87
Vested & issued	(31,003)	10.58
Forfeited	(91,519)	10.57
Balance at December 31, 2013 (includes 71,531 performance-based awards and 123,834 nonperformance-based awards)	195,365	\$ 11.27

Compensation cost resulting from awards granted under the 2005 Plan are based on the fair value of the award on grant date (determined by the average of the high and low price on grant date) and recognized on a straight-line basis over the requisite service period. For those awards with performance conditions, compensation cost is based on the most probable outcome and, if such goals are not met, compensation cost is not

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recognized and any previously recognized compensation cost is reversed. The total compensation cost for restricted stock granted to employees for the year ended December 31, 2013 was \$83,019. The total compensation cost for restricted stock units granted to non-employee directors for the year ended December 31, 2013 was \$62,030. As of December 31, 2013, there was total unrecognized compensation cost of \$1,060,650, a component of additional capital surplus, related to nonvested equity-based compensation arrangements granted under the 2005 Plan. That cost is expected to be recognized over a weighted average period of 1.63 years. The total fair value of shares and units vested during the year ended December 31, 2013 was \$349,076.

7. Officer and Director Compensation

The aggregate remuneration paid during the year ended December 31, 2013 to officers and directors amounted to \$3,619,501, of which \$337,752 was paid to directors who were not officers. These amounts represent the taxable compensation to the Fund's officers and directors and therefore differ from the amounts reported in the accompanying Statement of Operations that are recorded and expensed in accordance with generally accepted accounting principles.

8. Portfolio Securities Loaned

The Fund makes loans of securities to approved brokers to earn additional income. It receives as collateral cash deposits, U.S. Government securities, or bank letters of credit valued at 102% of the value of the securities on loan. The market value of the loaned securities is calculated based upon the most recent closing prices and any additional required collateral is delivered to the Fund on the next business day. Cash deposits are placed in a registered money market fund. The Fund 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Fund also continues to receive interest or dividends on the securities loaned. 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 Fund. At December 31, 2013, the Fund had no securities on loan. The Fund is indemnified by the Custodian, serving as lending agent, for loss of loaned securities and has the right under the lending agreement to recover the securities from the borrower on demand.

9. Operating Lease Commitments

The Fund leases office space and equipment under operating lease agreements expiring at various dates through the year 2019. The Fund recognized rental expense of \$160,317 in 2013, and its minimum rental commitments are as follows:

2014	\$ 215,365
2015	222,165
2016	140,434
2017	64,157
2018 & 2019	