

ADAMS RESOURCES & ENERGY, INC.
Form 10-K
March 21, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-7908

ADAMS RESOURCES & ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	74-1753147	4400 Post Oak Pkwy Ste 2700	77027
		Houston, Texas	
(State of Incorporation)	(I.R.S. Employer Identification No.)	(Address of Principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 881-3600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.10 Par Value	NYSE Amex

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ___NO

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES ___NO

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to the filing requirements for the past 90 days. YES NO ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer" and "accelerated filer and smaller

reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act).

YES NO

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of the close of business on June 30, 2010 was \$37,642,446 based on the closing price of \$18.00 per one share of common stock as reported on the NYSE AMEX Exchange for such date. A total of 4,217,596 shares of Common Stock were outstanding at March 10, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held May 18, 2011 are incorporated by reference into Part III of this report.

PART I

Items 1 and 2. BUSINESS AND PROPERTIES

Forward-Looking Statements –Safe Harbor Provisions

This annual report on Form 10-K for the year ended December 31, 2010 contains certain forward-looking statements covered by the safe harbors provided under Federal securities law and regulations. To the extent such statements are not recitations of historical fact, forward-looking statements involve risks and uncertainties. In particular, statements under the captions (a) Production and Reserve Information, (b) Regulatory Status and Potential Environmental Liability, (c) Management's Discussion and Analysis of Financial Condition and Results of Operations, (d) Critical Accounting Policies and Use of Estimates, (e) Quantitative and Qualitative Disclosures about Market Risk, (f) Income Taxes, (g) Concentration of Credit Risk, (h) Price Risk Management Activities, and (i) Commitments and Contingencies, among others, contain forward-looking statements. Where the Company expresses an expectation or belief regarding future results or events, such expression is made in good faith and believed to have a reasonable basis in fact. However, there can be no assurance that such expectation or belief will actually result or be achieved.

With the uncertainties of forward looking statements in mind, the reader should consider the risks discussed elsewhere in this report and other documents filed by the Company with the Securities and Exchange Commission from time to time and the important factors described under "Item 1A. Risk Factors" that could cause actual results to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company.

Business Activities

Adams Resources & Energy, Inc. ("ARE") and its subsidiaries, collectively (the "Company"), are engaged in the business of marketing crude oil, natural gas and petroleum products, tank truck transportation of liquid chemicals, and oil and gas exploration and production. Adams Resources & Energy, Inc. is a Delaware corporation organized in 1973. The Company's headquarters are located in 20,700 square feet of leased office space at 4400 Post Oak Parkway, Suite 2700, Houston, Texas 77027 and the telephone number of that address is (713) 881-3600. The revenues, operating results and identifiable assets of each industry segment for the three years ended December 31, 2010 are set forth in Note (8) of Notes to Consolidated Financial Statements included elsewhere herein.

Marketing Segment Subsidiaries

Gulfmark Energy, Inc. ("Gulfmark"), a subsidiary of ARE, purchases crude oil and arranges sales and deliveries to refiners and other customers. Activity is concentrated primarily onshore in Texas and Louisiana with additional operations in Michigan and New Mexico. During 2010, Gulfmark purchased approximately 69,000 barrels per day of crude oil at the wellhead or lease level. Gulfmark also operates 131 tractor-trailer rigs and maintains over 47 pipeline inventory locations or injection stations. Gulfmark has the ability to barge oil from three oil storage facilities along the intercoastal waterway of Texas and Louisiana and maintains 75,000 barrels of storage capacity at certain of the dock facilities in order to access waterborne markets for its products. Gulfmark arranges transportation for sales to customers or enters into exchange transactions with third parties when the cost of the exchange is less than the alternate cost incurred in transporting or storing the crude oil. During 2010, Gulfmark had sales to five customers that comprised 35.8 percent, 20.2 percent, 17.9 percent, 13 percent and 11 percent, respectively, of total Company wide revenues. Management believes that a loss of any of these customers would not have a material adverse effect on the Company's operations. See also Note 3 of Notes to Consolidated Financial Statements.

Adams Resources Marketing, Ltd. (“ARM”), a subsidiary of ARE, operates as a wholesale purchaser, distributor and marketer of natural gas. ARM’s focus is on the purchase of natural gas at the producer level. During 2010, ARM purchased approximately 258,000 million british thermal units (“mmbtu’s”) of natural gas per day at the wellhead and pipeline pooling points. Business is concentrated among approximately 60 independent producers with the primary production areas being the Louisiana and Texas Gulf Coast and the offshore Gulf of Mexico region. ARM provides value added services to its customers by providing access to common carrier pipelines and handling daily volume balancing requirements as well as risk management services.

Ada Resources, Inc. (“Ada”), a subsidiary of ARE, markets branded and unbranded refined petroleum products such as motor fuels and lubricants. Ada makes purchases based on the supplier’s established distributor prices, with such prices generally being lower than Ada’s sales price to its customers. Motor fuel sales include automotive gasoline, biodiesel and conventional diesel fuel. Lubricants consist of passenger car motor oils as well as a full complement of industrial oils and greases. Ada is also involved in the railroad servicing industry, including fueling and lubricating locomotives as well as performing routine maintenance on the power units. Further, the United States Coast Guard has certified Ada as a direct-to-vessel approved marine fuel and lube vendor. Ada’s marketing area primarily includes the Texas Gulf Coast and southern Louisiana. The primary product distribution and warehousing facility is located on 5.5 Company-owned acres in Houston, Texas. The property includes a 60,000 square foot warehouse, 11,000 square feet of office space and bulk storage for 320,000 gallons of lubricating oil.

Operating results are sensitive to a number of factors. Such factors include commodity location, grades of product, individual customer demand for grades or location of product, localized market price structures, availability of transportation facilities, actual delivery volumes that vary from expected quantities, and the timing and costs to deliver the commodity to the customer.

Transportation Segment Subsidiary

Service Transport Company (“STC”), a subsidiary of ARE, transports liquid chemicals on a "for hire" basis throughout the continental United States and Canada. Transportation service is provided to over 400 customers under multiple load contracts in addition to loads covered under STC’s standard price list. Pursuant to regulatory requirements, STC holds a Hazardous Materials Certificate of Registration issued by the U.S. Department of Transportation. Presently, STC operates 283 truck tractors of which 15 are independent owner-operator units and maintains 422 tank trailers. In addition, STC maintains truck terminals in Houston, Corpus Christi, and Nederland, Texas as well as Baton Rouge (St. Gabriel), Louisiana and Mobile (Saraland), Alabama. Transportation operations are headquartered at a terminal facility situated on 22 Company-owned acres in Houston, Texas. This property includes maintenance facilities, an office building, tank wash rack facilities and a water treatment system. The St. Gabriel, Louisiana terminal is situated on 11.5 Company-owned acres and includes an office building, maintenance bays and tank cleaning facilities.

STC is compliant with International Organization for Standardization (“ISO”) 9001:2000 Standard. The scope of this Quality System Certificate covers the carriage of bulk liquids throughout STC’s area of operations as well as the tank trailer cleaning facilities and equipment maintenance. STC’s quality management process is one of its major assets. The practice of using statistical process control covering safety, on-time performance and customer satisfaction aids continuous improvement in all areas of quality service. In addition to its ISO 9001:2000 practices, the American Chemistry Council recognizes STC as a Responsible Care® Partner. Responsible Care Partners serve the chemical industry and implement and monitor the seven Codes of Management Practices. The seven codes address compliance and continuing improvement in (1) Community Awareness and Emergency Response, (2) Pollution Prevention, (3) Process Safety, (4) Distribution, (5) Employee Health and Safety, (6) Product Stewardship and (7) Security.

Oil and Gas Segment Subsidiary

Adams Resources Exploration Corporation (“AREC”), a subsidiary of ARE, is actively engaged in the exploration and development of domestic oil and natural gas properties primarily in Texas and the south central region of the United States. AREC’s offices are maintained in Houston and the Company holds an interest in 347 wells of which 41 are Company operated.

Producing Wells--The following table sets forth the Company's gross and net productive wells as of December 31, 2010. Gross wells are the total number of wells in which the Company has an interest, while net wells are the sum of the fractional interests owned.

	Oil Wells		Gas Wells		Total Wells	
	Gross	Net	Gross	Net	Gross	Net
Texas	69	9.36	130	11.56	199	20.92
Other	94	4.26	54	5.40	148	9.66
	163	13.62	184	16.96	347	30.58

Acreage--The following table sets forth the Company's gross and net developed and undeveloped acreage as of December 31, 2010. Gross acreage represents the Company's direct ownership and net acreage represents the sum of the fractional interests owned. The Company's developed acreage is held by current production while undeveloped acreage is held by oil and gas leases with various remaining terms from six months to three years.

	Developed Acreage		Undeveloped Acreage	
	Gross	Net	Gross	Net
Texas	92,782	10,027	213,627	16,783
Kansas	480	80	23,213	2,289
Other	7,499	913	5,496	858
	100,761	11,020	242,336	19,930

Drilling Activity--The following table sets forth the Company's drilling activity for each of the three years ended December 31, 2010. All drilling activity was onshore in Texas, Louisiana, Arkansas and Kansas.

	2010		2009		2008	
	Gross	Net	Gross	Net	Gross	Net
Exploratory wells drilled						
- Productive	-	-	2	.10	2	.13
- Dry	12	.67	7	.94	2	.22
Development wells drilled						
- Productive	41	1.77	24	1.35	17	1.06
- Dry	-	-	2	.10	7	.68
	53	2.44	35	2.49	28	2.09

Production and Reserve Information--The Company's estimated net quantities of proved oil and natural gas reserves and the standardized measure of discounted future net cash flows calculated at a 10% discount rate for the three years ended December 31, 2010, are presented in the table below (in thousands):

	December 31,		
	2010	2009	2008
Crude oil (thousands of barrels)	267	242	230
Natural gas (thousands of mcf)	7,794	7,248	6,443
Standardized measure of discounted future net cash flows from oil and natural gas reserves	\$ 16,672	\$ 9,305	\$ 11,547

The estimated value of oil and natural gas reserves and future net revenues from oil and natural gas reserves was made by the Company's independent petroleum engineers. The reserve value estimates provided at each of December 31, 2010, 2009 and 2008 are based on market prices of \$76.14, \$58.43 and \$37.87 per barrel for crude oil and \$5.26, \$4.05 and \$5.65 per mcf for natural gas, respectively. For 2010 and 2009, such prices were based on the unweighted arithmetic average of the prices in effect on the first day of the month for each month of the respective twelve month periods as required by Security & Exchange Commission regulations. For 2008, the price reflects the market price on December 31, 2008.

Reserve estimates are based on many subjective factors. The accuracy of reserve estimates depends on the quantity and quality of geological data, production performance data, and reservoir engineering data, the pricing assumptions utilized as well as the skill and judgment of petroleum engineers in interpreting such data. The process of estimating reserves requires frequent revision of estimates as additional information is made available through drilling, testing, reservoir studies and acquiring historical pressure and production data. In addition, the discounted present value of estimated future net revenues should not be construed as the fair market value of oil and natural gas producing properties. Such estimates do not necessarily portray a realistic assessment of current value or future performance of such properties. Such revenue calculations are based on estimates as to the timing of oil and natural gas production, and there is no assurance that the actual timing of production will conform to or approximate such estimates. Also, certain assumptions have been made with respect to pricing. The estimates assume prices will remain constant from the date of the engineer's estimates, except for changes reflected under natural gas sales contracts. There can be no assurance that actual future prices will not vary as industry conditions, governmental regulation and other factors impact the market price for oil and natural gas.

The Company's oil and natural gas production for the three years ended December 31, 2010 was as follows:

Years Ended December 31,	Crude Oil (barrels)	Natural Gas (mcf)
2010	54,000	1,365,000
2009	49,500	1,304,000
2008	50,500	