

ADAMS EXPRESS CO  
Form N-30B-2  
October 19, 2005

THE ADAMS EXPRESS COMPANY

**Board of Directors**

Enrique R. Arzac <sup>1,3</sup>	Douglas G. Ober <sup>1</sup>
Phyllis O. Bonanno <sup>1,3</sup>	John J. Roberts <sup>1,3</sup>
Daniel E. Emerson <sup>2,3</sup>	Susan C. Schwab <sup>2,4</sup>
Thomas H. Lenagh <sup>1,4</sup>	Robert J.M. Wilson <sup>1,2</sup>
Kathleen T. McGahran <sup>2,4</sup>	

1. *Member of Executive Committee*
2. *Member of Audit Committee*
3. *Member of Compensation Committee*
4. *Member of Retirement Benefits Committee*

**Officers**

Douglas G. Ober	<i>Chairman and Chief Executive Officer</i>
Joseph M. Truta	<i>President</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>
Stephen E. Kohler	<i>Vice President Research</i>
David R. Schiminger	<i>Vice President Research</i>
D. Cotton Swindell	<i>Vice President Research</i>
Christine M. Sloan	<i>Assistant Treasurer</i>
Geraldine H. Paré	<i>Assistant Secretary</i>

**Stock Data**

Market Price (9/30/05)	\$ 13.12
Net Asset Value (9/30/05)	\$ 15.32
Discount:	14.4%

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 2005**

From Investment Income	\$ 0.14
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From Net Realized Gains	0.01
Total	\$ 0.15

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**2005 Dividend Payment Dates**

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March 1, 2005

June 1, 2005

September 1, 2005

December 27, 2005\*

\*Anticipated

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LETTER TO STOCKHOLDERS

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We submit herewith the financial statements of the Company for the nine months ended September 30, 2005. Also provided are a schedule of investments and other summary financial information.

Net assets of the Company at September 30, 2005 were \$15.32 per share on 84,090,383 shares outstanding, compared with \$15.04 per share at December 31, 2004 on 86,135,292 shares outstanding. On March 1, 2005, a distribution of \$0.05 per share was paid, consisting of \$0.03 from 2004 investment income, \$0.01 from 2004 short-term capital gain, and \$0.01 from 2005 investment income, all taxable in 2005. Investment income dividends of \$0.05 per share were paid on June 1, 2005 and September 1, 2005.

Net investment income for the nine months ended September 30, 2005 amounted to \$12,904,578, compared with \$12,028,283 for the same period in 2004. These earnings are equal to \$0.15 and \$0.14 per share, respectively, on the average number of shares outstanding during each period.

Net capital gain realized on investments for the nine months ended September 30, 2005 amounted to \$37,958,335, the equivalent of \$0.45 per share.

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 website ([www.adamsexpress.com](http://www.adamsexpress.com)). Also available at the website are a history of the Company, historical financial information, and other useful information. Further information regarding shareholder services is located on page 15 of this report.

It is with great sadness that we inform you that our director and former Chairman, W. David MacCallan, passed away on August 19. Mr. MacCallan was first employed by the Company in 1955, was elected Chairman of the Board in 1971, and retired in 1991 while continuing to serve on the Board of Directors until his death. It was our great pleasure to work closely with Mr. MacCallan. His grasp of the nuances of the business of investing was rare in the industry and his loyalty to the Company and its shareholders was unswerving. We have lost a great leader and advisor. Our deepest sympathies go out to his immediate family as well as to his extended family.

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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.

By order of the Board of Directors,

Douglas G. Ober,

*Chairman and*

*Chief Executive Officer*

Joseph M. Truta,

*President*

October 19, 2005

## STATEMENT OF ASSETS AND LIABILITIES

September 30, 2005

(unaudited)

**Assets**

Investments\* at value:

Common stocks and convertible securities

(cost \$880,115,520) \$ 1,164,189,556

Non-controlled affiliate, Petroleum &amp; Resources Corporation

(cost \$27,963,162) 69,410,560

Short-term investments (cost \$47,188,324) 47,188,324

Securities lending collateral (cost \$28,263,605) 28,263,605 \$ 1,309,052,045

Cash 282,043

Receivables:

Investment securities sold 3,206,836

Dividends and interest 1,127,094

Prepaid pension cost 5,501,066

Prepaid expenses and other assets 1,749,247

**Total Assets** 1,320,918,331**Liabilities**

Investment securities purchased 25,950

Open written option contracts at value (proceeds \$567,791) 894,250

Obligations to return securities lending collateral 28,263,605

Accrued expenses 3,491,684

**Total Liabilities** 32,675,489**Net Assets** \$ 1,288,242,842**Net Assets**

Common Stock at par value \$1.00 per share, authorized 150,000,000 shares; issued and outstanding

84,090,383 shares (includes 13,941 restricted

shares and restricted stock units for 6,000 shares) (Note 6) \$ 84,090,383

Additional capital surplus 834,680,351

Undistributed net investment income 5,836,594

Undistributed net realized gain on investments 38,440,539

Unrealized appreciation on investments 325,194,975

**Net Assets Applicable to Common Stock** \$ 1,288,242,842**Net Asset Value Per Share of Common Stock** \$15.32*\*See Schedule of Investments on pages 9 through 10.**The accompanying notes are an integral part of the financial statements.*

## STATEMENT OF OPERATIONS

*Nine Months Ended September 30, 2005**(unaudited)*

<b>Investment Income</b>	
Income:	
Dividends:	
From unaffiliated issuers	\$ 15,830,606
From non-controlled affiliate	655,379
Interest and other income	656,912
<i>Total Income</i>	17,142,897
Expenses:	
Investment research	1,906,998
Administration and operations	918,736
Directors' fees	222,223
Reports and stockholder communications	242,079
Transfer agent, registrar and custodian expenses	285,768
Auditing and accounting services	91,252
Legal services	137,857
Occupancy and other office expenses	265,305
Travel, telephone and postage	70,282
Other	97,819
<i>Total Expenses</i>	4,238,319
<b>Net Investment Income</b>	12,904,578
<b>Realized Gain and Change in Unrealized Appreciation on Investments</b>	
Net realized gain on security transactions	37,839,175
Net realized gain distributed by regulated investment company (non-controlled affiliate)	119,160
Change in unrealized appreciation on investments	(18,475,437)
<b>Net Gain on Investments</b>	19,482,898
<b>Change in Net Assets Resulting from Operations</b>	\$ 32,387,476

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

## STATEMENTS OF CHANGES IN NET ASSETS

	Nine Months Ended September 30, 2005	Year Ended December 31, 2004
	(unaudited)	
<b>From Operations:</b>		
Net investment income	\$ 12,904,578	\$ 19,008,405
Net realized gain on investments	37,958,335	54,713,903
Change in unrealized appreciation on investments	(18,475,437)	61,557,921
<i>Change in net assets resulting from operations</i>	32,387,476	135,280,229
<b>Distributions to Stockholders from:</b>		
Net investment income	(11,918,223)	(20,157,724)
Net realized gain from investment transactions	(856,720)	(55,099,990)
<i>Decrease in net assets from distributions</i>	(12,774,943)	(75,257,714)
<b>From Capital Share Transactions:</b>		
Value of shares issued in payment of distributions		35,690,590
Cost of shares purchased (Note 4)	(26,990,164)	(19,026,661)
Deferred compensation (Notes 4, 6)	71,573	
<i>Change in net assets from capital share transactions</i>	(26,918,591)	16,663,929
<b>Total Change in Net Assets</b>	<b>(7,306,058)</b>	<b>76,686,444</b>
<b>Net Assets:</b>		
Beginning of period	1,295,548,900	1,218,862,456
End of period (including undistributed net investment income of \$5,836,594 and \$5,038,545, respectively)	\$ 1,288,242,842	\$ 1,295,548,900

*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 at September 30, 2005 was \$954,779,755 and net unrealized appreciation aggregated \$326,008,685, of which the related gross unrealized appreciation and depreciation were \$439,609,769 and \$113,601,084, 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 of management, and recommendations to that committee are made by the research staff.



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Purchases and sales of portfolio securities, other than options and short-term investments, during the nine months ended September 30, 2005 were \$116,372,809 and \$158,130,759, respectively. Options may be written (sold) or purchased by the Company. The Company, as writer of an option, bears the risks of possible illiquidity of the option markets and from movements in security values. The risk associated with purchasing an option is limited to the premium originally paid. A schedule of outstanding option contracts as of September 30, 2005 can be found on page 12.

Transactions in written covered call and collateralized put options during the nine months ended September 30, 2005 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2004	3,600	\$ 386,349	2,655	\$ 268,082
Options written	7,925	891,649	6,790	811,478
Options terminated in closing purchase transactions	(1,336)	(144,804)	(850)	(125,699)
Options expired	(5,414)	(568,875)	(4,995)	(518,553)
Options exercised	(2,930)	(339,338)	(750)	(92,498)
Options outstanding, September 30, 2005	1,845	\$ 224,981	2,850	\$ 342,810

#### 4. Capital Stock

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

On December 27, 2004, the Company issued 2,745,430 shares of its Common Stock at a price of \$13.00 per share (the average market price on December 13, 2004) to stockholders of record on November 23, 2004 who elected to take stock in payment of the year-end distribution from 2004 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 2005 and 2004 were as follows:

	Shares		Amount	
	Nine months ended September 30, 2005	Year ended December 31, 2004	Nine months ended September 30, 2005	Year ended December 31, 2004
Shares issued in payment of dividends		2,745,430	\$	\$ 35,690,590
Shares purchased (at a weighted average discount from net asset value of 12.4% and 13.0%, respectively)	(2,065,600)	(1,496,550)	(26,990,164)	(19,026,661)
Restricted shares/units granted under the Equity Incentive Compensation Plan	20,691		71,573	
Net change	(2,044,909)	1,248,880	\$ (26,918,591)	\$ 16,663,929

**5. Retirement Plans**

The Company's qualified defined benefit pension plan covers all employees with at least one year of service. In addition, the Company has a nonqualified defined benefit plan which provides eligible employees with retirement benefits to supplement the qualified plan. Benefits are based on length of service.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

and compensation during the last five years of employment. The Company'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 Company deems appropriate in order to provide assets sufficient to meet benefits to be paid to plan participants. During the nine months ended September 30, 2005, the Company contributed \$12,563 to the plans. The Company does not anticipate additional contributions to the plans in 2005.

The following table aggregates the components of the plans' net periodic pension cost for the nine months ended September 30, 2005:

Service cost	\$ 269,999
Interest cost	378,248
Expected return on plan assets	(592,004)
Amortization of prior service cost	94,915
Amortization of net loss	141,347
Net periodic pension cost	\$ 292,505

The Company also sponsors a defined contribution plan that covers substantially all employees. For the nine months ended September 30, 2005, the Company expensed contributions of \$136,537. The Company does not provide postretirement medical benefits.

## 6. Stock-Based Compensation

The Stock Option Plan adopted in 1985 ( 1985 Plan ) permits the issuance of stock options and stock appreciation rights for the purchase of up to 2,610,146 shares of the Company's Common Stock at the fair market value on the date of grant. The exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gains paid by the Company during subsequent years. Options are exercisable beginning not less than one year after the date of grant and stock appreciation rights are exercisable beginning not less than two years after the date of grant. The stock appreciation rights allow the holders to surrender their rights to exercise their options and receive cash in an amount equal to the difference between the option exercise price and the fair market value of the Common Stock at the date of surrender. All options terminate 10 years from the date of grant if not exercised. With the adoption of the 2005 Equity Incentive Compensation Plan ( 2005 Plan ) at the 2005 Annual Meeting, no further grants will be made under the 1985 Plan, although unexercised awards granted in 2004 and prior years remain outstanding.

A summary of option activity under the 1985 Plan as of September 30, 2005, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at January 1, 2005	283,297	\$ 11.76	
Exercised			
Forfeited			
Outstanding at September 30, 2005	283,297	\$ 11.75	5.72
Exercisable at September 30, 2005	180,888	\$ 11.44	5.61

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The options outstanding as of September 30, 2005 are set forth below:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
\$3.00-\$6.74	23,418	\$ 4.18	0.90
\$6.75-\$10.49	72,764	9.67	6.19
\$10.50-\$14.24	135,967	10.85	6.63
\$14.25-\$18.00	51,148	17.59	4.84
Outstanding at September 30, 2005	283,297	\$ 11.75	5.72

Compensation cost resulting from stock options and stock appreciation rights granted under the 1985 Plan is based on the intrinsic value of the award, recognized over the award's vesting period, and remeasured at each reporting date through the date of settlement. The total compensation cost recognized for the nine months ended September 30, 2005 was \$(51,237).

The 2005 Plan permits the grant of stock options, restricted stock awards and other stock incentives to key employees and all non-employee directors. The 2005 Plan provides for the issuance of up to 3,413,131 shares of the Company's Common Stock. Restricted stock was granted to key employees on April 27, 2005 at fair market value on that date, vesting over a three year period. Restricted stock units were granted to non-employee directors on April 27, 2005 at fair market value on that date and vest over a one year period. The total fair value of units that vested in 2005 was \$9,889. The number of shares of Common Stock which remain available for future grants under the Plan at September 30, 2005 is 3,392,440 shares. The Company pays dividends and dividend equivalents on outstanding awards, which are charged to net assets when paid. Dividends and dividend equivalents paid on restricted awards that are later forfeited are reclassified to compensation expense.

A summary of the status of the Company's awards granted as of September 30, 2005, and changes during the period then ended is presented below:

Awards	Shares/Units	Grant-Date Fair Value
Balance at January 1, 2005		
Granted:		
Restricted stock	13,941	