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ADAMS EXPRESS CO
Form N-CSR
February 15, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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) (Zip code)

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

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

Date of fiscal year end: December 31, 2006

Date of reporting period: December 31, 2006

Item 1. Reports to Stockholders.

The Adams Express Company
Annual Report 2006

Generation after generation

[GRAPHIC APPEARS HERE]

we grow with you(TM)

. GROW | . PROTECT | . INVEST

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[LOGO OF ADAMS EXPRESS COMPANY]

2006 AT A GLANCE

The Company

- .. a closed-end equity investment company
- .. objectives: preservation of capital
 - reasonable income
 - opportunity for capital gain
- .. internally-managed
- .. low expense ratio
- .. low turnover

Stock Data (12/31/06)

NYSE Symbol..... ADX
 Market Price..... \$13.87
 52-Week Range \$12.37 - \$14.37
 Discount..... 12.5%
 Shares Outstanding.86,838,223

Summary Financial Information

| | Year Ended December 31 | |
|---|------------------------|---------------|
| | 2006 | 2005 |
| Net asset value per share | \$ 15.86 | \$ 14.71 |
| Total net assets | 1,377,418,310 | 1,266,728,652 |
| Unrealized appreciation | 418,756,256 | 316,477,367 |
| Net investment income | 19,691,488 | 18,288,551 |
| Total realized gain | 56,553,881 | 53,817,950 |
| Total return (based on market value) | 17.9% | 2.2% |
| Total return (based on net asset value) | 15.0% | 4.5% |
| Expense ratio | 0.50% | 0.45% |

2006 Dividends and Distributions

| | Amount | |
|-------------------|-------------|-------------------------|
| Paid | (per share) | Type |
| | | |
| March 1, 2006 | \$0.02 | Short-term capital gain |
| March 1, 2006 | 0.03 | Investment income |
| June 1, 2006 | 0.05 | Investment income |
| September 1, 2006 | 0.05 | Investment income |
| December 27, 2006 | 0.63 | Long-term capital gain |

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| | | |
|-------------------|------|-------------------------|
| December 27, 2006 | 0.02 | Short-term capital gain |
| December 27, 2006 | 0.10 | Investment income |

\$0.90

2007 Annual Meeting of Stockholders

Location: The Maryland Club, Baltimore, Maryland

Date: March 27, 2007

Time: 9:30 a.m.

PORTFOLIO REVIEW

Ten Largest Portfolio Holdings (12/31/06)

| | Market Value | % of Net Assets |
|------------------------------------|---------------|-----------------|
| ----- | | |
| Petroleum & Resources Corporation* | \$ 73,169,458 | 5.3 |
| General Electric Co. | 55,357,317 | 4.0 |
| American International Group, Inc. | 35,830,000 | 2.6 |
| Microsoft Corp. | 35,234,800 | 2.6 |
| Bank of America Corp. | 32,567,900 | 2.4 |
| Pfizer Inc. | 29,008,000 | 2.1 |
| Wachovia Corp. | 26,766,500 | 1.9 |
| PepsiCo, Inc. | 25,020,000 | 1.8 |
| ConocoPhillips | 24,822,750 | 1.8 |
| Schlumberger Ltd. | 24,000,800 | 1.7 |
| ----- | | |
| Total | \$361,777,525 | 26.2% |
| ----- | | |

*Non-controlled affiliate

Sector Weightings (12/31/06)

[CHART]

| Consumer | Energy | Financial | Health Care | Industrials | Information Technology | Materials | Telecom Services | Utilities | C Eq |
|----------|--------|-----------|----------------|-------------|---------------------------|-----------|---------------------|-----------|---------|
| ----- | | | | | | | | | |
| 18.0% | 11.7% | 17.9% | 12.8% | 12.9% | 11.4% | 5.3% | 2.7% | 3.5% | |

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THE ADAMS EXPRESS COMPANY

| Calendar Years | Market Value of original shares | Cumulative market value of capital gains distributions taken in shares | Cumulative market value of income dividends taken in shares | Total market value | Total net asset value |
|-------------------|---|--|--|--------------------------|-----------------------------|
| 1992 | \$10,480 | \$ 629 | \$ 237 | \$11,346 | \$11,619 |
| 1993 | 9,367 | 1,232 | 437 | 11,036 | 12,211 |
| 1994 | 8,188 | 1,766 | 661 | 10,615 | 12,218 |
| 1995 | 9,691 | 2,881 | 1,151 | 13,723 | 15,849 |
| 1996 | 10,349 | 3,994 | 1,615 | 15,958 | 19,150 |
| 1997 | 12,674 | 6,145 | 2,417 | 21,236 | 25,036 |
| 1998 | 13,952 | 8,292 | 3,068 | 25,312 | 30,930 |
| 1999 | 17,587 | 12,533 | 4,293 | 34,413 | 41,295 |
| 2000 | 16,506 | 14,186 | 4,315 | 35,007 | 39,541 |
| 2001 | 11,177 | 11,902 | 3,285 | 26,364 | 29,757 |
| 2002 | 8,308 | 9,888 | 2,733 | 20,929 | 23,998 |
| 2003 | 9,754 | 12,876 | 3,555 | 26,185 | 30,300 |
| 2004 | 10,312 | 14,989 | 4,311 | 29,612 | 33,945 |
| 2005 | 9,864 | 15,786 | 4,595 | 30,245 | 35,451 |
| 2006 | 10,902 | 19,046 | 5,698 | 35,646 | 40,760 |

Illustration of an assumed
15 year investment of \$10,000
(unaudited)

Investment income dividends and capital gains distributions are taken in additional shares. This chart covers the years 1992-2006. Fees for the reinvestment of interim dividends are assumed as 2% of the amount reinvested (maximum of \$2.50) and commissions of \$0.05 per share. There is no charge for reinvestment of year-end distributions. No adjustment has been made for any income taxes payable by stockholders on income dividends or on capital gains distributions, or the sale of any shares. These results should not be considered representative of the dividend income or capital gain or loss which may be realized in the future.

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LETTER TO STOCKHOLDERS

The Year in Review

We are pleased to report a strong 15.0% total return on net assets for the Fund in 2006. This compares well with the S&P 500 Index's return of 15.8%, and is well ahead of the Lipper Large Cap Core Mutual Fund Average return of 13.5%. We

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entered 2006 expecting a year of modest returns based on decelerating earnings growth, but these were surpassed in the latter part of the year. Profit margins were maintained or increased by many corporations due to strong cost-cutting measures and earnings per share were further boosted by large share-repurchase programs. When all the numbers are in, operating earnings per share growth of the companies in the S&P 500 will most likely have been over 10% for an unprecedented fourth year in a row, contributing to the higher return.

[PHOTO OF DOUGLAS G. OBER]]

Douglas G. Ober,
Chairman and Chief
Executive Officer

The short-term interest rate increases begun by the Federal Reserve Board (the Fed) in 2004 were continued through the first six months of 2006. These actions cast a pall over equity markets, resulting in a low 2.7% return for the S&P 500 through June 30. The yield curve (the variation of interest rates with time) had become inverted, with short-term rates running higher than long-term rates, in 2005 and remained so through 2006. Such an inversion has historically preceded slower economic growth or an outright recession. When the Fed took no action to raise short-term rates further in the latter half of the year, investors became more optimistic, analysts ceased lowering corporate earnings estimates, and the equity markets headed up.

In addition to the above, there was a general increase in private equity transactions, in which hedge funds and private investors took large positions in public companies or bought them outright. Examples from our portfolio included Clear Channel Communications and HCA, Inc. Such transactions frequently were done at higher valuations than had been priced into the equity markets, resulting in upward revaluations of many public companies and consequent surges in the markets that were more speculative in nature than fundamentally-based. There was also a pick-up in industry consolidation in a number of sectors, including materials, industrial, financial, telecommunications, and technology, as companies utilized large cash hoards and/or stock to expand their businesses through acquisition. Several companies in our portfolio were involved in such transactions, including AT&T, North Fork Bancorp, Lucent Technologies, and Caremark Rx.

While this kind of activity has a salutary effect on market valuations, it has no near-term impact on overall economic growth. Indeed, after strong growth in the first quarter, the economy grew at roughly 2% for the next two quarters and probably at a similar rate in the final three months of the year. Europe, on the other hand, experienced accelerating, though still modest, growth and most of the rest of the world grew strongly, though at a slightly reduced rate. We chose not to participate directly in the international growth, preferring to hold positions in domestic companies with major overseas operations, though we did add Teva Pharmaceuticals, an Israeli corporation, to the portfolio.

Our performance in 2006 was led by our holdings in the telecom services, energy, and consumer sectors of the economy. Our technology holdings outperformed the S&P Index sector by nearly 6 percentage points, with a 14.3% return. The Fund's investments in the health care sector also outperformed the Index sector, by a more modest amount. Underperforming sectors included financials, materials, industrials, and utilities, though both financials and industrials had double-digit returns. Within the financials, we have generally avoided real estate companies and brokers (with Morgan Stanley the exception), which performed best in the group. The materials sector benefited from a flurry of acquisitions in the metals group, where we have no current exposure. The return of our industrial sector holdings was negatively impacted by our large GE holding, which finally began to improve toward the end of the year. Utilities with merchant generating assets and those with nuclear power plants, which we have generally avoided, were the outstanding performers within the

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utilities sector. Overall, there was only a modest difference between the Fund's performance and that of the S&P 500 and it can in some part be accounted for by the merger and acquisition activity mentioned above. Our philosophy of investing in companies with strong outlooks often means we do not benefit from such activity in the short term as we are less likely to own shares of merger or acquisition targets. We believe that our approach results in more consistent returns over the long term.

Investment Results

At the end of 2006 our net assets were \$1,377,418,310 or \$15.86 per share on 86,838,223 shares outstanding. This compares with \$1,266,728,652 or \$14.71 per share on 86,099,607 shares outstanding a year earlier.

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Net investment income for 2006 was \$19,691,488 compared to \$18,288,551 for 2005. These earnings are equal to \$0.23 and \$0.22 per share, respectively, on the average number of shares outstanding throughout each year. Our 0.50% expense ratio (expenses to average net assets) in 2006 was once again very low compared to the fund industry in general.

Net realized gains amounted to \$56,553,881 during the year, while the unrealized appreciation on investments increased from \$316,477,367 at December 31, 2005 to \$418,756,256 at year end.

Dividends and Distributions

The total dividends and distributions paid in 2006 were \$0.90 per share compared to \$0.86 in 2005. The table on page 21 shows the history of our dividends and distributions over the past fifteen years, including the annual rate of distribution as a percentage of the average daily market price of the Company's Common Stock. In 2006, the annual rate of distribution was 6.80% compared to 6.65% in 2005. As announced on November 9, 2006, a year-end distribution consisting of investment income of \$0.10 and capital gains of \$0.65 was made on December 27, 2006, both realized and taxable in 2006. On January 11, 2007, an additional distribution of \$0.05 per share was declared to shareholders of record February 16, 2007, payable March 1, 2007, representing the balance of undistributed net investment income and capital gains earned during 2006 and an initial distribution from 2007 net investment income, all taxable to shareholders in 2007.

Outlook for 2007

For the past two years, we have anticipated a slowdown in the domestic economy, to a significant degree due to higher energy prices and short-term interest rates. Surprisingly, both the consumer and the industrial sectors of the economy seem to have adapted to these expected drags on growth, although some impact has been felt. Particular industries, notably housing and autos, have been hit harder than others and will take some time to recover. In general, though, conditions are good and there is little reason to expect the economy to fall into recession. After a brief pause, manufacturing industries are growing; consumers continue to spend the bulk of their paychecks; the Fed has stopped raising interest rates for now; energy prices have begun to ease with a mild early part of the winter; and the dollar has only weakened modestly. There is general agreement among economists that a "soft landing" will occur, in which the economy slows sufficiently that inflation is brought below 2% but does not reach recession. Equity investors are content with this outlook, though they have had to temper expectations that the Fed will cut rates in the first half of the year.

It is our belief that inflation is more stubborn than many believe and that Fed Chairman Bernanke will keep short-term interest rates at the current level for most, if not all, of 2007, and may even raise them further if the economy

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rebounds. Housing and energy prices have declined from their highest levels, as have the prices of some industrial raw materials, but the impact of these price increases over the past several years still are not reflected in consumer prices. Agricultural commodities, especially corn, remain very expensive, with little sign of easing, yet food price increases have not been remarkable. We would expect Mr. Bernanke, as the new Fed chairman, to take action to firmly establish his credentials as an inflation fighter. Thus, he is more likely to err on the side of caution than take a chance that inflation will subside on its own.

With the expectation that interest rates will remain high longer, we are not looking for the economy to accelerate until the final quarter of 2007 and perhaps not until 2008. Year-over-year, real GDP growth should amount to 2% to 2 1/2% in 2007 at best. The cost-cutting which occurred in 2006 cannot continue indefinitely, nor can share-buybacks boost earnings by more than 2% or so. This leaves anticipated growth in the earnings per share of the S&P 500 of 5% to 7%. Such a modest level of earnings growth would normally generate rather subdued returns in the equity markets. We do, however, believe that multiple expansion could occur in 2007, with the market's price/earnings ratio rising to 17 from 16 on a trailing basis, and drive returns closer to the 10% level. The merger, acquisition, and privatization activity which began in earnest in 2006 is expected to continue this year and may even accelerate. As noted previously, this has been reflected to some degree in equity markets already and should continue to drive valuations upward until stocks become over-valued, which they are not currently, or the current liquidity of the markets declines. We do not expect that the new Congress, controlled by Democrats, will have much impact on the economy in the short term. Energy legislation, the elimination of tax cuts, increased social program spending, and the ongoing war in Iraq will, however, serve as a drag on the economy over time.

Outside the U. S., the developing economies of Asia are expected to slow their rapid rate of growth somewhat. The more developed countries of Europe, the Americas, and Asia should also experience slower growth as central banks have raised interest rates and the impacts of high energy and commodity prices are being felt. Given the relative sizes of the various economies, we expect that worldwide growth will be in the range of 3% to 3 1/2%. Further weakening of the U. S. dollar is likely to stimulate exports and reduce imports domestically,

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thus lowering our trade deficit. This will also provide a test of how tightly the economies of other countries are linked to ours. Should the lower demand for foreign goods in this country trigger a more dramatic slowing outside the U. S., there could be a worldwide recession, in which event our holdings in multi-national companies would not perform well. We do not expect a downward spiral into recession, however, as most economies are in much better financial condition than in the past. Any change in the situation in the Middle East, either more antagonistic or calming, will be felt worldwide in the form of significantly higher or lower energy prices. Any change in the portfolio to reflect one or the other of these possibilities would be risky; we prefer to take the position that energy prices will continue to exhibit high volatility in 2007.

With the bulk of our holdings in the largest-capitalization segment of the market, there is not likely to be much acquisition or privatization activity in the portfolio. We should, however, benefit significantly from any multiple expansion which occurs as well as from industry consolidation, which our companies might well lead through merger. While our outlook for the rest of the world is cautious, international growth still looks stronger than domestic growth. Many of our investments are in multi-national companies, which should perform particularly well in this anticipated environment. We believe that

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these multi-national companies, as well as the ones we hold that are focused on domestic activity, have excellent long-term prospects and, absent unforeseen events, we do not anticipate making wholesale changes in the portfolio in 2007.

Special Shareholder Meeting

We were gratified with the strong support shown by our shareholders at the special meeting held on November 7, 2006. All eight of the proposals of the Board of Directors were overwhelmingly approved, with no proposal receiving less than 83% of the votes cast. A full report of the meeting can be found on page 23. The approval of these important changes to the corporate charter provides the Company with additional tools to protect the interests of our long-term shareholders. You have clearly expressed your interest in seeing the Company continue as a closed-end fund, and your action has strengthened our ability to do so.

Share Repurchase Program

On December 14, 2006, the Board of Directors authorized the repurchase by management of an additional 5% of the outstanding shares of the Company over the ensuing year. The repurchase program is subject to the same restriction as in the past, namely that shares can be repurchased when the discount of the market price of the shares from the net asset value is 10% or greater.

From the beginning of 2007 through January 25, 2007, a total of 158,900 shares have been repurchased at a total cost of \$2,197,875 and a weighted average discount from net asset value of 13.1%.

Effective January 1, 2007, Mr. David D. Weaver was promoted to Vice President--Research. Mr. Weaver has been a senior research analyst covering consumer discretionary and industrials sectors for the Company.

The proxy statement for the Annual Meeting of Stockholders to be held in Baltimore on March 27, 2007, is expected to be mailed on or about February 16, 2007.

By order of the Board of Directors,

[GRAPHIC APPEARS HERE]
Douglas G. Ober,

Chairman and Chief
Executive Officer

[GRAPHIC APPEARS HERE]
Joseph M. Truta,

President

January 26, 2007

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STATEMENT OF ASSETS AND LIABILITIES

December 31, 2006

Assets

Investments* at value:

Common stocks and convertible securities
(cost \$871,858,922)

\$1,252,479,033

Non-controlled affiliate, Petroleum & Resources Corporation

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| | |
|---|------------|
| (cost \$34,735,404) | 73,169,458 |
| Short-term investments (cost \$49,432,213) | 49,432,213 |
| Securities lending collateral (cost \$69,086,380) | 69,086,380 |
| ----- | |
| Cash | |
| Dividends receivable | |
| Prepaid pension cost | |
| Prepaid expenses and other assets | |
| ----- | |
| Total Assets | |
| ----- | |
| Liabilities | |
| Open written option contracts at value (proceeds \$717,931) | |
| Obligations to return securities lending collateral | |
| Accrued expenses and other liabilities | |
| ----- | |
| Total Liabilities | |
| ----- | |
| Net Assets | \$ |
| ===== | |
| Net Assets | |
| Common Stock at par value \$0.001 per share, authorized 150,000,000 shares; issued and outstanding 86,838,223 shares (includes 58,794 restricted shares, 7,500 restricted stock units, and 4,199 deferred stock units) (Note 6) | \$ |
| Additional capital surplus | |
| Accumulated other comprehensive income (Note 5) | |
| Undistributed net investment income | |
| Undistributed net realized gain on investments | |
| Unrealized appreciation on investments | |
| ----- | |
| Net Assets Applicable to Common Stock | \$ |
| ===== | |
| Net Asset Value Per Share of Common Stock | |
| ===== | |

*See schedule of investments on pages 15 through 17.

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

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STATEMENT OF OPERATIONS

Year Ended December 31, 2006

| | |
|-------------------------------|---------------|
| Investment Income | |
| Income: | |
| Dividends: | |
| From unaffiliated issuers | \$ 22,729,733 |
| From non-controlled affiliate | 1,606,317 |
| Interest and other income | 1,896,214 |
| ----- | |
| Total income | 26,232,264 |
| ----- | |
| Expenses: | |

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| | |
|---|---------------|
| Investment research | 2,783,475 |
| Administration and operations | 1,374,432 |
| Directors' fees | 352,820 |
| Reports and stockholder communications | 768,511 |
| Transfer agent, registrar and custodian expenses | 327,075 |
| Auditing and accounting services | 125,196 |
| Legal services | 131,766 |
| Occupancy and other office expenses | 351,952 |
| Travel, telephone and postage | 106,643 |
| Other | 218,906 |
| ----- | |
| Total expenses | 6,540,776 |
| ----- | |
| Net Investment Income | 19,691,488 |
| ----- | |
| Realized Gain and Change in Unrealized Appreciation on Investments | |
| Net realized gain on security transactions | 50,615,753 |
| Net realized gain distributed by regulated investment company (non-controlled affiliate) | 5,938,128 |
| Change in unrealized appreciation on investments | 102,278,889 |
| ----- | |
| Net Gain on Investments | 158,832,770 |
| ----- | |
| Change in Net Assets Resulting from Operations | \$178,524,258 |
| ===== | |

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

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STATEMENTS OF CHANGES IN NET ASSETS

| | For the Year Ended | |
|---|--------------------|---------------|
| | Dec. 31, 2006 | Dec. 31, 2005 |
| ----- | | |
| From Operations: | | |
| Net investment income | \$ 19,691,488 | \$ 18,288,551 |
| Net realized gain on investments | 56,553,881 | 53,817,950 |
| Change in unrealized appreciation on investments | 102,278,889 | (27,193,045) |
| Adjustment to apply FASB Statement No. 158 (note 5) | (1,824,105) | -- |
| ----- | | |
| Change in net assets resulting from operations | 176,700,153 | 44,913,456 |
| ----- | | |
| Distributions to Stockholders From: | | |
| Net investment income | (19,554,259) | (18,634,893) |
| Net realized gain from investment transactions | (56,771,240) | (53,672,531) |
| ----- | | |
| Decrease in net assets from distributions | (76,325,499) | (72,307,424) |
| ----- | | |
| From Capital Share Transactions: | | |

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| | | |
|---|-----------------|-----------------|
| Value of shares issued in payment of distributions | 31,661,698 | 30,523,934 |
| Cost of shares purchased (note 4) | (21,770,315) | (32,052,187) |
| Deferred compensation (notes 4, 6) | 423,621 | 101,973 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Change in net assets from capital share transactions | 10,315,004 | (1,426,280) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total Change in Net Assets | 110,689,658 | (28,820,248) |
| | | |
| Net Assets: | | |
| Beginning of year | 1,266,728,652 | 1,295,548,900 |
| <hr style="border-top: 1px dashed black;"/> | | |
| End of year (including undistributed net investment income of \$4,632,588 and \$4,672,704, respectively) | \$1,377,418,310 | \$1,266,728,652 |
| <hr style="border-top: 1px dashed black;"/> | | |

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

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NOTES TO FINANCIAL STATEMENTS

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 is an internally-managed fund whose investment objectives are preservation of capital, the attainment of reasonable income from investments, and an opportunity for capital appreciation.

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 December 31, 2006 was \$1,024,625,668, and net unrealized appreciation aggregated \$419,541,416, of which the related gross unrealized appreciation and depreciation were \$475,809,356 and \$56,267,940, respectively. As of December 31, 2006, the tax basis of distributable earnings was \$3,477,022 of undistributed ordinary income and no undistributed long-term capital gain.

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Distributions paid by the Company during the year ended December 31, 2006 were classified as ordinary income of \$22,964,152, and long-term capital gain of \$53,361,347. In comparison, distributions paid by the Company during the year ended December 31, 2005 were classified as ordinary income of \$26,198,384, and long-term capital gain of \$46,109,040. The distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. Accordingly, periodic 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.

Purchases and sales of portfolio securities, other than options and short-term investments, during the year ended December 31, 2006 were \$139,671,450 and \$217,209,083, 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 December 31, 2006 can be found on page 18.

Transactions in written covered call and collateralized put options during the year ended December 31, 2006 were as follows:

| | Covered Calls | | Collateralized Puts | |
|---|---------------|------------|---------------------|------------|
| | Contracts | Premiums | Contracts | Premiums |
| Options outstanding, December 31, 2005 | 2,320 | \$ 244,294 | 2,465 | \$ 317,641 |
| Options written | 9,975 | 1,262,505 | 10,988 | 1,223,297 |
| Options terminated in closing purchase transactions | (1,650) | (203,033) | (3,645) | (439,498) |
| Options expired | (6,330) | (741,110) | (7,330) | (845,453) |
| Options exercised | (570) | (65,038) | (375) | (35,674) |
| | | | | |
| Options outstanding, December 31, 2006 | 3,745 | \$ 497,618 | 2,103 | \$ 220,313 |
| | | | | |

4. Capital Stock

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

On December 27, 2005, the Company issued 2,400,624 shares of its Common Stock at a price of \$12.715 per share (the average market price on December 12, 2005) to stockholders of record November 22, 2005 who elected to take stock in payment of the distribution from 2005 capital gain and investment income.

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On December 27, 2006, the Company issued 2,301,959 shares of its Common Stock at a price of \$13.75 per share (the average market price on December 11, 2006) to stockholders of record November 21, 2006 who elected to take stock in payment of the distribution from 2006 capital gain and investment income. In addition, 722 shares were issued at a weighted average price of \$13.43 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

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 2006 and 2005 were as follows:

| | Shares | | Amount | |
|---|-------------|-------------|---------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Shares issued in payment of distributions | 2,302,681 | 2,400,624 | \$ 31,661,698 | \$ 30,523,934 |
| Shares purchased (at a weighted average discount from net asset value of 13.9% and 12.6%, respectively) | (1,623,542) | (2,458,500) | (21,770,315) | (32,052,187) |
| Net activity under the 2005 Equity Incentive Compensation Plan | 59,477 | 22,191 | 423,621 | 101,973 |
| Net change | 738,616 | (35,685) | \$ 10,315,004 | \$ (1,426,280) |

5. Retirement Plans

The Company initially applied the provisions of Financial Accounting Standards Board ("FASB") Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, at December 31, 2006. This accounting standard requires recognition of the overfunded or underfunded status of a defined benefit plan in the Statement of Assets and Liabilities, and recognition of changes in the funded status in the years in which the changes occur through the capital accounts. The transition rules for implementing the standard require applying the provisions as of the end of the year of initial implementation with no retrospective application. The incremental effects on the line items in the Statement of Assets and Liabilities at December 31, 2006, are as follows:

| | Before Application of Statement 158 | Adjustments | After Application of Statement 158 |
|----------------------|-------------------------------------|---------------|------------------------------------|
| Prepaid pension cost | \$ 5,255,972 | \$(1,893,169) | \$ 3,362,803 |

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| | | | |
|--|-----------------|---------------|-----------------|
| Total Assets | \$1,453,728,404 | \$(1,893,169) | \$1,451,835,235 |
| Accrued expenses and other liabilities | \$ 4,383,769 | \$(69,064) | \$ 4,314,705 |
| Total Liabilities | \$ 74,485,989 | \$(69,064) | \$ 74,416,925 |
| Accumulated other comprehensive income | \$ -- | \$(1,824,105) | \$ (1,824,105) |
| Net Assets Applicable to Common Stock | \$1,379,242,415 | \$(1,824,105) | \$1,377,418,310 |

The Company provides retirement benefits for its employees under a non-contributory qualified defined benefit pension plan and a non-contributory nonqualified defined benefit pension plan. The benefits are based on years of service and compensation during the last five years of employment.

The Company uses a December 31 measurement date for its plans.

| | 2006 | 2005 |
|--|--------------|--------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 8,951,798 | \$ 8,349,320 |
| Service cost | 460,969 | 359,998 |
| Interest cost | 518,015 | 504,330 |
| Actuarial loss | 70,276 | (42,715) |
| Benefits paid | (150,967) | (219,135) |
| Benefit obligation at end of year | \$ 9,850,091 | \$ 8,951,798 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | \$10,063,296 | \$ 9,976,905 |
| Actual return on plan assets | 922,155 | 292,963 |
| Employer contribution | -- | 12,563 |
| Benefits paid | (150,967) | (219,135) |
| Fair value of plan assets at end of year | 10,834,484 | \$10,063,296 |
| Funded status | \$ 984,393 | \$ 1,111,498 |
| Unrecognized prior service cost | \$ -- | \$ 456,052 |
| Unrecognized net loss | -- | 1,727,768 |
| Net amount recognized | \$ -- | \$ 3,295,318 |

Items not yet recognized as a component of net periodic pension cost:

2006 2005

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| | | |
|--|-------------|-------|
| Prior service cost | \$ 336,276 | \$ -- |
| Net (gain)/loss | 1,487,829 | -- |
| ----- | | |
| Total recognized as a charge to net assets | \$1,824,105 | \$ -- |
| ===== | | |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The accumulated benefit obligation for all defined benefit pension plans was \$8,137,314 and \$6,947,921 at December 31, 2006 and 2005, respectively.

| | 2006 | 2005 |
|---|------------|------------|
| | ----- | ----- |
| Components of net periodic pension cost | | |
| Service cost | \$ 460,969 | \$ 359,998 |
| Interest cost | 518,015 | 504,330 |
| Actual return on plan assets | (922,155) | (292,963) |
| Amortization of prior service cost | 119,776 | 126,553 |
| Amortization of net (gain)/loss | 180,764 | 188,462 |
| Deferred asset gain | 128,119 | (504,070) |
| ----- | | |
| Net periodic pension cost | \$ 485,488 | \$ 382,310 |
| ===== | | |

In 2007, the Company estimates that \$154,000 of prior service cost and \$95,000 of net losses, for a total of \$249,000, will be amortized from accumulated other comprehensive income into net periodic pension cost.

Assumptions used to determine benefit obligations and costs are:

| | 2006 | 2005 |
|--|-------|-------|
| | ----- | ----- |
| Discount rate | 5.75% | 5.75% |
| Expected long-term return on plan assets | 8.00% | 8.00% |
| Rate of compensation increase | 7.00% | 7.00% |

The assumption for the expected long-term return on plan assets is based on the actual long-term historical returns realized by the plan assets, weighted according to the current asset mix.

The asset allocations at December 31, 2006 and 2005, by asset category, are as follows:

| | 2006 | 2005 |
|--|-------|-------|
| | ----- | ----- |

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| | | |
|---|-----|-----|
| Asset Category | | |
| Equity Securities & Equity Mutual Funds | 68% | 70% |
| Fixed Income Mutual Funds | 27% | 28% |
| Cash | 5% | 2% |

Equity securities include Common Stock of the Company in the amount of \$718,924 (6% of total plan assets) and \$616,864 (6% of total plan assets) at December 31, 2006 and 2005, respectively.

The primary objective of the Company's pension plan is to provide capital appreciation, current income, and preservation of capital through a portfolio of stocks and fixed income securities. The equity portion of the portfolio may range from 50% to 75% of total portfolio assets. The fixed income portion of the portfolio may range from 25% to 50% of total portfolio assets and cash may range from 0% to 25% of total portfolio assets. Subject to these allocation ranges, the portfolio may be invested in any of the following securities: common stocks, preferred stocks, American Depository Receipts, foreign securities, mutual funds, convertible securities, municipal bonds, corporate bonds, U.S. government securities, and U.S. government agency securities.

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. The Company anticipates making no contribution to the plans in 2007.

The following benefit payments, which reflect expected future service, are expected to be paid:

| | Pension Benefits |
|-----------------|------------------|
| | ----- |
| 2007 | \$ 301,638 |
| 2008 | 572,494 |
| 2009 | 562,223 |
| 2010 | 629,233 |
| 2011 | 614,012 |
| Years 2012-2016 | 3,294,160 |

The Company also sponsors a defined contribution plan that covers substantially all employees. The Company expensed contributions to this plan of \$182,985 and \$181,236 for the years ended December 31, 2006 and December 31, 2005, respectively. The Company does not provide postretirement medical benefits.

6. Equity-Based Compensation

The Stock Option Plan adopted in 1985 ("1985 Plan") has been discontinued and no further grants will be made under this plan, although unexercised awards granted in 2004 and prior years remain outstanding. The 1985 Plan permitted 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

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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 or shares 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

A summary of option activity under the 1985 Plan as of December 31, 2006, and changes during the period then ended, is presented below:

| | Options | Weighted- Average Exercise Price | Weighted- Average Remaining Life (Years) |
|----------------------------------|----------|---|---|
| Outstanding at December 31, 2005 | 254,766 | \$11.71 | 5.71 |
| Exercised | (44,543) | 8.34 | |
| Forfeited | (8,233) | 10.87 | |
| Outstanding at December 31, 2006 | 201,990 | \$11.81 | 4.79 |
| Exercisable at December 31, 2006 | 124,068 | \$12.03 | 4.75 |

The options outstanding as of December 31, 2006 are set forth below:

| Exercise price | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|----------------------------------|------------------------|--|--|
| \$8.25-\$10.49 | 54,427 | \$ 9.23 | 3.57 |
| \$10.50-\$12.74 | 96,415 | 10.89 | 6.12 |
| \$12.75-\$14.99 | -- | -- | -- |
| \$15.00-\$17.25 | 51,148 | 16.29 | 3.59 |
| Outstanding at December 31, 2006 | 201,990 | \$11.81 | 4.79 |

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 year ended December 31, 2006 was \$293,582.

The 2005 Equity Incentive Compensation Plan ("2005 Plan"), adopted at the 2005

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Annual Meeting, 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, including both performance and nonperformance-based restricted stock. 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 vest ratably over a three year period and nonperformance-based restricted stock units (granted to non-employee directors) vest over a one year period. It is the current intention that employee grants will be performance-based. 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 number of shares of Common Stock which remains available for future grants under the 2005 Plan at December 31, 2006 is 3,329,260 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 under the 2005 Plan as of December 31, 2006, and changes during the period then ended, is presented below:

| Awards | Shares/Units | Weighted Average Grant-Date Fair Value |
|--|--------------|--|
| Balance at December 31, 2005 | 21,441 | \$12.57 |
| Granted: | | |
| Restricted stock | 49,500 | 12.93 |
| Restricted stock units | 7,500 | 13.24 |
| Deferred stock units | 4,199 | 13.17 |
| Vested | (12,147) | 12.58 |
| Balance at December 31, 2006 (includes 49,500 performance- based awards and 20,993 nonperformance-based awards) | 70,493 | \$ 12.92 |

Compensation costs 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 costs are based on the most probable outcome and, if such goals are not met, compensation cost is not recognized and any previously recognized compensation cost is reversed. The total compensation costs for restricted stock granted to employees for the year ended December 31, 2006 were \$271,629. The total compensation costs for restricted stock units granted to non-employee directors for the year ended December 31, 2006 were \$119,737. As of December 31, 2006, there were total unrecognized compensation costs of \$527,227, a component of additional capital surplus, related to nonvested equity-based

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compensation arrangements granted under the 2005 Plan. Those costs are expected to be recognized over a weighted average period of 1.82 years. The total fair value of shares vested during the years ended December 31, 2006 and 2005 was \$168,230 and \$9,889, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Expenses

The aggregate remuneration paid during the year ended December 31, 2006 to officers and directors amounted to \$2,592,307, of which \$339,415 was paid to directors who were not officers. These amounts represent the taxable income to the Company'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 Company makes loans of securities to brokers, secured by cash, 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. At December 31, 2006, the Company had securities on loan of \$67,475,119, and held collateral of \$69,086,380, consisting of an investment trust fund which may invest in money market instruments, commercial paper, repurchase agreements, U.S. Treasury Bills, and U.S. agency obligations.

9. New Accounting Pronouncements

In July 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required to be implemented no later than the Company's June 29, 2007 net asset value. The application of FIN 48 is not expected to materially impact the Company's financial statements.

In September 2006, the FASB released Statement of Financial Accounting Standard No. 157, Fair Value Measurement ("FAS 157"), which provides enhanced guidance for using fair value to measure assets and liabilities. The standard requires companies to provide expanded information about the assets and liabilities measured at fair value and the potential effect of these fair valuations on an entity's financial performance. The standard does not expand the use of fair value in any circumstances, but provides clarification on acceptable fair valuation methods and applications. Adoption of FAS 157 is required for fiscal years beginning after November 15, 2007. Application of the standard is not expected to materially impact the Company's financial statements.

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FINANCIAL HIGHLIGHTS

| | Year Ended December 31 | | | | 2002 |
|---|------------------------|-------------|-------------|-------------|-------|
| | 2006 | 2005 | 2004 | 2003 | |
| Per Share Operating Performance | | | | | |
| Net asset value, beginning of year | \$14.71 | \$15.04 | \$14.36 | \$12.12 | |
| Net investment income | 0.23 | 0.22 | 0.23* | 0.19 | |
| Net realized gains and increase (decrease) in unrealized appreciation | 1.86 | 0.32 | 1.39 | 2.85 | |
| Adjustment to apply FASB Statement No. 158 (note 5) | (0.02) | -- | -- | -- | |
| Total from investment operations | 2.07 | 0.54 | 1.62 | 3.04 | |
| Less distributions | | | | | |
| Dividends from net investment income | (0.23) | (0.22) | (0.24) | (0.17) | |
| Distributions from net realized gains | (0.67) | (0.64) | (0.66) | (0.61) | |
| Total distributions | (0.90) | (0.86) | (0.90) | (0.78) | |
| Capital share repurchases | 0.04 | 0.05 | 0.02 | 0.04 | |
| Reinvestment of distributions | (0.06) | (0.06) | (0.06) | (0.06) | |
| Total capital share transactions | (0.02) | (0.01) | (0.04) | (0.02) | |
| Net asset value, end of year | \$15.86 | \$14.71 | \$15.04 | \$14.36 | |
| Per share market price, end of year | \$13.87 | \$12.55 | \$13.12 | \$12.41 | |
| Total Investment Return | | | | | |
| Based on market price | 17.9% | 2.2% | 13.2% | 25.2% | (|
| Based on net asset value | 15.0% | 4.5% | 12.1% | 26.3% | (|
| Ratios/Supplemental Data | | | | | |
| Net assets, end of year (in 000's) | \$1,377,418 | \$1,266,729 | \$1,295,549 | \$1,218,862 | \$1,0 |
| Ratio of expenses to average net assets | 0.50% | 0.45% | 0.43% | 0.47% | |
| Ratio of net investment income to average net assets | 1.50% | 1.44% | 1.54% | 1.45% | |
| Portfolio turnover | 10.87% | 12.96% | 13.43% | 12.74% | |
| Number of shares outstanding at end of year (in 000's) | 86,838 | 86,100 | 86,135 | 84,886 | |

*In 2004 the Fund received \$2,400,000, or \$0.03 per share, in an extraordinary dividend from Microsoft Corp.

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SCHEDULE OF INVESTMENTS

December 31, 2006

| | Shares | Value (A) |
|---|-----------|---|
| <hr style="border-top: 1px dashed black;"/> | | |
| Stocks and Convertible Securities -- 96.2% | | |
| Consumer -- 18.0% | | |
| Consumer Discretionary -- 7.7% | | |
| BJ's Wholesale Club, Inc. (B)..... | 500,000 | \$ 15,555,000 |
| Clear Channel Communications, Inc..... | 350,000 | 12,439,000 |
| Comcast Corp. (B)..... | 365,000 | 15,450,450 |
| Gannett Co., Inc..... | 112,500 | 6,801,750 |
| Harley-Davidson, Inc..... | 165,000 | 11,627,550 |
| Newell Rubbermaid Inc..... | 400,000 | 11,580,000 |
| OSI Restaurant Partners, Inc..... | 315,000 | 12,348,000 |
| Ryland Group Inc..... | 50,000 | 2,731,000 |
| Target Corp..... | 300,000 | 17,115,000 |
| | | <hr style="border-top: 1px dashed black;"/> |
| | | 105,647,750 |
| | | <hr style="border-top: 1px dashed black;"/> |
| Consumer Staples -- 10.3% | | |
| Avon Products, Inc..... | 430,000 | 14,207,200 |
| Bunge Ltd. (C)..... | 200,000 | 14,502,000 |
| Coca-Cola Co..... | 200,000 | 9,650,000 |
| Dean Foods Co. (B)..... | 340,000 | 14,375,200 |
| Del Monte Foods Co..... | 1,115,000 | 12,298,450 |
| PepsiCo, Inc..... | 400,000 | 25,020,000 |
| Procter & Gamble Co..... | 340,000 | 21,851,800 |
| Safeway Inc..... | 423,000 | 14,618,880 |
| Unilever plc ADR..... | 550,000 | 15,301,000 |
| | | <hr style="border-top: 1px dashed black;"/> |
| | | 141,824,530 |
| | | <hr style="border-top: 1px dashed black;"/> |
| Energy -- 11.7% | | |
| ConocoPhillips..... | 345,000 | 24,822,750 |
| ENSCO International, Inc..... | 209,150 | 10,470,049 |
| Exxon Mobil Corp..... | 215,000 | 16,475,450 |
| Marathon Oil Co..... | 120,000 | 11,100,000 |
| Murphy Oil Corp..... | 38,500 | 1,957,725 |
| Petroleum & Resources Corporation (D)... | 2,186,774 | 73,169,458 |
| Schlumberger Ltd..... | 380,000 | 24,000,800 |
| | | <hr style="border-top: 1px dashed black;"/> |
| | | 161,996,232 |
| | | <hr style="border-top: 1px dashed black;"/> |
| Financial -- 17.9% | | |
| Banking -- 14.0% | | |
| BankAtlantic Bancorp..... | 880,000 | 12,152,800 |
| Bank of America Corp..... | 610,000 | 32,567,900 |
| Bank of New York Co., Inc. (The)..... | 375,000 | 14,763,750 |
| Compass Bancshares Inc. (C)..... | 300,000 | 17,895,000 |
| Fifth Third Bancorp..... | 280,000 | 11,460,400 |
| Investors Financial Services Corp. (C) .. | 382,500 | 16,321,275 |
| Morgan Stanley..... | 200,000 | 16,286,000 |
| Prosperity Bancshares Inc..... | 200,000 | 6,902,000 |
| Wachovia Corp..... | 470,000 | 26,766,500 |
| Wells Fargo & Co..... | 650,000 | 23,114,000 |
| Wilmington Trust Corp..... | 363,000 | 15,307,710 |

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| | | |
|--|---------|-------------|
| | | ----- |
| | | 193,537,335 |
| | | ----- |
| Insurance -- 3.9% | | |
| AMBAC Financial Group, Inc..... | 200,000 | 17,814,000 |
| American International Group, Inc..... | 500,000 | 35,830,000 |
| | | ----- |
| | | 53,644,000 |
| | | ----- |

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SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2006

| | Shares | Value (A) |
|--|-----------|---------------|
| ----- | | |
| Health Care -- 12.8% | | |
| Abbott Laboratories..... | 320,000 | \$ 15,587,200 |
| Advanced Medical Optics, Inc. (B) (C)... | 325,000 | 11,440,000 |
| Bristol-Myers Squibb Co..... | 345,000 | 9,080,400 |
| Caremark Rx Inc..... | 245,000 | 13,991,950 |
| Genentech, Inc. (B)..... | 220,000 | 17,848,600 |
| Johnson & Johnson..... | 255,000 | 16,835,100 |
| MedImmune, Inc. (B)..... | 225,000 | 7,283,250 |
| Medtronic, Inc..... | 310,000 | 16,588,100 |
| Pfizer Inc..... | 1,120,000 | 29,008,000 |
| Teva Pharmaceutical Industries Ltd ADR.. | 385,000 | 11,965,800 |
| Wyeth Co..... | 325,000 | 16,549,000 |
| Zimmer Holdings, Inc. (B)..... | 125,000 | 9,797,500 |
| | | ----- |
| | | 175,974,900 |
| | | ----- |
| Industrials -- 12.9% | | |
| Cintas Corp..... | 300,000 | 11,913,000 |
| Curtiss-Wright Corp..... | 460,000 | 17,056,800 |
| Donnelley (R.R.) & Sons Co. (C)..... | 100,000 | 3,554,000 |
| Emerson Electric Co..... | 400,000 | 17,628,000 |
| Essex Corp. (B)..... | 174,800 | 4,179,468 |
| General Electric Co..... | 1,487,700 | 55,357,317 |
| Illinois Tool Works Inc..... | 250,000 | 11,547,500 |
| Masco Corp. (C)..... | 450,000 | 13,441,500 |
| 3M Co..... | 160,000 | 12,468,800 |
| United Parcel Service, Inc..... | 155,000 | 11,621,900 |
| United Technologies Corp..... | 300,000 | 18,756,000 |
| | | ----- |
| | | 177,524,285 |
| | | ----- |
| Information Technology -- 11.4% | | |
| Communication Equipment -- 1.3% | | |
| Avaya Inc. (B)..... | 600,000 | 8,388,000 |
| Corning Inc. (B)..... | 500,000 | 9,355,000 |
| | | ----- |
| | | 17,743,000 |
| | | ----- |

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| | | |
|------------------------------------|-----------|-------------|
| Computer Related -- 8.5% | | |
| Automatic Data Processing Inc..... | 300,000 | 14,775,000 |
| BEA Systems, Inc. (B)..... | 800,000 | 10,064,000 |
| Cisco Systems, Inc. (B)..... | 850,000 | 23,230,500 |
| Dell Inc. (B)..... | 585,000 | 14,677,650 |
| Microsoft Corp..... | 1,180,000 | 35,234,800 |
| Oracle Corp. (B)..... | 1,100,000 | 18,854,000 |
| | | 116,835,950 |
| Electronics -- 1.6% | | |
| Cree, Inc. (B) (C)..... | 375,000 | 6,495,000 |
| Intel Corp..... | 800,000 | 16,200,000 |
| | | 22,695,000 |

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SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2006

| | Prin. Amt. or Shares | Value (A) |
|--|-------------------------|---------------|
| Materials -- 5.3% | | |
| Air Products and Chemicals, Inc..... | 250,000 | \$ 17,570,000 |
| duPont (E.I.) de Nemours and Co..... | 360,000 | 17,535,600 |
| Florida Rock Industries Inc. (C)..... | 200,000 | 8,610,000 |
| Martin Marietta Materials, Inc..... | 83,000 | 8,624,530 |
| Rohm & Haas Co..... | 400,000 | 20,448,000 |
| | | 72,788,130 |
| Telecom Services -- 2.7% | | |
| Alltel Corp..... | 300,000 | 18,144,000 |
| AT&T Corp..... | 400,000 | 14,300,000 |
| Windstream Corp..... | 310,178 | 4,410,731 |
| | | 36,854,731 |
| Utilities -- 3.5% | | |
| Aqua America, Inc. (C)..... | 608,000 | 13,850,240 |
| Duke Energy Corp..... | 611,560 | 20,309,908 |
| MDU Resources Group, Inc..... | 562,500 | 14,422,500 |
| | | 48,582,648 |
| Total Stocks and Convertible Securities (Cost \$906,594,326) (E)..... | | 1,325,648,491 |
| Short-Term Investments -- 3.6% | | |
| U.S. Government Obligations -- 1.2% | | |
| U.S. Treasury Bills, 4.93%, due 2/15/07..... | \$16,500,000 | 16,398,319 |

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| | | |
|---|--------------|-----------------|
| Time Deposit -- 0.0% | | |
| Bank of America Corp., 4.55%, due 1/2/07..... | | 286,455 |
| Commercial Paper -- 2.4% | | |
| Chevron Funding Co., 5.20-5.23%, due 1/2/07-1/11/07..... | \$12,700,000 | 12,692,139 |
| Coca-Cola Enterprises 5.26%, due 1/23/07..... | \$ 7,700,000 | 7,675,249 |
| General Electric Capital Corp., 5.24%, due 1/16/07..... | \$ 3,900,000 | 3,891,485 |
| Toyota Motor Credit Corp., 5.25%, due 1/9/07-1/11/07..... | \$ 8,500,000 | 8,488,566 |
| Total Commercial Paper..... | | 32,747,439 |
| Total Short-Term Investments | | |
| (Cost \$49,432,213)..... | | 49,432,213 |
| Total Securities Lending Collateral -- 5.0% | | |
| (Cost \$69,086,380) | | |
| Brown Brothers Investment Trust, 5.26%, due 1/2/07..... | | 69,086,380 |
| Total Investments -- 104.8% | | |
| (Cost \$1,025,112,919)..... | | 1,444,167,084 |
| Cash, receivables, prepaid expenses and other assets, less liabilities -- (4.8)%..... | | (66,748,774) |
| Net Assets -- 100.0%..... | | \$1,377,418,310 |

=====
Notes:

- (A) See note 1 to financial statements. Securities are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ, except restricted securities.
- (B) Presently non-dividend paying.
- (C) All or a portion of these securities are on loan. See Note 8 to Financial Statements.
- (D) Non-controlled affiliate, a closed-end sector fund, registered as an investment company under the Investment Company Act of 1940.
- (E) The aggregate market value of stocks held in escrow at December 31, 2006 covering open call option contracts written was \$25,200,685. In addition, the required aggregate market value of securities segregated by the custodian to collateralize open put option contracts written was \$7,971,500.

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SCHEDULE OF OUTSTANDING OPTION CONTRACTS

December 31, 2006

| Contracts (100 shares each) | Security | Contract Strike Price | Expiration Date | Appreciation/ (Depreciation) |
|-----------------------------------|---------------------------------|--------------------------|--------------------|---------------------------------|
| COVERED CALLS | | | | |
| 100 | AMBAC Financial Group, Inc..... | \$ 90 | Jan 07 | \$ 12,199 |
| 100 | AMBAC Financial Group, Inc..... | 90 | Feb 07 | 6,699 |

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| | | | | | |
|-------|--|-------|-----|----|-----------|
| 200 | American International Group, Inc..... | 70 | Feb | 07 | (35,601) |
| 200 | Bunge Ltd..... | 65 | Jan | 07 | (137,601) |
| 100 | Bunge Ltd..... | 70 | Apr | 07 | (53,125) |
| 150 | Bunge Ltd..... | 75 | Apr | 07 | (31,201) |
| 100 | Bunge Ltd..... | 80 | Apr | 07 | (2,300) |
| 150 | Comcast Corp..... | 40 | Jan | 07 | (24,450) |
| 200 | Emerson Electric Co..... | 47.50 | Mar | 07 | 700 |
| 100 | Harley-Davidson, Inc..... | 65 | Jan | 07 | (43,801) |
| 100 | Harley-Davidson, Inc..... | 70 | Jan | 07 | (17,800) |
| 250 | Harley-Davidson, Inc..... | 65 | Feb | 07 | (137,626) |
| 100 | Harley-Davidson, Inc..... | 80 | May | 07 | (5,000) |
| 100 | Investors Financial Services Corp..... | 50 | Jan | 07 | 19,199 |
| 200 | Investors Financial Services Corp..... | 55 | Jan | 07 | 22,399 |
| 200 | Marathon Oil Co..... | 100 | Jan | 07 | 28,171 |
| 100 | Marathon Oil Co..... | 105 | Apr | 07 | (1,276) |
| 100 | Martin Marietta Materials, Inc..... | 100 | Jan | 07 | (38,301) |
| 150 | Martin Marietta Materials, Inc..... | 115 | Jan | 07 | 12,299 |
| 100 | Morgan Stanley..... | 75 | Jan | 07 | (51,800) |
| 200 | Rohm & Haas Co..... | 55 | Jan | 07 | 15,399 |
| 200 | Ryland Group Inc..... | 60 | Jan | 07 | 13,399 |
| 100 | Target Corp..... | 55 | Jan | 07 | (5,801) |
| 45 | 3M Co..... | 85 | Apr | 07 | 1,890 |
| 100 | United Technologies Corp..... | 70 | Jan | 07 | 10,200 |
| 100 | United Technologies Corp..... | 75 | May | 07 | 10,700 |
| 100 | Wyeth Co..... | 55 | Jan | 07 | 9,705 |
| 100 | Zimmer Holdings, Inc..... | 80 | Jan | 07 | 2,267 |
| ----- | | | | | ----- |
| 3,745 | | | | | (420,457) |
| ----- | | | | | ----- |

COLLATERALIZED PUTS

| | | | | | |
|-------|---|-------|-----|----|--------------|
| 150 | Advanced Medical Optics, Inc..... | 35 | Apr | 07 | (10,951) |
| 150 | Avon Products, Inc..... | 25 | Jan | 07 | 14,550 |
| 250 | Essex Corp..... | 17.50 | Feb | 07 | 15,999 |
| 200 | Florida Rock Industries Inc..... | 30 | Jan | 07 | 20,399 |
| 100 | Marathon Oil Co..... | 67.50 | Jan | 07 | 10,700 |
| 200 | Martin Marietta Materials, Inc..... | 75 | Jan | 07 | 20,963 |
| 200 | Masco Corp..... | 25 | Jan | 07 | 16,399 |
| 53 | Ryland Group Inc..... | 30 | Jan | 07 | 5,141 |
| 100 | Ryland Group Inc..... | 40 | Apr | 07 | 3,750 |
| 100 | Ryland Group Inc..... | 42.50 | Apr | 07 | 3,700 |
| 100 | Teva Pharmaceutical Industries Ltd. ADR | 32.50 | Jan | 07 | (6,300) |
| 200 | Teva Pharmaceutical Industries Ltd. ADR | 30 | Mar | 07 | 2,399 |
| 200 | Wachovia Corp..... | 47.50 | Jan | 07 | 17,399 |
| 100 | Wachovia Corp..... | 50 | Apr | 07 | 8,400 |
| ----- | | | | | ----- |
| 2,103 | | | | | 122,548 |
| ----- | | | | | ----- |
| | | | | | \$ (297,909) |
| | | | | | ===== |

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CHANGES IN PORTFOLIO SECURITIES

 During the Three Months Ended December 31, 2006
 (unaudited)

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| | Shares | | Held Dec. 31, 2006 |
|--|--------------|----------------|-----------------------|
| | Additions | Reductions | |
| Advanced Medical Optics, Inc..... | 15,000 | | 325,000 |
| Alcatel-Lucent ADR..... | 204,960/(1)/ | 204,960 | -- |
| Dell Inc..... | 20,000 | | 585,000 |
| Emerson Electric Co..... | 200,000/(2)/ | | 400,000 |
| ENSCO International, Inc..... | 75,000 | | 209,150 |
| Essex Corp..... | 58,300 | | 174,800 |
| Intel Corp..... | 250,000 | | 800,000 |
| KBW, Inc..... | 5,000 | 5,000 | -- |
| Petroleum & Resources Corporation.... | 200,778/(3)/ | | 2,186,774 |
| Prosperity Bancshares Inc..... | 200,000 | | 200,000 |
| Teva Pharmaceutical Industries Ltd ADR | 365,000 | | 385,000 |
| AMBAC Financial Group, Inc..... | | 40,000 | 200,000 |
| AT&T Corp..... | | 195,000 | 400,000 |
| BP plc ADR..... | | 95,000 | -- |
| Bunge Ltd..... | | 35,000 | 200,000 |
| Cisco Systems, Inc..... | | 260,000 | 850,000 |
| Dean Foods Co..... | | 10,000 | 340,000 |
| Donnelley (R.R.) & Sons Co..... | | 125,000 | 100,000 |
| Harley-Davidson, Inc..... | | 35,000 | 165,000 |
| Laboratory Corp. of America Holdings.. | | 140,000 | -- |
| Lucent Technologies Inc..... | | 2,900,000/(1)/ | -- |
| Oracle Corp..... | | 256,001 | 1,100,000 |
| Solectron Corp..... | | 1,850,000 | -- |
| Target Corp..... | | 50,000 | 300,000 |
| Wilmington Trust Corp..... | | 57,000 | 363,000 |

(1) Received 204,960 shares of Alcatel-Lucent ADR for 1,050,000 shares of Lucent Technologies Inc. surrendered. Sold 1,850,000 shares of Lucent Technologies Inc. prior to the merger.

(2) By stock split.

(3) By dividend reinvestment.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The Adams Express Company:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Adams Express Company (hereafter referred to as the "Company") at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on

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our audits. We conducted our audits of these financial statements in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland

January 19, 2007

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----- HISTORICAL FINANCIAL STATISTICS -----

(unaudited)

| Dec. 31 | Value Of Net Assets | Shares Outstanding* | Net Asset Value Per Share* | Market Value Per Share* | Dividends From Investment Income Per Share* | Distributions From Net Realized Gains Per Share* | Total Dividends and Distributions Per Share* |
|---------|------------------------|------------------------|----------------------------------|-------------------------------|---|--|--|
| 1992 | \$ 696,924,779 | 51,039,938 | \$13.65 | \$13.33 | \$.31 | \$.77 | \$1.08 |
| 1993 | 840,610,252 | 63,746,495 | 13.19 | 11.92 | .30 | .79 | 1.09 |
| 1994 | 798,297,600 | 66,584,985 | 11.99 | 10.42 | .33 | .73 | 1.06 |
| 1995 | 986,230,914 | 69,248,276 | 14.24 | 12.33 | .35 | .76 | 1.11 |
| 1996 | 1,138,760,396 | 72,054,792 | 15.80 | 13.17 | .35 | .80 | 1.15 |
| 1997 | 1,424,170,425 | 74,923,859 | 19.01 | 16.13 | .29 | 1.01 | 1.30 |
| 1998 | 1,688,080,336 | 77,814,977 | 21.69 | 17.75 | .30 | 1.10 | 1.40 |
| 1999 | 2,170,801,875 | 80,842,241 | 26.85 | 22.38 | .26 | 1.37 | 1.63 |
| 2000 | 1,951,562,978 | 82,292,262 | 23.72 | 21.00 | .22 | 1.63 | 1.85 |
| 2001 | 1,368,366,316 | 85,233,262 | 16.05 | 14.22 | .26 | 1.39 | 1.65 |
| 2002 | 1,024,810,092 | 84,536,250 | 12.12 | 10.57 | .19 | .57 | .76 |
| 2003 | 1,218,862,456 | 84,886,412 | 14.36 | 12.41 | .17 | .61 | .78 |
| 2004 | 1,295,548,900 | 86,135,292 | 15.04 | 13.12 | .24 | .66 | .90 |
| 2005 | 1,266,728,652 | 86,099,607 | 14.71 | 12.55 | .22 | .64 | .86 |
| 2006 | 1,377,418,310 | 86,838,223 | 15.86 | 13.87 | .23 | .67 | .90 |

* Adjusted to reflect the 3-for-2 stock split effected in October 2000.

** The annual rate of distribution is the total dividends and capital gain distributions during the year divided by the average daily market price of the Company's Common Stock.

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Common Stock
Listed on the New York Stock Exchange

The Adams Express Company
Seven St. Paul Street, Suite 1140, Baltimore, MD 21202
(410) 752-5900 or (800) 638-2479
Website: www.adamsexpress.com
E-mail: contact@adamsexpress.com
Counsel: Chadbourne & Parke L.L.P.

Independent Registered Public Accounting Firm: PricewaterhouseCoopers LLP
Transfer Agent & Registrar: American Stock Transfer & Trust Co.
Custodian of Securities: Brown Brothers Harriman & Co.

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OTHER INFORMATION

Statement on Quarterly Filing of Complete Portfolio Schedule

In addition to publishing its complete schedule of portfolio holdings in the First and Third Quarter Reports to shareholders, the Company also files its complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The Company's Forms N-Q are available on the Commission's website at www.sec.gov. The Company's Forms N-Q may be reviewed and copied at the Commission's Public Reference Room, and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Company also posts its Forms N-Q on its website at: www.adamsexpress.com. under the heading "Financial Reports".

Annual Certification

The Company's CEO has submitted to the New York Stock Exchange the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

Proxy Voting Policies and Record

A description of the policies and procedures that the Company uses to determine how to vote proxies relating to portfolio securities owned by the Company and information as to how the Company voted proxies relating to portfolio securities during the 12 month period ended June 30, 2006 are available (i) without charge, upon request, by calling the Company's toll free number at (800) 638-2479; (ii) on the Company's website by clicking on "Corporate Information" heading on the website; and (iii) on the Securities and Exchange Commission's website at www.sec.gov.

Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Company's actual results are the performance of the portfolio of stocks held by the Company, the conditions in the U.S. and international financial markets, the price at which shares of the Company will trade in the public markets, and other factors discussed in the Company's periodic filings with the Securities and Exchange Commission.

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Privacy Policy

In order to conduct its business, the Company, through its transfer agent, currently American Stock Transfer & Trust Company, collects and maintains certain nonpublic personal information about our stockholders of record with respect to their transactions in shares of our securities. This information includes the stockholder's address, tax identification or Social Security number, share balances, and dividend elections. We do not collect or maintain personal information about stockholders whose shares of our securities are held in "street name" by a financial institution such as a bank or broker.

We do not disclose any nonpublic personal information about you, our other stockholders or our former stockholders to third parties unless necessary to process a transaction, service an account or as otherwise permitted by law.

To protect your personal information internally, we restrict access to nonpublic personal information about our stockholders to those employees who need to know that information to provide services to our stockholders. We also maintain certain other safeguards to protect your nonpublic personal information.

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SPECIAL STOCKHOLDER MEETING

A special meeting of stockholders was held on Tuesday, November 7, 2006. The purpose of the meeting was to approve a comprehensive rewriting and updating of the Company's corporate charter. All of the proposed charter amendments were approved by the stockholders. The results of the voting on the eight proposals were as follows:

| | For | Against | Abstain |
|---|------------|-----------|-----------|
| | ----- | ----- | ----- |
| Proposal 1 -- Purpose of the Company..... | 49,540,644 | 5,129,444 | 1,379,302 |
| Proposal 2 -- Classification, designation, etc., of stock | 48,157,962 | 6,401,838 | 1,489,588 |
| Proposal 3 -- Stockholder voting..... | 47,815,151 | 6,703,051 | 1,531,184 |
| Proposal 4 -- Stockholder election of directors..... | 48,104,483 | 6,290,312 | 1,654,590 |
| Proposal 5 -- Power to amend bylaws..... | 46,942,610 | 7,448,398 | 1,668,694 |
| Proposal 6 -- Quorum for stockholder meetings..... | 48,301,556 | 6,280,923 | 1,466,905 |
| Proposal 7 -- Determinations by the Board..... | 48,218,222 | 6,230,818 | 1,600,344 |
| Proposal 8 -- Miscellaneous conforming amendments..... | 47,773,356 | 6,212,332 | 2,063,694 |

This report, including the financial statements herein, is transmitted to the stockholders of The Adams Express Company for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Company or of any securities mentioned in the report. The rates of return will vary and the principal value of an investment will fluctuate. Shares, if sold, may be worth more or less than their original

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cost. Past performance is not indicative of future investment results.

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SHAREHOLDER INFORMATION AND SERVICES

WE ARE OFTEN ASKED --

How do I invest in Adams Express?

Adams Express Common Stock is listed on the New York Stock Exchange. The stock's ticker symbol is "ADX" and may be bought and sold through registered investment security dealers. Your broker will be able to assist you in this regard. In addition, stock may be purchased through our transfer agent, American Stock Transfer & Trust Company's INVESTORS CHOICE Plan (see page 25).

Where do I get information on the stock's price, trading and/or net asset value?

The daily net asset value (NAV) per share and closing market price may be obtained from our website at www.adamsexpress.com. The daily NAV is also available on the NASDAQ Mutual Fund Quotation System under the symbol XADEX. The week-ending NAV is published on Saturdays in various newspapers.

Adams Express daily trading is shown in the stock tables of many daily newspapers, often with the abbreviated form "AdaEx." Local newspapers determine, usually by volume of traded shares, which securities to list. If your paper does not carry our listing, please telephone the Company at (800) 638-2479 or visit our website.

How do I replace a lost certificate(s) or how do I correct a spelling error on my certificate?

Your Adams Express stock certificates are valuable documents and should be kept in a safe place. For tax purposes, keep a record of each certificate, including the cost or market value of the shares it covers at the time acquired. If a certificate is lost, destroyed or stolen, notify the transfer agent immediately so a "stop transfer" order can be placed on the records to prevent an unauthorized transfer of your certificate. The necessary forms and requirements to permit the issuance of a replacement certificate will then be sent to you. A certificate can be replaced only after the receipt of an affidavit regarding the loss accompanied by an open surety bond, for which a small premium is paid by the stockholder.

In the event a certificate is issued with the holder's name incorrectly spelled, a correction can only be made if the certificate is returned to the transfer agent with instructions for correcting the error. Transferring shares to another name also requires that the certificate be forwarded to the transfer agent with the appropriate assignment forms completed and the signature of the registered owner Medallion guaranteed by a bank or member firm of The New York Stock Exchange, Inc.

Is direct deposit of my dividend checks available?

Yes, our transfer agent offers direct deposit of your interim dividend and year-end distribution checks. You can request direct deposit with American Stock Transfer either on-line or by calling them at the phone number provided on page 25.

Who do I notify of a change of address?

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The transfer agent.

We go to Florida (Arizona) every winter. How do we get our mail from Adams Express?

The transfer agent can program a seasonal address into its system; simply send the temporary address and the dates you plan to be there to the transfer agent.

I want to give shares to my children, grandchildren, etc. as a gift. How do I go about it?

Giving shares of Adams Express is simple and is handled through our transfer agent. The stock transfer rules are clear and precise for most forms of transfer. They will vary slightly depending on each transfer, so write to the transfer agent stating the exact intent of your gift plans and the transfer agent will send you the instructions and forms necessary to effect your transfer.

How do I transfer shares held at American Stock Transfer (AST)?

There are many circumstances that require the transfer of shares to new registrations, e.g., marriage, death, a child reaching the age of maturity, or giving shares as a gift. Each situation requires different forms of documentation to support the transfer. You may obtain transfer instructions and download the necessary forms from our transfer agent's website: www.amstock.com. Click on Shareholder Services, then General Shareholder Information and Transfer Instructions.

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SHAREHOLDER INFORMATION AND SERVICES (CONTINUED)

DIVIDEND PAYMENT SCHEDULE

The Company presently pays dividends four times a year, as follows: (a) three interim distributions on or about March 1, June 1, and September 1, and (b) a "year-end" distribution, payable in late December, consisting of the estimated balance of the net investment income for the year and the net realized capital gain earned through October 31. Stockholders may elect to receive the year-end distribution in stock or cash. In connection with this distribution, all stockholders of record are sent a dividend announcement notice and an election card in mid-November.

Stockholders holding shares in "street" or brokerage accounts may make their election by notifying their brokerage house representative.

INVESTORS CHOICE

INVESTORS CHOICE is a direct stock purchase and sale plan, as well as a dividend reinvestment plan, sponsored and administered by our transfer agent, American Stock Transfer & Trust Company (AST). The Plan provides registered stockholders and interested first time investors an affordable alternative for buying, selling, and reinvesting in Adams Express shares.

The costs to participants in administrative service fees and brokerage commissions for each type of transaction are listed below.

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| | |
|--|---|
| Initial Enrollment and Optional Cash Investments | |
| Service Fee | \$2.50 per investment |
| Brokerage Commission | \$0.05 per share |
| Reinvestment of Dividends* | |
| Service Fee | 2% of amount invested (maximum of \$2.50 per investment) |
| Brokerage Commission | \$0.05 per share |
| Sale of Shares | |
| Service Fee | \$10.00 |
| Brokerage Commission | \$0.05 per share |
| Deposit of Certificates for safekeeping (waived if sold) | \$7.50 |
| Book to Book Transfers | Included |
| To transfer shares to another participant or to a new participant | |

Fees are subject to change at any time.

| | |
|---|-------------|
| Minimum and Maximum Cash Investments | |
| Initial minimum investment (non-holders) | \$500.00 |
| Minimum optional investment (existing holders) | \$50.00 |
| Electronic Funds Transfer (monthly minimum) | \$50.00 |
| Maximum per transaction | \$25,000.00 |
| Maximum per year | NONE |

A brochure which further details the benefits and features of INVESTORS CHOICE as well as an enrollment form may be obtained by contacting AST.

For Non-registered Shareholders

For shareholders whose stock is held by a broker in "street" name, the AST INVESTORS CHOICE Direct Stock Purchase and Sale Plan remains available through many registered investment security dealers. If your shares are currently held in a "street" name or brokerage account, please contact your broker for details about how you can participate in AST's Plan or contact AST.

The Company
The Adams Express Company
Lawrence L. Hooper, Jr.
Vice President, General Counsel and Secretary
Seven St. Paul Street, Suite 1140, Baltimore, MD 21202
(800) 638-2479
Website: www.adamsexpress.com
E-mail: contact@adamsexpress.com

The Transfer Agent
American Stock Transfer & Trust Company
Address Shareholder Inquiries to:

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Shareholder Relations Department
 59 Maiden Lane
 New York, NY 10038
 (877) 260-8188
 Website: www.amstock.com
 E-mail: info@amstock.com

Investors Choice Mailing Address:
 Attention: Dividend Reinvestment
 P.O. Box 922
 Wall Street Station
 New York, NY 10269-0560
 Website: www.amstock.com
 E-mail: info@amstock.com

*The year-end dividend and capital gain distribution will usually be made in newly issued shares of common stock. There are no fees or commissions in connection with this dividend and capital gain distribution when made in newly issued shares.

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BOARD OF DIRECTORS

| Personal Information | Position held with the fund | Term of office | Length of time served | Principal Occupations during the last 5 years | Number of portfolios in fund complex overseen by director | D R C M (C |
|--|-----------------------------------|----------------------|-----------------------------|--|--|----------------------------|
| <hr style="border-top: 1px dashed black;"/> | | | | | | |
| Independent Directors | | | | | | |
| Enrique R. Arzac, Ph.D. 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 65 | Director | One Year | Since 1983 | Professor of Finance and Economics, formerly, Vice Dean of Academic Affairs of the Graduate School of Business, Columbia University. | Two | D R C M (C |
| Phyllis O. Bonanno 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 63 | Director | One Year | Since 2003 | President & CEO of International Trade Solutions, Inc. (consultants). Formerly, President of Columbia College, Columbia, South Carolina, and Vice President of Warnaco Inc. (apparel). | Two | D R (W M (|
| Daniel E. Emerson 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 82 | Director | One Year | Since 1982 | Retired Executive Vice President of NYNEX Corp. (communications), retired Chairman of the Board of both NYNEX Information Resources Co. and NYNEX Mobile Communications Co. Previously Executive Vice President and | Two | D R (|

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Director of New York Telephone Company.

| | | | | | | |
|---|----------|-------------|---------------|--|-----|----------------------------|
| Frederic A. Escherich 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 54 | Director | One Year | Since 2006 | Private Investor. Formerly, Managing Director and head of Mergers and Acquisitions Research and the Financial Advisory Department with J.P. Morgan. | Two | D R ((e A |
| Roger W. Gale, Ph.D. 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 60 | Director | One Year | Since 2005 | President & CEO of GF Energy, LLC (consultants to electric power companies). Formerly, member of management group, PA Consulting Group (energy consultants). | Two | D R ((e A |
| Thomas H. Lenagh 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 88 | Director | One Year | Since 1968 | Financial Advisor. Formerly, Chairman of the Board and CEO of Greiner Engineering Inc. (formerly Systems Planning Corp.) (consultants). Formerly, Treasurer and Chief Investment Officer of the Ford Foundation (charitable foundation). | Two | D R C f c P |
| Kathleen T. McGahran, Ph.D., J.D., C.P.A. 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 56 | Director | One Year | Since 2003 | Principal & Director of Pelham Associates, Inc. (executive education). Adjunct Associate Professor, Columbia Executive Education, Graduate School of Business, Columbia University. Formerly, Associate Dean and Director of Executive Education, and Associate Professor, Columbia University. | Two | D R (|

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BOARD OF DIRECTORS (CONTINUED)

| Personal Information | Position held with the fund | Term of office | Length of time served | Principal Occupations during the last 5 years | Number of portfolios in fund complex overseen by director | Other |
|--|-----------------------------|----------------|-----------------------|---|---|--------------------------|
| Independent Directors (continued) | | | | | | |
| John J. Roberts 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 | Director | One Year | Since 1976 | Retired Senior Advisor, formerly, Vice-Chairman External Affairs, American International Group, Inc. | Two | Dir Res (in Hon |

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Age 84

(insurance). Formerly, Chairman and CEO of American International Underwriters Corporation. Previously, President of American International Underwriters Corporation-U.S./ Overseas Operations.

Ame
Gro

| | | | | | |
|---|----------|-------------|---------------|--|-----|
| Craig R. Smith, M.D. 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 60 | Director | One Year | Since 2005 | President, Williston Consulting LLC (consultants to pharmaceutical and biotechnology industries). Formerly, Chairman, President & CEO of Guilford Pharmaceuticals (pharmaceuticals & biotechnology). | Two |
|---|----------|-------------|---------------|--|-----|

Dir
Res
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LaJ
Com
(sp

Interested Director

| | | | | | |
|--|-------------------------------------|-------------|--|--|-----|
| Douglas G. Ober 7 St. Paul Street, Suite 1140 Baltimore, MD 21202 Age 60 | Director, Chairman and CEO | One Year | Director Since 1989; Chairman of the Board Since 1991 | Chairman & CEO of the Company and Petroleum & Resources Corporation. | Two |
|--|-------------------------------------|-------------|--|--|-----|

Dir
Res
(in

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THE ADAMS EXPRESS COMPANY

Board Of Directors

| | |
|-------------------------------|------------------------------|
| Enrique R. Arzac/(1)(3)/ | Thomas H. Lenagh/(1)(4)/ |
| Phyllis O. Bonanno/(1)(4)/ | Kathleen T. McGahran/(2)(4)/ |
| Daniel E. Emerson/(2)(3)/ | Douglas G. Ober/(1)/ |
| Frederic A. Escherich/(2)(3)/ | John J. Roberts/(1)(3)/ |
| Roger W. Gale/(3)/ | Craig R. Smith/(2)(4)/ |

 /(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 | Chairman and Chief Executive Officer |
|-----------------|---|

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| | |
|-------------------------|---|
| Joseph M. Truta | President |
| Lawrence L. Hooper, Jr. | Vice President, General Counsel and Secretary |
| Maureen A. Jones | Vice President, Chief Financial Officer and Treasurer |
| Stephen E. Kohler | Vice President -- Research |
| David R. Schiminger | Vice President -- Research |
| D. Cotton Swindell | Vice President -- Research |
| David D. Weaver | Vice President -- Research |
| Christine M. Sloan | Assistant Treasurer |
| Geraldine H. Pare | Assistant Secretary |

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[LOGO OF ADAMS EXPRESS COMPANY]

The Adams Express Company
Seven St. Paul Street, Suite 1140
Baltimore, MD 21202
(410) 752-5900 or (800) 638-2479
www.adamsexpress.com

[GRAPHIC APPEARS HERE]

Item 2. Code of Ethics.

On June 12, 2003, the Board of Directors adopted a code of ethics that applies to registrant's principal executive officer and principal financial officer. The code of ethics is available on registrant's website at: www.adamsexpress.com. Since the code of ethics was adopted there have been no amendments to it nor have any waivers from any of its provisions been granted.

Item 3. Audit Committee Financial Expert.

The board of directors has determined that at least one of the members of registrant's audit committee meets the definition of audit committee financial expert as that term is defined by the Securities and Exchange Commission. The director on the registrant's audit committee whom the board of directors has determined meets such definition is Kathleen T. McGahran, who is independent pursuant to paragraph (a)(2) of this Item.

Item 4. Principal Accountant Fees and Services.

(a) Audit Fees. The aggregate fees for professional

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services rendered by its independent auditors, PricewaterhouseCoopers LLP, for the audits of the Company's annual and semi-annual financial statements for 2006 and 2005 were \$77,405 and \$64,750 respectively.

(b) Audit Related Fees. There were no audit-related fees in 2006 and 2005.

(c) Tax Fees. The aggregate fees to registrant for professional services rendered by PricewaterhouseCoopers LLP for the review of registrant's excise tax calculations and preparations of federal, state and excise tax returns for 2006 and 2005 were \$11,278 and \$10,540, respectively.

(d) All Other Fees. The aggregate fees to registrant by PricewaterhouseCoopers LLP other than for the services referenced above for 2006 and 2005 were \$10,044 and \$800, respectively. The \$10,044 for services in 2006 related to the review of the Company's procedures for calculating the amounts to be paid or granted to the Company's officers in accordance with the Company's cash incentive plan and the 2005 Equity Incentive Compensation Plan, review of the Company's calculations related to those plans, and preparation of a report to the Company's Compensation Committee.

(e) (1) Audit Committee Pre-Approval Policy. As of 2006, all services to be performed for registrant by PricewaterhouseCoopers LLP must be pre-approved by the audit committee. All services performed in 2006 were pre-approved by the committee.

(2) Not applicable.

(f) Not applicable.

(g) The aggregate fees by PricewaterhouseCoopers LLP for non-audit professional services rendered to registrant for 2006 and 2005 were \$21,322 and \$11,340, respectively.

(h) The registrant's audit committee has considered the provision by PricewaterhouseCoopers LLP of the non-audit services described above and found that they are compatible with maintaining PricewaterhouseCoopers LLPs independence.

Item 5. Audit Committee of Listed registrants.

(a) The registrant has a standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the audit committee are: Kathleen T. McGahran, chair, Daniel E. Emerson, Frederic A. Escherich, and Craig R. Smith.

(B) Not applicable.

Item 6. Schedule of Investments - This schedule is included as part of the report to shareholders filed under Item 1 of this form.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

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PROXY VOTING GUIDELINES

The Adams Express Company (Adams) follows long-standing general guidelines for the voting of portfolio company proxies and takes very seriously its responsibility to vote all such proxies. The portfolio company proxies are evaluated by our research staff and voted by our portfolio management team, and we annually provide the Board of Directors with a report on how proxies were voted during the previous year. We do not use an outside service to assist us in voting our proxies.

As an internally-managed investment company, Adams uses its own staff of research analysts and portfolio managers. In making the decision to invest in a company for the portfolio, among the factors the research team analyses is the integrity and competency of the company's management. We must be satisfied that the companies we invest in are run by managers with integrity. Therefore, having evaluated this aspect of our portfolio companies' managements, we give significant weight to the recommendations of the company's management in voting on proxy issues.

We vote proxies on a case-by-case basis according to what we deem to be the best long-term interests of our shareholders. The key over-riding principle in any proxy vote is that stockholders be treated fairly and equitably by the portfolio company's management. In general, on the election of directors and on routine issues that we do not believe present the possibility of an adverse impact upon our investment, after reviewing whether applicable corporate governance requirements as to board and committee composition have been met, we will vote in accordance with the recommendations of the company's management. When we believe that the management's recommendation is not in the best interests of our stockholders, we will vote against that recommendation.

Our general guidelines for when we will vote contrary to the recommendation of the portfolio company management's recommendation are:

Stock Options

Our general guideline is to vote against stock option plans that we believe are unduly dilutive of our stock holdings in the company. We use a general guideline that we will vote against any stock option plan that results in dilution in shares outstanding exceeding 4%. Most stock option plans are established to motivate and retain key employees and to reward them for their achievement. An analysis of a stock option plan can not be made in a vacuum but must be made in the context of the company's overall compensation scheme. In voting on stock option plans, we give consideration to whether the stock option plan is broad-based in the number of employees who are eligible to receive grants under the plan. We generally vote against plans that permit re-pricing of grants or the issuance of options with exercise prices below the grant date value of the company's stock.

Corporate Control/Governance Issues

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Unless we conclude that the proposal is favorable to our interests as a long-term shareholder in the company, we have a long-standing policy of voting against proposals to create a staggered board of directors. In conformance with that policy, we will generally vote in favor of shareholder proposals to eliminate the staggered election of directors.

Unless we conclude that the proposal is favorable to our interests as a long-term shareholder in the company, our general policy is to vote against amendments to a company's charter that can be characterized as blatant anti-takeover provisions.

With respect to so-called golden parachutes and other severance packages, it is our general policy to vote against proposals relating to future employment contracts that provide that compensation will be paid to any director, officer or employee that is contingent upon a merger or acquisition of the company.

We generally vote for proposals to require that the majority of a board of directors consist of independent directors and vote against proposals to establish a retirement plan for non-employee directors.

We have found that most stockholder proposals relating to social issues focus on very narrow issues that either fall within the authority of the company's management, under the oversight of its board of directors, to manage the day-to-day operations of the company or concern matters that are more appropriate for global solutions rather than company-specific ones. We consider these proposals on a case-by-case basis but usually are persuaded management's position is reasonable and vote in accordance with management's recommendation on these types of proposals.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a) (1) Douglas G. Ober, Chairman and Chief Executive Officer, and Joseph M. Truta, President, comprise the 2 person portfolio management team for the registrant. Mr. Ober and Mr. Truta have served as portfolio managers for the registrant since 1991. This information is as of February 15, 2007. Mr. Ober is the lead member of the portfolio management team. Mr. Ober and Mr. Truta receive investment recommendations from a team of research analysts and make decisions jointly about any equity transactions in the portfolio. Concurrence of both portfolio managers is required for an investment recommendation to be approved.

(2) Mr. Ober and Mr. Truta also comprise the portfolio management team for registrant's non-controlled affiliate, Petroleum & Resources Corporation (Petroleum), a registered investment company with total net assets of \$812,047,239 as of December 31, 2006. Mr. Ober is Chairman, Chief Executive Officer and President of Petroleum and Mr. Truta is Executive Vice President. This information is as of February 15, 2007. The Petroleum fund is a non-diversified fund focusing on the energy and natural

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resources sectors and Adams is a diversified fund with a different focus, and there are few material conflicts of interest that may arise in connection with the portfolio managers' management of both funds. The funds do not buy or sell securities or other portfolio holdings to or from the other, and procedures and policies are in place covering the sharing of expenses and the allocation of investment opportunities, including bunched orders and investments in initial public offerings, between the funds.

(3) The portfolio managers are compensated through a three-component plan, consisting of salary, annual cash incentive compensation, and equity incentive compensation. The value of each component in any year is determined by the Compensation Committee, comprised solely of independent director members of the Board of Directors. Salaries are determined by using appropriate industry surveys and information about the local market as well as general inflation statistics. Cash incentive compensation is based on a combination of absolute and relative fund performance over one and three year periods as well as individual success at meeting goals and objectives set by the Board of Directors at the beginning of each year. Target incentives are set based on 80% of salary for the Chief Executive Officer and 60% of salary for the President. Two-thirds of each individual's annual cash incentive is based on fund performance and one third on individual success. The portion based on performance is determined using a scale in which the target can be earned by absolute fund pre-tax performance of 10%. The scale ranges from zero to 125% of target. The result is then modified by an average of the one and three year performance relative to the S&P 500, whereby each one percent outperformance or underperformance by the fund adds or deducts 5% from the percentage of target earned based on the scale. The maximum percentage of target which may be earned is 200% and the minimum is zero. Equity incentive compensation, based on a plan approved by shareholders in 2005, can take several forms. Following approval of the plan, grants of restricted stock were made to the portfolio managers in April 2005, with vesting in equal proportions over a three year period. The size of the grants was determined by the Compensation Committee with the assistance of an outside compensation consultant. Grants of restricted stock were also made on January 12, 2006, that will vest at the end of three years, but only upon the achievement of specified performance criteria; certain percentages of the target number of shares will be deemed to have been earned based on achieving performance goals over specified intervening time periods. The benchmark used to measure performance is a hypothetical portfolio comprised of a 50/50 blend of the S&P 500 Index and the Lipper Large Cap Core Mutual Fund Index ("Hypothetical Portfolio"). The first one-sixth of the target number of restricted shares were earned on January 1, 2007 because the Company's one year total NAV return exceeded the one year total NAV return of the

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Hypothetical Portfolio. Lesser percentages or no shares would have been earned if the Company's NAV return trailed that of the Hypothetical Portfolio, depending on the level of underperformance on that date. For the next one-third of the target number of shares, those shares will be deemed to have been earned if, on January 1, 2008, the Company's two year total NAV return meets or exceeds that of the Hypothetical Portfolio, with a lesser percentage or no shares being earned if the Company's total NAV return trails that of the Hypothetical Portfolio, depending on the level of underperformance on that date. The remaining 50% of the target shares will be deemed to have been earned if, on January 1, 2009, the Company's three year total NAV return meets or exceeds that of the Hypothetical Portfolio, with a lesser percentage or no shares being earned if the Company's total NAV return trails that of the Hypothetical Portfolio, depending on the level of underperformance on that date. In addition, if, on January 1, 2009, the Company's three year total NAV return exceeds that of the Hypothetical Portfolio, an additional number of shares up to 50% of the target number of shares will be earned and vest depending on the level of outperformance. Dividends and capital gains paid on the Company's shares of Common Stock ("dividends") will be paid on all of the target number of shares of restricted stock, when such dividends are paid on the Common Stock, except that no dividends or capital gains will be paid on any shares that are forfeited due to the failure to achieve the performance criteria described above. The basis for the portfolio managers' cash incentive and equity incentive compensation determinations for Petroleum is the same as for Adams, except that the portion of the cash incentive based upon fund performance uses the Dow Jones Oil and Gas Index and the S&P 500 Index as the benchmarks in a 70%/30% ratio, over a one and three year period, and the benchmarks used to measure fund performance for equity incentive compensation is a hypothetical portfolio comprised of a 80/20 blend of the Dow Jones Oil and Gas Index and the S&P 500 Index. All of the above information is as of December 31, 2006, except as noted.

(4) Using a valuation date of December 31, 2006, Mr. Ober beneficially owns equity securities in registrant of over \$1,000,000. Mr. Truta beneficially owns equity securities in registrant of over \$1,000,000.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

| Total Number of Shares (or Units) | Average Price Paid per Share (or | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or |
|--|---|--|---|
|--|---|--|---|

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| Period(2) | Purchased | Unit) | Programs | Programs |
|-----------|---------------|----------|---------------|---------------|
| Jan. 2006 | 243,200 | \$ 12.94 | 243,200 | 3,792,429 |
| Feb. 2006 | 250,400 | \$ 12.97 | 250,400 | 3,542,029 |
| Mar. 2006 | 345,600 | \$ 13.21 | 345,600 | 3,196,429 |
| Apr. 2006 | 165,700 | \$ 13.36 | 165,700 | 3,030,729 |
| May 2006 | 35,800 | \$ 13.45 | 35,800 | 2,994,929 |
| June 2006 | 0 | \$ 0.00 | 0 | 2,994,929 |
| Jul. 2006 | 0 | \$ 0.00 | 0 | 2,994,929 |
| Aug. 2006 | 0 | \$ 0.00 | 0 | 2,994,929 |
| Sep. 2006 | 0 | \$ 0.00 | 0 | 2,994,929 |
| Oct. 2006 | 255,300 | \$ 13.84 | 255,300 | 2,739,629 |
| Nov 2006 | 150,800 | \$ 13.95 | 150,800 | 2,589,629 |
| Dec 2006 | 176,742 | \$ 13.87 | 176,742 | 2,412,087 |
| Total | 1,623,542 (1) | \$ 13.41 | 1,623,542 (2) | 2,412,087 (2) |

(1) There were no shares purchased other than through a publicly announced plan or program.

(2.a) The Plan was extended on December 8, 2005 and was reapproved on December 14, 2006.

(2.b) The share amount approved in 2005 was 5% of outstanding shares, or approximately 4,192,729 shares, and in 2006 was 5% of outstanding shares, or approximately 4,235,634 shares.

(2.c) Unless reapproved, the Plan will expire on or about December 13, 2007.

(2.d) None.

(2.e) None.

Item 10. Submission of Matters to a Vote of Security Holders.

There were no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors made or implemented after the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A (17 CFR 240.14a-101), or this Item.

Item 11. Controls and Procedures.

Conclusions of principal officers concerning controls and procedures.

(a) As of February 15, 2007, an evaluation was performed under the supervision and with the participation of the officers of registrant, including the principal executive officer (PEO) and principal financial officer (PFO), of the effectiveness of registrant's disclosure controls and procedures. Based on that evaluation, the registrant's officers, including the PEO and PFO, concluded that, as of February 15, 2007, the registrant's disclosure controls and procedures were reasonably designed so as to ensure that material information relating to the registrant is made known to the PEO and PFO.

(b) There have been no significant changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940 (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal half-year that has materially

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affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits attached hereto. (Attach certifications as exhibits)

(1) Not applicable. See registrant's response to Item 2, above.

(2) Separate certifications by the registrant's principal executive officer and principal financial officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and required by Rule 30a-2 under the Investment Company Act of 1940, are attached.

Signatures:

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE ADAMS EXPRESS COMPANY

BY: /s/ Douglas G. Ober

Douglas G. Ober
Chief Executive Officer
(Principal Executive Officer)

Date: February 15, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

BY: /s/ Douglas G. Ober

Douglas G. Ober
Chief Executive Officer
(Principal Executive Officer)

Date: February 15, 2007

BY: /s/ Maureen A. Jones

Maureen A. Jones
Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

Date: February 15, 2007