

*The Adams Express Company*

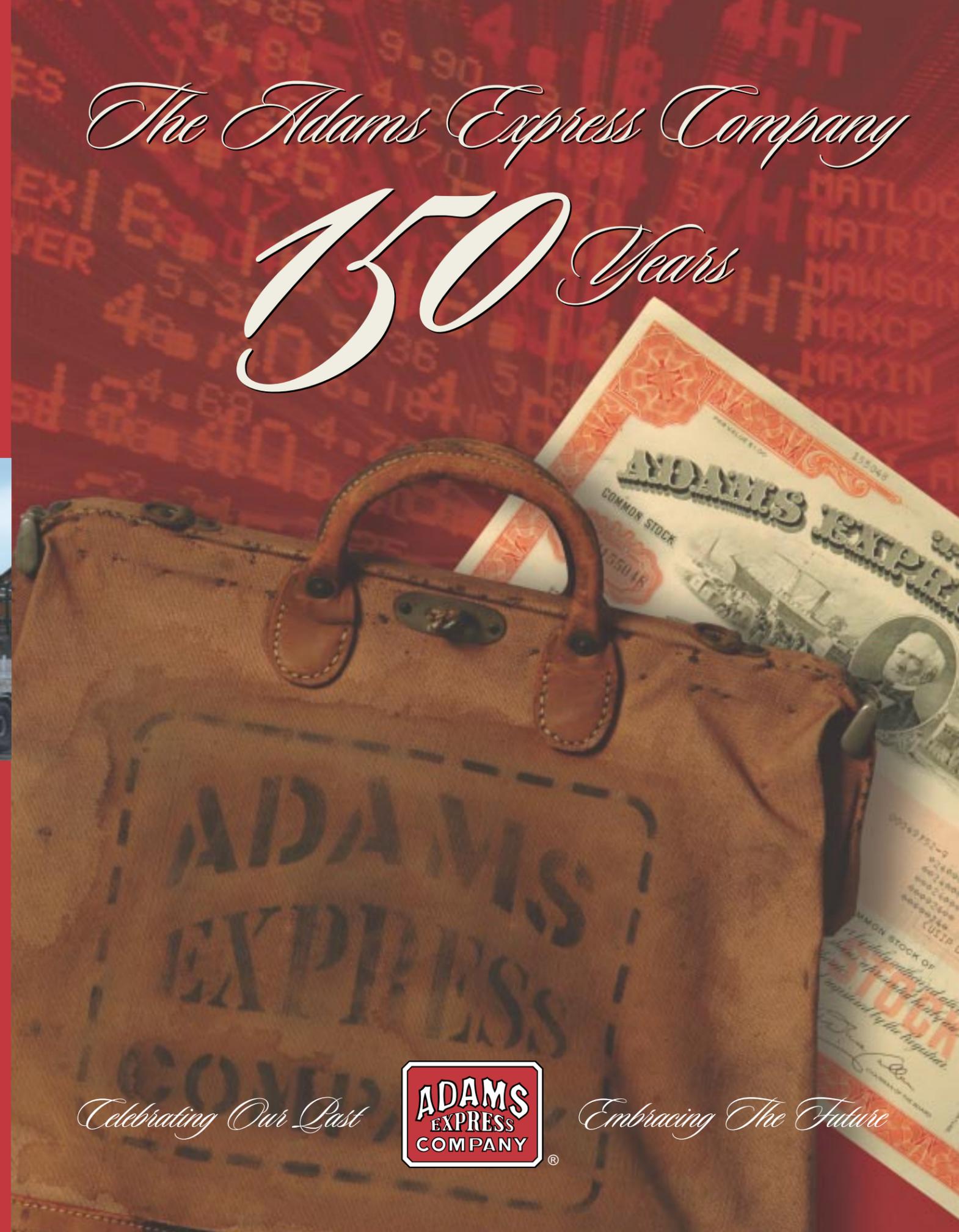
*150 Years*



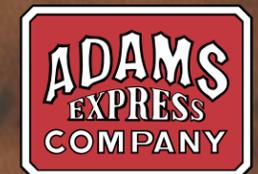
The Adams Express Company  
Seven St. Paul Street  
Suite 1140  
Baltimore, MD 21202  
410-752-5900  
(800) 638-2479  
www.adamsexpress.com



*One of our early wagons will be restored coincident with the Company's 150th anniversary. The Company-funded initiative will allow the wagon to be repaired and showcased in the B&O Railroad Museum, whose historic Roundhouse roof collapsed, damaging its train car collection in the blizzard of 2002 in Baltimore.*



*Celebrating Our Past*



*Embracing The Future*



THE ADAMS EXPRESS COMPANY HAS THRIVED FOR 150 YEARS, ITS FIRST 75 YEARS AS ONE OF THE NATION'S LEADING INDEPENDENT EXPRESS COMPANIES, AND ITS SECOND 75 YEARS AS ONE OF THE LARGEST CLOSED-END INVESTMENT FUNDS. THE COMPANY'S STORY PARALLELS MUCH OF AMERICA'S BUSINESS HISTORY, FROM THE EARLY DAYS OF TRANSPORTATION AND MANUFACTURING THROUGH EXPANSION ACROSS OUR CONTINENT AND THE OCEANS – CONTRIBUTING TO THE EASE AND SPEED OF TRANSPORTING DOCUMENTS, CURRENCY AND SECURITIES TO TODAY'S INFORMATION-BASED FINANCIAL SERVICES INDUSTRY.



Alvin Adams at age 50.

**TWO MEN, A BOY AND ONE WHEELBARROW**

Alvin Adams was already 50 years old when he presided over the meeting in New York City where the Adams Express Company was formally incorporated on July 1, 1854. By any reasonable measure of the day, he had enjoyed a full, successful career. However, with the granite features of his native New England and the shrewd expression of a life-long entrepreneur, he was not at an ending but a beginning.

Adams Express was created as a limited stock company with 12,000 shares and capital of \$1.2 million. With that structure, Adams enriched not himself so much as the shareholders, most of them long-time part-

ners and employees who had helped him build the largest express shipping company on the East Coast, which also reached across the country and nearly around the world.

Earlier in his life Adams had not seemed a likely candidate for wealth and success. He was an orphan at age eight, a ward of his elder brother, then a workingman at 16 who wrangled teams of horses at a Vermont stage stop. Drawn to Boston with the youth of his generation, Adams did not readily become successful, and in fact was forced deeply into debt when his produce business failed during the Panic of 1837. At that time he was 33 and the breadwinner for a family that would include nine children.

Perhaps remembering back to the time of his first job at the stage stop, Adams knew

that people would pay good money for the service of moving articles from one place to another. The opening of the Boston & Norwich railroad triggered his ambition, and he applied for the privilege of running an express service between Boston and New York City. He was denied that contract, which went to a man named William F. Harnden, who had run an express service from Boston to an intermediate town for about a year and had cultivated influential friends at the railroad.

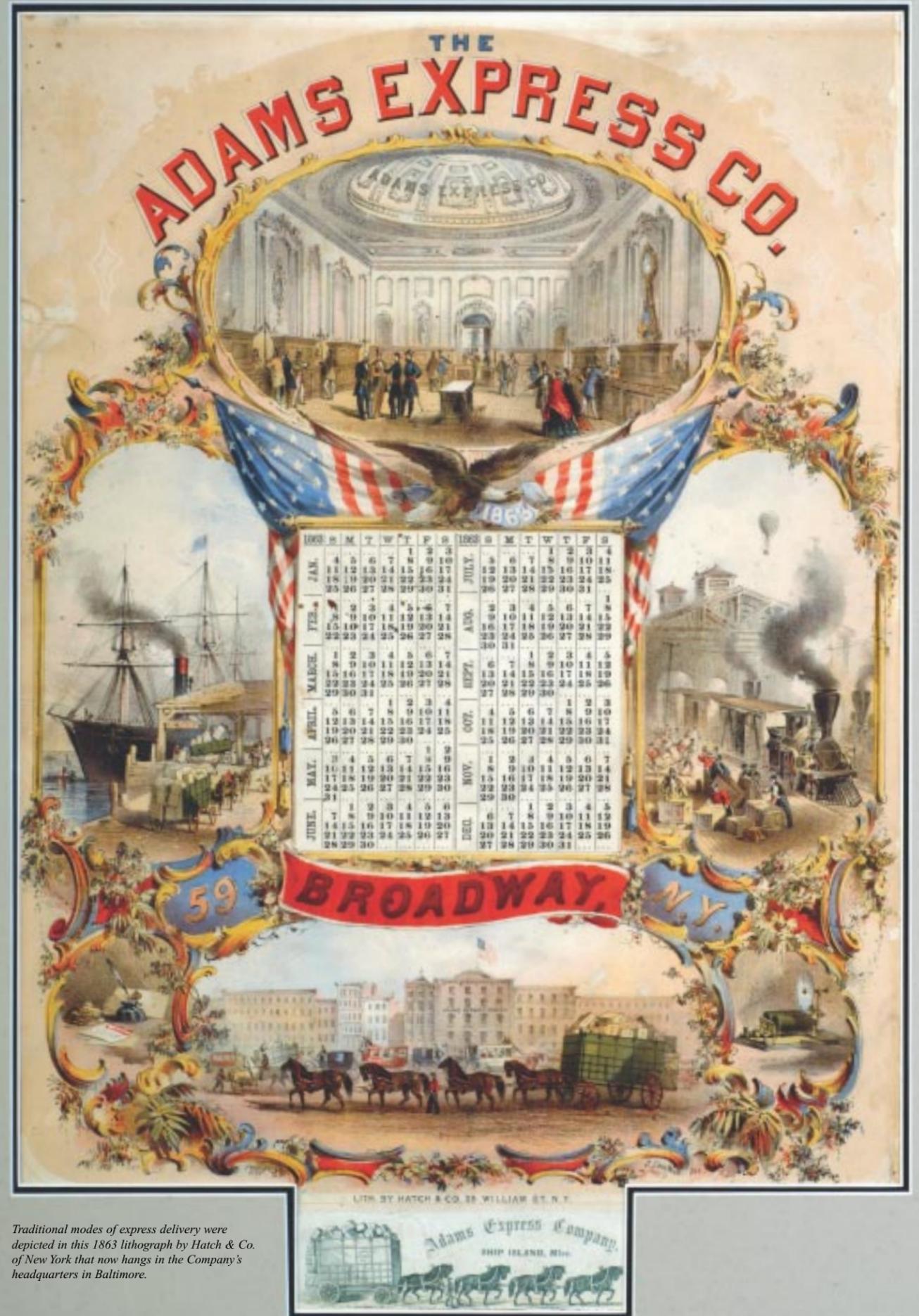
Not at all intimidated, Adams scraped together money for a season "steamboat train" pass and proceeded to ride back and forth daily between the cities as a paying passenger, his valise packed with paid parcels and envelopes. That was in 1840, when Adams' vestigial company was comprised of "two men, a boy and one wheelbarrow," according to a sign proudly displayed on a Company wagon during a parade in 1887.

Thus marked the beginning of one of the country's great service companies and a true American success story. By Adams' own account, in words that still crackle with Yankee intensity:

*"In four years I was ahead of Harnden and about that time he died insolvent and Adams & Co. purchased his interest in the business and for twenty-five years, Adams & Co. have owned all the express lines between New York and Boston, although Harnden and Kingsley (another acquired company) were run in their original names for a certain purpose."*



Festive parade entry in 1887 compared the Company's beginnings of two men, a boy and one wheelbarrow with its then-current capabilities numbered in employees, wagons, horses and railroad operations.



Traditional modes of express delivery were depicted in this 1863 lithograph by Hatch & Co. of New York that now hangs in the Company's headquarters in Baltimore.

If that “certain purpose” had been to dominate a market through brand proliferation, Adams invented the strategy long before General Motors or General Mills. Adams’ meteoric rise in a field of myriad competitors was perhaps due to two personal qualities: his ability to attract talented and loyal employees, and his business sense that enabled him to rapidly acquire competing companies at favorable prices.

When Adams Express was incorporated in 1854, it digested Adams & Co. plus eight other express companies then serving the East Coast corridor and extending to Pennsylvania, Maryland and Ohio in one direction and to coastal southern states in another. Through agents, the company also extended service to Europe. In 14 years, Alvin Adams had reversed the experience of his first 36, becoming wealthy and more than that: serving as an economic engine driving his company to greater future heights.

### DELIVERING THE GOODS

The express companies founded by Alvin Adams contributed to several of the great economic and social movements of the 19th century, including the westward migration, the California Gold Rush, and the Civil War. Adams delivered the messages, documents and securities that underpinned each of these movements. By the time of the Civil War, the Company operated throughout the south with its Southern Express Company subsidiary.

Interestingly, the Company served as paymaster for soldiers on both sides during the bloodiest war on American soil, serving the Union soldiers through Adams Express and the Confederates through Southern Express. And Company lore has it that at least one slave, known as Box Brown, was packed in a box and shipped to freedom via Adams Express.

Adams & Co. claimed to be the first express company to follow the miners to California’s gold camps. On September 7, 1849, Adams announced in the Pacific Ledger a new express service to San Francisco via Panama, where goods would be taken across the Isthmus by wagon and canoe for shipment on to California:

*Our first Express will leave New York on Saturday, 15th September, in the steamer Empire City, under the direction of Mr. D.H. Haskell, who has for several years been favorably known to the public as a clerk in our Boston office, and has been admitted a partner, to reside at San Francisco and to have the entire control of our business there. Letters for Valparaiso, Callao, Oregon and the Sandwich Islands will be forwarded by every steamer.*

—Adams & Co., 80 Chestnut Street

By some accounts, Alvin Adams and his chief lieutenant William B. Dinsmore initially opposed Haskell’s California dream. But immediate profitable business stimulated rapid expansion of the San Francisco office. Beyond the Sandwich Islands, later named



Powered by a heavy steam engine, this 1900 Adams Express wagon negotiated the cobblestone streets of Philadelphia on extra wide wagon tires.

Hawaii, service extended to other Pacific islands and to Canton and other ports in China. However, like many armies of the past, Adams appeared to expand beyond its support system and was victimized by unexpected events in California, including robberies and a run on its assets organized by gold camp competitors.

The California operation was not included under Adams Express’ corporate umbrella when the Company was incorporated in July 1854. Alvin Adams himself covered the California operation’s deficits and suffered severe personal losses before closing it down in February 1855. By keeping its losses in the west off the corporate books, Adams Express was able to grow stronger through its monopoly of service between Boston and New York, and its rapid expansion through the central and southern regions.

Alvin Adams died at age 73 on September 1, 1877. His funeral was reported to be one of the largest ever seen in Boston. Always prepared to advance the interests of Adams Express, one of the founder’s chief lieutenants, John Hoey, reported in his eulogy before the assembly of leading Bostonians that the company was then worth \$27 million and employed 15,000 people. Hoey, who had been “the boy” who hauled Adams’ first express cart in 1840, went on to become the company’s fourth chairman (1888-1891) and his brief tenure was marked by his flamboyant lifestyle and financial improprieties that led to his unceremonious removal from the position.

### EARLY DAYS IN BALTIMORE

In the early 1840’s, the Adams & Co. agent in Philadelphia, Edward S. Sanford, became associated with Samuel M. Shoemaker of Baltimore, who had by that time established an express business serving cities to the west and south. Sanford and Shoemaker, plus William B. Dinsmore in New York, became Alvin Adams’ partners in Adams & Co. and were among the original shareholders of Adams Express. Baltimore was a primary transportation hub as the origination point of the nation’s first railroad in 1828, the Baltimore & Ohio. Trainloads of coal arrived daily at Baltimore’s Mt. Clare Station, while merchandise and personal articles were expressed by rail to westward points by Adams & Co.

An early office of Adams & Co. was at 7 Light Street, about a block from today’s head-

quarters of the Company. An Adams advertisement in December 1849 may have been among the first of its kind:

*Adams & Co. have made special arrangements to transport Holiday Presents, and deliver them on the 25th or earlier if desired. Parcels, packages and cases will be received for New York, Trenton, Princeton, Washington, Lancaster, Harrisburg, Carlisle, Chambersburg and Lewistown until the 24th.*

*Messrs. Adams & Co. run the Only Express to Washington, Norfolk, Richmond, Petersburg, Fredericksburg, Harrisburg, Carlisle, Chambersburg and Lewistown. Their general arrangements are greatly superior to any other Express, and their charges lower.*

*N.B. Particular care will be taken to have the packages carefully handled.*

Shoemaker became wealthy with additional interests in railroads, banking and manufacturing and socially prominent as the son-in-law of a leading state judge. He was a skilled rider and owned a stable of outstanding horses on his expansive farm north of the city. According to company lore, when the Union Army came through Maryland during the Civil War seeking conscripts and mounts, Shoemaker had a massive pit dug, covered over with a roof and sod to look like natural ground, where he hid his horses safely until the Army had passed through.

The Company’s offices were burned to the ground in the Great Baltimore Fire of 1904, and a photograph of the scene of destruction

looking west from the site of the office is prominently displayed in one of the rooms at the Center Club in downtown Baltimore, the site of Adams Express’ Annual Meeting this year.

### THE END OF INDEPENDENCE

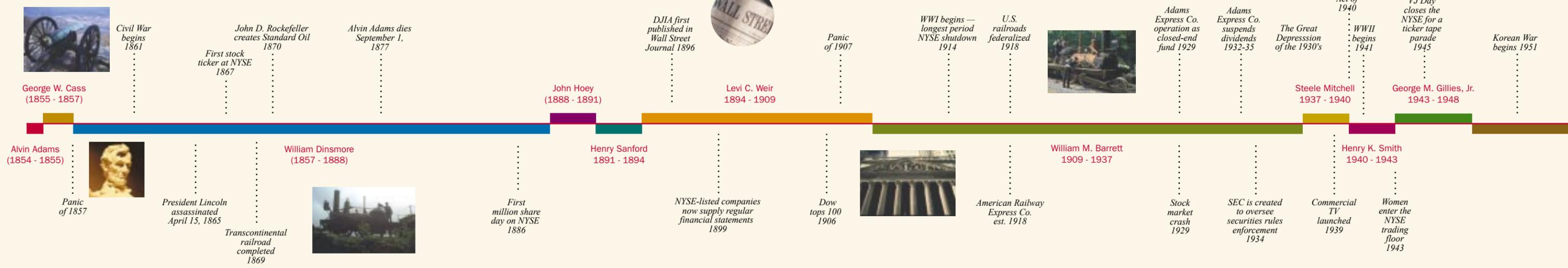
Two actions by the federal government caused Adams Express to change first its business methods and later its fundamental business strategy. Nine years before incorporation as The Adams Express Company, Adams & Co. was put out of the independent mail business when the government initiated protection for the U.S. post offices from independent competitors. By 1844 the network of independent mail operations had become so extensive and the rates so low that the government operation was adversely affected. The government began a campaign against the express companies in 1841 and by 1845 only the post office was authorized to carry letters for a fee. Adams circumvented this



This early gas-powered motor truck hauled Adams Express packages in 1904.

### THE ADAMS EXPRESS COMPANY | INCORPORATED JULY 1, 1854

(Timeline intervals indicate Chairmen tenure)



prohibition for a time by delivering letters free of charge for its express customers.

A government action of greater effect occurred in 1918 as World War I still raged. In response to the need to move massive amounts of troops and materials around the country, all U.S. railroads were federalized. Along with taking over the railroads, the government decreed that the railway express operations of the principal express companies – Adams Express, Southern Express (the Adams subsidiary), American Express, and Wells, Fargo – would be sold to the new government-operated American Railway Express Company (“AREC”). In the final deal, Adams Express, American Express and Wells, Fargo each received a third of the stock of AREC. In effect, the express companies became passive investors in a U.S. government operation.

The railroad administration was dissolved in 1920 and the railroads were reprivatized. But AREC continued its operations. That changed in 1929 when the eighty-six principal U.S. railroads provided the old express companies a big payday: the railroads formed a new monopoly company, Railway Express Agency, by purchasing the shares of AREC held by Adams Express, American Express, and Wells, Fargo.

### THE NEW ADAMS EXPRESS COMPANY

With the cash from American Railway Express Company stock and additional shares it bought from American Express and other AREC shareholders, Adams Express

had amassed a significant investment portfolio and had the necessary staff and operations to function as an investment company in its own right. The Company’s shares, which were listed on the New York Stock Exchange shortly after the turn of the century, had been publicly traded since 1873. As it no longer had significant operations other than its investment portfolio, the Board of The Adams Express Company elected to operate the Company as a closed-end fund beginning in October 1929 (the timing was not quite perfect), and it has continued as such ever since. Total assets at the end of 1929, even after the October 1929 stock market crash, amounted to \$73.3 million.

The financial trauma of the Great Depression affected the Company’s portfolio along with the rest of the country. The Company was unable to pay dividends in 1932-1935, but recovered sufficiently when the economy improved to reinstitute its dividend, and has paid dividends every year since. Indeed, 2004 marks the 68th continuous year that Adams shareholders have been paid a dividend.

The Company’s investment portfolio had been built through the application of retained earnings through the latter part of the 19th century and the early years of the 20th century. Securities held during that time by Adams consisted largely of railroad companies, terminal facilities and other transportation companies. The Company rapidly diversified its holdings into the leading industrial and service companies of the time, which continues to be the case today. A few holdings reported in the



Company’s 1929 annual report include General Electric, General Motors, Bethlehem Steel, F.W. Woolworth, Kennecott Copper and Standard Oil of New York, New Jersey and California – all pillars of the 20th century American economy.

As the Company established itself as a closed-end fund, it formed alliances with three other investment companies: Haygart Corporation, American International Corporation and Petroleum Corporation of America. Haygart and American International were in time absorbed into the Company, while Petroleum Corporation of America became Petroleum & Resources Corporation, which continues as a non-controlled affiliate of Adams Express today.

The Company’s progress as a closed-end fund paralleled one of the most tumultuous periods in American history, including the Depression and World War II. As the government sought financial stability during the 1930’s, landmark federal regulatory legislation included the Securities Act of 1933 and – more germane to Adams Express – the Investment Company Act of 1940.

Two kernels of investment philosophy emerged that largely guide the Company to the present day. In the 1940’s and 1950’s the Company developed its own proprietary research capabilities to a high level. According to the Company’s 11th chairman, George E. Clark (1948-1970):

*In our company, research and management work together as one large group. In the final analysis our job revolves around research and the application of judgment...and we feel this can best be accomplished by team effort.*

The second strategy was to invest for the long term and avoid short-term trading. Clark noted:

*The company is not interested in day-to-day or month-to-month trading operations. Rather, the emphasis is directed to longer-term investment policies, first for leading industries, then for leading companies in those.*

Clark noted with pride the low 1957 expense ratio to assets of .45%. That careful management of expenses remains a trademark of the Company today, which reported an expense ratio of .47% in 2003. For 75 years, the Company has relied on its own internal research and portfolio management capabilities, resulting in one of the lowest expense ratios of any of its peer funds.

W. David MacCallan became Adams’ 13th chairman in 1971 after joining the firm as a research analyst in 1956. During his tenure,

MacCallan increased the proportion of outside directors who were not aligned with the investment industry. He also led in expanding Adams’ large investment position in General Electric and established its American International Group position, both of which remain among the largest holdings in the portfolio today.

The Company was based in the Wall Street district for most of its existence, notably in its earliest years at 59 Broadway and later in an historic building at 61 Broadway constructed in 1916 that is still known as the Adams Express Building. The Company moved its operations to Baltimore in 1976. MacCallan presided over the relocation, noting to a Baltimore reporter that the firm’s basic criteria for relocation were easy access to New York City and good ability to visit portfolio companies. He said Company officers were surprised when cost studies proved the case for moving to Baltimore. “We had thought it would turn out to be Connecticut,” he said.

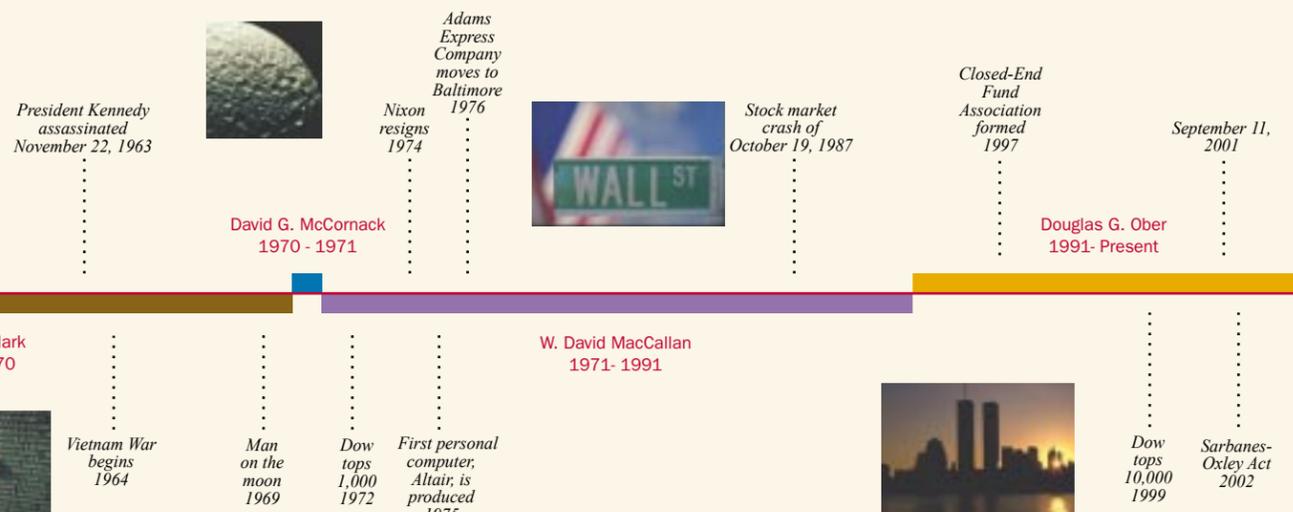
Douglas Ober became chief executive officer of the Company in 1990 and its 14th chairman in 1991. He continues in those roles today. A Baltimore native educated at Princeton as an aeronautical engineer, Ober’s first job was testing jets along with Navy pilots at the U. S. Naval Air Test Center in the 1960s. He recalled one roundtrip to Bermuda on an F-4 jet at Mach 2. The whole trip took 45 minutes and established the opposite end of a transportation spectrum from Alvin Adams pushing his handcart along the Boston waterfront.



Adams Express’ office in Philadelphia, located at the south-east corner of Broad and Chestnut Streets. The building was demolished in 1897.

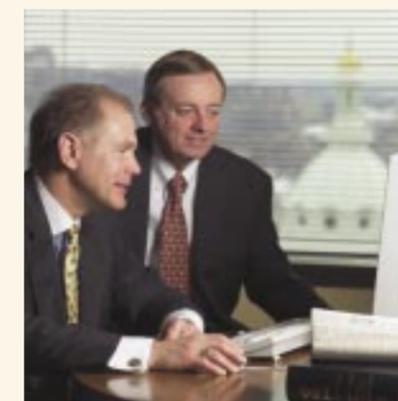
Ober turned to a career in investment analysis and management beginning at Adams Express in 1980 and observes his 24th year with the Company during its 150th anniversary. He has been a tireless advocate for the closed-end fund structure and was instrumental, along with Adams Express general counsel Lawrence Hooper, in forming the Closed-End Fund Association in 1997.

The company’s storied history led to opportunities that even Alvin Adams could not have anticipated when he formed his express company in 1854. While no one can predict how Adams Express will evolve as an investment company in the next 150 years, we look forward with great promise to a future dedicated to the interests of our shareholders. ■



ONE HUNDRED AND FIFTY YEARS AFTER ITS INCORPORATION, The Adams Express Company is still delivering. Looking back over the past 75 years, you would have done quite well if you invested in Adams Express in 1929. An investment of \$10,000 on December 31, 1929, with all dividends and capital gains reinvested since, had grown to a market value of \$12,803,732 on December 31, 2003, an average annual market return of 10.17% per year. On a net asset basis, your investment would have grown to \$14,815,600, representing an average annual net asset value return of 10.19% per year. With pride in the traditions of our history, we are pleased to observe our 150th anniversary during 2004, and look forward to continuous service to our shareholders for many years to come.

Please note that the above return figures do not reflect the impact of income taxes that would be applicable to such an investment. Past performance is not indicative of future investment results.



Chairman and CEO Douglas G. Ober, left, and President Joseph M. Truta confer about the Company’s investment portfolio.