ADAMS EXPRESS CO
Form N-CSR
February 18, 2011

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-00248

THE ADAMS EXPRESS COMPANY

(Exact name of registrant as specified in charter)

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

(Address of principal executive offices)

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

(Name and address of agent for service)

Registrant's telephone number, including area code:

(410) 752-5900
Date of fiscal year end: December 31
Date of reporting period: December 31, 2010

Item 1. Reports to Stockholders.

2010 AT A GLANCE

The Company

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

opportunity for capital gain

internally-managed
low turnover

Stock Data (12/31/10)

NYSE Symbol............ADX	
Market Price...............$10.72	
52-Week Range..........$8.97 $11.06	
Discount......................15.3%	
Shares Outstanding......88,885,186	

Summary Financial Information

	Year Ended December 31,	
	2010	2009
Net asset value per share	$ 12.65	$ 11.95
Total net assets	1,124,671,966	1,045,027,339
Unrealized appreciation	159,221,690	94,707,984
Net investment income	13,366,543	11,599,277
Net realized gain	30,884,988	19,008,941
Total return (based on market price)	11.5%	32.1%
Total return (based on net asset value)	11.2%	30.6%
Ratio of expenses to average net assets	0.58%	0.90%
Annual rate of distribution	5.1%	5.2%

2010 Dividends and Distributions

Paid	Amount (per share)	Type
March 1, 2010	$ 0.02	Short-term capital gain
March 1, 2010	0.01	Long-term capital gain
March 1, 2010	0.02	Investment income
June 1, 2010	0.05	Investment income

September 1, 2010		0.05	Investment income
December 27, 2010		0.27	Long-term capital gain
December 27, 2010		0.07	Short-term capital gain
December 27, 2010		0.02	Investment income
	$	0.51	

2011 Annual Meeting of Stockholders

Location: Hotel Monaco, Baltimore, Maryland

Date: March 22, 2011

Time: 9:00 a.m.

PORTFOLIO REVIEW

December 31, 2010

(unaudited)

Ten Largest Equity Portfolio Holdings

	Market Value	*% of Net Assets*
Petroleum & Resources Corporation*	$ 59,064,766	5.3%
Oracle Corp.	34,430,000	3.1
Microsoft Corp.	32,945,600	2.9
Apple Inc.	27,417,600	2.4
JPMorgan Chase & Co.	23,755,200	2.1
PepsiCo, Inc.	23,518,800	2.1
Procter & Gamble Co.	20,263,950	1.8
General Electric Co.	19,350,820	1.7
Target Corp.	19,241,600	1.7
McDonald s Corp.	19,190,000	1.7
	$ 279,178,336	24.8%

* Non-controlled affiliate

Sector Weightings

Letter to Stockholders

Douglas G. Ober,

Chairman and Chief

Executive Officer

The Year in Review

Investors confidence is slowly returning, but major portfolio declines are still fresh in the minds of many cautious investors. In 2010, equity markets continued along a path of recovery and approached the levels seen prior to the fourth quarter of 2008. The Adams Express Company (the Fund) provided a total return on net assets of 11.2%, building on a healthy 30.6% total return in 2009. By comparison, the Standard & Poor s 500 Composite Index (S&P 500) posted a total return of 15.1% in 2010, which followed a 26.5% return in 2009, and the Lipper Large-Cap Core Mutual Fund Average posted total returns of 12.9% and 27.1% for 2010 and 2009, respectively. The return on the Fund s market value was 11.5% in 2010.

This past year, we saw the continuation of an economic recovery, yet a multitude of events created unrest for investors. Efforts to reform the health care system and expand coverage to millions of Americans have led to more questions than answers. The financial system is in the process of a major regulatory overhaul following a near collapse. A sovereign debt crisis that began in Greece and spread to other areas of Europe continues to weigh on markets. The tragic explosion of a drilling rig in the Gulf of Mexico and subsequent oil leak sent a shockwave through the energy markets. The Flash Crash in May brought to light the risks and growing pains for markets that are rapidly evolving toward faster and more automated solutions. The wide-reaching implications of most of these issues remain at the forefront of investors minds.

Global GDP growth in 2010 approached 5% and was led by China, India, and Brazil. China s GDP grew approximately 10%. The rapid growth has driven up demand for energy, materials, and other commodities, straining the world s supply. Commodity prices rose dramatically during the year, raising fears of inflation in many rapidly-expanding economies. The actions taken in those markets to balance growth and inflation are something to watch closely. Europe struggled to expand with GDP growing less than 2%. Germany, at the heart of the Eurozone economy, improved output and reduced unemployment in the face of the fallout of high public-sector leverage in many other EU countries. Austerity measures were enacted in a number of the weaker countries and the success of those programs remains to be seen. The U.S. economy started the year on a solid trajectory, only to slip mid-year, allowing fears of a double dip recession to creep into the market and leading forecasters to temper their growth estimates. The year closed out with many economic indicators pointing toward a more positive outlook, to which the equity markets responded with a rise in the S&P 500 of 10.2% in the fourth quarter.

During late 2009 and early 2010, we began to reposition the Fund for an environment of economic expansion. Our holdings in defensive areas such as Health Care, Telecom, and Consumer Staples were reduced in favor of sectors more leveraged to a recovery, such as Financials, Industrials, Materials, and Technology. During the second and third quarters of 2010, however, the economic recovery was called into question as many indicators failed to meet our and other investors expectations. Our shift in focus toward a less defensive portfolio proved too early and left many of our sectors trailing their respective S&P 500 counterparts during that time. While the Fund s holdings in the Consumer Discretionary, Consumer Staples, Energy, Industrial, and Materials sectors all posted double digit returns for the year, only Materials exceeded its S&P 500 sector. Our Materials holdings in the portfolio returned 43.3% versus the S&P Materials return of 22.3%. Our Telecommunications and Utilities holdings were important income generators during the year, although we sold our Telecommunications holdings in the second quarter. Utilities remain an important part of the portfolio and provided a return of 8.6%, compared to 5.5% for the benchmark sector return. Our Financials and Information Technology holdings were solid performers during the year, each up in excess of 8%, but slightly lagged the respective benchmarks. Investments in the Health Care sector were challenged by the ever-changing reform efforts in Washington, resulting in its being the weakest-performing sector of the S&P 500. The sector rose only 2.9% for the year and our holdings returned 1.5%.

While the full year returns were disappointing on a relative basis, our positioning is beginning to bear fruit. The Fund had a strong fourth quarter and is off to a good start in 2011. The Fund s total return on net asset value exceeded that of both the S&P 500 and its Lipper peer group for the 3-year and 5-year periods ended December 31, 2010. We plan to build on that solid record as we position the portfolio for 2011 and beyond.

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Investment Results

At the end of 2010, our net assets were $1,124,671,966 or $12.65 per share on 88,885,186 shares outstanding. This compares with $1,045,027,339 or $11.95 per share on 87,415,193 shares outstanding a year earlier. Net investment income for 2010 was $13,366,543 compared to $11,599,277 for 2009. These earnings are equal to $0.15 and $0.13 per share, respectively, on the average number of shares outstanding throughout each year. Our expense ratio (expenses to average net assets) for 2010 was 0.58%. Net realized gains amounted to $30,884,988 during the year, while the unrealized appreciation on investments increased from $94,707,984 at December 31, 2009 to $159,221,690 at the end of 2010.

Dividends and Distributions

The total dividends and distributions paid in 2010 were $0.51 per share, compared to $0.45 in 2009. The table on page 20 shows the history of our dividends and distributions over the past fifteen years, including the annual rate of distribution to stockholders as a percentage of the average daily market price of the Company s Common Stock. In 2010, the annual rate of distribution was 5.1% compared to 5.2% in 2009. As announced on November 11, 2010, a year-end distribution of $0.36 per share, consisting of investment income of $0.02 and capital gains of $0.34, was made on December 27, 2010, both realized and taxable in 2010. On January 13, 2011, an additional distribution of $0.05 per share was declared to stockholders of record on February 11, 2011, payable March 1, 2011, representing the balance of undistributed net investment income and capital gains earned during 2010 and an initial distribution from 2011 net investment income, all taxable to stockholders in 2011.

Outlook for 2011

The recovery which got underway in late 2009 now appears solidly moving ahead in most of the world s economies. Concerns about a retrenchment into recession have taken a back seat, leaving a high probability of sustained economic growth. In the United States, a second round of stimulus, in the form of quantitative easing, a cut in payroll taxes, and the extension of tax cuts enacted some years ago have given consumers a bit more to spend and industrial companies an edge over their foreign competitors. Europe is still troubled by sovereign debt issues, but the principal members of the European Union seem determined to resolve them favorably. Emerging market economies, notably China, India, and Brazil, have experienced such strong growth that inflationary pressures are now a major concern and the governments are taking steps to slow growth to a more manageable level.

Taking a closer look at the domestic economy, we expect to see a continuing gradual improvement in a number of factors which should drive growth for some time to come. Through cost savings, companies have built cash positions that they are now beginning to spend on expansion. This, in turn, is generating much-needed jobs and will gradually bring the unemployment rate down. It will also enable consumers to increase their spending. An added benefit will be reduced government payouts to the declining number of unemployed. The weak dollar relative to other currencies has caused companies to bring jobs back to the U. S. and has had the effects of improving our competitiveness in world markets, increasing exports and reducing the trade deficit.

Countering the impetus for growth are some very difficult problems that are not going to be solved quickly. The unprecedented amount of government stimulus and related spending that is currently fueling the economy is likely to evaporate rather quickly as the new political landscape begins to focus on budget deficit reductions. Furthermore, the housing sector remains in terrible condition. The inventories of foreclosed and unsold new homes remain at very high levels; prices continue to decline; and credit for home-buying remains tight. The availability of mortgage money may not improve any time soon as the market for mortgage-backed securities is nearly non-existent and banks are unwilling to hold mortgages. The low level of interest rates, maintained by the Federal Reserve in order to stimulate the economy, works against the mortgage lenders. The mortgage market is just one segment of financial markets that is in a state of flux. The global crisis that nearly overwhelmed these markets just two years ago has eased, but the condition of banks and other financial institutions is still not healthy. Many banks have been able to build their capital bases considerably but continue to deal with high levels of risk associated with imprudent commercial and residential mortgage lending and their proprietary trading operations. Those not in precarious condition are saddled with vast amounts of new regulation (some yet to be written) both here and internationally. This has impacted the overall liquidity of financial markets around the world, making financing of any kind more complex and a much lengthier process, in turn slowing economic growth.

Higher energy prices are also a deterrent to growth, as they represent a growing portion of the cost of doing business as well as a larger part of consumers budgets for heating and transportation. The prices of home heating oil and gasoline have risen 17% and 18%, respectively, in the past year, offset only partially by a natural gas price decline. Food prices have also recently risen dramatically, as the world population has grown, crop failures have become more frequent, and the amount of arable land has not increased. While additional planting can be done and new sources of energy found, they will most likely be at higher cost and will continue to weigh on household budgets. Constraints to the food supply and limited new sources of energy are problems faced worldwide and will impact different regions to varying degrees, but will be sources of inflation everywhere.

Our view is that global growth is likely to slow to about a 4% level as a result of efforts in emerging markets to cool their economies. In this country, we anticipate that growth will pick up to about 3.5% as the aforementioned stimulus has the desired effect. A higher growth rate would raise the specter of inflation, which we believe is being watched very carefully by the Federal Reserve and will be avoided at almost any cost.

The equity market in this country has been on a tear, up 91% with one 15% correction and several more modest ones, since March, 2009. Early earnings reports for the fourth quarter of 2010 have generally been strong, with upward guidance for 2011 revenues and earnings. Consensus expectations for the earnings of the S&P 500 in 2010 are for an increase of 17% from 2009. For 2011, another 17% advance is the consensus.

While earnings recovered in 2010 from a very low level in 2009, we believe that expecting earnings to have a similar growth rate in 2011 seems excessive. We would therefore expect some tempering of earnings estimates, which would likely be reflected in the market promptly. We have already seen a series of dividend increases announced by large corporations, however, and mergers and acquisitions are getting more attention. These are generally supportive of higher valuations and could well overshadow a reduction in earnings estimates.

Investors are still extremely cautious about the equity markets, as evidenced by the modest flows of dollars out of bond funds and into equity funds. Any improvement in yields and fundamentals, such as higher cash generation, debt reduction and share repurchases, would likely attract investors back to equities, particularly if they perceive the possibility of higher interest rates late in the year or early in 2012.

The Adams Express portfolio was, as mentioned, structured for growth in 2010 and suffered when investors lost confidence in the economy in the second quarter. We have made adjustments to reflect our outlook for this year while maintaining a cash position of some size in order to take advantage of possible corrections during the early part of the year.

By order of the Board of Directors,

Douglas G. Ober,	David D. Weaver,
Chairman and Chief Executive Officer	*President*

January 28, 2011

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2010

Assets		
Investments* at value:		
Common stocks (cost $886,193,025)	$ 1,020,952,756	
Non-controlled affiliate, Petroleum & Resources Corporation (cost $34,735,404)	59,064,766	
Short-term investments (cost $40,900,371)	40,900,371	
Securities lending collateral (cost $17,457,540)	17,457,540	$ 1,138,375,433
Cash		254,695
Receivables:		
Investment securities sold		4,123,287
Dividends and interest		917,036
Prepaid pension cost		1,602,236
Prepaid expenses and other assets		2,338,132
Total Assets		1,147,610,819
Liabilities		
Investment securities purchased		1,375,155
Open written option contracts* at value (proceeds $166,897)		34,300
Obligations to return securities lending collateral		17,457,540
Accrued pension liabilities		2,962,061
Accrued expenses and other liabilities		1,109,797
Total Liabilities		22,938,853
Net Assets		**$ 1,124,671,966**
Net Assets		
Common Stock at par value $0.001 per share, authorized 150,000,000 shares; issued and outstanding 88,885,186 shares (includes 111,914 restricted shares, 16,500 nonvested or deferred restricted stock units, and 10,224 deferred stock units) (note 6)		$ 88,885
Additional capital surplus		972,151,879
Accumulated other comprehensive income (note 5)		(2,036,122)
Undistributed net investment income		1,326,115
Undistributed net realized gain on investments		(6,080,481)
Unrealized appreciation on investments		159,221,690
Net Assets Applicable to Common Stock		**$ 1,124,671,966**
Net Asset Value Per Share of Common Stock		**$12.65**

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

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

Statement of Operations

Year Ended December 31, 2010

Investment Income	
Income:	
Dividends:	
From unaffiliated issuers	$ 17,745,442
From non-controlled affiliate	1,115,255
Interest and other income	543,163
Total income	19,403,860
Expenses:	
Investment research	2,404,441
Administration and operations	1,389,090
Directors fees	382,868
Reports and stockholder communication	314,900
Transfer agent, registrar, and custodian	313,819
Travel, training, and other office expenses	252,388
Investment data services	249,784
Occupancy	169,507
Legal services	144,538
Audit and accounting services	135,961
Insurance	106,380
Other	173,641
Total expenses	6,037,317
Net Investment Income	13,366,543
Change in Accumulated Other Comprehensive Income (note 5)	171,005
Realized Gain and Change in Unrealized Appreciation on Investments	
Net realized gain on security transactions	28,510,543
Net realized gain distributed by regulated investment company (non-controlled affiliate)	1,661,948
Net realized gain on written option contracts	712,497
Change in unrealized appreciation on securities	64,520,429
Change in unrealized appreciation on written option contracts	(6,723)
Net Gain on Investments	95,398,694
Change in Net Assets Resulting from Operations	$ 108,936,242

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

Statements of Changes in Net Assets

	For the Year Ended December 31, 2010	2009
From Operations:		
Net investment income	$ 13,366,543	$ 11,599,277
Net realized gain on investments	30,884,988	19,008,941
Change in unrealized appreciation on investments	64,513,706	206,689,808
Change in accumulated other comprehensive income (note 5)	171,005	3,828,668
Increase in net assets resulting from operations	108,936,242	241,126,694
Distributions to Stockholders From:		
Net investment income	(12,238,096)	(12,986,945)
Net realized gain from investment transactions	(32,345,159)	(25,863,942)
Decrease in net assets from distributions	(44,583,255)	(38,850,887)
From Capital Share Transactions:		
Value of shares issued in payment of distributions (note 4)	15,216,156	13,254,222
Cost of shares purchased (note 4)	(287,751)	(10,811,722)
Deferred compensation (notes 4, 6)	363,235	296,889
Increase in net assets from capital share transactions	15,291,640	2,739,389
Total Increase in Net Assets	79,644,627	205,015,196
Net Assets:		
Beginning of year	1,045,027,339	840,012,143
End of year (including undistributed net investment income of $1,326,115 and $307,611, respectively)	$ 1,124,671,966	$ 1,045,027,339

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

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

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

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 stockholders are recognized on the ex-dividend date, and interest income is recognized on the accrual basis.

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

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

Level 1 fair value is determined based on market data obtained from independent sources; for example, quoted prices in active markets for identical investments,
Level 2 fair value is determined using other assumptions obtained from independent sources; for example, quoted prices for similar investments,
Level 3 fair value is determined using the Company s own assumptions, developed based on the best information available in the circumstances.

The Company s investments at December 31, 2010 were classified as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	$ 1,080,017,522	$	$	$ 1,080,017,522
Short-term investments	3,779,554	37,120,817		40,900,371
Securities lending collateral	17,457,540			17,457,540
Total investments	$ 1,101,254,616	$ 37,120,817	$	$ 1,138,375,433
Written options	$ (34,300)	$	$	$ (34,300)

There were no transfers into or from Level 1 or Level 2 during the year ended December 31, 2010.

2. Federal Income Taxes

No federal income tax provision is required since the Company s policy is to qualify as a regulated investment company under the Internal Revenue Code and to distribute substantially all of its taxable income to its stockholders. Additionally, management has analyzed and concluded that tax positions included in federal income tax returns from the previous three years that remain subject to examination do not require any provision. Any income tax-related interest or penalties would be recognized as income tax expense. As of December 31, 2010, the identified cost of securities for federal income tax purposes was $986,045,046, and net unrealized appreciation aggregated $152,330,387, consisting of gross unrealized appreciation of $263,589,991 and gross unrealized depreciation of $(111,259,604).

Distributions are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Such differences are primarily related to the Company s retirement plans, equity-based compensation, and loss deferrals for wash sales. Differences that are permanent, while not material for the year ended December 31, 2010, are reclassified in the capital accounts of the Company s financial statements and have no impact on net assets. For tax purposes, distributions paid by the Company during the years ended December 31, 2010 and December 31, 2009, were classified as ordinary income of $20,102,317 and $17,275,467, respectively, and as long-term capital gain of $24,474,974 and $21,537,598, respectively. The tax basis of distributable earnings at December 31, 2010 was $1,827,174 of undistributed ordinary income and $638,866 of undistributed long-term capital gain.

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, 2010 were $162,647,590 and $172,562,976, respectively.

The Company is subject to changes in the value of equity securities held (equity price risk) in the normal course of pursuing its investment objectives. The Company may purchase and write option contracts to increase or decrease its equity price risk exposure or may write option contracts to generate additional income. Option contracts generally entail risks associated with counterparty credit, illiquidity, and unfavorable equity price movements. The Company has mitigated counterparty credit and illiquidity risks by trading its options through an exchange. The risk of unfavorable equity price movements is limited for purchased options to the premium paid and for written options by writing only covered call or collateralized put option contracts, which require the Company to segregate certain securities or cash at its custodian when the option is written. A schedule of outstanding option contracts as of December 31, 2010 can be found on page 17.

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

Transactions in written covered call and collateralized put options during the year ended December 31, 2010 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2009	646	$ 92,830	548	$ 108,880
Options written	3,291	379,753	4,346	780,494
Options terminated in closing purchase transactions	(608)	(67,695)	(203)	(44,566)
Options expired	(2,852)	(348,395)	(3,526)	(607,262)
Options exercised	(335)	(42,159)	(723)	(84,983)
Options outstanding, December 31, 2010	142	$ 14,334	442	$ 152,563

4. Capital Stock

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

On December 27, 2010, the Company issued 1,455,912 shares of its Common Stock at a price of $10.445 per share (the average market price on December 8, 2010) to stockholders of record November 19, 2010 who elected to take stock in payment of the distribution from 2010 capital gain and investment income. During 2010, 883 shares were issued at a weighted average price of $10.30 per share as dividend equivalents to holders of deferred stock units and restricted stock units under the 2005 Equity Incentive Compensation Plan.

On December 28, 2009, the Company issued 1,346,031 shares of its Common Stock at a price of $9.84 per share (the average market price on December 9, 2009) to stockholders of record November 20, 2009 who elected to take stock in payment of the distribution from 2009 capital gain and investment income. During 2009, 1,126 shares were issued at a weighted average price of $8.22 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 2010 and 2009 were as follows:

	Shares		Amount	
	2010	2009	2010	2009
Shares issued in payment of distributions	1,456,795	1,347,157	$ 15,216,156	$ 13,254,222
Shares purchased (at a weighted average discount from net asset value of 15.6% and 15.6%, respectively)	(28,300)	(1,369,749)	(287,751)	(10,811,722)
Net activity under the 2005 Equity Incentive Compensation Plan	41,498	31,342	363,235	296,889

Net change	1,469,993	8,750	$ 15,291,640	$ 2,739,389

5. Retirement Plans

The Company s non-contributory qualified defined benefit pension plan covers all employees with at least one year of service. In addition, the Company has a non-contributory nonqualified defined benefit plan which provides eligible employees with retirement benefits to supplement the qualified plan. Both plans were frozen as of October 1, 2009. Benefits are based on length of service and compensation during the last five years of employment through September 30, 2009, with no additional benefits being accrued beyond that date.

The funded status of the plans is recognized as an asset (overfunded plan) or a liability (underfunded plan) in the Statement of Assets and Liabilities. Changes in the prior service costs and accumulated actuarial gains and losses are recognized as accumulated other comprehensive income, a component of net assets, in the year in which the changes occur and are subsequently amortized into net periodic pension cost.

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 made contributions of $322,424 to the plans in 2010 and anticipates making contributions of up to $475,000 in 2011.

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

	2010	2009
Change in benefit obligation		
Benefit obligation at beginning of year	$ 8,824,687	$ 12,152,014
Service cost		221,890
Interest cost	416,835	539,345
Actuarial loss	424,000	267,255
Plan changes		
Benefits paid	(247,554)	(201,855)
Effect of settlement		(2,701,978)
Effect of curtailment		(1,451,984)
Benefit obligation at end of year	$ 9,417,968	$ 8,824,687
Change in plan assets		
Fair value of plan assets at beginning of year	$ 7,119,962	$ 8,122,563
Actual return on plan assets	863,311	1,424,685
Employer contributions	322,424	476,547
Benefits paid	(247,554)	(201,855)
Settlement		(2,701,978)
Fair value of plan assets at end of year	$ 8,058,143	$ 7,119,962
Funded status	$ (1,359,825)	$ (1,704,725)

The accumulated benefit obligation for all defined benefit pension plans was $9,417,968 and $8,824,687 at December 31, 2010 and 2009, respectively.

The primary investment objectives of the Company s pension plan assets are to provide capital appreciation, income, and preservation of capital. The plans objectives are achieved through a diversified portfolio including common stock of the Company and pooled separate accounts (PSA). PSAs are made up of a wide variety of underlying investments in equity and fixed income securities. The Company s targeted asset allocation is to maintain approximately 55% of plan assets invested in fixed income securities and approximately 45% of plan assets invested in equity securities. The investment in the Company s common stock represented 9% of plan assets at December 31, 2010.

The net asset value of a PSA is based on the fair value of its underlying investments. The fair value of the plan assets is determined using various inputs, summarized into the three levels described in footnote 1. The plan assets at December 31, 2010 were classified as follows:

	Level 1	Level 2	Level 3	Total
Equity PSAs	$	$ 3,175,946	$	$ 3,175,946
Fixed Income PSAs		4,182,222		4,182,222
Regulated Investment Companies	699,975			699,975
Total	$ 699,975	$ 7,358,168	$	$ 8,058,143

Items impacting the Company s earnings were:

	2010	2009
Components of net periodic pension cost		
Service cost	$	$ 221,890
Interest cost	416,835	539,345
Expected return on plan assets	(450,684)	(456,596)
Prior service cost component		78,424
Net loss component	182,378	390,050
Effect of settlement (non-recurring)		1,299,139
Effect of curtailment (non-recurring)		(91,763)
Net periodic pension cost	$ 148,529	$ 1,980,489

	2010	2009
Changes recognized in accumulated other comprehensive income		
Net gain/(loss)	$ (11,373)	$ 700,834
Amortization of net loss	182,378	390,050
Amortization of prior service cost		78,424
Effect of settlement (non-recurring)		1,299,139
Effect of curtailment (non-recurring)		1,360,221
Change in accumulated other comprehensive income	$ 171,005	$ 3,828,668

Accumulated other comprehensive income was comprised of net actuarial losses of $(2,036,122) and $(2,207,127) at December 31, 2010 and 2009, respectively. In 2011, the Company estimates that $191,093 of net losses will be amortized from accumulated other comprehensive income into net periodic pension cost.

Assumptions used to determine benefit obligations were:

	2010	2009
Discount rate	5.08%	5.91%
Rate of compensation increase		7.00%

The assumptions used to determine net periodic pension cost were:

	2010	2009
Discount rate	6.07%	6.25%
Expected long-term return on plan assets	7.25%	7.25%
Rate of compensation increase		7.00%

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

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

	Pension Benefits
2011	$ 3,400,000
2012	308,000
2013	298,000
2014	818,000
2015	360,000
Years 2016-2020	2,370,000

The Company also sponsors qualified and nonqualified defined contribution plans. The Company expensed contributions to the plans in the amount of $150,743 for the year ended December 31, 2010. The Company does not provide postretirement medical benefits.

6. Equity-Based Compensation

The Stock Option Plan of 1985 (1985 Plan) has been discontinued and no further grants will be made under this plan. Unexercised grants of stock options and stock appreciation rights granted in 2004 and prior years, however, remain outstanding. The exercise price of the unexercised options and related stock appreciation rights is the fair market value on date of grant, reduced by the per share amount of capital gains paid by the Company during subsequent years. All options and related stock appreciation rights terminate 10 years from date of grant, if not exercised.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

A summary of option activity under the 1985 Plan as of December 31, 2010, and changes during the year then ended, is presented below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at December 31, 2009	60,198	$ 11.37	1.79
Exercised	(7,917)	9.24	
Expired	(8,552)	14.65	
Outstanding at December 31, 2010	43,729	$ 10.74	0.74
Exercisable at December 31, 2010	31,997	$ 10.43	0.79

The options outstanding as of December 31, 2010 are set forth below:

Exercise price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
$9.00-$10.49	31,827	$ 9.26	1.00
$10.50-$11.99			
$12.00-$13.49			
$13.50-$15.00	11,902	14.70	0.04
Outstanding at December 31, 2010	43,729	$ 10.74	0.74

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, 2010 was $33,403.

The 2005 Equity Incentive Compensation Plan (2005 Plan), adopted at the 2005 Annual Meeting and re-approved at the 2010 Annual Meeting, permits the grant of 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