ADAMS EXPRESS CO
Form DEF 14A
February 16, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to (S) 240.14a-11(c) or (S) 240.14a-12

THE ADAMS EXPRESS COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notes:

The Adams Express Company

Seven St. Paul Street

Baltimore, Maryland 21202

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

February 16, 2007

To the Stockholders of

THE ADAMS EXPRESS COMPANY:

Notice is hereby given that the Annual Meeting of Stockholders of THE ADAMS EXPRESS COMPANY, a Maryland corporation (the Company), will be held at The Maryland Club, One East Eager Street, Baltimore, Maryland 21202, on Tuesday, March 27, 2007, at 9:30 a.m., for the following purposes:

(1) to elect directors as identified in the Proxy Statement for the ensuing year;

(2) to consider and vote upon the ratification of the selection of the independent registered public accounting firm of PricewaterhouseCoopers LLP to audit the books and accounts of the Company for or during the year ending December 31, 2007; and

(3) to transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record, as shown by the transfer books of the Company, at the close of business on February 9, 2007, are entitled to notice of and to vote at this meeting.

By order of the Board of Directors,

Lawrence L. Hooper, Jr.

Vice President, General Counsel

and Secretary

Baltimore, MD

Note: Stockholders who do not expect to attend the meeting are requested to fill in, sign, date and return the accompanying proxy in the enclosed envelope without delay. Telephone and Internet voting are also offered.

The Adams Express Company

Seven St. Paul Street

Baltimore, Maryland 21202

Proxy Statement

INTRODUCTION

The Annual Meeting of Stockholders of The Adams Express Company, a Maryland corporation (the Company), will be held Tuesday, March 27, 2007, at 9:30 a.m. at The Maryland Club, One East Eager Street, Baltimore, Maryland 21202, for the purposes set forth in the accompanying Notice of Annual Meeting and also set forth below. This statement is furnished in connection with the solicitation by the Board of Directors of proxies to be used at the meeting and at any and all adjournments thereof and is first being sent to stockholders on or about February 16, 2007.

At the Annual Meeting, action is to be taken on (1) the election of a Board of Directors; (2) the ratification of the selection of an independent registered public accounting firm; and (3) the transaction of such other business as may properly come before the meeting.

How You May Vote and Voting By Proxy

You can vote in person at the Annual Meeting or by proxy. To vote by proxy, please date, execute and mail the enclosed proxy card, or authorize a proxy by using telephone or internet options as instructed in the proxy card. Except for Proposals (1) and (2) referred to above, the proxies confer discretionary authority on the persons named therein or their substitutes with respect to any business that may properly come before the meeting. Stockholders retain the right to revoke executed proxies at any time before they are voted by written notice to the Company, by executing a later dated proxy, or by appearing and voting at the meeting. All shares represented at the meeting by proxies in the accompanying form will be voted, provided that such proxies are properly signed. In cases where a choice is indicated, the shares represented will be voted in accordance with the specifications so made. In cases where no specifications are made, the shares represented will be voted **FOR** the election of directors and **FOR** Proposal (2).

If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the holder of record that you must follow in order to vote your shares. If your shares are not registered in your own name and you plan to vote your shares in person at the Annual Meeting, you should contact your broker or agent to obtain a broker s proxy card and bring it with you to the Annual Meeting in order to vote.

Who May Vote

Only stockholders of record at the close of business February 9, 2007, may vote at the Annual Meeting. The total number of shares of Common Stock of the Company outstanding and entitled to be voted on the record date was 86,641,705. Each share is entitled to one vote. The Company has no other class of security outstanding.

Vote Requirement

For Proposal (1), referred to above, directors shall be elected by a plurality of the votes cast at the meeting. Proposal (2), referred to above, requires the affirmative vote of a majority of the votes cast at the meeting. Unless otherwise required by the Company s Articles of Incorporation or By-laws,

or by applicable Maryland law, any other matter properly presented for a vote at the meeting will require the affirmative vote of a majority of the votes cast at the meeting.

Quorum Requirement

A quorum is necessary to hold a valid meeting. If stockholders entitled to cast a majority of all the votes entitled to be cast at the Annual Meeting are present in person or by proxy, a quorum will exist. Proxies received by the Company that are marked withhold authority or abstain, or that constitute a broker non-vote, are counted as present for purposes of establishing a quorum. A broker non-vote occurs when a broker returns a valid proxy but does not vote on a particular matter because the broker does not have the discretionary voting power for that matter and has not received instructions from the beneficial owner. Proxies marked withhold authority , abstentions and broker non-votes do not count as votes cast with respect to any proposal, and therefore, such proxies would have no effect on the outcome of Proposals (1) and (2), above.

Appraisal Rights

Under Maryland law, there are no appraisal or other dissenter rights with respect to any matter to be voted on at the Annual Meeting that is described herein.

Other Matters

The Company will pay all costs of soliciting proxies in the accompanying form. See Other Matters and Annual Report below. Solicitation will be made by mail, and officers, regular employees, and agents of the Company may also solicit proxies by telephone or personal interview. The Company expects to request brokers and nominees who hold stock in their names to furnish this proxy material to their customers and to solicit proxies from them, and will reimburse such brokers and nominees for their out-of-pocket and reasonable clerical expenses in connection therewith.

(1) NOMINEES FOR ELECTION AS DIRECTORS

Unless contrary instructions are given by the stockholder signing a proxy, it is intended that each proxy in the accompanying form will be voted at the Annual Meeting for the election of the following nominees to the Board of Directors for the ensuing year, all of whom have consented to serve if elected:

Enrique R. Arzac	Frederic A. Escherich	Kathleen T. McGahran
Phyllis O. Bonanno	Roger W. Gale	Douglas G. Ober*
Daniel E. Emerson	Thomas H. Lenagh	Craig R. Smith

If for any reason one or more of the nominees above named shall become unable or unwilling to serve when the election occurs, proxies in the accompanying form will, in the absence of contrary instructions, be voted for the election of the other nominees above named and may be voted for substitute nominees in the discretion of the persons named as proxies in the accompanying form. As an alternative to proxies being voted for substitute nominees, the size of the Board of Directors may be reduced so that there are no vacancies caused by a nominee above named becoming unable or unwilling to serve. The directors elected will serve until the next annual meeting or until their successors are elected, except as otherwise provided in the By-laws of the Company.

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* Mr. Ober is an interested person, as defined by the Investment Company Act of 1940, because he is an officer of the Company.

Information as to Nominees for Election as Directors (as of December 31, 2006)

Set forth below with respect to each nominee for director are his or her name and age, any positions held with the Company, other principal occupations during the past five years, other directorships and business affiliations, the year in which he or she first became a director, and the number of shares of Common Stock of the Company beneficially owned by him or her. Also set forth below is the number of shares of Common Stock beneficially owned by all the directors and officers of the Company as a group. A separate table is provided showing the dollar value range of the shares beneficially owned by each director.

Name, Age, Positions with the Company, Other Principal Occupations and Other Directorships	Has been a Director since	Shares of Common Stock Beneficially Owned (a)(b)(c)(d)
Independent Directors		
Enrique R. Arzac, Ph.D., 65, Professor of Finance and Economics, formerly, Vice Dean of Academic Affairs of the Graduate School of Business, Columbia University. Director of Petroleum & Resources Corporation (1), Credit Suisse Asset Management Funds (24 funds) (investment companies), and Epoch Holdings Corporation (asset management).	1983	22,102
Phyllis O. Bonanno, 63, President & CEO of International Trade Solutions, Inc. (consultants). Formerly, President of Columbia College, Columbia, South Carolina, and Vice President of Warnaco Inc. (apparel). Director of Borg-Warner Inc. (industrial), Mohawk Industries, Inc. (carpets and flooring), and Petroleum & Resources Corporation (1).	2003	2,185
Daniel E. Emerson, 82, Retired Executive Vice President of NYNEX Corporation (communications), retired Chairman of the Board of both NYNEX Information Resources Co. and NYNEX Mobile Communications Co. Previously, Executive Vice President and Director of New York Telephone Company. Director of Petroleum & Resources Corporation (1).	1982	25,393
Frederic A. Escherich, 54, Private Investor. Formerly, Managing Director and head of Mergers and Acquisitions Research and the Financial Advisory Department with J. P. Morgan. Director of Petroleum & Resources Corporation (1).	2006	3,000
Roger W. Gale, Ph.D., 60, President & CEO of GF Energy, LLC (consultants to electric power companies). Formerly, member of management group, PA Consulting Group (energy consultants). Director of Petroleum & Resources Corporation (1), Ormat Technologies, Inc. (geothermal and renewable energy), and U.S. Energy Association.	2005	5,852
Thomas H. Lenagh, 88, Financial Advisor. Formerly, Chairman of the Board and Chief Executive Officer of Greiner Engineering Inc. (formerly Systems Planning Corp.) (consultants). Formerly, Treasurer and Chief Investment Officer of the Ford Foundation (charitable foundation). Director of Cornerstone Funds, Inc. (2 funds) (investment companies), Petroleum & Resources Corporation (1), and Photonics Product Group (crystals).	1968	5,041
Kathleen T. McGahran, Ph.D., J.D., C.P.A., 56, Principal & Director of Pelham Associates, Inc. (executive education) and 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. Director of Petroleum & Resources Corporation (1).	2003	5,158
Craig R. Smith, M.D., 60, President, Williston Consulting LLC (consultants to the pharmaceutical and biotechnology industries). Formerly, Chairman, President & CEO of Guilford Pharmaceuticals	2005	3,674

(pharmaceutical and biotechnology). Director of Petroleum & Resources Corporation (1), LaJolla Pharmaceutical Company, and Depomed, Inc. (specialty pharmaceuticals).

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(1) Non-controlled affiliate of the Company.

Name, Age, Positions with the Company, Other Principal Occupations and Other Directorships	Has been a Director since	Shares of Common Stock Beneficially Owned (a)(b)(c)(d)
Interested Director		
Douglas G. Ober, 60, Chairman of the Board and Chief Executive Officer of the Company since April 1, 1991. Chairman of the Board, President and Chief Executive Officer and Director of Petroleum & Resources Corporation (1).	1989	118,514(e)
Directors and executive officers of the Company as a group (2) .		577,429

The address for each director is the Company s office, Seven St. Paul Street, Suite 1140, Baltimore, MD 21202.

(a) To the Company s knowledge, other than shares referred to in footnote (c) below, each director and officer had sole investment and sole voting power with respect to the shares shown opposite his or her name.

(b) Of the amount shown as beneficially owned by the directors and executive officers as a group, 335,332 shares were held by the Trustee under the Employee Thrift Plan of the Company and the Employee Thrift Plan of Petroleum & Resources Corporation.

(c) The amounts shown include shares subject to options under the Company s Stock Option Plan (see Stock Option Plan below) and restricted stock under the Company s 2005 Equity Incentive Compensation Plan (see 2005 Plan below) held by Mr. Ober (49,959 shares), restricted stock units under the 2005 Plan held by each director (each director holds 750 units except for Mr. Escherich, who holds 1,500 units), and by directors and executive officers as a group (162,250 shares). Mr. Ober and the other officers with shares subject to options all disclaim beneficial ownership of those shares.

(d) Calculated on the basis of 86,838,223 shares outstanding on December 31, 2006, each director owned less than 1.0% of the Common Stock outstanding. The directors and executive officers as a group owned less than 1.0% of the Common Stock outstanding.

(e) Of the amount shown, 67,996 shares beneficially owned by Mr. Ober were held by the Trustee under the Employee Thrift Plan of the Company.

(2) Mr. John J. Roberts, a current director of the Company, is not standing for reelection to the Board. Mr. Roberts beneficially owns 10,130 shares of Common Stock, which shares are included in the total for the group.

Independent Directors	Dollar Value of Shares Owned(1)
Enrique R. Arzac	greater than $100,000
Phyllis O. Bonanno	$10,001-$50,000
Daniel E. Emerson	greater than $100,000
Frederic A. Escherich	$10,001-$50,000
Roger W. Gale	$50,001-$100,000
Thomas H. Lenagh	$50,001-$100,000
Kathleen T. McGahran	$50,001-$100,000
John J. Roberts*	greater than $100,000
Craig R. Smith	$50,001-$100,000
Interested Director	
Douglas G. Ober	greater than $100,000

(1) The valuation date used in calculating the dollar value of shares owned is December 31, 2006.

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In 2004, the Board adopted equity ownership requirements for the directors and senior staff. Under these equity ownership requirements, the Chief Executive Officer, portfolio managers, research analysts, and other executive officers must own, within 5 years of the requirement s adoption, a certain percentage of equity in the Company equal to a multiple of his or her annual salary, and non-employee directors must own, within 5 years, at least $50,000 of Common Stock of the Company.

The nominees for election as directors of the Company identified above are also the nominees for election to the Board of Directors of Petroleum & Resources Corporation (Petroleum), the Company s non-controlled affiliate, of which the Company owned 2,186,774 shares or approximately 9.9% of Petroleum s outstanding Common Stock on December 31, 2006.

Process for Stockholders to Communicate with Board

The Board of Directors has implemented a process for stockholders of the Company to send communications to the Board. Any stockholder desiring to communicate with the Board, or with specific individual directors, may so do by writing to the Secretary of the Company, at The Adams Express Company, Seven St. Paul Street, Suite 1140, Baltimore, MD 21202. The Secretary has been instructed by the Board to promptly forward all such communications to the addressees indicated thereon.

Policy on Board of Directors Attendance at Annual Meetings

The Company s policy with regard to attendance by the Board of Directors at Annual Meetings is that all directors are expected to attend, absent unusual and extenuating circumstances that prohibit attendance. The number of directors who attended the 2006 Annual Meeting was 9 (out of 10 directors).

Section 16(a) Beneficial Ownership Reporting Compliance

Each director and officer of the Company who is subject to Section 16 of the Securities Exchange Act of 1934 is required to report to the Securities and Exchange Commission (the Commission) by a specified date his or her beneficial ownership of or transactions in the Company s securities. Based upon a review of filings with the Commission and written representations that no other reports are required, the Company has no reason to believe that any such director or officer failed to file all requisite reports with the Commission on a timely basis during 2006, except as noted herein. The following directors failed to timely file a report on Form 4 disclosing the receipt of shares of the Company s Common Stock that they received upon the vesting of restricted stock units that were granted to them in 2005 and vested in 2006: Messrs. Arzac, Emerson, Gale, Lenagh, Smith and Roberts*, and Mses. Bonanno and McGahran; the following directors failed to timely file four reports on Form 4 disclosing the receipt of deferred stock units and dividend equivalents thereon that were issued to them based upon their election to receive deferred stock units in lieu of receiving cash for the retainers paid to them quarterly for their service on the Board and its committees: Messrs. Arzac, Emerson, and Gale, and Ms. McGahran. All of these transactions have since been reported.

Information as to Other Executive Officers

Set forth below are the names, ages and positions with the Company of all executive officers of the Company other than those who also serve as directors. Executive officers serve as such until the election of their successors.

Mr. Lawrence L. Hooper, Jr., 54, has served as the Chief Compliance Officer since April 8, 2004, as Vice President since March 30, 1999, and as General Counsel and Secretary since April 1, 1997. Prior thereto, he was a partner in Tydings & Rosenberg L.L.P., a Baltimore, Maryland law firm.

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* Mr. Roberts is not standing for reelection to the Board.

Ms. Maureen A. Jones, 59, has served as Chief Financial Officer since March 26, 2002, as Vice President since January 1, 1998, and as Treasurer since January 1, 1993.

Mr. Joseph M. Truta, 62, has served as President since April 1, 1986.

Security Ownership of Management of the Company (a)

Name	Shares of Common Stock Beneficially Owned (b)(c)(d)(e)(f)
Lawrence L. Hooper, Jr.	39,682
Maureen A. Jones	47,453
Joseph M. Truta	289,245

(a) As of December 31, 2006. Share ownership of directors and executive officers as a group is shown in the table beginning on page 3 and footnotes thereto.
(b) To the Company s knowledge, each officer had sole investment and voting power with respect to the shares shown opposite his or her name above other than shares referred to in footnote (d) below.
(c) Of the amounts shown, the following shares beneficially owned by the respective officer were held by the Trustee under the Employee Thrift Plan of the Company and the Employee Thrift Plan of Petroleum: Mr. Hooper (14,131 shares), Ms. Jones (18,788 shares), and Mr. Truta (234,415 shares).
(d) The amounts shown include shares subject to options under the Company s Stock Option Plan (see Stock Option Plan below), held by Mr. Hooper (20,706 shares), Ms. Jones (24,702 shares), and Mr. Truta (44,871 shares). These officers disclaim beneficial ownership of those shares.
(e) The amounts shown include unvested shares of restricted stock under the Company s 2005 Equity Incentive Compensation Plan (see 2005 Plan below) held by Mr. Hooper (4,663 shares), Ms. Jones (3,696 shares), and Mr. Truta (6,163 shares).
(f) Calculated on the basis of 86,838,223 shares of Common Stock outstanding on December 31, 2006, each of the officers listed above owned less than 1.0% of the Common Stock outstanding.

Principal Stockholders

At December 31, 2006, only one person or group of persons was known by the Company to own beneficially more than five percent of any class of the Company s voting securities.

Title of Class	Name and Address of Beneficial Owner	Amount* and Nature of Beneficial Ownership	Percent of Class
Common Stock	Erik E. Bergstrom P.O. Box 126 Palo Alto, CA 94302	7,900,000 shares held directly and indirectly**	9.1%

* As of January 31, 2007.
** Shares held in name of Erik E. Bergstrom Living Trust (2,915,000 shares), Edith H. Bergstrom Living Trust (100,000 shares), and Erik E. and Edith H. Bergstrom Foundation (4,885,000 shares). Mr. Bergstrom disclaimed beneficial ownership of certain of these shares.

Board Meetings and Committees of the Board

Overall attendance at the fourteen meetings of the Board held in 2006 was approximately 95%. Each Director attended at least 75% of the total of all (i) meetings of the Board and (ii) meetings of Committees of the Board on which he or she served in 2006.

Audit Committee

Messrs. Emerson, Escherich, and Smith and Ms. McGahran, each of whom is an independent director as such is defined by the Rules of the New York Stock Exchange, and none of whom is an interested person as such is defined by the Investment Company Act of 1940, constitute the membership of the Board s standing Audit Committee, which met five times in 2006. The Board has determined that Ms. McGahran is an audit committee financial expert, as that term is defined in federal regulations.

The Board has adopted a written charter under which the Audit Committee operates, which was most recently amended in January 2006. A copy of the Audit Committee Charter (Charter) is attached hereto as Attachment A and is also available on the Company s website: www.adamsexpress.com. Set forth below is the report of the Audit Committee:

Audit Committee Report

The purposes of the Audit Committee are set forth in the Committee s written Charter. As provided in the Charter, the role of the Committee is to assist the Board of Directors in its oversight on matters relating to accounting, financial reporting, internal control, auditing, and regulatory compliance activities, and other matters the Board deems appropriate. The Committee also selects the Company s independent registered public accounting firm in accordance with the provisions set out in the Charter. Management, however, is responsible for the preparation, presentation and integrity of the Company s financial statements, and for the procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm is responsible for planning and carrying out proper audits and reviews.

In fulfilling its responsibilities, the Committee has reviewed and discussed the audited financial statements contained in the 2006 Annual Report of the Company with the Company s management and the independent registered public accounting firm. In addition, the Committee has discussed with the independent registered public accounting firm the matters required to be discussed pursuant to Statement of Auditing Standards No. 61, as modified or supplemented. The Committee has also received from the independent registered public accounting firm the written statement regarding independence as required by Independence Standards Board Standard No. 1, considered whether the provision of nonaudit services by the independent registered public accounting firm is compatible with maintaining the independent registered public accounting firm s independence, and discussed with the independent registered public accounting firm its independence.

In reliance on the reviews and discussions with management and the independent registered public accounting firm referred to above, and subject to the limitations on the responsibilities and role of the Committee set forth in the Charter and discussed above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Company s 2006 Annual Report for filing with the Securities and Exchange Commission.

Respectfully submitted on February 8, 2007, by the members of the Audit Committee of the Board of Directors:

Kathleen T. McGahran, Chair

Daniel E. Emerson

Frederic A. Escherich

Craig R. Smith

Compensation Committee

Messrs. Arzac, Emerson, Escherich, Gale, and Roberts* constitute the membership of the Board s standing Compensation Committee, which met two times during 2006. The Compensation Committee reviews and recommends changes in the salaries of directors, executive officers, officers, and employees, and advises upon the cash and equity incentive compensation plans in which the executive officers, officers, and employees of the Company are eligible to participate.

Executive Committee

Messrs. Arzac, Gale, Lenagh, Ober**, and Roberts* and Ms. Bonanno constitute the membership of the Board s standing Executive Committee, which met two times during 2006. The Committee has the authority of the Board of Directors between meetings of the Board except as limited by law, the Company s By-laws, or Board resolution. The Executive Committee, minus Mr. Ober, also performs the duties of a nominating committee, as discussed below.

Nominating Committee

The Company does not have a separate standing nominating committee. Instead, certain members of the Executive Committee perform the functions of a nominating committee for the Board (hereinafter called the Nominating Committee). The Nominating Committee is comprised of the directors who serve on the Company s Executive Committee, minus Mr. Ober, who is an interested person , as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940. Thus, Messrs. Arzac, Gale, Lenagh, and Roberts* and Ms. Bonanno, each of whom is an independent director as such is defined in the Rules of the New York Stock Exchange and none of whom is an interested person of the Company, constitute the Nominating Committee. The Executive Committee, minus Mr. Ober, acting as the Nominating Committee, met once during 2006. The Board has adopted a written charter under which the Nominating Committee operates, a copy of which is available to stockholders at the Company s website: www.adamsexpress.com.

The Nominating Committee recommends to the full Board nominees for director and leads the search for qualified director candidates.

The Nominating Committee will consider unsolicited recommendations for director candidates from stockholders of the Company. Stockholders may recommend candidates for consideration by the Nominating Committee by writing to the Secretary of the Company at the office of the Company, Seven St. Paul Street, Suite 1140, Baltimore, MD 21202, giving the candidate s name, biographical data and qualifications and stating whether the candidate would be an interested person of the Company. A written statement from the candidate, consenting to be named as a candidate, and if nominated and elected, to serve as a director, should accompany any such recommendation.

The process that the Nominating Committee uses for identifying and evaluating nominees for director is as follows: When there is a vacancy on the Board, either through the retirement of a director or the Board s determination that the size of the Board should be increased, nominations to fill that vacancy are made by current, independent directors on the Board. The name of any individual recommended by an independent director is provided to Mr. Ober, who contacts the prospective director nominee and meets with him or her. The members of the Nominating Committee then meet with the prospective director nominee. If a majority of the Nominating Committee members are satisfied that the prospective director nominee is qualified and will make a positive addition to the Board, as many of the other independent directors meet with him or her as is possible. The Nominating Committee then nominates the candidate at a meeting of the Board and a vote is taken by the full Board on whether to elect the nominee to the Board and to include the nominee in the

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* Mr. Roberts is not standing for reelection to the Board.

** Mr. Ober is an interested person.

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Company s proxy for election at the next annual meeting of stockholders. The Company anticipates that a similar process will be used for any qualified director candidate properly recommended by a stockholder.

Retirement Benefits Committee

Messrs. Lenagh and Smith, and Mses. Bonanno and McGahran are the director members of the standing Retirement Benefits Committee of the Company, which administers the Employees Retirement Plan, Supplemental Retirement Plan and the Employee Thrift Plan of the Company. This Committee met once during 2006.

Board of Directors Compensation

During 2006, each director who is not an interested person received an annual retainer fee of $10,000 and a fee of $750 for each Board meeting attended. All members of each Committee, except executive officers and/or interested persons, receive an additional annual retainer fee of $1,500 for each committee membership and a fee of $500 for each committee meeting attended; the Chairperson of each committee, except for the Executive Committee, receives an additional fee of $500 for each committee meeting attended. The total amount of fees paid to the independent directors in 2006 was $233,083. In addition, following each annual meeting of stockholders, each non-employee director who is elected or re-elected at that annual meeting receives 750 restricted stock units.

Transactions with Petroleum & Resources Corporation

The Company shares certain expenses for research, accounting services and other office services (including proportionate salaries and other employee benefits), rent and related expenses, and miscellaneous expenses such as office supplies, postage, subscriptions and travel, with Petroleum, of which all of the above-named nominees are also directors. These expenses were paid by the Company and, on the date the payment was made, Petroleum simultaneously paid to the Company its allocated share of such expenses, based on either the proportion of the size of the investment portfolios of the two companies, or, where possible, on an actual usage basis. In 2006, Petroleum s share of such expenses was $758,553.

Audit Fees

The aggregate fees for professional services rendered by its independent registered public accounting firm, 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.

Audit-Related Fees

There were no audit-related fees in 2006 and 2005.

Tax Fees

The aggregate fees to the Company for professional services rendered by PricewaterhouseCoopers LLP for the review of the Company s excise tax calculations and preparations of federal, state and excise tax returns for 2006 and 2005 were $11,278, and $10,540, respectively.

All Other Fees

The aggregate fees for services to the Company by PricewaterhouseCoopers LLP, other than the services referenced above, for 2006 and for 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.

The Board s Audit Committee has considered the provision by PricewaterhouseCoopers LLP of the services covered in this **All Other Fees** section and found that they are compatible with maintaining PricewaterhouseCoopers LLP's independence.

Audit Committee Pre-Approval Policy

All services to be performed for the Company by PricewaterhouseCoopers LLP must be pre-approved by the Audit Committee. All services performed for 2006 were pre-approved by the Committee.

Compensation of Directors and Executive Officers

The following table sets forth for each of the persons named below the aggregate compensation received from the Company during the fiscal year ended December 31, 2006, for services in all capacities:

Name	Position	Aggregate Compensation (1) (2) (3) (4)	Pension or Retirement Benefits Accrued as Part of Expenses (5)	Stock Awards (7)
Douglas G. Ober	Chairman of the Board and Chief Executive Officer (A)	$ 518,500	$ 16,104	$ 50,001
Joseph M. Truta	President	$ 291,580	$ 16,104	$ 29,171
Lawrence L. Hooper, Jr.	Vice President, General Counsel & Secretary	$ 204,350	$ 16,104	$ 21,659
Enrique R. Arzac	Director (A)(C)	$ 25,000(6)	N/A	$ 10,609(8)
Phyllis O. Bonanno	Director (A)(D)	$ 25,500	N/A	$ 10,609(8)
Daniel E. Emerson	Director (B)(C)	$ 28,000(6)	N/A	$ 10,609(8)
Frederic A. Escherich	Director (B)(C)	$ 21,583	N/A	$ 16,331(8)
Roger W. Gale	Director (A)(C)	$ 25,000(6)	N/A	$ 16,197(8)
Thomas H. Lenagh	Director (A)(D)	$ 25,500	N/A	$ 10,609(8)
Kathleen T. McGahran	Director (B)(D)	$ 29,000(6)	N/A	$ 10,609(8)
John J. Roberts*	Director (A)(C)	$ 22,500	N/A	$ 10,609(8)
Susan C. Schwab**	Director	$ 0	N/A	$ 1,765
Craig R. Smith	Director (B)(D)	$ 24,000	N/A	$ 16,197(8)
Robert J.M. Wilson***	Director	$ 7,000	N/A	$ 2,948

(A) Member of Executive Committee
(B) Member of Audit Committee
(C) Member of Compensation Committee
(D) Member of Retirement Benefits Committee

(1) Of the amounts shown, direct salaries paid by the Company to Messrs. Ober, Truta, and Hooper were $280,600, $176,900, and $134,200, respectively.
(2) Of their direct salaries, $12,200, $12,200, and $8,052 were deferred compensation to Messrs. Ober, Truta, and Hooper, respectively, under the Company s Employee Thrift Plan. The non-employee Directors do not participate in the Employee Thrift Plan.

(3) Of the amounts shown, $237,900, $114,680, and $70,150 were cash incentive compensation accrued for Messrs. Ober, Truta, and Hooper, respectively, in 2006 and paid to them in 2007.

(4) In addition, the net gain realized by Messrs. Ober and Truta upon the exercise of stock appreciation rights during 2006 granted under the Company s Stock Option Plan (see Stock Option Plan below) was $23,482 and $68,702, respectively. This sum is in addition to the aggregate compensation amounts shown in this summary table.

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* Mr. Roberts is not standing for reelection to the Board.

** Ms. Schwab resigned from the Board in December 2005. Certain restricted stock units granted to her in 2005 under the 2005 Equity Incentive Compensation Plan vested in February 2006. The amount shown represents the corresponding expense recognized in the Company s 2006 financial statements in accordance with FAS 123R.

*** Mr. Wilson resigned from the Board in March 2006. Certain restricted stock units granted to him in 2005 under the 2005 Equity Incentive Compensation Plan vested in March 2006. The amount shown represents the corresponding expense recognized in the Company s 2006 financial statements in accordance with FAS 123R.

(5) Under the Employee Thrift Plan, the Company makes contributions to match the contributions made by eligible employees (see Employee Thrift Plan below). The amounts shown represent the Company s payments made on behalf of Messrs. Ober, Truta, and Hooper during 2006. In addition, during 2006, the Company recognized aggregate pension expense of $485,488 related to all eligible employees and former employees in the Employee Retirement Plans (see Employee Retirement Plans below).

(6) Of the amounts shown, $13,000 was foregone at the election of the director in favor of receiving 989.68 deferred stock units.

(7) This column shows the dollar amount recognized in the Company s financial statements for 2006 for grants of restricted stock made to the identified executive officers under the 2005 Equity Incentive Compensation Plan in 2005 and 2006. For the 2006 grants, the restricted shares will vest at the end of three years, but only upon the achievement of specified performance criteria. Certain percentages of the shares will be deemed to have been earned based on achieving performance goals over specified intervening time periods. The first one-sixth of the target number of restricted shares (the target number is shown in the Grants of Plan-Based Awards table on page 12, below) were earned on January 1, 2007 because the Company s one year total NAV return exceeded the one year total NAV return of a hypothetical portfolio comprised of a 50/50 blend of the S&P 500 Index and the Lipper Large Cap Core Index (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 (additional shares) will be earned and vest depending on the level of outperformance. For a discussion of the assumptions used in valuing the stock awards shown in this column, and the related accounting treatment, please see Note 6 to the Company s financial statements for 2006. 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 dividend rate for dividends paid on the shares of restricted stock is the same rate that is paid on the Common Stock.

(8) These amounts reflect the dollar amount recognized in the Company s financial statements for 2006 for the portion of the 750 restricted stock units granted to each director under the 2005 Equity Incentive Compensation Plan upon election to the Board of Directors at the Company s annual meetings in 2006 and in 2005 (except Mr. Escherich); and, in the case of Messrs. Escherich, Gale, and Smith, a portion of the additional 750 restricted stock units granted to them under the 2005 Equity Incentive Compensation Plan upon their initial election to the Board of Directors.

Grants of Plan-Based Awards under the 2005 Equity Incentive Compensation Plan

The following table presents information regarding grants of equity plan-based awards under the 2005 Equity Incentive Compensation Plan to the three executive officers listed in the Compensation Table above during 2006:

		Estimated Future Payouts Under Equity Incentive Plan Awards (1)				
Name	Grant Date	Threshold ($) or (#) (2)	Target (#) (2)	Maximum (#) (2)	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards ($) (3)
Douglas G. Ober	January 12, 2006	0	7,736	9,670	0	124,985
Joseph M. Truta	January 12, 2006	0	3,868	4,835	0	62,492
Lawrence L. Hooper, Jr.	January 12, 2006	0	3,094	3,867	0	49,981

(1) For a description of the material terms of these restricted stock grants, see footnote 7 to the Compensation Table above.
(2) Threshold refers to the minimum amount payable for a certain level of performance under the Plan. Target refers to the amount payable if the specified performance target(s) are reached. Maximum refers to the maximum payout possible under the Plan.
(3) This fair value assumes that all of shares shown in the Maximum column herein are earned and vest. See footnote 7 to the Compensation Table, above.

Outstanding Equity Awards at Fiscal Year-End under the 2005 Equity Incentive Compensation Plan

The following table presents information regarding outstanding equity awards under the 2005 Equity Incentive Compensation Plan to the three executive officers listed in the Compensation Table above at the end of 2006:

	Stock Awards			
Name	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested ($) (3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(3)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Ot