

CENTRAL SECURITIES CORP  
Form N-Q  
April 27, 2018

United States

Securities and Exchange Commission

Washington, DC 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF  
REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-00179

Central Securities Corporation

(Exact name of registrant as specified in charter)

630 Fifth Avenue, Eighth Floor

New York, N.Y. 10111

(Address of principal executive offices)

Registrant's telephone number including area code: 212-698-2020

Date of fiscal year end: December 31

Date of reporting period: March 31, 2018



Item 1. Schedule of Investments.

**CENTRAL SECURITIES CORPORATION****Statement of Investments****March 31, 2018****(Unaudited)****COMMON STOCKS 92.1%**

<u>Shares</u>	<u>Value</u>
<b>Banks 6.5%</b>	
280,000 Citigroup Inc.	\$ 18,900,000
180,000 JPMorgan Chase & Co.	19,794,600
270,000 Wells Fargo & Company	<u>14,150,700</u>
	<u>52,845,300</u>
<b>Commercial Services 2.0%</b>	
700,000 Heritage-Crystal Clean, Inc. (a)	<u>16,485,000</u>
<b>Consumer Durables 1.4%</b>	
700,000 TRI Pointe Group, Inc. (a)	<u>11,501,000</u>
<b>Consumer Services 0.7%</b>	
30,000 Wynn Resorts Ltd.	<u>5,470,800</u>
<b>Diversified Financial 9.3%</b>	
150,000 American Express Company	13,992,000
400,000 The Bank of New York Mellon Corporation	20,612,000
10 Berkshire Hathaway Inc. Class A (a)	2,991,000
290,000 Capital One Financial Corporation	27,787,800
210,000 The Charles Schwab Corporation	<u>10,966,200</u>
	<u>76,349,000</u>
<b>Diversified Industrial 4.9%</b>	
400,000 Brady Corporation Class A	14,860,000
500,000 General Electric Company	6,740,000
65,000 Roper Technologies, Inc.	<u>18,244,850</u>
	<u>39,844,850</u>
<b>Energy 4.5%</b>	
700,000 Hess Corporation	35,434,000
61,000 Murphy Oil Corporation	<u>1,576,240</u>
	<u>37,010,240</u>

**Health Care 5.1%**

85,000	Johnson & Johnson	10,892,750
250,000	Medtronic plc	20,055,000
200,000	Merck & Co. Inc.	<u>10,894,000</u>
		<u>41,841,750</u>

**Insurance 22.7%**

21,000	Alleghany Corporation (a)	12,903,240
200,000	Aspen Insurance Holdings Ltd.	8,970,000
100,000	Kinsale Capital Group, Inc.	5,133,000
28,424	The Plymouth Rock Company, Inc. Class A (b)(c)	149,226,000
160,000	Progressive Corporation	<u>9,748,800</u>
		<u>185,981,040</u>

<u>Shares</u>		<u>Value</u>
	<b>Media 1.2%</b>	
210,000	Liberty Global plc Class C (a)	\$6,390,300
200,000	Liberty Latin America Ltd. (a)	<u>3,818,000</u>
		<u>10,208,300</u>
	<b>Metals and Mining 0.3%</b>	
150,000	Freeport-McMoRan Inc. (a)	<u>2,635,500</u>
	<b>Real Estate 3.5%</b>	
250,000	Kennedy-Wilson Holdings, Inc.	4,350,000
700,000	Rayonier Inc.	<u>24,626,000</u>
		<u>28,976,000</u>
	<b>Retailing 3.3%</b>	
13,000	Amazon.com, Inc. (a)	18,815,420
80,000	Tiffany & Co.	<u>7,812,800</u>
		<u>26,628,220</u>
	<b>Semiconductor 10.3%</b>	
450,000	Analog Devices, Inc.	41,008,500
840,000	Intel Corporation	<u>43,747,200</u>
		<u>84,755,700</u>
	<b>Software and Services 2.6%</b>	
12,000	Alphabet Inc. Class A (a)	12,445,680
100,000	Microsoft Corporation	<u>9,127,000</u>
		<u>21,572,680</u>
	<b>Technology Hardware and Equipment 13.8%</b>	
315,000	Coherent, Inc. (a)	59,031,000
295,000	Keysight Technologies, Inc. (a)	15,455,050
300,000	Motorola Solutions, Inc.	31,590,000
1,387,100	Ribbon Communications Inc. (a)	<u>7,074,210</u>
		<u>113,150,260</u>
	Total Common Stocks (cost \$322,282,412)	<u>755,255,640</u>
	<b>SHORT-TERM INVESTMENTS 7.8%</b>	
	<b>Money Market Fund 1.1%</b>	
9,146,089	Fidelity Institutional Money Market Fund Treasury Only Portfolio – Class I (cost \$9,146,089)	9,146,089
	<b>U.S. Treasury Bills 6.7%</b>	
<u>Principal</u> \$55,000,000	U.S. Treasury Bills 1.53% - 1.66%, due 4/5/18 – 4/19/18 (d) (cost \$54,968,051)	

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	<u>54,968,051</u>
Total Short-term Investments	<u>64,114,140</u>
Total Investments (cost \$386,396,552)(99.9%)	819,369,780
Cash, receivables and other assets less liabilities (.1%)	<u>371,708</u>
Net Assets (100%)	\$819,741,488

- (a) Non-dividend paying.
- (b) Affiliate as defined in the Investment Company Act of 1940 and restricted. See Notes 3 and 4.
- (c) Valued based on Level 3 Inputs. See Note 2.
- (d) Valued based on Level 2 Inputs. See Note 2.

See accompanying notes to statement of investments.

**CENTRAL SECURITIES CORPORATION****NOTES TO STATEMENT OF INVESTMENTS**

1. Security Valuation – Marketable common stocks are valued at the last or closing sale price or, if unavailable, at the closing bid price. Investments in money market funds are valued at net asset value per share. Treasury bills are valued at amortized cost, which approximates fair value. Securities for which no ready market exists are valued at estimated fair value pursuant to procedures adopted by the Board of Directors. The determination of fair value involves subjective judgments. As a result, using fair value to price a security may result in a price materially different from the price used by other investors or the price that may be realized upon the actual sale of the security.

As of March 31, 2018, the tax cost of investments was \$386,396,552. Net unrealized appreciation was \$432,973,228 consisting of gross unrealized appreciation and gross unrealized depreciation of \$447,843,624 and \$14,870,396, respectively.

2. Fair Value Measurements – The Corporation’s investments are categorized below in three broad hierarchical levels based on market price observability as follows:

Level 1 – Quoted prices in active markets for identical investments;

Level 2 – Other significant observable inputs obtained from independent sources, for example, quoted prices in active markets for similar investments;

Level 3 – Significant unobservable inputs including the Corporation’s own assumptions based upon the best information available. The Corporation’s only Level 3 investment is The Plymouth Rock Company, Inc. Class A Common Stock (“Plymouth Rock”).

The designated Level for a security is not necessarily an indication of the risk associated with investing in that security.

The Corporation’s investments as of March 31, 2018 are classified as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	\$606,029,640	-	\$149,226,000	\$755,255,640
Short-term investments	9,146,089	\$54,968,051	-	64,114,140
Total investments	\$615,175,729	\$54,968,051	\$149,226,000	\$819,369,780

The following is a reconciliation of the change in the value of Level 3 investments:

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Balance at December 31, 2017	\$ 144,962,400
Change in net unrealized appreciation of investments included in net decrease in net assets resulting from operations	4,263,600
Balance at March 31, 2018	\$ 149,226,000

Unrealized appreciation of Level 3 investments held as of March 31, 2018 increased by \$4,263,600 during the three months ended March 31, 2018, which is included in the above table.

In valuing the Plymouth Rock Level 3 investment as of March 31, 2018, management used a number of significant unobservable inputs to develop a range of possible values for the investment. It used a comparable company approach that utilized the following valuation multiples from selected publicly traded companies: price-to-book value (range: 0.6 – 3.7); price-to-earnings (range: 14.7 – 58.7); and price-to-revenue (range: 0.6 – 1.5). Management also used a discounted cash flow model based on a forecasted return on equity ranging from 8%-9% and a weighted average cost of capital of 11%. An independent valuation of Plymouth Rock's shares was also considered. The value obtained from weighting the three approaches described above (with greater weight given to the comparable company approach) was then discounted for the lack of marketability by 20% and 40%, a range management believes market participants would apply. The resulting range of values, together with the underlying support, other information about Plymouth Rock's financial condition and results of operations, its corporate governance, the insurance industry outlook and transacted values in Plymouth Rock's shares, were also considered. These values as multiples of Plymouth Rock's book value were also considered. Based upon all of the above information, the Corporation's directors selected the value for the investment which implied a discount for lack of marketability in the higher end of the above range.

Significant increases (decreases) in the value of the price-to-book value multiple, price-to-earnings



multiple, price-to-revenue multiple and return on equity in isolation would result in a higher (lower) range of fair value measurements. Significant increases (decreases) in the value of the discount for lack of marketability or weighted average cost of capital in isolation would result in a lower (higher) range of fair value measurements.

3. Restricted Securities - The Corporation may from time to time invest in securities the resale of which is restricted. On March 31, 2018, the Corporation's only restricted security consisted of 28,424 shares of Plymouth Rock Class A stock that were acquired on December 15, 1982 at a cost of \$710,600. This security had a value of \$149,226,000 at March 31, 2018, which was equal to 18.2% of the Corporation's net assets. The Corporation does not have the right to demand registration of the Plymouth Rock shares.

4. Affiliated Companies – Plymouth Rock is an affiliated company as defined in the Investment Company Act of 1940 due to the Corporation's ownership of 5% or more of Plymouth Rock's outstanding voting shares. During the three months ended March 31, 2018, unrealized appreciation from the Corporation's investment in Plymouth Rock increased by \$4,263,600 and the Corporation received dividends of \$4,857,377 from Plymouth Rock. The Chief Executive Officer of the Corporation is a director of Plymouth Rock.

## Item 2. Controls and Procedures.

(a) Disclosure Controls and Procedures. The Principal Executive and Financial Officers have concluded that the Registrant's Disclosure Controls and Procedures are effective based on their evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

(b) Internal Control Over Financial Reporting. During the last fiscal quarter, there was no significant change in the Registrant's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

(a) Certifications.

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

CENTRAL SECURITIES CORPORATION

By: /s/ Wilmot H. Kidd  
Chief Executive Officer

Date: April 27, 2018

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

By: /s/ Wilmot H. Kidd  
Chief Executive Officer

Date: April 27, 2018

By: /s/ Lawrence P. Vogel  
Vice President and Treasurer

Date: April 27, 2018