

CENTRAL SECURITIES CORP  
Form N-Q  
October 31, 2017

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: September 30, 2017

Item 1. Schedule of Investments.

**CENTRAL SECURITIES CORPORATION****Statement of Investments****September 30, 2017****(Unaudited)****COMMON STOCKS 92.8%**

| <i>Shares</i> |   | <i>Value</i>  |
|---------------|---|---------------|
|               | <b>Banks 6.9%</b>                       |               |
| 300,000       | Citigroup Inc.                          | \$ 21,822,000 |
| 200,000       | JPMorgan Chase & Co.                    | 19,102,000    |
| 220,000       | Wells Fargo & Company                   | 12,133,000    |
|               |   | 53,057,000    |
|               | <b>Commercial Services 2.0%</b>         |               |
| 700,000       | Heritage-Crystal Clean, Inc. (a)        | 15,225,000    |
|               | <b>Consumer Durables 1.2%</b>           |               |
| 700,000       | TRI Pointe Group, Inc. (a)              | 9,667,000     |
|               | <b>Consumer Services 0.6%</b>           |               |
| 30,000        | Wynn Resorts Ltd.                       | 4,467,600     |
|               | <b>Diversified Financial 10.4%</b>      |               |
| 150,000       | American Express Company                | 13,569,000    |
| 400,000       | The Bank of New York Mellon Corporation | 21,208,000    |
| 10            | Berkshire Hathaway Inc. Class A (a)     | 2,747,400     |
| 290,000       | Capital One Financial Corporation       | 24,551,400    |
| 210,000       | The Charles Schwab Corporation          | 9,185,400     |
| 200,000       | Encore Capital Group, Inc. (a)          | 8,860,000     |
|               |   | 80,121,200    |
|               | <b>Diversified Industrial 5.1%</b>      |               |
| 400,000       | Brady Corporation Class A               | 15,180,000    |
| 307,000       | General Electric Company                | 7,423,260     |
| 70,000        | Roper Technologies, Inc.                | 17,038,000    |
|               |   | 39,641,260    |
|               | <b>Energy 3.0%</b>                      |               |
| 470,000       | Hess Corporation                        | 22,038,300    |
| 61,000        | Murphy Oil Corporation                  | 1,620,160     |

23,658,460

**Health Care 5.6%**

|         |                   |            |
|---------|-------------------|------------|
| 85,000  | Johnson & Johnson | 11,050,850 |
| 250,000 | Medtronic plc     | 19,442,500 |
| 200,000 | Merck & Co. Inc.  | 12,806,000 |
|         |                   | 43,299,350 |

**Insurance 20.2%**

|         |  |             |
|---------|--|-------------|
| 21,000  | Alleghany Corporation (a)                      | 11,634,210  |
| 100,000 | Kinsale Capital Group, Inc.                    | 4,317,000   |
| 28,424  | The Plymouth Rock Company, Inc. Class A (b)(c) | 132,171,600 |
| 160,000 | Progressive Corporation                        | 7,747,200   |
|         |  | 155,870,010 |

| <i>Shares</i> |  | <i>Value</i>  |
|---------------|--|---------------|
|               | <b>Media 3.2%</b>                              |               |
| 18,000        | Cable One, Inc.                                | \$ 12,998,160 |
| 210,000       | Liberty Global plc Class C (a)                 | 6,867,000     |
| 200,000       | Liberty Global plc LiLAC Class C (a)           | 4,660,000     |
|               |  | 24,525,160    |
|               | <b>Metals and Mining 0.3%</b>                  |               |
| 150,000       | Freeport-McMoRan Inc. (a)                      | 2,106,000     |
|               | <b>Real Estate 2.9%</b>                        |               |
| 110,000       | Kennedy-Wilson Holdings, Inc.                  | 2,040,500     |
| 700,000       | Rayonier Inc.                                  | 20,223,000    |
|               |  | 22,263,500    |
|               | <b>Retailing 2.8%</b>                          |               |
| 13,000        | Amazon.com, Inc. (a)                           | 12,497,550    |
| 100,000       | Tiffany & Co.                                  | 9,178,000     |
|               |  | 21,675,550    |
|               | <b>Semiconductor 9.4%</b>                      |               |
| 450,000       | Analog Devices, Inc.                           | 38,776,500    |
| 880,000       | Intel Corporation                              | 33,510,400    |
|               |  | 72,286,900    |
|               | <b>Software and Services 2.2%</b>              |               |
| 10,000        | Alphabet Inc. Class A (a)                      | 9,737,200     |
| 100,000       | Microsoft Corporation                          | 7,449,000     |
|               |  | 17,186,200    |
|               | <b>Technology Hardware and Equipment 17.0%</b> |               |
| 355,000       | Coherent, Inc. (a)                             | 83,485,350    |
| 310,000       | Keysight Technologies, Inc. (a)                | 12,914,600    |
| 300,000       | Motorola Solutions, Inc.                       | 25,461,000    |
| 1,195,500     | Sonus Networks, Inc. (a)                       | 9,145,575     |
|               |  | 131,006,525   |
|               | Total Common Stocks (cost \$315,036,679)       | 716,056,715   |

**SHORT-TERM INVESTMENTS 6.9%**

| <i>Principal</i> | <b>U.S. Treasury Bills 6.9%</b>  |                |
|------------------|--|----------------|
| \$ 53,000,000    | U.S. Treasury Bills 0.90% - 1.09%, due 10/5/17 – 10/19/17 (d)<br>(cost \$52,984,756) | 52,984,756     |
|                  | Total Investments (cost \$368,021,435) (e)(99.7%)                                    | 769,041,471    |
|                  | Cash, receivables and other assets less liabilities (.3%)                            | 2,338,493      |
|                  | Net Assets (100%)  | \$ 771,379,964 |

(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.

(e) Aggregate cost for Federal tax purposes is substantially the same.

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. Short-term investments 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 September 30, 2017, the tax cost of investments was \$368,021,435. Net unrealized appreciation was \$401,020,036 consisting of gross unrealized appreciation and gross unrealized depreciation of \$411,397,473 and \$10,377,437, 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 September 30, 2017 are classified as follows:

|                        | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>   |
|------------------------|----------------|----------------|----------------|----------------|
| Common stocks          | \$ 583,885,115 | -              | \$ 132,171,600 | \$ 716,056,715 |
| Short-term investments | -              | \$ 52,984,756  | -              | 52,984,756     |
| Total investments      | \$ 583,885,115 | \$ 52,984,756  | \$ 132,171,600 | \$ 769,041,471 |

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

|   |                |
|---|----------------|
| Balance at December 31, 2016  | \$ 125,065,600 |
| Change in net unrealized appreciation<br>of investments included in net increase<br>in net assets resulting from operations | 7,106,000      |
| Balance at September 30, 2017   | \$ 132,171,600 |

Unrealized appreciation of Level 3 investments held as of September 30, 2017 increased by \$7,106,000 during the nine months ended September 30, 2017, which is included in the above table.

In valuing the Plymouth Rock Level 3 investment as of September 30, 2017, 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: 0.7 – 2.9); price-to-earnings (range: 8.4 – 40.1); and price-to-revenue (range: 0.4 – 1.3). Management also used a discounted cash flow model based on a forecasted return on equity ranging from 7%-8% and a weighted average cost of capital of 10%. 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 September 30, 2017, 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 \$132,171,600 at September 30, 2017, which was equal to 17.1% 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 nine months ended September 30, 2017, unrealized appreciation from the Corporation's investment in Plymouth Rock increased by \$7,106,000 and the Corporation received dividends of \$4,451,767 from Plymouth Rock. The President 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  
President

Date: October 31, 2017

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  
President

Date: October 31, 2017

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

Date: October 31, 2017