

CENTRAL SECURITIES CORP
Form N-CSR
February 10, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES**

Investment Company Act File Number 811-179

Name of registrant as specified in charter: Central Securities Corporation

Address of principal executive offices:

630 Fifth Avenue

Suite 820

New York, New York 10111

Name and address of agent for service:

Central Securities Corporation, Wilmot H. Kidd, President

630 Fifth Avenue

Suite 820

New York, New York 10111

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

Date of fiscal year end: December 31, 2015

Date of reporting period: December 31, 2015

Item 1. Reports to Stockholders.

CENTRAL SECURITIES CORPORATION

EIGHTY-SEVENTH ANNUAL REPORT

2015

SIGNS OF THE TIMES

“The self-driving car, that cutting-edge creation that’s supposed to lead to a world without accidents, is achieving the exact opposite right now: The vehicles have racked up a crash rate double that of those with human drivers.

“The glitch?

“They obey the law all the time, as in, without exception.

“This may sound like the right way to program a robot to drive a car, but good luck trying to merge onto a chaotic, jam-packed highway with traffic flying along well above the speed limit. It tends not to work out well. As the accidents have piled up – all minor scrape-ups for now – the arguments among programmers at places like Google Inc. and Carnegie Mellon University are heating up: Should they teach the cars how to commit infractions from time to time to stay out of trouble?” (Keith Naughton, *Bloomberg*, December 18, 2015)

“Although history is not usually taught this way, one could argue that cities have played a more important role in shaping the world than empires. From Athens and Rome to Paris and Venice to Baghdad and Beijing, urban ideas and innovators have left indelible marks on human life. By concentrating the brainpower of humanity in relatively small geographic areas, cities have promoted the kinds of interactions that nurture creativity and technological advances. They have been the drivers of progress throughout history, and now-as the knowledge economy takes full flight-they are poised to play a leading role in addressing the challenges of the twenty-first century.

“One hundred years ago, some two out of every ten people on the planet lived in urban areas. By 1990, some four in ten did. Today, more than half of the world’s population dwells in urban areas, and by the time a child now entering primary school turns 40, nearly 70 percent will. That means that in the next few decades, about 2.5 billion more people will become metropolitan residents.” (Michael Bloomberg, *Foreign Affairs*, September/October 2015)

“...companies are far less tied to their country of origin than they once were. Look at Pfizer. Its C.E.O. was born in Scotland and raised in Rhodesia. More than sixty percent of its revenue comes from overseas, and most of its employees work abroad as well. It’s hard to know what makes a company like that genuinely “American.” True, many U.S. companies, including big pharma, have drawn heavily on government-funded research, but foreign companies have been able to profit from that research just as easily-without the extra taxes.” (James Surowiecki, *The New Yorker*, January 11, 2016)

“In recent years, China’s growth has come heavily from massive infrastructure investment; China poured more cement and concrete between 2011 and 2013 than the US did in the whole of the 20th century.” (Lawrence Summers, *Financial Times*, January 11, 2016)

“Thanks to a steady stream of mergers and acquisitions over the past two decades, and a marked decline in initial public offerings, the number of public U.S. companies has dwindled. In 1997, there were more than 7,000 American companies on major stock exchanges versus about half as many today.” (Justin Lahart, *The Wall Street Journal*, January 6, 2016)

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CENTRAL SECURITIES CORPORATION

(Organized on October 1, 1929 as an investment company, registered as such with the Securities and Exchange Commission under the provisions of the Investment Company Act of 1940)

25-YEAR HISTORICAL DATA

Year Ended December 31,	Total net assets	Per Share of Common Stock					Unrealized appreciation of investments at end of year
		Net asset value	Source of dividends and distributions		Total dividends and distributions		
			Ordinary income*	Long-term capital gains*			
1990	\$ 111,152,013	\$ 10.00					\$25,940,819
1991	131,639,511	11.87	\$.14	\$.56	**	\$.70	** 43,465,583
1992	165,599,864	14.33	.20	.66		.86	70,586,429
1993	218,868,360	17.90	.18	1.42		1.60	111,304,454
1994	226,639,144	17.60	.22	1.39		1.61	109,278,788
1995	292,547,559	21.74	.33	1.60		1.93	162,016,798
1996	356,685,785	25.64	.28	1.37		1.65	214,721,981
1997	434,423,053	29.97	.34	2.08		2.42	273,760,444
1998	476,463,575	31.43	.29	1.65		1.94	301,750,135
1999	590,655,679	35.05	.26	2.34		2.60	394,282,360
2000	596,289,086	32.94	.32	4.03		4.35	363,263,634
2001	539,839,060	28.54	.22	1.58	**	1.80	** 304,887,640
2002	361,942,568	18.72	.14	1.11		1.25	119,501,484
2003	478,959,218	24.32	.11	1.29		1.40	229,388,141
2004	529,468,675	26.44	.11	1.21		1.32	271,710,179
2005	573,979,905	27.65	.28	1.72		2.00	302,381,671
2006	617,167,026	30.05	.58	1.64		2.22	351,924,627
2007	644,822,724	30.15	.52	1.88		2.40	356,551,394
2008	397,353,061	17.79	.36	2.10		2.46	94,752,477
2009	504,029,743	22.32	.33	.32		.65	197,256,447
2010	593,524,167	26.06	.46	.44		.90	281,081,168
2011	574,187,941	24.96	.43	.57		1.00	255,654,966
2012	569,465,087	24.53	.51	.43		.94	247,684,116
2013	648,261,868	26.78	.12	3.58		3.70	305,978,151
2014	649,760,644	26.18	.16	1.59		1.75	293,810,819
2015	582,870,527	23.53	.12	1.86		1.98	229,473,007
Dividends and distributions for the 25-year period:			\$ 7.01	\$ 38.42		\$ 45.43	

*

Computed on the basis of the Corporation's status as a "regulated investment company" for Federal income tax purposes. Dividends from ordinary income include short-term capital gains.

** Includes non-taxable returns of capital of \$.11 in 1991 and \$.55 in 2001.

The Common Stock is listed on the NYSE MKT under the symbol CET. On December 31, 2015, the closing market price was \$19.02 per share.

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25-YEAR INVESTMENT RESULTS
ASSUMING AN INITIAL INVESTMENT OF \$10,000

(unaudited)

Central's results to December 31, 2015 versus the S&P 500 Index:

<u>Average Annual Total Return</u>	Central's NAV Return	Central's Market Return	S&P 500 Index
1 Year	(1.23%)	(4.71%)	1.38%
5 Year	6.57%	5.89%	12.55%
10 Year	6.64%	6.16%	7.30%
15 Year	5.69%	5.68%	5.00%
20 Year	9.23%	8.14%	8.18%
25 Year	12.52%	12.81%	9.80%

Value of \$10,000 invested for a 25-year period	\$ 190,697	\$ 203,738	\$ 103,527
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The Corporation's total returns reflect changes in market price or net asset value, as applicable, and assume reinvestment of all distributions. Distributions that are payable only in cash are assumed to be reinvested on the payable date of the distribution at the market price or net asset value, as applicable. Distributions that may be taken in shares are assumed to be reinvested at the price designated by the Corporation. Total returns do not reflect any transaction costs on investments or the deduction of taxes that investors may pay on distributions or the sale of shares.

The Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index") is an unmanaged benchmark of large U.S. corporations that assumes reinvestment of all distributions, and excludes the effect of fees, expenses, taxes, and sales charges.

Performance data represents past performance and does not guarantee future investment results.

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To the Stockholders of

CENTRAL SECURITIES CORPORATION:

Financial statements for the year 2015, as reported upon by our independent registered public accounting firm, and other pertinent information are submitted herewith.

Comparative net assets are as follows:

	December 31, <u>2015</u>	December 31, <u>2014</u>
Net assets	\$582,870,527	\$649,760,644
Net assets per share of Common Stock	23.53	26.18
Shares of Common Stock outstanding	24,770,073	24,819,241

Comparative operating results are as follows:

	<u>Year 2015</u>		<u>Year 2014</u>
Net investment income	\$3,456,326		\$3,078,246
Per share of Common Stock	.14	*	.13
Net realized gain from investment transactions	43,840,748		39,215,906
Decrease in net unrealized appreciation of investments	(64,337,812)		(12,167,332)
Increase (decrease) in net assets resulting from operations	(17,040,738)		30,126,820

* Per-share data are based on the average number of Common shares outstanding during the year.

The Corporation declared two distributions to holders of Common Stock in 2015, \$.20 per share paid on June 23 in cash and \$1.78 per share paid on December 22 in cash or in additional shares of Common Stock at the stockholder's option. For Federal income tax purposes, of the \$1.98 paid, \$.12 represents ordinary income and \$1.86 represents long-term capital gains. Separate tax notices have been mailed to stockholders. With respect to state and local taxes, the character of distributions may vary. Stockholders should consult with their tax advisors on this matter.

In the distribution paid in December, the holders of 43% of the outstanding shares of Common Stock elected stock, and they received 934,698 Common shares at a price of \$19.64 per share.

During 2015, the Corporation purchased 992,310 shares of its Common Stock at an average price of \$21.04 per share. The Corporation may from time to time purchase Common Stock in such amounts and at such prices as the Board of Directors may deem advisable in the best interests of stockholders. Purchases may be made on the NYSE MKT or in private transactions directly with stockholders.

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Central's net asset value, adjusted for the reinvestment of distributions, declined by 1.2% during 2015. Over the same period, Central's shares declined by 4.7%. For comparison purposes, the S&P 500 Index increased by 1.4%, while the Russell 2000, a broad index composed of smaller companies declined by 4.4%. Although we know that a concentrated portfolio of stocks will frequently perform out of sync with the broader basket of stocks that constitute an index, we nevertheless were disappointed with our results in 2015.

Long-term returns on an annualized basis are shown below.

<u>Years</u>	<u>NAV Return</u>	<u>Market Return</u>	<u>S&P 500</u>
10	6.6%	6.2%	7.3%
20	9.2%	8.1%	8.2%
30	11.7%	11.4%	10.3%
40	13.7%	14.6%	11.3%

Central's largest investment, at 19.5% of net assets, continues to be Plymouth Rock, a privately held insurance holding company. We reduced our Plymouth Rock holding in 2015, selling 6,000 shares back to the company. It is expected that Plymouth Rock's 2015 annual report to stockholders will be available in April at www.prac.com/about-us/financial/annual-reports. We anticipate that results for last year will not reflect the company's inherent earning power. The severe February 2015 winter storms in Massachusetts and subpar investment returns were the primary causes. Over the long-run, however, Plymouth Rock's results have been impressive, and we continue to have confidence in the company and its future. Central's permanent capital allows us to take a long-term view on direct investments like Plymouth Rock. We invested in Plymouth Rock at its inception (in 1983), and since then, the cumulative annual book value rate of return has been 18.2% (as of year-end 2014).

Plymouth Rock was the most significant contributor to our results in 2015. Other investments with healthy positive returns were Amazon.com, Precision Castparts Corporation and Roper Technologies, Inc. Significant detractors included Freeport-McMoRan, Inc., Sonus Networks, Inc. and Murphy Oil Corporation. We reduced our holding in each of these three companies during the year.

We made a number of portfolio changes last year as reported during the year. We added nine new investments and sold thirteen, ending the year with thirty-three, the ten largest of which are listed on page seven of this report. New investments include Precision Castparts Corporation and American Express, Inc. The largest sales were Agilent Technologies, Inc. and Walgreens Boots Alliance, Inc.

The economic recovery which began in March of 2009, the slowest in the post-World War II period, continued into its seventh year. More so than in prior recoveries, this one has been fostered by a Federal Reserve policy of quantitative easing aimed at raising asset prices. Many investors, including ourselves, have been concerned that easy money and low interest rates have caused lenders and investors to reach for yield and accept greater risks in the stock market. In December, the Federal Reserve raised its discount rate and pointed to further increases in 2016. Since then equity prices have been under selling pressure. Although we believe a financial crisis like that which occurred in 2008 to be extremely unlikely, we are particularly mindful of capital preservation in this environment.

Central's investment objective is long-term growth of capital. Our philosophy continues to be based on value investing combined with a policy of remaining generally fully invested. From a practical standpoint, we invest without reference to a benchmark index; however, our goal is to generate superior results when compared with the broad market. We do not use a particular formula. We seek to own companies that we know well and which follow sensible business models. We believe that this approach reduces risk. We also consider the integrity of management to be of paramount importance. We search for investments available at a reasonable price in relation to probable and potential intrinsic value over a period of years and then hold them through the inevitable market ups and downs. We believe that Central's ability to take a long-term view will continue to be advantageous for shareholders.

Your Corporation is pleased to announce that John C. Hill joined Central as a Vice President on January 18, 2016. John comes to us from Davis Selected Advisors LP where he served as an investment analyst for the past seven years. Prior thereto, he was employed by Quadrangle Group LLC. John will join Vice President Andrew O'Neill in working with your President on investment research and management.

Shareholder's inquiries are welcome.

CENTRAL SECURITIES CORPORATION

WILMOT H. KIDD, President

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TEN LARGEST INVESTMENTS

December 31, 2015
(unaudited)

	Cost (mil.)	Value (mil.)	% of Net Assets	Year First Acquired
<p>The Plymouth Rock Company, Inc. Plymouth Rock underwrites and services over \$1 billion in automobile and homeowner's premiums in the Northeast. It was founded in 1982 and has grown organically and through acquisitions.</p>	\$ 0.7	\$113.7	19.5%	1982
<p>Intel Corporation Intel is the world's largest semiconductor chip maker, based on revenue of over \$55 billion. It develops advanced integrated circuits for computing and communications.</p>	11.0	34.5	5.9	1986
<p>Coherent, Inc. Coherent is a leading producer of commercial and scientific laser systems and components with \$800 million in sales to diverse end-markets.</p>	13.4	33.7	5.8	2007
<p>The Bank of New York Mellon Corporation Bank of New York is a global leader in custodial services, securities processing and asset management with \$29 trillion in assets under custody and \$1.6 trillion under management.</p>	15.3	24.7	4.2	1993
<p>Precision Castparts Corporation Precision Castparts manufactures metal components and products for critical aerospace and industrial gas turbine applications, and has revenues of \$10 billion.</p>	20.5	23.2	4.0	2015
<p>Analog Devices, Inc. Analog Devices designs, manufactures and markets integrated circuits used in analog and digital signal processing, and has \$3.4 billion in global product sales to industrial, communications, consumer, automotive & computer end-markets.</p>	3.0	22.1	3.8	1987
	16.9	20.9	3.6	2013

Capital One Financial Corporation

Capital One is one of the 10 largest banks in the U.S. based on deposits of over \$200 billion and revenues of \$22 billion.

Citigroup Inc.

19.7 20.7 3.6 2013

Citigroup is a global financial services company for consumers and corporate customers, with revenues of \$76 billion.

Motorola Solutions, Inc.

14.1 20.5 3.5 2000

Motorola Solutions, with sales of approximately \$6 billion, is a leading provider of emergency-response and public-safety communication infrastructure, devices, software and services to governments and enterprises globally.

Brady Corporation

5.0 17.2 3.0 1984

Brady manufactures and markets specialty materials and solutions used to identify and protect people, places and property. Brady has sales of \$1.2 billion from its more than 50,000 products.

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DIVERSIFICATION OF INVESTMENTS

December 31, 2015
(unaudited)

				Percent of Net Assets December 31,	
	<u>Issues</u>	<u>Cost</u>	<u>Value</u>	2015	2014 (a)
Common Stocks:					
Insurance	3	\$ 14,480,541	\$ 128,502,530	22.0%	21.1%
Technology Hardware and Equipment	4	40,353,545	66,609,280	11.4	12.9
Diversified Financial	5	54,270,112	63,890,700	11.0	7.0
Diversified Industrial	4	33,306,553	63,406,700	10.9	6.2
Semiconductor	2	13,930,467	56,578,000	9.7	11.5
Banks	2	30,728,669	35,886,900	6.2	5.0
Health Care	3	30,611,123	34,676,800	6.0	7.0
Energy	2	12,266,223	13,614,750	2.3	4.2
Retailing	1	3,814,861	8,786,570	1.5	3.4
Software and Services	1	5,467,648	7,780,100	1.3	4.5
Other	6	58,084,001	47,054,420	8.1	8.7
Short-Term Investments	3	54,975,370	54,975,370	9.4	6.2

(a) Certain amounts from 2014 have been adjusted to conform to 2015 presentation.

PRINCIPAL PORTFOLIO CHANGES

October 1 to December 31, 2015

(Common Stock unless specified otherwise)
(unaudited)

	Number of Shares		Held
	<u>Purchased</u>	<u>Sold</u>	<u>December 31, 2015</u>
Berkshire Hathaway Inc. Class A	10		10
Brady Corporation Class A		40,000	750,000
Cable One, Inc.	6,000		12,000
Cameco Corporation		180,000	—
Coherent, Inc.		80,198	518,000
Freeport-McMoRan Inc.		50,000	150,000
General Electric Company	50,000		250,000
Heritage-Crystal Clean, Inc.	111,288		700,000
Intel Corporation		100,000	1,000,000

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Johnson & Johnson	20,000		70,000
John Wiley & Sons, Inc. Class A	200,000		200,000
JPMorgan Chase & Co.	10,000		230,000
Medtronic, Inc.	20,000		220,000
Progressive Corporation	50,000		150,000
Rayonier Inc.		69,896	700,000
Sonus Networks, Inc.		100,000	500,000

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STATEMENT OF INVESTMENTS

December 31, 2015

<u>Shares</u>		<u>Value</u>
	COMMON STOCKS 90.4%	
	Banks 6.2%	
400,000	Citigroup Inc.	\$20,700,000
230,000	JPMorgan Chase & Co.	15,186,900
		35,886,900
	Commercial Services 1.3%	
700,000	Heritage-Crystal Clean, Inc. (a)	7,420,000
	Consumer Durables 1.5%	
700,000	TRI Pointe Group, Inc. (a)	8,869,000
	Diversified Financial 11.0%	
150,000	American Express Company	10,432,500
600,000	The Bank of New York Mellon Corporation	24,732,000
10	Berkshire Hathaway Inc. Class A (a)	1,978,000
290,000	Capital One Financial Corporation	20,932,200
200,000	Encore Capital Group, Inc. (a)	5,816,000
		63,890,700
	Diversified Industrial 10.9%	
750,000	Brady Corporation Class A	17,235,000
250,000	General Electric Company	7,787,500
100,000	Precision Castparts Corporation	23,201,000
80,000	Roper Technologies, Inc.	15,183,200
		63,406,700
	Energy 2.3%	
230,000	Murphy Oil Corporation	5,163,500
125,000	Occidental Petroleum Corporation	8,451,250
		13,614,750
	Health Care 6.0%	
70,000	Johnson & Johnson	7,190,400
220,000	Medtronic plc	16,922,400
200,000	Merck & Co. Inc.	10,564,000
		34,676,800
	Insurance 22.0%	
21,000	Alleghany Corporation (a)	