

CENTRAL SECURITIES CORP  
Form N-Q  
May 08, 2013  
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, 2013

Item 1. Schedule of Investments.



**CENTRAL SECURITIES CORPORATION****Statement of Investments****March 31, 2013****(Unaudited)****COMMON STOCKS 91.7%**

<u>Shares</u>		<u>Value</u>
<b>Banking and Finance 7.3%</b>		
925,000	The Bank of New York Mellon Corporation	\$ 25,890,750
240,000	Capital One Financial Corporation	13,188,000
100,000	JPMorgan Chase & Co.	4,746,000
		43,824,750
<b>Commercial Services 1.2%</b>		
488,712	Heritage-Crystal Clean, Inc. (a)	7,379,551
<b>Diversified Industrial 8.1%</b>		
728,900	Brady Corporation Class A	24,440,017
200,000	General Electric Company	4,624,000
28,000	Precision Castparts Corporation	5,309,360
110,000	Roper Industries, Inc.	14,004,100
		48,377,477
<b>Energy 7.8%</b>		
350,000	Canadian Oil Sands Ltd.	7,213,500
200,000	Devon Energy Corporation	11,284,000
2,000,000	GeoMet, Inc. (a)(b)	290,000
280,000	Murphy Oil Corporation	17,844,400
320,000	QEP Resources, Inc.	10,188,800
		46,820,700
<b>Health Care 6.5%</b>		
590,000	Agilent Technologies, Inc.	24,762,300
100,000	Medtronic, Inc.	4,696,000
200,000	Merck & Co. Inc.	8,840,000
228,000	Vical Inc. (a)	907,440
-		39,205,740
<b>Insurance 27.3 %</b>		
69,780	The Plymouth Rock Company, Inc. Class A (b)(c)	163,983,000

**Metals and Mining 1.5%**

100,000	Cameco Corporation	2,078,000
200,000	Freeport-McMoRan Copper and Gold Inc.	6,620,000
		8,698,000

**Retailing 3.2%**

20,000	Aerogroup International, Inc. (a)(c)	437,800
400,000	Tesco PLC ADR	6,988,000
250,000	Walgreen Co.	11,920,000
		19,345,800

<u>Shares</u>		<u>Value</u>
<b>Semiconductor 13.3%</b>		
600,000	Analog Devices, Inc.	\$ 27,894,000
900,000	CEVA, Inc. (a)	14,040,000
1,490,000	Intel Corporation	32,534,150
1,500,000	Mindspeed Technologies, Inc. (a)	4,980,000
		79,448,150
<b>Software and Services 2.9%</b>		
512,743	Convergys Corporation	8,732,013
990,000	Xerox Corporation	8,514,000
		17,246,013
<b>Technology Hardware and Equipment 11.4%</b>		
679,300	Coherent, Inc. (a)	38,543,482
500,000	Flextronics International Ltd. (a)	3,380,000
200,000	Motorola Solutions, Inc.	12,806,000
1,190,000	RadiSys Corporation (a)	5,854,800
3,000,000	Sonus Networks, Inc. (a)	7,770,000
		68,354,282
<b>Telecommunication Services 1.2%</b>		
145,425	Primus Telecommunications Group, Inc. (a)	1,606,946
200,000	Vodafone Group Plc ADR	5,680,000
		7,286,946
	Total Common Stocks (cost \$285,520,955)	549,970,409

**PREFERRED STOCKS 0.3%**

<b>Energy 0.3%</b>		
	GeoMet, Inc. Series A	
277,338	Convertible Redeemable Preferred Stock (b)(d)	1,799,924
	Total Preferred Stocks (cost \$2,027,220)	1,799,924
	Total Investments (cost \$287,548,175)(e)(92.0%)	551,770,333
	Cash, receivables and other assets less liabilities (8.0%)	47,816,448
	Net Assets (100%)	\$599,586,781

- (a) Non-dividend paying.
- (b) Affiliate as defined in the Investment Company Act of 1940.
- (c) Valued based on Level 3 Inputs – See Note 2.
- (d) Dividends paid in additional shares.
- (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 and preferred stocks are valued at the last or closing sale price or, if unavailable, at the closing bid price. Securities for which no ready market exists are valued at estimated fair value pursuant to procedures adopted by the Board of Directors.

As of March 31, 2013, the tax cost of investments was \$287,548,175. Net unrealized appreciation was \$264,222,158 consisting of gross unrealized appreciation and gross unrealized depreciation of \$311,911,180 and \$47,689,022, 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 assumptions obtained from independent sources, for example, quoted prices for similar investments, or the use of models or other valuation methodologies;

Level 3 – Significant unobservable inputs including the Corporation’s own assumptions based upon the best information available. Investments categorized as Level 3 include securities in which there is little, if any, market activity. The Corporation’s Level 3 investments consist of The Plymouth Rock Company, Inc. and Aerogroup International, Inc.

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, 2013 are classified as shown below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$385,549,609	–	\$164,420,800	\$549,970,409
Preferred stocks	1,799,924	–	–	1,799,924
Total investments	\$387,349,533	–	\$164,420,800	\$551,770,333

The Corporation’s investment in GeoMet, Inc. Series A Preferred Stock will transfer from Level 1 to Level 2 if there are no actual market trades in the security on a valuation date. The security will transfer back to Level 1 if there are market trades on a subsequent valuation date. On March 31, 2013 and on December 31, 2012, this investment was considered Level 1, and its value was based on the closing market price. There were no other transfers of investments between Levels 1, 2 and 3 during the three months ended March 31, 2013.

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

Balance at December 31, 2012	\$164,410,200
Net realized gains and change in net unrealized appreciation of investments included in net increase in net assets resulting from operations	10,600
Sales	—
Balance at March 31, 2013	\$164,420,800

Unrealized appreciation of Level 3 investments held as of March 31, 2013 increased by \$10,600 during the three months ended March 31, 2013, which is included in the above table. In valuing Level 3 investments, the Corporation's management considers the results of various valuation methods. Consideration is also given to corporate governance, marketability, professional appraisals of portfolio companies, company and industry results and outlooks, and general market conditions. Management then recommends a value for each investment in light of all the information available. All of this information is subsequently presented to and discussed with the Corporation's Board of Directors, which selects the value. 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.



In valuing the Plymouth Rock Level 3 investment as of March 31, 2013, 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 applied average market multiples from selected publicly traded companies to financial information from each of Plymouth Rock's major business segments. The market multiples used were price-to-book value, price-to-earnings and price-to-revenue. Management also used a discounted cash flow model based on a forecasted earnings growth rate ranging from 0%-4% and a weighted average cost of capital of 10%. Transactions in Plymouth Rock's shares were also considered. The values obtained from weighting the three methods described above (with greater weight given to the comparable company approach) were then discounted by 20% and 40% for the lack of marketability of the shares, which represent the range of rates 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 and its industry outlook, were considered by management, which recommended a value for the investment. All of this information was subsequently considered by the Corporation's directors, who selected the value.

Significant increases (decreases) in the value of the price-to-book value multiple, price-to-earnings multiple, price-to-revenue multiple and earnings growth rate 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 from time to time invests in securities the resale of which is restricted. The Corporation does not have the right to demand registration of the restricted securities. On March 31, 2013, such investments had an aggregate value of \$164,420,800, which was equal to 27.4% of the Corporation's net assets. Investments in restricted securities at March 31, 2013, including acquisition dates and cost, were:

<u>Company</u>	<u>Shares Security</u>	<u>Date Acquired</u>	<u>Cost</u>
AeroGroup International, Inc.	20,000 Common Stock	6/14/05	\$ 11,719
The Plymouth Rock Company, Inc.	60,000 Class A Common Stock	12/15/82	1,500,000
The Plymouth Rock Company, Inc.	9,780 Class A Common Stock	6/9/84	684,586

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: May 8, 2013

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: May 8, 2013

By: /s/ Lawrence P. Vogel

Vice President and Treasurer

Date: May 8, 2013