CENTRAL SECURITIES CORP
Form N-CSR
February 10, 2015

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, 2014

Date of reporting period: December 31, 2014

Item 1. Reports to Stockholders.

CENTRAL SECURITIES CORPORATION

EIGHTY-SIXTH ANNUAL REPORT

2014

SIGNS OF THE TIMES

"The University of Michigan on Tuesday introduced its new coach, Jim Harbaugh, who left the N.F.L.'s San Francisco 49ers to join the Wolverines. His base salary - $5 million annually for seven years with 10 percent increases after three and five years – will eventually amount to more than what he was earning in the N.F.L. ...

"Harbaugh, like most college football coaches, will receive bonuses. His incentives come for reaching the Big Ten championship game ($125,000), winning the Big Ten Championship ($250,000), reaching a College Football Playoff bowl ($200,000), playing in the four-team national championship playoff ($300,000) and for team academic performance (up to $150,000). Winning a national title would bring him $500,000.

"The story of college football's gold rush can be told through television contracts. Under the championship playoff format that began this season, ESPN is paying $7.3 billion over 12 years to telecast seven games a year – four major bowl games, two semifinal bowl games and the national championship game." (Marc Tracy and Tim Rohan, *The New York Times*, December 30, 2014)

"Few things are better at conveying what a nation really cares [about] than how it spends its money. On that measure, Americans like to punish.

"The United States spent about $80 billion on its system of jails and prisons in 2010 – about $260 for every resident of the nation. By contrast, its budget for food stamps was $227 a person.

"In 2012, 2.2 million Americans were in jail or prison, a larger share of the population than in any other country; and that is about five times the average for fellow industrialized nations in the Organization for Economic Cooperation and Development." (Eduardo Porter, *The New York Times*, April 30, 2014)

"A tax inversion occurs when an American company merges with a foreign one and, in the process, reincorporates abroad. Such mergers have many motives, but often one of them is to take advantage of the more favorable tax treatment offered by some other nations. ...

"Perhaps the boldest and best response to corporate inversions is to completely rethink the basis of corporate taxation. The first step is to acknowledge that corporations are more like tax collectors than taxpayers. The burden of the corporate tax is ultimately borne by people – some combination of the companies' employees, customers and shareholders." (N. Gregory Mankiw, *The New York Times*, August 23, 2014)

"There is little doubt that the nation's road and transit systems could use more help. The American Society of Civil Engineers gave them a nearly failing grade of D in 2013; the state of bridges is somewhat better, earning a C-plus. The country's inadequate road and transit systems cost it billions through increased delays, extra fuel costs and auto repair bills. Poor road conditions are also said to play a significant factor in about one-third of all traffic fatalities, or about 10,000 deaths a year." (The Editorial Board, *The New York Times*, January 11, 2015)

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: Net asset value	Source of dividends and distributions: Ordinary income*	Long-term capital gains*		Total dividends and distributions		Unrealized appreciation of investments at end of year
1989	$129,376,703	$12.24						$38,661,339
1990	111,152,013	10.00	$.20	$.50	**	$ .70	**	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
Dividends and distributions for the 25-year period:			$7.09	$37.06		$ 44.15		

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* 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 $.47 in 1990, $.11 in 1991 and $.55 in 2001.

The Common Stock is listed on the NYSE MKT under the symbol CET. On December 31, 2014, the closing market price was $21.97 per share.

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

(unaudited)

Central's results to December 31, 2014 versus the S&P 500 Index:

Average Annual Total Return	Central's NAV Return	Central's Market Return	S&P 500 Index
1 Year	5.35 %	9.52 %	13.66 %
5 Year	11.12 %	12.17 %	15.42 %
10 Year	8.15 %	8.08 %	7.66 %
15 Year	6.26 %	6.93 %	4.23 %
20 Year	10.93 %	10.41 %	9.83 %
25 Year	12.13 %	12.46 %	9.59 %
Value of $10,000 invested for a 25-year period	$175,167	$188,474	$98,860

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.

To the Stockholders of

CENTRAL SECURITIES CORPORATION:

Financial statements for the year 2014, 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, 2014	December 31, 2013
Net assets	$649,760,644	$648,261,868
Net assets per share of Common Stock	26.18	26.78
Shares of Common Stock outstanding	24,819,241	24,207,823

Comparative operating results are as follows:

	Year 2014	Year 2013
Net investment income	$3,078,246	$2,343,328
Per share of Common Stock	.13 *	.10 *
Net realized gain from investment transactions	39,215,906	82,530,787
Increase (decrease) in net unrealized appreciation of investments	(12,167,332)	58,294,035
Increase in net assets resulting from operations	30,126,820	143,168,150

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*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 2014, $.20 per share paid on June 24 in cash and $1.55 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 $1.75 paid, $.16 represents ordinary income and $1.59 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 44% of the outstanding shares of Common Stock elected stock, and they received 745,501 Common shares at a price of $22.13 per share.

During 2014, the Corporation purchased 142,059 shares of its Common Stock at an average price of $22.09 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.

Central's net asset value, adjusted for the reinvestment of distributions, returned 5.4% during 2014. Over the same period, Central's shares returned 9.5%. For comparison purposes, the S&P 500 Index increased by 13.7%, while the Russell 2000, a broad index composed of smaller companies, increased by 4.9%.

The table that follows shows long-term results and compares our returns on an annualized basis with those of the S&P 500.

Years	NAV Return	Market Return	S&P 500 Return
5	11.1%	12.2%	15.4%
10	8.2%	8.1%	7.7%
20	10.9%	10.4%	9.8%
30	12.6%	12.4%	11.3%
40	14.7%	15.8%	12.2%

Significant contributors to our results for the year were, in order of importance, The Plymouth Rock Company, Inc., Intel Corporation, The Bank of New York Mellon Corporation, Walgreens Boots Alliance, Inc. and Analog Devices, Inc. Detractors included Coherent, Inc., Freeport-McMoRan, Inc., Heritage-Crystal Clean, Inc., Murphy Oil Corporation and QEP Resources Inc.

We made a number of portfolio changes last year as reported during the year but our turnover remained moderate. Included among our new holdings are Rayonier, Inc., TRI Point Homes, Inc., Occidental Petroleum Corp. and Keysight Technologies, Inc., which was spun-out of Agilent Technologies, Inc. We reduced our holdings in The Bank of New York Mellon and Intel Corporation; and sold our holdings in CEVA, Inc., Vodafone Group Plc and Tesco Plc. Central ended the year with thirty-seven investments, the ten largest of which are listed on page eight of this report.

We expect that Plymouth Rock's 2014 annual report to stockholders will be available in April at www.prac.com/about-us/financial/annual-reports. Plymouth Rock's management has indicated that they anticipate earnings to be lower in 2014 than 2013. There are several reasons for this decline. Prime among them is that 2013 earnings benefitted from the sale of Plymouth Rock's interest in Homesite Insurance Group and some additional large investment gains provided by a strong stock market. Earnings in 2014 were negatively affected by other factors including winter weather and an increase in prior years' loss reserves.

The earnings of property and casualty insurance companies are affected by the weather and stock and bond market results, all three of which are in large part unpredictable and can vary greatly from year to year. As a result, experienced insurance company investors have observed that the increase in dividends and book value over the long-run is one of the best ways of judging an insurance company's investment merits. In this respect, Plymouth Rock has been exemplary. Over its entire thirty-year history, Plymouth Rock's book value rate of return including dividends and accumulated equity has been 18.2% (as of year-end 2013). Over the past five years, as shown below, the return has been 15.5%.

Year	Book Value per Share	Dividends per Share
2013	$2,720	—
2012	$2,215	$116
2011	$1,994	$111
2010	$1,951	$136
2009	$1,816	$ 85
2008	$1,543	$ 85

We invested in Plymouth Rock at its inception and the only significant reduction in our holding occurred in the 2013 transaction in which Plymouth Rock repurchased approximately 30% of its outstanding shares. Shareholders often question us about this investment because it is large and there is no liquid secondary market for its common stock. Our approach is to continue to view our investment in Plymouth Rock as a long-term holding which we may reduce from time to time if we are able to do so at the right price. We believe that this patient approach will allow Central shareholders to maximize risk-adjusted investment returns.

The equity markets increased again last year with almost all major indices reaching record levels. Quantitative easing by central banks around the world has brought about artificially low interest rates which, in turn, have led to a big boost in the prices of tangible and financial assets. Prices of modern art, residential property in London and New York, as well as equity and bond prices, illustrate this effect. Monetary stimulus of this magnitude on a worldwide basis has never before been attempted and the outcome is considered by many to be quite uncertain. Eventually, good, well-managed companies should increase in value on both a relative and absolute basis, whereas dollar denominated assets such as bonds should be relative losers. Most market observers are predicting continued equity price improvement in 2015 although at a subdued rate. Given the record level of the equity markets and investor complacency about risk, however, we believe that attention to capital preservation is of paramount importance. Geopolitical risks in Russia and the Middle East as well as currency-related financial risks all loom.

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. As noted above, in the current environment, we are particularly mindful of capital preservation. From a practical standpoint, we employ a variety of strategies. We do not use a particular formula. Our approach is to own companies that we know and understand, which we believe reduces risk. We also consider the integrity of management to be of paramount importance. We try to find new investments available at a reasonable price in relation to probable and potential intrinsic value over a period of years into the future 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.

Stockholder's inquiries are welcome.

CENTRAL SECURITIES CORPORATION

WILMOT H. KIDD, President

TEN LARGEST INVESTMENTS

December 31, 2014

(unaudited)

	Cost (mil.)	Value (mil.)	% of Net Assets	Year First Acquired
The Plymouth Rock Company, Inc.	$ 0.9	$132.5	20.4%	1982
Plymouth Rock underwrites and services $1 billion in automobile and homeowner's premiums in the Northeast. It was founded in 1982 and has grown both organically and through acquisitions.				
Intel Corporation	15.2	43.5	6.7	1986
Intel is the world's largest semiconductor chip maker, based on revenue of $56 billion. It develops advanced integrated circuits for industries such as computing and communications.				
Coherent, Inc.	17.5	39.9	6.1	2007
Coherent is a leading producer of commercial and scientific laser systems and components with $800 million in sales to diverse end-markets.				
Analog Devices, Inc.	7.6	31.1	4.8	1987
Analog Devices designs, manufactures and markets integrated circuits used in analog and digital signal processing, and has $2.9 billion in global product sales to industrial, communications, consumer, automotive & computer end-markets.				
The Bank of New York Mellon Corporation	16.1	25.4	3.9	1993
Bank of New York is a global leader in custodial services, securities processing and asset management with $28.5 trillion in assets under custody and over $1.7 trillion under management.				
Citigroup Inc.	19.7	21.6	3.3	2013
Citigroup is a diversified global financial services company for consumers and corporate customers, with revenues of $77 billion.				
Brady Corporation	6.0	21.6	3.3	1984
Brady produces high-performance labels and signs, safety devices, and printing systems and software used to identify and protect people, places and property. Brady has sales of over $1.2 billion from its more than 50,000 products.				
Motorola Solutions, Inc.	14.3	20.1	3.1	2000
Motorola Solutions, with sales of $6 billion, is a leading provider of emergency-response and public-safety communication infrastructure, devices, software and services to governments and enterprises globally.				
Capital One Financial Corporation	13.0	19.8	3.0	2013

Capital One is one of the 10 largest banks in the US based on deposits of over $200 billion, and generated revenues of $22 billion.				
Agilent Technologies, Inc.	7.2	19.7	3.0	2005
Agilent, with $4 billion in sales, makes test, measurement, monitoring and analytical instruments for the life sciences, diagnostics and applied chemical markets.				

DIVERSIFICATION OF INVESTMENTS

December 31, 2014 (unaudited)

	Issues	Cost	Value	Percent of Net Assets December 31, 2014	2013
Common Stocks:					
Insurance	2	$4,789,505	$137,167,400	21.1%	17.7%
Technology Hardware and Equipment	5	52,288,250	83,530,406	12.9	12.5
Banking and Finance	4	56,583,410	77,763,750	12.0	10.5
Semiconductor	2	22,816,773	74,639,200	11.5	12.3
Health Care	3	23,679,897	45,449,200	7.0	8.5
Diversified Industrial	3	13,711,677	40,424,100	6.2	6.1
Software and Services	3	26,998,358	29,362,400	4.5	3.4
Energy	4	19,986,691	27,482,600	4.2	5.5
Retailing	2	13,193,272	22,322,550	3.4	4.7
Other	8	65,340,600	56,242,081	8.7	6.9
Preferred Stocks:					
Energy	1	2,027,220	842,785	0.1	0.4
Short-Term Investments	2	39,999,697	39,999,697	6.2	9.3

PRINCIPAL PORTFOLIO CHANGES

October 1 to December 31, 2014

(Common Stock unless specified otherwise)
(unaudited)

	Number of Shares Purchased		Sold	Held December 31, 2014
Agilent Technologies, Inc.			110,000	480,000
Amazon.com, Inc.	3,000			13,000
Ascent Capital Group, Inc.			27,600	—
Brady Corporation	40,000			790,000
California Resources Corporation	40,000	(a)		40,000
CEVA, Inc.			176,033	—
Discovery Communications, Inc.	50,000			50,000
GeoMet, Inc. Preferred Stock	10,424	(b)		343,994
Heritage-Crystal Clean, Inc.	100,000			588,712
Intel Corporation			50,000	1,200,000
Keysight Technologies, Inc.	310,000	(c)		310,000
Rayonier Inc.	27,300			427,300

Roper Industries, Inc.	10,000	80,000

(a) Acquired in a spin-off from Occidental Petroleum Corporation.

(b) Received as a dividend.

(c) Acquired 295,000 shares in a spin-off from Agilent Technologies, Inc.

STATEMENT OF INVESTMENTS

December 31, 2014

Shares		Value
	COMMON STOCKS 91.5%	
	Banking and Finance 12.0%	
625,000	The Bank of New York Mellon Corporation	$25,356,250
240,000	Capital One Financial Corporation	19,812,000
400,000	Citigroup Inc.	21,644,000
175,000	JPMorgan Chase & Co.	10,951,500
		77,763,750
	Commercial Services 2.2%	
150,000	Clean Harbors, Inc, (a)	7,207,500
588,712	Heritage-Crystal Clean, Inc. (a)	7,258,819