

CENTRAL SECURITIES CORPORATION



NINETIETH ANNUAL REPORT

2018

SIGNS OF THE TIMES

“One bright morning earlier this year your correspondent travelled from New York to the University of Chicago to attend a conference on the threat to prosperity posed by monopolies. The journey began with an alarm beeping on a handset made by Apple (which has a 62% market share in America), then a bumpy taxi ride to the airport paid for using a piece of plastic issued by one of the three firms, American Express, MasterCard and Visa, that control 95% of the credit-card market. In the terminal, breakfast was scooped from a supersized fast-food chain, where emails were checked using Google, which has 60% of the browser market.

“The mobile signal was transmitted on one of the three networks that control 78% of the telecoms market. The flight was with one of the four airlines that control 69% of the journeys within America. In Chicago your correspondent checked into the LondonHouse hotel, which looks like a boutique but turns out to be part of Hilton, which controls 12% of all rooms in America, and 25% of the new rooms being built. The booking was made on Expedia, which has 27% of the North American online travel market.

“The firms involved in the journey made profits of \$151bn and had a median return on capital of 29% last year. An equally weighted basket of their shares — call it the monopoly money portfolio — beat global stockmarkets by 484% over the past decade. Collectively, 17% of the companies’ shares are owned by just three investment mega-managers, BlackRock, Vanguard and State Street.” (*The Economist*, November 17, 2018)

“For a few sweet months of 2018, all of Silicon Valley was wrapped up in frenzied easy money and a fantasy of remaking the world order with cryptocurrencies and a related technology called the blockchain. A flood of joy hit the Bay Area. The New York Times ran with the trend in an article with the headline ‘Everyone is Getting hilariously Rich and You’re Not.’ It was temporarily true.

“And just as the American public had been given every possible blockchain explainer that could be written, the whole thing collapsed. The bubble popped.

“Today the price of Bitcoin — \$19,783 last December — is \$3,810. Litecoin was \$366 a coin; it’s now \$30. Ethereum was \$1,400 in January; today it’s \$130.” (Nellie Bowles, *The New York Times*, December 28, 2018)

“Small and midsize companies are fading from stock markets, leaving far fewer publicly traded companies. Many of the smaller companies are bought by larger organizations or are enticed to stay private by the sharp rise in venture capital money, both of which allow them to avoid the volatility and scrutiny that come with going public. The number of listed companies peaked in the late-1990s, before the dot-com bust, plummeting 52 percent by 2016.” (Erin Griffith and Matt Phillips, *The New York Times*, November 27, 2018)

“The World Economic Forum estimates that 90 percent of the world’s plastic waste ends up in the ocean, and that currently there are 50 million tons of plastic in the world’s oceans that could take centuries to degrade. This year the forum warned that there would be more plastic than fish in weight in oceans by 2050.” (Ceylan Yeginsu, *The New York Times*, October 25, 2018)

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*		
1993	\$218,868,360	\$17.90				\$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
2016	674,683,352	27.12	.30	.68	.98	318,524,775
2017	826,331,789	32.86	.28	.72	1.00	460,088,116
2018	765,342,588	30.02	.56	.89	1.45	392,947,674
Dividends and distributions for the 25-year period:			\$7.63	\$38.07	\$45.70	

* Computed on the basis of the Corporation's status as a "regulated investment company" for Federal income tax purposes.

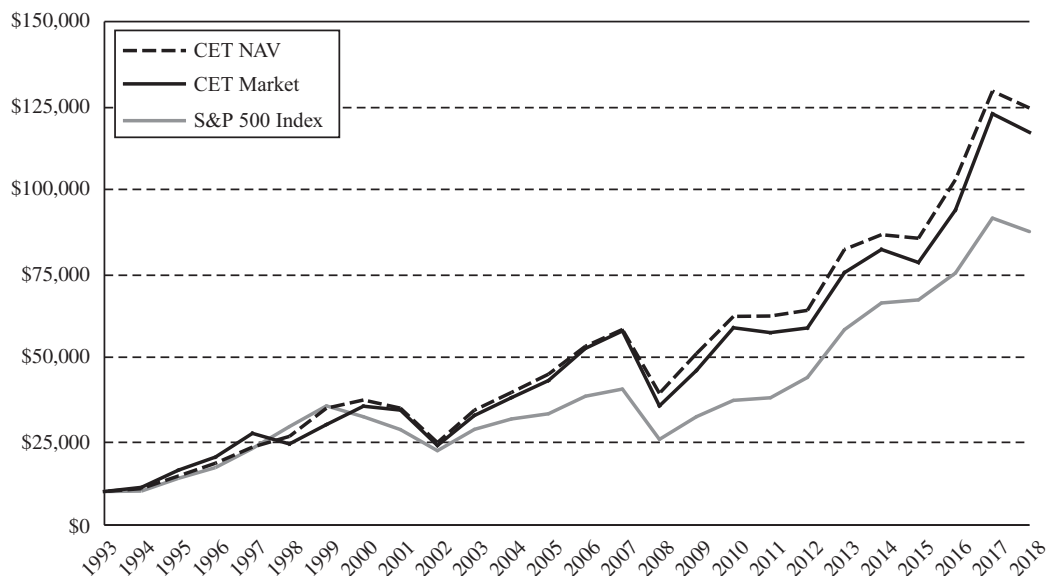
Dividends from ordinary income include short-term capital gains.

** Includes non-taxable return of capital of \$.55.

The Common Stock is listed on the NYSE American under the symbol CET. On December 31, 2018, the closing market price was \$24.83 per share.

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

(unaudited)



Central's results to December 31, 2018 versus the S&P 500 Index:

<u>Average Annual Total Return</u>	<u>Central's NAV Return</u>	<u>Central's Market Return</u>	<u>S&P 500 Index</u>
1 Year	-3.88%	-4.51%	-4.39%
5 Year	8.64%	9.24%	8.47%
10 Year	12.22%	12.66%	13.10%
15 Year	8.97%	8.88%	7.76%
20 Year	8.05%	8.21%	5.61%
25 Year	10.60%	10.34%	9.06%

Value of \$10,000 invested for a 25-year period	\$124,251	\$116,997	\$87,431
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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.

To the Stockholders of

CENTRAL SECURITIES CORPORATION:

Financial statements for the year 2018, 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>2018</u>	December 31, <u>2017</u>
Net assets	\$765,342,588	\$826,331,789
Net assets per share of Common Stock	30.02	32.86
Shares of Common Stock outstanding	25,496,847	25,143,616

Comparative operating results are as follows:

	<u>Year 2018</u>	<u>Year 2017</u>
Net investment income	\$ 13,684,841	\$ 6,911,428
Per share of Common Stock .....	.54*	.28*
Net realized gain from investment transactions	19,176,502	20,731,782
Increase (decrease) in net unrealized appreciation of investments	(67,140,442)	141,563,341
Increase (decrease) in net assets resulting from operations	(34,279,099)	169,206,551

* 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 2018, \$.25 per share paid on June 26 in cash and \$1.20 per share paid on December 20 in cash or in additional shares of Common Stock at the stockholder's option. For Federal income tax purposes, of the \$1.45 paid, \$.56 represents ordinary income and \$.89 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 494,048 Common shares at a price of \$27.07 per share.

During 2018, the Corporation purchased 153,010 shares of its Common Stock at an average price of \$26.03 per share. The Corporation may from time to time purchase its Common Stock in such amounts and at such prices as the Board of Directors deems advisable in the best interests of stockholders. Purchases may be made in the open market or in private transactions directly with stockholders.

Central's net asset value, adjusted for the reinvestment of distributions to shareholders, decreased by 3.9% during 2018. Over the same period, Central's shares decreased by 4.5%. For comparative purposes, the S&P 500 Index decreased by 4.4%, while the Russell 2000, a broad index composed of smaller companies decreased by 11.0%.

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	12.2%	12.7%	13.1%
20	8.1%	8.2%	5.6%
30	11.9%	12.2%	9.9%
40	13.8%	14.1%	11.5%

After a moderate increase during the first nine months, the major stock market indexes declined abruptly in the fourth quarter last year. Against this backdrop, we made few portfolio changes during the year. Our annual portfolio turnover rate was 8%. During the year, Central purchased three new holdings and sold seven, ending the year with 36. The new investments were Kemper Corporation, Cogent Communications and Star Group. We sold Cable One, Tiffany, Murphy Oil, Kennedy-Wilson, Encore Capital, Freeport-McMoRan and General Electric. At year end, Central's ten largest investments (shown on page 8) comprised 56% of net assets.

The five most significant positive contributors to Central's 2018 results, in order of importance, were Plymouth Rock, Motorola Solutions, Keysight Technologies, Merck and Amazon. The biggest detractors were Coherent, Capital One, Citigroup, TRI-Pointe and Hess. Coherent deserves special mention. It was the largest contributor to Central's results in 2016 and 2017 before becoming the largest detractor last year. Still, combining all three years it handily outpaced the S&P 500, returning an average of 17% per year. This experience illustrates one of the more difficult situations long-term investors face: what action to take, if any, when after a significant multi-year gain, an important holding undergoes a large drawdown. In this case, we reevaluated the holding and chose to maintain our investment. We remain confident in Coherent's management and market position. It should be noted that during this period, our Coherent holding has not remained constant. We reduced our holding by 23% since the beginning of 2017 before adding shares in the second half of 2018.

Central's largest and most important investment continues to be Plymouth Rock, a privately-held company in which we invested at its inception in 1982. The Plymouth Rock Group of Companies together write and manage over \$1.2 billion in personal and commercial auto, homeowners and umbrella insurance in Massachusetts, New Hampshire, Connecticut, New York, New Jersey and Pennsylvania. We currently own 23% of Plymouth Rock.

Plymouth Rock had a productive year in 2018. Among other things, the company entered the New York market. Shareholders may find Plymouth Rock's annual reports to stockholders at www.plymouthrock.com/about/financial-information/annual-reports. The reports include audited financial statements and a letter from CEO Jim Stone which reviews notable events and achievements of the previous year and sets forth plans for the coming year. Taken together, the reports provide a detailed history of the company. It is expected that the company's 2018 annual report will be available in April.

The electrification of trading has been much commented upon both in the financial press and by experienced investors. One observer has estimated that truly active investors comprise only about 10% of daily trading activity. Market participants have different time horizons: some focus on seconds, minutes and hours; others focus on months and years; and still others focus on multiple years. In recent years, more stock market activity is thought to be generated by those focused on the shortest time horizons, the “so called” high-frequency traders who trade electronically using algorithms they have developed. Some investors have complained that this has introduced an unacceptable level of market volatility and risk and that it should be curtailed or more closely regulated. Others are pleased with the low costs and effectiveness of electronic markets. Central invests with a long-term view and does not trade actively. Thus, electronic trading has not had a significant effect on Central’s investment operations.

Looking forward, investors are confronted with some serious concerns and questions. Is the international regime of free trade existing since World War II breaking down, and are investors facing a world with less trade each year rather than more? World debt is \$247 trillion according to the Institute of International Finance. Many countries and companies are vulnerable to a protracted rise in interest costs, constraining global central bank flexibility. The debt and growing wealth inequality have concerned many economists and are most likely behind the populist movements experienced by democracies around the world. These issues have combined to create a more uncertain investing environment.

Central is an independent, internally-managed investment company. We invest for long-term growth of capital. It is our goal to own a limited number of companies that generate superior returns. Honest and capable management working in the interest of all shareholders is of the utmost importance in our consideration of new investments. We attempt to purchase investments at a reasonable price in relation to their probable and potential intrinsic value looking out three to five years. We then want to be able to hold them through the inevitable stock market ups and downs. We believe Central’s ability to take a long-term view has been and will continue to be advantageous to shareholders.

Stockholder’s inquiries are welcome.

Wilmot H. Kidd

John C. Hill

Andrew J. O’Neill

630 Fifth Avenue
New York, New York 10111
January 30, 2019

TEN LARGEST INVESTMENTS

December 31, 2018

(unaudited)

	Cost (mil.)	Value (mil.)	% of Net Assets	Year First Acquired
The Plymouth Rock Company Incorporated Plymouth Rock underwrites and services over \$1.2 billion in automobile and homeowner's insurance premiums in the Northeast. Founded in 1982, it has grown both organically and by acquisition.	\$ 0.7	\$170.5	22.3%	1982
Intel Corporation Intel is one of the world's largest semiconductor makers, based on revenue of \$63 billion. It develops advanced integrated circuits for industries such as computing, data storage and communications.	7.6	39.4	5.2	1986
Analog Devices, Inc. Analog Devices designs, manufactures and markets integrated circuits used in analog and digital signal processing and power management. It has \$6.2 billion in global product sales to industrial, communications, automotive and consumer end-markets.	6.2	38.6	5.0	1987
Coherent, Inc. Coherent is a leading producer of commercial and scientific laser systems and components to diverse end-markets including flat-panel display, microelectronics and materials processing, with \$1.9 billion in sales.	13.5	37.0	4.8	2007
Motorola Solutions, Inc. Motorola Solutions, with sales of \$6.4 billion, is a leading provider of emergency-response and public-safety communication infrastructure, devices, software and services to governments and enterprises globally.	14.1	34.5	4.5	2000
Hess Corporation Hess Corporation engages in the exploration, development, production, transportation, purchase and sale of crude oil, natural gas liquid and natural gas. Hess has production operations in the U.S., Asia and South America.	31.2	28.4	3.7	2017
Capital One Financial Corporation Capital One is one of the 10 largest banks in the U.S., with assets of over \$360 billion and deposits of over \$240 billion. It generates revenues of \$25 billion.	17.8	22.7	3.0	2013
Amazon.com, Inc. Amazon.com provides online retail shopping services and, through the Amazon Web Services segment, technology services. Amazon generates revenues of \$178 billion.	3.8	19.5	2.6	2014
Rayonier Inc. Rayonier is a real estate investment trust with 2.6 million acres of timberlands in the Southern and Pacific Northwest regions of the United States and in New Zealand.	21.1	19.4	2.5	2014
The Bank of New York Mellon Corporation Bank of New York is a global leader in custodial services, securities processing and asset management with \$34 trillion in assets under custody and \$1.8 trillion under management.	8.4	18.8	2.5	1993

DIVERSIFICATION OF INVESTMENTS

December 31, 2018

(unaudited)

	<u>Issues</u>	<u>Cost</u>	<u>Value</u>	Percent of Net Assets	
				<u>2018</u>	<u>2017(a)</u>
Common Stocks:					
Insurance	5	\$28,750,437	\$210,871,880	27.6%	20.7%
Technology Hardware and Equipment . . .	4	45,814,469	96,509,922	12.6	17.5
Semiconductor	2	13,769,771	78,044,700	10.2	9.5
Diversified Financial	5	45,772,300	67,584,300	8.8	10.1
Diversified Industrial	3	8,960,292	47,338,000	6.2	6.5
Health Care	3	30,744,887	44,443,250	5.8	5.2
Banks	3	33,967,435	43,668,400	5.7	6.5
Communications Services	4	33,721,827	33,009,760	4.3	4.1
Energy	1	31,227,477	28,350,000	3.7	3.5
Real Estate and Homebuilding	2	32,222,317	27,034,000	3.5	4.4
Retailing	1	3,814,861	19,525,610	2.6	3.1
Other	3	12,405,344	17,739,269	2.3	2.0
Short-Term Investments	3	50,606,599	50,606,599	6.6	6.7

(a) Certain amounts from 2017 have been adjusted to conform to 2018 presentation.

PRINCIPAL PORTFOLIO CHANGES

October 1 to December 31, 2018

(Common Stock unless specified otherwise)

(unaudited)

	Number of Shares		
	<u>Purchased</u>	<u>Sold</u>	<u>Held December 31, 2018</u>
Alphabet Inc.	1,000		16,000
Brady Corporation		80,000	320,000
Freeport-McMoRan Inc.		150,000	—
General Electric Company		500,000	—
Star Group, L.P.	40,000		494,108
Wells Fargo & Company		20,000	250,000

STATEMENT OF INVESTMENTS

December 31, 2018

<u>Shares</u>		<u>Value</u>
COMMON STOCKS 93.3%		
Banks 5.7%		
280,000	Citigroup Inc.	\$ 14,576,800
180,000	JPMorgan Chase & Co.	17,571,600
250,000	Wells Fargo & Company	11,520,000
		43,668,400
Communications Services 4.3%		
16,000	Alphabet Inc. Class A (a)	16,719,360
200,000	Cogent Communications Holdings, Inc.	9,042,000
210,000	Liberty Global plc Class C (a)	4,334,400
200,000	Liberty Latin America Ltd. Class C (a)	2,914,000
		33,009,760
Consumer Services 0.4%		
30,000	Wynn Resorts Ltd.	2,967,300
Diversified Financial 8.8%		
150,000	American Express Company	14,298,000
400,000	The Bank of New York Mellon Corporation	18,828,000
10	Berkshire Hathaway Inc. Class A (a)	3,060,000
300,000	Capital One Financial Corporation	22,677,000
210,000	The Charles Schwab Corporation	8,721,300
		67,584,300
Diversified Industrial 6.2%		
320,000	Brady Corporation Class A	13,907,200
700,000	Heritage-Crystal Clean, Inc. (a)	16,107,000
65,000	Roper Technologies, Inc.	17,323,800
		47,338,000
Energy 3.7%		
700,000	Hess Corporation	28,350,000
Health Care 5.8%		
85,000	Johnson & Johnson	10,969,250
200,000	Medtronic plc	18,192,000
200,000	Merck & Co., Inc.	15,282,000
		44,443,250
Insurance 27.6%		
19,000	Alleghany Corporation (a)	11,843,080
200,000	Kemper Corporation	13,276,000
100,000	Kinsale Capital Group, Inc.	5,556,000
28,424	The Plymouth Rock Company Incorporated Class A (b)(c)	170,544,000
160,000	Progressive Corporation	9,652,800
		210,871,880
Real Estate and Homebuilding 3.5%		
700,000	Rayonier Inc.	19,383,000
700,000	TRI Pointe Group, Inc. (a)	7,651,000
		27,034,000

<u>Shares</u>		<u>Value</u>
	Retailing 2.6%	
13,000	Amazon.com, Inc. (a)	\$ 19,525,610
	Semiconductor 10.2%	
450,000	Analog Devices, Inc.	38,623,500
840,000	Intel Corporation	39,421,200
		<u>78,044,700</u>
	Software and Services 1.3%	
100,000	Microsoft Corporation	<u>10,157,000</u>
	Technology Hardware and Equipment 12.6%	
350,000	Coherent, Inc. (a)	36,998,500
295,000	Keysight Technologies, Inc. (a)	18,313,600
300,000	Motorola Solutions, Inc.	34,512,000
1,387,100	Ribbon Communications Inc. (a)	6,685,822
		<u>96,509,922</u>
	Utilities 0.6%	
494,108	Star Group, L.P.	4,614,969
	Total Common Stocks (cost \$321,171,417)	<u>714,119,091</u>
	SHORT-TERM INVESTMENTS 6.6%	
	Money Market Fund 1.6%	
12,637,542	Fidelity Institutional Money Market Fund Treasury Only Portfolio- Class I	12,637,542
	<u>Principal</u>	
	U.S. Treasury Bills 5.0%	
\$38,000,000	U.S. Treasury Bills 2.32% – 2.41%, due 1/8/19 – 1/22/19 (d)	37,969,057
	Total Short-term Investments (cost \$50,606,599)	<u>50,606,599</u>
	Total Investments (cost \$371,778,016) (99.9%)	764,725,690
	Cash, receivables and other assets less liabilities (0.1%)	616,898
	Net Assets (100%)	<u>\$765,342,588</u>

(a) Non-dividend paying.

(b) Affiliate as defined in the Investment Company Act of 1940 and restricted. See Note 5 and Note 6.

(c) Valued based on Level 3 inputs – see Note 2.

(d) Valued based on Level 2 inputs – see Note 2.

See accompanying notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2018

ASSETS:

Investments:

Securities of unaffiliated companies (cost \$320,460,817) (Note 2)	\$543,575,091	
Securities of affiliated companies (cost \$710,600) (Notes 2, 5 and 6)	170,544,000	
Short-term investments (cost \$50,606,599) (Note 2) ..	<u>50,606,599</u>	\$764,725,690

Cash, receivables and other assets:

Cash	230,919	
Dividends receivable	410,246	
Other assets	<u>94,658</u>	<u>735,823</u>

Total Assets		<u>765,461,513</u>
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LIABILITIES:

Accrued expenses and other liabilities	<u>118,925</u>	
Total Liabilities		<u>118,925</u>

NET ASSETS		<u><u>\$765,342,588</u></u>
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NET ASSETS are represented by:

Common Stock \$1 par value: authorized 40,000,000 shares; issued 25,565,531 (Note 3)		\$ 25,565,531
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Surplus:

Paid-in	\$346,267,704	
Total distributable earnings, including net unrealized appreciation of investments (Note 1)	<u>395,261,079</u>	741,528,783

Treasury Stock, at cost (68,684 shares of Common Stock) (Note 3)		<u>(1,751,726)</u>
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NET ASSETS		<u><u>\$765,342,588</u></u>
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NET ASSET VALUE PER COMMON SHARE

(25,496,847 shares outstanding)		<u><u>\$30.02</u></u>
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See accompanying notes to financial statements.

STATEMENT OF OPERATIONS

For the year ended December 31, 2018

INVESTMENT INCOME

Income:

Dividends from affiliated companies (Note 5)	\$ 9,714,755	
Dividends from unaffiliated companies	8,977,724	
Interest	<u>785,436</u>	\$ 19,477,915

Expenses:

Investment research	2,651,231	
Administration and operations	1,690,039	
Occupancy and office operating expenses	488,702	
Directors' fees	262,470	
Software and information services	173,144	
Legal, auditing and tax preparation fees	143,361	
Franchise and miscellaneous taxes	91,506	
Transfer agent, registrar and custodian fees and expenses	91,423	
Stockholder communications and meetings	69,268	
Miscellaneous	<u>131,930</u>	<u>5,793,074</u>
Net investment income		<u>13,684,841</u>

NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS

Net realized gain from unaffiliated companies	19,176,502	
Decrease in net unrealized appreciation of investments in unaffiliated companies	(92,722,042)	
Increase in net unrealized appreciation of investments in affiliated companies (Note 5)	<u>25,581,600</u>	
Net loss on investments		<u>(47,963,940)</u>

DECREASE IN NET ASSETS RESULTING FROM OPERATIONS

\$ (34,279,099)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
FROM OPERATIONS:		
Net investment income	\$ 13,684,841	\$ 6,911,428
Net realized gain from investment transactions	19,176,502	20,731,782
Increase (decrease) in net unrealized appreciation of investments	<u>(67,140,442)</u>	<u>141,563,341</u>
Increase (decrease) in net assets resulting from operations	<u>(34,279,099)</u>	<u>169,206,551</u>
DISTRIBUTIONS TO STOCKHOLDERS (a):		
From distributable earnings	<u>(36,422,535)</u>	<u>(24,811,031)</u>
FROM CAPITAL SHARE TRANSACTIONS: (Notes 3 and 8)		
Distribution to stockholders reinvested in Common Stock	13,373,879	8,708,796
Issuance of shares of Common Stock to directors and employees	321,120	260,399
Cost of treasury stock purchased	<u>(3,982,566)</u>	<u>(1,716,278)</u>
Increase in net assets from capital share transactions	<u>9,712,433</u>	<u>7,252,917</u>
Total increase (decrease) in net assets	<u>(60,989,201)</u>	<u>151,648,437</u>
NET ASSETS:		
Beginning of year	<u>826,331,789</u>	<u>674,683,352</u>
End of year (b)	<u>\$765,342,588</u>	<u>\$826,331,789</u>

(a) Distributions from net investment income and net realized gain are no longer required to be separately disclosed. See Note 1. For the year ended December 31, 2017, distributions from net investment income were \$6,698,990 and distributions from net realized gain from investment transactions were \$18,112,041.

(b) Disclosure of undistributed net investment income at the end of the year is no longer required. See Note 1. As of December 31, 2017, end of year net assets included undistributed net investment income of \$600,181.

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Decrease in net assets from operations		\$(34,279,099)
Adjustments to decrease in net assets from operations:		
Proceeds from securities sold	\$ 70,170,665	
Purchases of securities	(62,973,243)	
Net decrease in short-term investments	4,375,084	
Net realized gain from investments	(19,176,502)	
Decrease in net unrealized appreciation of investments	67,140,442	
Non-cash stock compensation	321,120	
Depreciation and amortization	4,402	
Changes in operating assets and liabilities:		
Decrease in dividends receivable	57,654	
Increase in other assets	(17,089)	
Decrease in payable for securities purchased ...	(990,062)	
Decrease in accrued expenses and other liabilities	<u>(33,477)</u>	
Total adjustments		<u>58,878,994</u>
Net cash provided by operating activities		24,599,895
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends and distributions paid	(23,048,656)	
Treasury stock purchased	<u>(3,982,566)</u>	
Cash used in financing activities		<u>(27,031,222)</u>
Net decrease in cash		(2,431,327)
Cash at beginning of year		<u>2,662,246</u>
Cash at end of year		<u><u>\$ 230,919</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Non-cash financing activities not included herein consist of:

Reinvestment of dividends and distributions to stockholders		\$ 13,373,879
Issuance of shares of Common Stock to directors and employees		\$ 321,120

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. *Significant Accounting Policies*—Central Securities Corporation (the “Corporation”) is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The following is a summary of the significant accounting policies consistently followed by the Corporation in the preparation of its financial statements. These policies are in conformity with U.S. generally accepted accounting principles.

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. Other 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.

Federal Income Taxes—It is the Corporation’s policy to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income and net capital gains to its stockholders. Management has analyzed positions taken on the Corporation’s tax returns and has determined that no provision for income taxes is required in the accompanying financial statements. The Corporation’s Federal, state and local tax returns for the current and previous three fiscal years remain subject to examination by the relevant taxing authorities.

Use of Estimates—The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results may differ from those estimates.

Other—Security transactions are accounted for as of the trade date, and cost of securities sold is determined by specific identification. Dividend income and distributions to stockholders are recorded on the ex-dividend date. Interest income is accrued daily.

Recently Issued Accounting Pronouncements—In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-02, “Leases.” The new standard generally requires a lessee for an operating lease to recognize on its statement of assets and liabilities (1) an asset for its right to use the underlying asset over the lease term and (2) an offsetting liability representing its obligation to make lease payments over the lease term. The new standard is effective for years beginning after December 15, 2018, including interim periods within those years. The new standard is expected to result in an increase in the Corporation’s total assets and total liabilities, but is not expected to have a material effect on net assets.

In August 2018, the Securities and Exchange Commission released its Final Rule on Disclosure Update and Simplification (the “Final Rule”), which is intended to simplify an issuer’s disclosure compliance efforts by removing redundant or outdated disclosure requirements without significantly altering the mix of information provided to investors. Effective with the current reporting period, the Corporation adopted the Final Rule. As a result, the Corporation no longer presents the components of distributable earnings on the Statement of Assets and Liabilities or the sources of distributions to shareholders and the amount of undistributed net investment income on the Statements of Changes in Net Assets.

NOTES TO FINANCIAL STATEMENTS — Continued

In August 2018, the FASB issued Accounting Standards Update 2018-13, “Fair Value Measurement (Topic 820) — Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”), which introduces new fair value disclosure requirements as well as eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with earlier adoption permitted. Management is evaluating the implications of ASU 2018-13, and any impact on the financial statement disclosures has not yet been determined.

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 Incorporated 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 December 31, 2018 are classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Value</u>
Common stocks	\$543,575,091	—	\$170,544,000	\$714,119,091
Short-term investments	12,637,542	\$37,969,057	—	50,606,599
Total	<u>\$556,212,633</u>	<u>\$37,969,057</u>	<u>\$170,544,000</u>	<u>\$764,725,690</u>

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

Balance as of December 31, 2017	\$144,962,400
Change in unrealized appreciation of investments in affiliated companies included in decrease in net assets from operations . .	25,581,600
Balance as of December 31, 2018	<u>\$170,544,000</u>

Unrealized appreciation of Level 3 investments still held as of December 31, 2018 increased during the year by \$25,581,600, which is included in the above table.

In valuing the Plymouth Rock Level 3 investment as of December 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 – 3.3); price-to-earnings (range: 7.6 – 87.7); and price-to-revenue (range 0.5 – 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 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

NOTES TO FINANCIAL STATEMENTS — Continued

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 have resulted 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 have resulted in a lower (higher) range of fair value measurements.

3. *Common Stock and Dividend Distributions*—The Corporation purchased 153,010 shares of its Common Stock in 2018 at an average price of \$26.03 per share representing an average discount from net asset value of 19.4%. It 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 the stockholders. Purchases will only be made at less than net asset value per share, thereby increasing the net asset value of shares held by the remaining stockholders. Shares so acquired may be held as treasury stock available for stock distributions, or may be retired.

The Corporation declared two distributions to holders of Common Stock in 2018, \$.25 per share paid on June 26 in cash and \$1.20 per share paid on December 20 in cash or in additional shares of Common Stock at the stockholder's option. In connection with the December 20 distribution, 84,326 treasury shares were distributed and 409,722 shares of Common Stock were issued, all at a price of \$27.07 per share.

The tax character of dividends and distributions paid during the year was ordinary income, \$14,065,080 and long-term capital gain, \$22,357,455; for 2017, it was \$6,947,102 and \$17,863,929, respectively. As of December 31, 2018, for tax purposes, undistributed ordinary income was \$705,940 and undistributed long-term realized capital gain was \$1,842,143. Dividends and distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. Financial statements are adjusted for permanent book-tax differences; such adjustments were not material for the year ended December 31, 2018.

4. *Investment Transactions*—The aggregate cost of securities purchased and the aggregate proceeds of securities sold during the year ended December 31, 2018, excluding short-term investments, were \$62,973,243 and \$70,170,665, respectively.

As of December 31, 2018, the tax cost of investments was \$371,778,016. Net unrealized appreciation was \$392,947,674 consisting of gross unrealized appreciation and gross unrealized depreciation of \$415,710,608 and \$22,762,934, respectively.

5. *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 the company's outstanding voting securities. During the year ended December 31, 2018, unrealized appreciation from the Corporation's investment in Plymouth Rock increased by \$25,581,600 and the Corporation received dividends of \$9,714,755 from Plymouth Rock. The Chief Executive Officer of the Corporation is a director of Plymouth Rock.

6. *Restricted Securities*—The Corporation may from time to time invest in securities the resale of which is restricted. On December 31, 2018, the Corporation's restricted securities consisted of 28,424 shares of Plymouth Rock Class A stock that were acquired on December 15, 1982 at a cost of \$710,600.

NOTES TO FINANCIAL STATEMENTS — Continued

This security had a value of \$170,544,000 at December 31, 2018, which was equal to 22.3% of the Corporation’s net assets. The Corporation does not have the right to demand registration of this security.

7. *Bank Line of Credit*—The Corporation has entered into a \$25 million uncommitted, secured revolving line of credit with UMB Bank, n.a. (“UMB”), the Corporation’s custodian. All borrowings are payable on demand of UMB. Interest on any borrowings is payable monthly at a rate based on the federal funds rate, subject to a minimum annual rate of 2.50%. No borrowings were made during the year ended December 31, 2018.

8. *Compensation and Benefit Plans*—The aggregate remuneration paid to all officers during the year ended December 31, 2018 was \$3,513,840.

Officers and other employees participate in a 401(k) profit sharing plan. The Corporation has agreed to contribute 3% of each participant’s qualifying compensation to the plan, which is immediately vested. Contributions in excess of 3% may be made at the discretion of the Board of Directors and vest after three years of service. During the year ended December 31, 2018, the Corporation contributed \$241,061 to the plan, which represented 15% of total qualifying compensation.

The Corporation maintains an incentive compensation plan (the “2012 Plan”) which permits the granting of awards of unrestricted stock, restricted stock, restricted stock units and cash to full-time employees and non-employee directors of the Corporation. The 2012 Plan provides for the issuance of up to 1,000,000 shares of the Corporation’s Common Stock over the ten-year life of the 2012 Plan, of which 931,963 remain available for future grants at December 31, 2018. The 2012 Plan limits the amount of shares that can be awarded to any one person in total or within a certain time period. Any award made under the 2012 Plan may be subject to performance conditions. The 2012 Plan is administered by the Corporation’s Compensation and Nominating Committee.

A summary of awards of unrestricted shares of Common Stock granted and issued in 2018 is presented below. The fair value of unrestricted stock is the average of the high and low prices of the Corporation’s Common Stock on the grant date.

	<u>Officers and employees</u>	<u>Non-employee directors</u>
Number of shares granted	13,459	3,000
Number of shares surrendered for withholding taxes	<u>(4,266)</u>	<u>n/a</u>
Number of shares issued	<u>9,193</u>	<u>3,000</u>
Weighted average grant date fair value	\$25.96	\$27.49

Pursuant to the terms of the 2012 Plan, each non-employee director is awarded 500 shares of vested unrestricted Common Stock at initial election to the Board of Directors and annually after re-election at the Corporation’s annual meeting. The aggregate value of these awards made in 2018 was \$82,470. This amount plus cash payments of \$180,000 made to all non-employee directors are included in Directors’ fees expense in the accompanying Statement of Operations.

9. *Operating Lease Commitment*—The Corporation has an operating lease for office space that expires on June 30, 2019. Rent expense for the year ended December 31, 2018 was \$426,644. Future minimum rental commitments under the lease are \$187,442 in 2019. The lease agreement contains escalation clauses relating to operating costs and real property taxes.

FINANCIAL HIGHLIGHTS

The following table shows per share operating performance data, total returns, ratios and supplemental data for each year in the five-year period ended December 31, 2018. This information has been derived from information contained in the financial statements and market price data for the Corporation's shares.

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 at the market price or net asset value, as applicable, on the payable date of the distribution. Distributions that may be taken in shares are assumed to be reinvested at the price designated by the Corporation.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Per Share Operating Performance:					
Net asset value, beginning of year	\$ 32.86	\$ 27.12	\$ 23.53	\$ 26.18	\$ 26.78
Net investment income (a) . . . . .	.54	.28	.19	.14	.13
Net realized and unrealized gain (loss)					
on securities (a)	(1.91)	6.52	4.41	(.83)	1.12
Total from investment operations . .	<u>(1.37)</u>	<u>6.80</u>	<u>4.60</u>	<u>(.69)</u>	<u>1.25</u>
Less:					
Dividends from net investment income . . . .	.55	.27	.20	.12	.14
Distributions from capital gains . . . . .	.90	.73	.78	1.86	1.61
Total distributions	<u>1.45</u>	<u>1.00</u>	<u>.98</u>	<u>1.98</u>	<u>1.75</u>
Net change from capital share					
transactions	(.02)	(.06)	(.03)	.02	(.10)
Net asset value, end of year	<u>\$ 30.02</u>	<u>\$ 32.86</u>	<u>\$ 27.12</u>	<u>\$ 23.53</u>	<u>\$ 26.18</u>
Per share market value, end of year	\$ 24.83	\$ 27.40	\$ 21.79	\$ 19.02	\$ 21.97
Total return based on market (%)	(4.51)	30.55	19.97	(4.71)	9.52
Total return based on NAV (%)	(3.88)	25.63	20.44	(1.23)	5.35
Ratios/Supplemental Data:					
Net assets, end of year (000)	\$765,343	\$826,332	\$674,683	\$582,871	\$649,761
Ratio of expenses to average					
net assets (%) . . . . .	.69	.75	.88	.72	.67
Ratio of net investment income to					
average net assets (%)	1.63	.92	.75	.56	.47
Portfolio turnover rate (%)	8.04	6.03	9.48	25.48	13.07

(a) Based on the average number of shares outstanding during the year.

See accompanying notes to financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
CENTRAL SECURITIES CORPORATION:

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Central Securities Corporation (the "Corporation"), including the statement of investments, as of December 31, 2018, the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the related notes (collectively, the "financial statements") and the financial highlights for each of the years in the five-year period then ended. In our opinion, the financial statements and financial highlights present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements and financial highlights are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risk of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2018, by correspondence with the custodian. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We or our predecessor firms have served as the Corporation's auditor since 1930.

New York, NY
February 4, 2019

OTHER INFORMATION

Direct Registration

The Corporation utilizes direct registration, a system that allows for book-entry ownership and the electronic transfer of the Corporation's shares. Stockholders may find direct registration a convenient way of managing their investment. Stockholders wishing certificates may request them.

A pamphlet which describes the features and benefits of direct registration, including the ability of shareholders to deposit certificates with our transfer agent, can be obtained by calling Computershare Trust Company at 1-800-756-8200, calling the Corporation at 1-866-593-2507 or visiting our website: www.centalsecurities.com under Contact Us.

Proxy Voting Policies and Procedures

The policies and procedures used by the Corporation to determine how to vote proxies relating to portfolio securities and the Corporation's proxy voting record for the twelve-month period ended June 30, 2018 are available: (1) without charge, upon request, by calling us at our toll-free telephone number (1-866-593-2507), (2) on the Corporation's website at www.centalsecurities.com and (3) on the Securities and Exchange Commission's website at www.sec.gov.

Quarterly Portfolio Information

The Corporation files its complete schedule of portfolio holdings with the SEC for the first and the third quarter of each fiscal year on Form N-Q. The Corporation's Form N-Q filings are available on the SEC's website at www.sec.gov. Those forms may be reviewed and copied at the SEC's Public Reference Room in Washington D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Privacy Policy

In order to conduct its business, the Corporation, through its transfer agent, Computershare Trust Company, collects and maintains certain nonpublic personal information about our stockholders of record in connection with their transactions in shares of our securities. This information includes the shareholder's address, tax identification number and number of shares. We do not collect or maintain personal information about stockholders whose shares are held in "street name" by a financial institution such as a bank or broker.

We do not disclose any nonpublic personal information about our stockholders to third parties unless necessary to process a transaction, service an account or as otherwise permitted by law.

To protect your personal information internally, we restrict access to nonpublic personal information about our stockholders to those employees who need to know that information to provide services to our stockholders.

Forward-Looking Statements

This report may contain "forward-looking statements" within the meaning of the Securities Exchange Act of 1934. You can identify forward-looking statements by words such as "believe," "expect," "may," "anticipate," and other similar expressions when discussing prospects for particular portfolio holdings and/or markets, generally. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. We cannot assure future results and disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

BOARD OF DIRECTORS AND OFFICERS

<u>Name (age)</u>	<u>Principal Occupation (last five years) and position with the Corporation (if any)</u>	<u>Other Public Company Directorships held by Directors</u>
<u>Independent Directors</u>		
L. PRICE BLACKFORD (67) Director since 2012	Managing Director, Scott-Macon, Ltd. (investment banking) since 2013; Senior Advisor, Sagent Advisors (investment banking) prior thereto	None
SIMMS C. BROWNING (78) Director since 2005	Retired 2003; Vice President, Neuberger Berman, LLC (asset management) prior thereto	None
DONALD G. CALDER (81) Director since 1982	Chairman, Clear Harbor Asset Management, LLC since 2010; President G.L. Ohrstrom & Co. Inc. (private investment firm) prior thereto	Brown-Forman Corporation (beverages) until 2010; Carlisle Companies (industrial conglomerate) until 2009 and Roper Technologies, Inc. (manufacturing) until 2008
DAVID C. COLANDER (71) Director since 2009	Professor of Economics, Middlebury College	None
JAY R. INGLIS (84) Director since 1973	Retired since 2014; Vice President and General Counsel, International Claims Management, Inc. prior thereto	None
<u>Interested Directors</u>		
WILMOT H. KIDD (77) Director since 1972	Chairman and Chief Executive Officer, Central Securities Corporation; President, Central Securities Corporation 1973-2018	Silvercrest Asset Management Group, Inc.
WILMOT H. KIDD IV (39) Director since 2017	Independent photographer, cinematographer and film producer.	None
<u>Other Officers</u>		
JOHN C. HILL (45)	President since 2018 and Vice President since 2016; Analyst, Davis Advisors, 2009-2016	
MARLENE A. KRUMHOLZ (55)	Vice President since 2009 and Secretary since 2001	
ANDREW J. O'NEILL (46)	Vice President since 2011, Investment Analyst since 2009	
LAWRENCE P. VOGEL (62)	Treasurer since 2010 and Vice President since 2009	

The Corporation is a stand-alone investment company. The address of each Director and officer is c/o Central Securities Corporation, 630 Fifth Avenue, New York, New York 10111. All Directors serve for a term of one year and are elected by stockholders at the Corporation's annual meeting. Officers serve at the pleasure of the Board of Directors.

BOARD OF DIRECTORS

Wilmot H. Kidd, Chairman
L. Price Blackford, Lead Independent Director
Simms C. Browning
Donald G. Calder
David C. Colander
Jay R. Inglis
Wilmot H. Kidd IV
C. Carter Walker, Jr., Director Emeritus

OFFICERS

Wilmot H. Kidd, Chief Executive Officer
John C. Hill, President
Marlene A. Krumholz, Vice President and Secretary
Andrew J. O'Neill, Vice President
Lawrence P. Vogel, Vice President and Treasurer

OFFICE

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TRANSFER AGENT AND REGISTRAR

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www.computershare.com/investor

CUSTODIAN

UMB Bank, n.a.
Kansas City, MO

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
New York, NY