

GAMCO INVESTORS, INC. ET AL
Form 10-Q
November 08, 2010

SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from ___ to ___

Commission File No. 1-106

GAMCO INVESTORS, INC.
(Exact name of Registrant as specified in its charter)

New York
(State of other jurisdiction
of incorporation or
organization)

13-4007862
(I.R.S. Employer
Identification No.)

One Corporate Center, Rye,
NY
(Address of principle
executive offices)

10580-1422
(Zip Code)

(914) 921-5100
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yesx Noo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practical date.

| Class | Outstanding at October 31, 2010 |
|---|------------------------------------|
| Class A Common Stock, .001 par value | 6,970,210 |
| Class B Common Stock, .001 par value | 20,291,904 |

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GAMCO INVESTORS, INC. AND SUBSIDIARIES

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- Nine months ended September 30, 2010 and 2009

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- September 30, 2009

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GAMCO INVESTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED

(Dollars in thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Revenues | | | | |
| Investment advisory and incentive fees | \$ 50,249 | \$ 40,957 | \$ 149,862 | \$ 112,145 |
| Institutional research services | 4,005 | 4,588 | 11,953 | 12,187 |
| Distribution fees and other income | 8,189 | 6,037 | 23,125 | 15,780 |
| Total revenues | 62,443 | 51,582 | 184,940 | 140,112 |
| Expenses | | | | |
| Compensation | 26,661 | 21,590 | 78,745 | 62,056 |
| Management fee | 3,540 | 2,638 | 7,368 | 6,291 |
| Distribution costs | 7,710 | 6,089 | 21,840 | 17,094 |
| Other operating expenses | 5,023 | 4,405 | 15,528 | 13,648 |
| Total expenses | 42,934 | 34,722 | 123,481 | 99,089 |
| Operating income | 19,509 | 16,860 | 61,459 | 41,023 |
| Other income (expense) | | | | |
| Net gain from investments | 13,916 | 9,659 | 11,351 | 22,981 |
| Interest and dividend income | 2,012 | 598 | 3,916 | 2,677 |
| Interest and other expense | (3,295) | (3,296) | (9,993) | (9,965) |
| Total other income (expense), net | 12,633 | 6,961 | 5,274 | 15,693 |
| Income before income taxes | 32,142 | 23,821 | 66,733 | 56,716 |
| Income tax provision | 11,686 | 8,913 | 24,381 | 20,034 |
| Net income | 20,456 | 14,908 | 42,352 | 36,682 |
| Net income attributable to noncontrolling interests | 350 | 257 | 471 | 503 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 20,106 | \$ 14,651 | \$ 41,881 | \$ 36,179 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | | | | |
| per share: | | | | |
| Basic | \$ 0.75 | \$ 0.54 | \$ 1.55 | \$ 1.32 |

| | | | | |
|---------|---------|---------|---------|---------|
| Diluted | \$ 0.73 | \$ 0.53 | \$ 1.53 | \$ 1.32 |
|---------|---------|---------|---------|---------|

Weighted average shares
outstanding:

| | | | | |
|-------|--------|--------|--------|--------|
| Basic | 26,828 | 27,366 | 26,996 | 27,376 |
|-------|--------|--------|--------|--------|

| | | | | |
|---------|--------|--------|--------|--------|
| Diluted | 28,364 | 27,505 | 27,818 | 27,464 |
|---------|--------|--------|--------|--------|

| | | | | |
|---------------------|---------|---------|---------|---------|
| Dividends declared: | \$ 0.93 | \$ 0.03 | \$ 0.99 | \$ 0.09 |
|---------------------|---------|---------|---------|---------|

See accompanying notes.

| GAMCO INVESTORS, INC. AND SUBSIDIARIES | | | |
|---|--------------------------|-------------------------|--------------------------|
| CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION | | | |
| UNAUDITED | | | |
| (Dollars in thousands, except per share data) | | | |
| | September 30, 2010 | December 31, 2009 | September 30, 2009 |
| ASSETS | | | |
| Cash and cash equivalents, including restricted cash of \$62,308, \$62,258 and \$62,246, respectively | \$ 294,271 | \$ 400,528 | \$ 463,361 |
| Investments in securities | 228,210 | 157,403 | 172,571 |
| Investments in partnerships | 79,244 | 62,655 | 63,997 |
| Receivable from brokers | 62,209 | 30,072 | 21,991 |
| Investment advisory fees receivable | 17,145 | 35,685 | 13,957 |
| Income tax receivable and deferred tax assets | - | - | 4,536 |
| Other assets | 21,140 | 21,466 | 18,247 |
| Total assets | \$ 702,219 | \$ 707,809 | \$ 758,660 |
| LIABILITIES AND EQUITY | | | |
| Payable to brokers | \$ 4,151 | \$ 395 | \$ 10,006 |
| Income taxes payable and deferred tax liabilities | 4,533 | 8,523 | - |
| Capital lease obligation | 5,197 | 5,265 | 5,278 |
| Compensation payable | 23,575 | 13,302 | 20,974 |
| Securities sold, not yet purchased | 18,446 | 9,569 | 9,738 |
| Mandatorily redeemable noncontrolling interests | 1,367 | 1,622 | 1,586 |
| Accrued expenses and other liabilities | 25,436 | 25,157 | 24,879 |
| Sub-total | 82,705 | 63,833 | 72,461 |
| 5.5% Senior notes (due May 15, 2013) | 99,000 | 99,000 | 99,000 |
| 6% Convertible note (due August 14, 2011) | - | 39,851 | 39,829 |
| 6.5% Convertible note (due October 2, 2018, repaid October 13, 2010) | 60,000 | 60,000 | 60,000 |
| Total liabilities | 241,705 | 262,684 | 271,290 |
| Redeemable noncontrolling interests | 15,994 | 1,464 | 1,424 |

Commitments and contingencies (Note J)

Equity

GAMCO Investors, Inc. stockholders' equity

Class A Common Stock, \$0.001 par value; 100,000,000

shares authorized; 13,202,489, 13,120,276 and 13,108,526

issued, respectively; 6,970,410, 7,311,997 and 7,337,347

outstanding, respectively 13 13 13

Class B Common Stock, \$0.001 par value; 100,000,000

shares authorized; 24,000,000 shares issued;

20,292,104, 20,292,917 and 20,292,917 shares

outstanding, respectively 20 20 20

Additional paid-in capital 255,860 251,591 249,889

Retained earnings 425,383 410,473 447,145

Accumulated comprehensive income 19,306 19,088 24,870

Treasury stock, at cost (6,232,079, 5,808,279 and 5,771,179

shares, respectively) (259,442) (241,567) (239,939)

Total GAMCO Investors, Inc. stockholders' equity 441,140 439,618 481,998

Noncontrolling interests 3,380 4,043 3,948

Total equity 444,520 443,661 485,946

Total liabilities and equity \$ 702,219 \$ 707,809 \$ 758,660

See accompanying notes.

| GAMCO INVESTORS, INC. AND SUBSIDIARIES | | | | | | | | | |
|---|----------------|--------|------------|------------|-------------|-------------|------------|------------|---------------|
| CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME | | | | | | | | | |
| UNAUDITED | | | | | | | | | |
| (In thousands) | | | | | | | | | |
| For the nine months ended September 30, 2010 | | | | | | | | | |
| GAMCO Investors, Inc. shareholders | | | | | | | | | |
| | Noncontrolling | Common | Additional | Retained | Accumulated | Treasury | | Redeemable | Comprehensive |
| | Interests | Stock | Paid-in | Earnings | Income | Stock | Total | Interests | Income |
| | | | Capital | | | | | | |
| Balance at December 31, 2009 | \$ 4,043 | \$ 33 | \$ 251,591 | \$ 410,473 | \$ 19,088 | \$(241,567) | \$ 443,661 | \$ 1,464 | \$ - |
| Redemptions of redeemable noncontrolling interests | - | - | - | - | - | - | - | (475) | - |
| Contributions from redeemable noncontrolling interests | - | - | - | - | - | - | - | 14,700 | - |
| Dividends paid to noncontrolling interests | (829) | - | - | - | - | - | (829) | - | - |
| Net income | 166 | - | - | 41,881 | - | - | 42,047 | 305 | 42,352 |
| Net unrealized losses on securities available for sale, net of income tax benefit (\$129) | - | - | - | - | 220 | - | 220 | - | 220 |
| Foreign currency translation | - | - | - | - | (2) | - | (2) | - | (2) |
| Dividends declared (\$0.99 per share) | - | - | - | (26,971) | - | - | (26,971) | - | - |
| Stock based compensation expense | - | - | 4,221 | - | - | - | 4,221 | - | - |
| Exercise of stock options including tax benefit | - | - | 48 | - | - | - | 48 | - | - |
| Purchase of treasury stock | - | - | - | - | - | (17,875) | (17,875) | - | - |
| Balance at September 30, 2010 | \$ 3,380 | \$ 33 | \$ 255,860 | \$ 425,383 | \$ 19,306 | \$(259,442) | \$ 444,520 | \$ 15,994 | \$ 42,570 |

| | |
|--|-----------|
| Comprehensive income attributable to noncontrolling interest | (471) |
| Total comprehensive income attributable to GAMCO Investors, Inc. | \$ 42,099 |

See accompanying notes.

| GAMCO INVESTORS, INC. AND SUBSIDIARIES | | | | | | | | | |
|--|----------------|--------|------------|------------|---------------|-------------|------------|------------|---------------|
| CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME | | | | | | | | | |
| UNAUDITED | | | | | | | | | |
| (In thousands) | | | | | | | | | |
| For the nine months ended September 30, 2009 | | | | | | | | | |
| GAMCO Investors, Inc. shareholders | | | | | | | | | |
| | Noncontrolling | Common | Additional | Retained | Accumulated | Treasury | | Redeemable | Comprehensive |
| | Interests | Stock | Paid-in | Earnings | Comprehensive | Stock | Total | Interests | Income |
| | | | Capital | | Income | | | | |
| Balance at December 31, 2008 | \$ 4,788 | \$ 33 | \$ 245,973 | \$ 413,761 | \$ 14,923 | \$(234,537) | \$ 444,941 | \$ 4,201 | \$ - |
| Purchase of subsidiary shares from noncontrolling interest | (747) | - | - | - | - | - | (747) | - | - |
| Redemptions of redeemable noncontrolling interests | - | - | - | - | - | - | - | (2,961) | - |
| Spin-off of subsidiary shares to noncontrolling interests | (412) | - | - | - | - | - | (412) | - | - |
| Net income | 319 | - | - | 36,179 | - | - | 36,498 | 184 | 36,682 |
| Net unrealized gains on securities available for sale, net of income tax (\$5,814) | - | - | - | - | 9,898 | - | 9,898 | - | 9,898 |
| Foreign currency translation | - | - | - | - | 49 | - | 49 | - | 49 |
| Dividends declared (\$0.09 per share) | - | - | - | (2,795) | - | - | (2,795) | - | - |
| Income tax effect of transaction with shareholders | - | - | (243) | - | - | - | (243) | - | - |

| | | | | | | | | | |
|--|----------|-------|------------|------------|-----------|--------------|------------|----------|-----------|
| Stock based compensation expense | - | - | 3,821 | - | - | - | 3,821 | - | - |
| Exercise of stock options including tax benefit | - | - | 338 | - | - | - | 338 | - | - |
| Purchase of treasury stock | - | - | - | - | - | (5,402) | (5,402) | - | - |
| Balance at September 30, 2009 | \$ 3,948 | \$ 33 | \$ 249,889 | \$ 447,145 | \$ 24,870 | \$ (239,939) | \$ 485,946 | \$ 1,424 | \$ 46,629 |
| Comprehensive income attributable to noncontrolling interest | | | | | | | | | (503) |
| Total comprehensive income attributable to GAMCO Investors, Inc. | | | | | | | | | \$ 46,126 |

See accompanying notes.

| GAMCO INVESTORS, INC. AND SUBSIDIARIES | | |
|---|-------------------|------------|
| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS | | |
| UNAUDITED | | |
| (In thousands) | | |
| | Nine Months Ended | |
| | September 30, | |
| | 2010 | 2009 |
| Operating activities | | |
| Net income | \$ 42,352 | \$ 36,682 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Equity in net gains from partnerships and affiliates | (4,869) | (9,569) |
| Depreciation and amortization | 520 | 487 |
| Stock based compensation expense | 4,221 | 3,821 |
| Deferred income taxes | 724 | 2,644 |
| Tax benefit from exercise of stock options | 8 | 112 |
| Foreign currency translation gain/(loss) | (2) | 49 |
| Fair value of donated securities | (608) | 370 |
| Gains on sales of available for sale securities | (13) | (2,150) |
| Amortization of discount on debt | 52 | 63 |
| Loss on extinguishment of debt | 497 | - |
| (Increase) decrease in assets: | | |
| Investments in trading securities | (64,863) | 77,327 |
| Investments in partnerships: | | |
| Contributions to partnerships | (18,143) | (1,432) |
| Distributions from partnerships | 6,423 | 7,711 |
| Receivable from brokers | (32,137) | (5,531) |
| Investment advisory fees receivable | 18,539 | (2,022) |
| Income tax receivable and deferred tax assets | - | 10,943 |
| Other assets | (194) | 916 |
| Increase (decrease) in liabilities: | | |
| Payable to brokers | 3,756 | 8,149 |
| Income taxes payable and deferred tax liabilities | (4,843) | - |
| Compensation payable | 10,273 | 6,377 |
| Mandatorily redeemable noncontrolling interests | (255) | 190 |
| Accrued expenses and other liabilities | (192) | 1,176 |
| Total adjustments | (81,106) | 99,631 |
| Net cash (used in)/provided by operating activities | \$ (38,754) | \$ 136,313 |

| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS | | |
|---|-------------------|-------------|
| UNAUDITED (continued) | | |
| (In thousands) | | |
| | Nine Months Ended | |
| | September 30, | |
| | 2010 | 2009 |
| Investing activities | | |
| Purchases of available for sale securities | \$ (12) | \$ (6,183) |
| Proceeds from sales of available for sale securities | 2,014 | 4,329 |
| Return of capital on available for sale securities | 1,901 | 2,748 |
| Increase in restricted cash | (50) | (55,090) |
| Net cash provided by (used in) investing activities | 3,853 | (54,196) |
| Financing activities | | |
| Contributions from redeemable noncontrolling interests | 14,700 | - |
| Redemptions of redeemable noncontrolling interests | (475) | (2,961) |
| Repayment of 6% Convertible notes due August 14, 2011 | (40,400) | - |
| Proceeds from exercise of stock options | 40 | 226 |
| Dividends paid | (26,565) | (3,375) |
| Dividends paid to noncontrolling interests | (829) | - |
| Purchase of subsidiary shares from noncontrolling interests | - | (747) |
| Purchase of treasury stock | (17,875) | (5,402) |
| Net cash used in financing activities | (71,404) | (12,259) |
| Effect of exchange rates on cash and cash equivalents | (2) | 83 |
| Net (decrease) increase in cash and cash equivalents | (106,307) | 69,941 |
| Cash and cash equivalents at beginning of period | 338,270 | 331,174 |
| Cash and cash equivalents at end of period | \$ 231,963 | \$ 401,115 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 9,775 | \$ 9,859 |
| Cash paid for taxes | \$ 28,004 | \$ 17,356 |
| Non-cash activity: | | |
| - On March 20, 2009, GAMCO Investors, Inc. distributed its shares of Teton Advisors, Inc. (\$300) to its shareholders | | |

which resulted in the deconsolidation of Teton, and decreases of approximately \$911 of cash and cash equivalents,

\$199 of net liabilities and \$412 of noncontrolling interests.

- For 2010 and 2009 the Company accrued RSA dividends of \$405 and \$31, respectively.

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

A. Significant Accounting Policies

Basis of Presentation

Unless we have indicated otherwise, or the context otherwise requires, references in this report to “GAMCO Investors, Inc.,” “GAMCO,” “the Company,” “GBL,” “we,” “us” and “our” or similar terms are to GAMCO Investors, Inc., its predecessor and its subsidiaries.

The unaudited interim condensed consolidated financial statements of GAMCO included herein have been prepared in conformity with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position, results of operations and cash flows of GAMCO for the interim periods presented and are not necessarily indicative of a full year’s results.

The condensed consolidated financial statements include the accounts of GAMCO and its subsidiaries. Intercompany accounts and transactions are eliminated.

These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 from which the accompanying condensed consolidated financial statements were derived.

On March 20, 2009, the Company completed its spin-off of its ownership of Teton Advisors, Inc. (“Teton”) to its shareholders. The condensed consolidated financial statements include the results of Teton up to March 20, 2009.

During the third quarter of 2010, the Company presented a separate column for redeemable noncontrolling interests and the amount of comprehensive income attributable to noncontrolling interests and comprehensive income attributable to GAMCO in its condensed consolidated statement of equity and comprehensive income. The condensed consolidated statement of equity and comprehensive income for the interim period ended September 30, 2009 has also included such information.

Certain items previously reported have been reclassified to conform to the current period’s condensed consolidated financial statements presentation.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Developments

In June 2009, the Financial Accounting Standards Board (“FASB”) issued guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009 and shall be applied prospectively. Early adoption is prohibited. The Company adopted this guidance on January 1, 2010 with no impact to the condensed consolidated financial statements.

In June 2009, the FASB issued amended guidance on the accounting for variable interest entities (“VIEs”). The amendments will significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity’s involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity’s involvement with VIEs, irrespective of whether they qualify for deferral, as discussed below. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. In February 2010, the FASB issued further guidance which provided a limited scope deferral for a reporting entity’s interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, Investment Companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on VIEs. The Company adopted this guidance on January 1, 2010 and has evaluated the deferral guidelines and determined that all significant entities that the Company is involved with that this guidance would potentially have impacted, qualify for the deferral, and therefore the guidance issued did not have a material impact on the condensed consolidated financial statements.

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance affects all entities that are required to make disclosures about recurring and nonrecurring fair value measurements. The guidance requires new disclosures regarding transfers in and out of Level 1 and 2 fair value measurements and activity related to Level 3 fair value measurements. In addition, the guidance clarifies existing fair value disclosure requirements related to the level of disaggregation of assets and liabilities and the valuation techniques and inputs used. This update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has adopted the guidance that was effective for interim and annual periods beginning after December 15, 2009 on January 1, 2010 which resulted in enhanced footnote disclosure. The Company's adoption of the guidance which will be effective for interim and annual periods beginning after December 15, 2010 will result in enhanced footnote disclosure upon adoption on January 1, 2011.

In July 2010, the FASB issued guidance to improve disclosures about an entity’s allowance for credit losses and the credit quality of its financing receivables. The guidance affects all entities. The guidance requires the entity to disclose the nature of credit risk inherent in the entity’s portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses and the changes and reasons for those changes in the allowance for credit losses. This update is effective for interim and annual reporting periods ending on or after December 15, 2010, except for the disclosures about activity that occurs during a reporting period which is effective for interim and

annual reporting periods beginning on or after December 15, 2010. The application of this guidance is not expected to be material to the condensed consolidated financial statements.

B. Investment in Securities

Investments in securities at September 30, 2010, December 31, 2009 and September 30, 2009 consisted of the following:

| | September 30, 2010 | | December 31, 2009 | | September 30, 2009 | |
|-------------------------------------|--------------------|------------|-------------------|------------|--------------------|------------|
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| (In thousands) | | | | | | |
| Trading securities: | | | | | | |
| Government obligations | \$ 1,388 | \$ 1,363 | \$ - | \$ - | \$ - | \$ - |
| Common stocks | 122,720 | 128,386 | 53,985 | 58,834 | 74,618 | 79,680 |
| Mutual funds | 1,194 | 1,365 | 1,194 | 1,295 | 1,215 | 1,254 |
| Convertible bonds | 762 | 938 | - | - | - | - |
| Preferred stocks | 1,783 | 1,834 | - | 15 | 10 | 18 |
| Other investments | 785 | 582 | 819 | 585 | 355 | 151 |
| Total trading securities | 128,632 | 134,468 | 55,998 | 60,729 | 76,198 | 81,103 |
| Available for sale securities: | | | | | | |
| Common stocks | 16,918 | 31,594 | 17,100 | 34,294 | 17,100 | 32,746 |
| Mutual funds | 44,717 | 62,148 | 48,607 | 62,380 | 47,565 | 58,722 |
| Total available for sale securities | 61,635 | 93,742 | 65,707 | 96,674 | 64,665 | 91,468 |
| Total investments in securities | \$ 190,267 | \$ 228,210 | \$ 121,705 | \$ 157,403 | \$ 140,863 | \$ 172,571 |

Securities sold, not yet purchased at September 30, 2010, December 31, 2009 and September 30, 2009 consisted of the following:

| | September 30, 2010 | | December 31, 2009 | | September 30, 2009 | |
|--|--------------------|------------|-------------------|------------|--------------------|------------|
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| (In thousands) | | | | | | |
| Trading securities: | | | | | | |
| Common stocks | \$ 18,026 | \$ 18,387 | \$ 9,505 | \$ 9,569 | \$ 9,037 | \$ 9,738 |
| Other | 56 | 59 | - | - | - | - |
| Total securities sold, not yet purchased | \$ 18,082 | \$ 18,446 | \$ 9,505 | \$ 9,569 | \$ 9,037 | \$ 9,738 |

Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Investments in United States Treasury Bills and Notes with maturities of greater than three months at the time of purchase are classified as investments in securities and those with maturities of three months or less at time of purchase are classified as cash equivalents. A substantial portion of investments in securities are held for resale in anticipation of short-term market movements and therefore are classified as trading securities. Trading securities are stated at fair value, with any unrealized gains or losses, reported in current period earnings. Available for sale ("AFS") investments are stated at fair value, with any unrealized gains or losses, net of taxes, reported as a component of equity except for losses deemed to be other than temporary which are recorded as unrealized losses in the condensed consolidated statements of income. There were no impairment of AFS securities for the three or nine month periods ended September 30, 2010 and 2009.

The Company recognizes all derivatives as either assets or liabilities measured at fair value and are included in either investments in securities or securities sold, not yet purchased on the condensed consolidated statements of financial condition. From time to time, the Company will enter into hedging transactions to manage its exposure to foreign currencies and equity prices related to its proprietary investments. For the three months ended September 30, 2010, the Company had derivative transactions in equity derivatives which resulted in net losses of \$36,000. There was no derivative activity for the three months ended September 30, 2009. For the nine months ended September 30, 2010 and 2009, the Company had derivative transactions in equity derivatives which resulted in net losses of \$154,000 and \$27,000, respectively. At September 30, 2010 and December 31, 2009 we held derivative contracts on 265,000 equity shares and 122,000 equity shares, respectively, and the fair value was \$285,000 and \$246,000, respectively, and are included as investments in securities in the condensed consolidated statements of financial condition. There were no derivatives held at September 30, 2009. These transactions are not designated as hedges for accounting purposes, and changes in fair values of these derivatives are included in net gain from investments in the condensed consolidated statements of income.

At September 30, 2010, December 31, 2009 and September 30, 2009, the fair value of common stock investments available for sale was \$31.6 million, \$34.3 million and \$32.7 million, respectively. The total unrealized gains for common stock investments available for sale securities with unrealized gains was \$14.7 million, \$17.2 million and \$15.6 million at September 30, 2010, December 31, 2009 and September 30, 2009, respectively. There were no unrealized losses for common stock investments available for sale at September 30, 2010, December 31, 2009 or September 30, 2009. At September 30, 2010, December 31, 2009 and September 30, 2009, the fair value of mutual fund investments available for sale with unrealized gains was \$62.1 million, \$60.4 million and \$58.5 million, respectively. At September 30, 2010, there were no unrealized losses for mutual fund investments available for sale. At December 31, 2009 and September 30, 2009, the fair value of mutual fund investments available for sale with unrealized losses was \$2.0 million and \$172,000, respectively. The total unrealized gains for mutual fund investments available for sale securities with unrealized gains at September 30, 2010, December 31, 2009 and September 30, 2009 was \$17.4 million, \$13.8 million and \$11.2 million, respectively, while the total unrealized losses for available for sale securities with unrealized losses was \$0, \$2,000 and \$2,000, respectively.

Unrealized changes to fair value, net of taxes, for the three months ended September 30, 2010 and 2009 of \$3.3 million and \$1.0 million in gains, respectively, and for the nine months ended September 30, 2010 and 2009 of \$0.2 million and \$9.9 million in gains, respectively, have been included in other comprehensive income, a component of equity, at September 30, 2010 and September 30, 2009, respectively. Return of capital on available for sale securities for the nine months ended September 30, 2010 and 2009 were \$1.9 million and \$2.7 million, respectively. There were no sales of investments available for sale for the three months ended September 30, 2010. Proceeds from sales of investments available for sale were approximately \$0.8 million for the three month period ended September 30, 2009. For the three months ended September 30, 2009, gross gains on the sale of investments available for sale amounted to \$175,000; there were no gross losses on the sale of investments available for sale. Proceeds from sales of investments available for sale were approximately \$2.0 million and \$4.3 million for the nine month periods ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 and 2009, gross gains on the sale of investments available for sale amounted to \$13,000 and \$2.1 million, respectively; there were no gross losses on the sale of investments available for sale. The basis on which the cost of a security sold is determined is specific identification.

Investments classified as available for sale that are in an unrealized loss position for which other-than-temporary impairment has not been recognized consisted of the following:

| | September 30, 2010 | | | December 31, 2009 | | | September 30, 2009 | | |
|----------------|-----------------------|--------|---------------|-------------------|----------|---------------|--------------------|----------|---------------|
| | Unrealized | | Fair Value | Unrealized | | Fair Value | Unrealized | | Fair Value |
| | Cost | Losses | | Cost | Losses | | Cost | Losses | |
| (in thousands) | | | | | | | | | |
| Mutual Funds | \$ - | \$ - | \$ - | \$ 2,002 | \$ (2) | \$ 2,000 | \$ 174 | \$ (2) | \$ 172 |

At September 30, 2010, there were no available for sale holdings in loss positions.

At December 31, 2009, there were five holdings in loss positions which were not deemed to be other-than-temporarily impaired due to the length of time that they had been in a loss position and because they passed scrutiny in our evaluation of issuer-specific and industry-specific considerations. In these specific instances, the investments at December 31, 2009 were mutual funds with diversified holdings across multiple companies and in most cases across multiple industries. One holding was impaired for one month, one holding was impaired for nine consecutive months and three holdings were impaired for fourteen consecutive months. The fair value of these holdings at December 31, 2009 was \$2.0 million.

At September 30, 2009, there were five holdings in loss positions which were not deemed to be other-than-temporarily impaired due to the length of time that they had been in a loss position and because they passed scrutiny in our evaluation of issuer-specific and industry-specific considerations. In these specific instances, the investments at September 30, 2009 were mutual funds with diversified holdings across multiple companies and in most cases across multiple industries. One holding was impaired for six consecutive months and four holdings were impaired for eleven consecutive months. The fair value of these holdings at September 30, 2009 was \$172,000.

C. Investments in Partnerships

The Company is general partner or co-general partner of various sponsored limited partnerships and the investment manager of various sponsored offshore funds whose underlying assets consist primarily of marketable securities (the “affiliated entities”). We also have investments in unaffiliated partnerships, offshore funds and other entities. Certain of the affiliated entities are consolidated, generally because a majority of the equity is owned by the Company. Other investment partnerships for which we serve as the general partner but have only a minority ownership interest are not consolidated because the limited partners have substantive rights to replace the Company as general partner. Our balance sheet caption “investments in partnerships” includes those investments, in both affiliated and unaffiliated entities, which the Company accounts for under the equity method of accounting and certain investments in consolidated feeder funds that the Company accounts for at fair value, as described below. The Company reflects the equity in earnings of these equity method investees and the change in fair value of the consolidated feeder funds under the caption net gain from investments on the condensed consolidated statements of income.

We also have sponsored a number of investment vehicles where we are the investment manager in which we do not have an equity investment. These vehicles are considered VIEs and we are not the primary beneficiary because we do not absorb a majority of the entities’ expected losses or expected returns. The Company has not provided any financial or other support to these entities. The total assets of these entities at September 30, 2010, December 31, 2009 and September 30, 2009 were \$11.8 million, \$10.4 million and \$9.9 million, respectively. Our maximum exposure to loss as a result of our involvement with the VIEs is limited to the deferred carried interest that we have in one of the VIEs. On September 30, 2010, December 31, 2009 and September 30, 2009, we had a deferred carried interest in one of the VIE offshore funds of approximately \$307,000, \$285,000 and \$273,000, respectively, and was included in investments in partnerships on the condensed consolidated statements of financial condition. Additionally, as the general partner or investment manager to these VIEs the Company earns fees in relation to these roles, which given a decline in AUM for the VIEs would result in lower fee revenues earned by the Company which would be reflected in the condensed consolidated statement of income, condensed consolidated statement of financial condition and condensed consolidated statement of cash flows.

At September 30, 2010, December 31, 2009 and September 30, 2009, and for the nine months ended September 30, 2010, the Company consolidated two limited partnerships and one offshore fund (the “consolidated feeder funds”), and for the nine months ended September 30, 2009, the Company consolidated three limited partnerships and one offshore fund, that owned 100% of their offshore master funds. The Company retained the specialized accounting of the consolidated feeder funds in the Company’s consolidated financial statements. Included in the investment in partnerships on the Company’s consolidated statement of financial condition as of September 30, 2010, December 31, 2009 and September 30, 2009, is \$26.8 million \$25.1 million, and \$24.7 million, respectively, which represents the consolidated feeder fund’s proportionate investment in the master funds carried at fair value.

D. Fair Value

All of the instruments within cash and cash equivalents, investments in securities and securities sold, not yet purchased are measured at fair value. Certain instruments within investments in partnerships are also measured at fair value as described in detail below.

The Company’s assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the FASB’s guidance on fair value measurement. The levels of the fair value hierarchy and their applicability to the Company are described below:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date. Level 1 assets include cash equivalents, government obligations, listed mutual

funds and equities.

- Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities that are not active and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly-quoted intervals. Assets that generally are included in this category may include certain limited partnership interests in hedge funds in which the valuations for substantially all of the investments within the fund are based upon Level 1 or Level 2 inputs and over the counter derivatives that have inputs to the valuations that can be generally corroborated by observable market data.
- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Assets included in this category generally include equities and direct private equity investments held within consolidated partnerships.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Investments are transferred into or out of any level at their beginning period values.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized as Level 3.

In the absence of a closing price, an average of the bid and ask price is used. Bid prices reflect the highest price that the market is willing to pay for an asset. Ask prices represent the lowest price that the market is willing to accept for an asset.

Cash equivalents – Cash equivalents primarily consist of an affiliated money market mutual fund which is invested solely in U.S. Treasuries. U.S. Treasury Bills and Notes with maturities of three months or less at the time of purchase are also considered cash equivalents. Cash equivalents are valued using quoted market prices.

Investments in securities and securities sold, not yet purchased – Investments in securities and securities sold, not yet purchased are generally valued based on quoted prices from an exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in Level 1 of the fair value hierarchy. Securities categorized in Level 2 investments are valued using other observable inputs. Nonpublic and infrequently traded investments are included in Level 3 of the fair value hierarchy because significant inputs to measure fair value are unobservable.

Investments in Partnerships – The Company's investments include limited partner investments in consolidated feeder funds. The Company considers the net asset value of the fund to be the best estimate of fair value. Investments in hedge funds that are redeemable at the measurement date or within one month, are categorized in Level 2 of the fair value hierarchy. These funds primarily invest in long and short investments in debt and equity securities that are traded in public and over-the-counter exchanges in the United States and are classified as level 1 assets or liabilities in the funds' financial statements. We may redeem our investments in these funds monthly with 30 days' notice.

The following table presents information about the Company's assets and liabilities by major categories measured at fair value on a recurring basis as of September 30, 2010, December 31, 2009 and September 30, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2010 (in thousands)

| Assets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of September 30, 2010 |
|------------------------------------|--|---|---|----------------------------------|
| Cash equivalents | \$ 293,661 | \$ - | \$ - | \$ 293,661 |
| Investments in partnerships | - | 26,795 | - | 26,795 |
| Investments in securities: | | | | |
| AFS - Common stocks | 31,594 | - | - | 31,594 |
| AFS - Mutual funds | 62,148 | - | - | 62,148 |
| Trading - Gov't obligations | 1,363 | - | - | 1,363 |
| Trading - Common stocks | 128,113 | 90 | 183 | 128,386 |
| Trading - Mutual funds | 1,365 | - | - | 1,365 |
| Trading - Convertible bonds | 938 | - | - | 938 |
| Trading - Preferred stocks | 1,821 | - | 13 | 1,834 |
| Trading - Other | 204 | 285 | 93 | 582 |
| Total investments in securities | 227,546 | 375 | 289 | 228,210 |
| Total investments | 227,546 | 27,170 | 289 | 255,005 |
| Total assets at fair value | \$ 521,207 | \$ 27,170 | \$ 289 | \$ 548,666 |
| Liabilities | | | | |
| Trading - Common stocks | \$ 18,387 | \$ - | \$ - | \$ 18,387 |
| Trading - Other | 59 | - | - | 59 |
| Securities sold, not yet purchased | \$ 18,446 | \$ - | \$ - | \$ 18,446 |

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2009 (in thousands)

| | Quoted Prices in Active Markets for Identical | Significant Other Observable | Significant Unobservable | Balance as of December 31, |
|--|---|------------------------------|--------------------------|----------------------------|
| | | | | |

| Assets | Assets (Level 1) | Inputs (Level 2) | Inputs (Level 3) | 2009 |
|---------------------------------------|------------------|---------------------|---------------------|------------|
| Cash equivalents | \$ 400,111 | \$ - | \$ - | \$ 400,111 |
| Investments in partnerships | - | 25,092 | - | 25,092 |
| Investments in securities: | | | | |
| AFS - Common stocks | 34,294 | - | - | 34,294 |
| AFS - Mutual funds | 62,380 | - | - | 62,380 |
| Trading - Common stocks | 58,521 | 108 | 205 | 58,834 |
| Trading - Mutual funds | 1,295 | - | - | 1,295 |
| Trading - Preferred stocks | - | - | 15 | 15 |
| Trading - Other | 249 | 246 | 90 | 585 |
| Total investments in securities | 156,739 | 354 | 310 | 157,403 |
| Total investments | 156,739 | 25,446 | 310 | 182,495 |
| Total assets at fair value | \$ 556,850 | \$ 25,446 | \$ 310 | \$ 582,606 |
| Liabilities | | | | |
| Trading - Common stocks | \$ 9,569 | \$ - | \$ - | \$ 9,569 |
| Securities sold, not yet purchased | \$ 9,569 | \$ - | \$ - | \$ 9,569 |

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2009 (in thousands)

| Assets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of September 30, 2009 |
|------------------------------------|--|---|---|----------------------------------|
| Cash equivalents | \$ 462,913 | \$ - | \$ - | \$ 462,913 |
| Investments in partnerships | - | 24,685 | - | 24,685 |
| Investments in securities: | | | | |
| AFS - Common stocks | 32,746 | - | - | 32,746 |
| AFS - Mutual funds | 58,722 | - | - | 58,722 |
| Trading - U.S. Gov't obligations | - | - | - | - |
| Trading - Common stocks | 79,346 | 102 | 232 | 79,680 |
| Trading - Mutual funds | 1,254 | - | - | 1,254 |
| Trading - Preferred stocks | 9 | - | 9 | 18 |
| Trading - Other | 67 | - | 84 | 151 |
| Total investments in securities | 172,144 | 102 | 325 | 172,571 |
| Total investments | 172,144 | 24,787 | 325 | 197,256 |
| Total assets at fair value | \$ 635,057 | \$ 24,787 | \$ 325 | \$ 660,169 |
| Liabilities | | | | |
| Trading - common stocks | \$ 9,738 | \$ - | \$ - | \$ 9,738 |
| Securities sold, not yet purchased | \$ 9,738 | \$ - | \$ - | \$ 9,738 |

The following tables present additional information about assets and liabilities by major categories measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2010 (in thousands)

| | Total Unrealized Gains or (Losses) Included in | Total Realized and Unrealized Purchases | Net Transfers |
|--|---|---|---------------|
| | Total Realized and Unrealized Gains or (Losses) in Income | Total Realized and Unrealized Purchases | Net Transfers |

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| Asset | June 30, 2010 | | | | | | | In and/or | Ending Balance |
|------------------------------|----------------------|---------|--------------------|-------------------------|----------------------|----------------------|---------------------|--------------|-------------------|
| | Beginning Balance | Trading | AFS Investments | Comprehensive Income | Gains or (Losses) | and Sales, net | (Out) of Level 3 | | |
| Financial instruments owned: | | | | | | | | | |
| Trading - Common | | | | | | | | | |
| stocks | \$ 272 | \$ 18 | \$ - | \$ - | \$ 18 | \$ (107) | \$ - | \$ 183 | |
| Trading - Preferred | | | | | | | | | |
| stocks | 11 | 2 | - | - | 2 | - | - | 13 | |
| Trading - Other | 93 | - | - | - | - | - | - | 93 | |
| Total | \$ 376 | \$ 20 | \$ - | \$ - | \$ 20 | \$ (107) | \$ - | \$ 289 | |

There were no transfers between any Levels during the three months ended September 30, 2010.

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Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2010 (in thousands)

| Asset | December 31, 2009 | Total Realized and | | Unrealized Gains or (Losses) Included in Other Comprehensive Income | | Total Realized and Unrealized Gains or (Losses) | Purchases and Sales, net | Net Transfers In and/or (Out) of Level 3 | Ending Balance |
|------------------------------|-------------------|--------------------|-------------|---|---------------|---|--------------------------|--|----------------|
| | | Trading | Investments | AFS | Comprehensive | | | | |
| Financial instruments owned: | | | | | | | | | |
| Trading - Common stocks | \$ 205 | \$ 47 | \$ - | \$ - | \$ 47 | \$ (139) | \$ 70 | \$ 183 | |
| Trading - Preferred stocks | 15 | (2) | - | - | (2) | - | - | 13 | |
| Trading - Other | 90 | 3 | - | - | 3 | - | - | 93 | |
| Total | \$ 310 | \$ 48 | \$ - | \$ - | \$ 48 | \$ (139) | \$ 70 | \$ 289 | |

There were no transfers between Level 1 and Level 2 holdings during the nine months ended September 30, 2010. During the nine months ended September 30, 2010, the Company reclassified approximately \$23,000 of investments from Level 1 to Level 3 and \$47,000 from Level 2 to Level 3. The reclassifications were due to decreased availability of market price quotations and were based on the values at the beginning of the period in which the reclass occurred.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2009 (in thousands)

| Asset | June 30, 2009 | Total Realized and | | Unrealized Gains or (Losses) Included in Other Comprehensive Income | | Total Realized and Unrealized Gains or (Losses) | Purchases and Sales, net | Net Transfers In and/or (Out) of Level 3 | Ending Balance |
|------------------------------|---------------|--------------------|-------------|---|---------------|---|--------------------------|--|----------------|
| | | Trading | Investments | AFS | Comprehensive | | | | |
| Financial instruments owned: | | | | | | | | | |
| Trading - Common | | | | | | | | | |

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| | | | | | | | | |
|---------------------|--------|----------|------|------|----------|----------|------|--------|
| stocks | \$ 242 | \$ (10) | \$ - | \$ - | \$ (10) | \$ - | \$ - | \$ 232 |
| Trading - Preferred | | | | | | | | |
| stocks | 14 | (5) | - | - | (5) | - | - | 9 |
| Trading - Other | 172 | (62) | - | - | (62) | (26) | - | 84 |
| Total | \$ 428 | \$ (77) | \$ - | \$ - | \$ (77) | \$ (26) | \$ - | \$ 325 |

There were no transfers between any Levels during the three months ended September 30, 2009.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2009 (in thousands)

| Asset | Total Unrealized Gains or (Losses) | | | | | | | Ending Balance |
|------------------------------|------------------------------------|---|-----------------|----------------------|---|--------------------------------|-------------------------------|----------------|
| | December 31, 2008 | Total Realized and Unrealized Gains or (Losses) in Income | AFS Investments | Comprehensive Income | Total Realized and Unrealized Gains or (Losses) | Total Purchases and Sales, net | Transfers In (Out) of Level 3 | |
| Financial instruments owned: | | | | | | | | |
| Trading - Common stocks | \$ 1,115 | \$(5) | \$ - | \$ - | \$(5) | \$(1) | \$(877) | \$232 |
| Trading - Preferred stocks | 95 | (86) | - | - | (86) | - | - | 9 |
| Trading - Other | 331 | (193) | - | - | (193) | (54) | - | 84 |
| Total | \$ 1,541 | \$(284) | \$ - | \$ - | \$(284) | \$(55) | \$(877) | \$325 |

During the nine months ended September 30, 2009, the Company reclassified approximately \$877,000 of investments from Level 3 to Level 2. The reclassifications were due to increased availability of market price quotations and were based on the values at the beginning of the period in which the reclass occurred.

Unrealized Level 3 gains and/or losses included within net gain from investments in the condensed consolidated statements of income for the three months ended September 30, 2010 and 2009 were approximately \$20,000 of gains and \$77,000 of losses, respectively, and for the nine months ended September 30, 2010 and 2009 were approximately \$48,000 of gains and \$284,000 of losses, respectively, for those Level 3 securities held at September 30, 2010 and 2009, respectively.

E. Debt

On May 28, 2010, the Company redeemed \$20 million of the \$40 million 6% convertible promissory notes due August 2011 ("2011 Notes") at 101% of par value plus accrued but unpaid interest from Cascade Investment, L.L.C. ("Cascade"), the holder of the 2011 Note. The redemption was accounted for as an extinguishment and resulted in a loss of approximately \$256,000 which was included in interest and other expense in the condensed consolidated statements of income. On September 30, 2010, the Company redeemed the remaining \$20 million of the 2011 Note at 101% of par value plus accrued but unpaid interest. The redemption was accounted for as an extinguishment and resulted in a loss of approximately \$241,000 which was included in interest and other expense in the condensed consolidated statements of income.

On September 2, 2010, the Company and Cascade agreed to extend the exercise date of Cascade's put option on the \$60 million 6.5% convertible note due October 2, 2018 ("2018 Note") from October 2, 2010 to November 3, 2010 and to extend the escrow agreement that was entered into in connection with the 2018 Note. On September 30, 2010, Cascade exercised their put option on the 2018 Note with respect to the entire \$60 million. On October 13, 2010, Cascade was paid \$60.1 million of principal and accrued but unpaid interest, and the escrow agreement relating to the

2018 Note was terminated by mutual consent between the Company and Cascade. The remaining funds in the escrow account were no longer restricted and were sent to the Company. The repayment will be accounted for as an extinguishment of debt with no gain or loss recorded.

The fair value of the Company's debt is estimated based on either quoted market prices for the same or similar issues or using market standard models depending on the characteristics of the debt issuance. Inputs in these standard models include credit rating, maturity and interest rate. A standard option pricing model is used to calculate the fair value of the conversion option imbedded in the convertible debt with significant inputs including volatility of GBL stock, interest rates, dividend yield and maturity. At September 30, 2010, December 31, 2009 and September 30, 2009, the fair value of the Company's debt is estimated to be \$166.6 million, \$204.2 million and \$203.4 million, respectively. The carrying value of the Company debt at September 30, 2010, December 31, 2009 and September 30, 2009 is \$159.0 million, \$198.9 million and \$198.8 million, respectively.

F. Income Taxes

The effective tax rate for the three months ended September 30, 2010 was 36.4% compared to the prior year quarter's effective rate of 37.4%.

The effective tax rate for the nine months ended September 30, 2010 was 36.5% compared to the prior year period's effective rate of 35.3%. The prior year's rate includes a reduction to certain income tax reserves.

G. Earnings Per Share

The computations of basic and diluted net income per share are as follows:

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|--|--|---|---|
| (in thousands, except per share amounts) | | | | |
| Basic: | | | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 20,106 | \$ 14,651 | \$ 41,881 | \$ 36,179 |
| Weighted average shares outstanding | 26,828 | 27,366 | 26,996 | 27,376 |
| Basic net income attributable to GAMCO Investors, Inc.'s shareholders per share | \$ 0.75 | \$ 0.54 | \$ 1.55 | \$ 1.32 |
| Diluted: | | | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 20,106 | \$ 14,651 | \$ 41,881 | \$ 36,179 |
| Add interest expense on convertible notes, net of management fee and taxes | 721 | - | 791 | - |
| Total | 20,827 | 14,651 | 42,672 | 36,179 |
| Weighted average share outstanding | 26,828 | 27,366 | 26,996 | 27,376 |
| Dilutive stock options and restricted stock awards | 262 | 139 | 238 | 88 |
| Assumed conversion of convertible notes | 1,274 | - | 584 | - |
| Total | 28,364 | 27,505 | 27,818 | 27,464 |
| Diluted net income attributable to GAMCO Investors, Inc.'s shareholders per share | \$ 0.73 | \$ 0.53 | \$ 1.53 | \$ 1.32 |

H. Stockholders' Equity

Shares outstanding were 27.3 million on September 30, 2010 and 27.6 million on both December 31, 2009 and September 30, 2009.

On February 9, 2010, our Board of Directors declared a quarterly dividend of \$0.03 per share on its Class A Common stock (“Class A Shares”) and Class B Common stock (“Class B Shares”), payable on March 30, 2010 to shareholders of record on March 16, 2010. On May 4, 2010, our Board of Directors declared a quarterly dividend of \$0.03 per share on its Class A Shares and Class B Shares, payable on June 29, 2010 to shareholders of record on June 15, 2010. On August 3, 2010, our Board of Directors declared a special dividend of \$0.90 per share on its Class A Shares and Class B Shares, payable on September 14, 2010 to shareholders of record on August 31, 2010 and a quarterly dividend of \$0.03 per share on its Class A Shares and Class B Shares, payable on September 28, 2010 to shareholders of record on September 14, 2010.

On February 3, 2009, our Board of Directors declared a quarterly dividend of \$0.03 per share on its Class A Shares and Class B Shares, payable on March 31, 2009 to shareholders of record on March 17, 2009. On May 5, 2009, our Board of Directors declared a quarterly dividend of \$0.03 per share on its Class A Shares and Class B Shares, payable on June 30, 2009 to shareholders of record on June 16, 2009. On August 4, 2009, our Board of Directors declared a quarterly dividend of \$0.03 per share on its Class A Shares and Class B Shares, payable on September 29, 2009 to shareholders of record on September 15, 2009.

Voting Rights

The holders of Class A Shares and Class B Shares have identical rights except that (i) holders of Class A Shares are entitled to one vote per share, while holders of Class B Shares are entitled to ten votes per share on all matters to be voted on by shareholders in general, and (ii) holders of Class A Shares are not eligible to vote on matters relating exclusively to Class B Shares and vice versa.

Stock Award and Incentive Plan

The Company maintains two plans approved by the shareholders, which are designed to provide incentives which will attract and retain individuals key to the success of GAMCO through direct or indirect ownership of our common stock. Benefits under the Plans may be granted in any one or a combination of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, dividend equivalents and other stock or cash based awards. A maximum of 1.5 million shares of Class A Shares have been reserved for issuance under each of the plans. Under the plans, the Compensation Committee may grant either incentive or nonqualified stock options with a term not to exceed ten years from the grant date and at an exercise price that the committee may determine. Options granted under the Plans vest 75% after three years and 100% after four years from the date of grant and expire after ten years.

On February 9, 2010, the Company approved the granting of 88,800 restricted stock award (“RSA”) shares at a grant date fair value of \$40.64 per share to be issued on June 1, 2010. As of September 30, 2010, there were 439,900 RSA shares outstanding that were previously issued at an average grant price of \$56.96. All grants of the RSAs were recommended by the Company's Chairman, who did not receive an RSA, and approved by the Compensation Committee. This expense will be recognized over the vesting period for these awards which is 30% over three years from the date of grant and 70% over five years from the date of grant. During the vesting period, dividends to RSA holders are held for them until the RSA vesting dates and are forfeited if the grantee is no longer employed by the Company on the vesting dates. Dividends declared on these RSAs are charged to retained earnings on the declaration date.

For the three months ended September 30, 2010 and 2009, we recognized stock-based compensation expense of \$1.4 million and \$1.3 million, respectively. For the nine months ended September 30, 2010 and 2009, we recognized stock-based compensation expense of \$4.2 million and \$3.8 million, respectively. Stock-based compensation expense for RSAs and options for the years ended December 31, 2009 through December 31, 2015 (based on awards currently issued or granted) is as follows (\$ in thousands):

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------|----------|----------|----------|----------|--------|--------|--------|
| Q1 | \$ 1,271 | \$ 1,382 | \$ 926 | \$ 890 | \$ 203 | \$ 95 | \$ 95 |
| Q2 | 1,267 | 1,422 | 922 | 889 | 182 | 95 | 63 |
| Q3 | 1,283 | 1,416 | 906 | 889 | 117 | 95 | - |
| Q4 | 1,264 | 1,253 | 898 | 660 | 107 | 95 | - |
| Full | | | | | | | |
| Year | \$ 5,085 | \$ 5,473 | \$ 3,652 | \$ 3,328 | \$ 609 | \$ 380 | \$ 158 |

The total compensation costs related to non-vested restricted stock awards and options not yet recognized is approximately \$9.4 million. For the three months ended September 30, 2010 and September 30, 2009, there were no options exercised. For the nine months ended September 30, 2010 and 2009, proceeds from the exercise of 1,600 stock options and 12,175 stock options were \$40,000 and \$225,000, respectively, resulting in a tax benefit to GAMCO of \$8,000 and \$112,000, respectively.

Stock Repurchase Program

In March 1999, GAMCO's Board of Directors established the Stock Repurchase Program to grant management the authority to repurchase shares of our Class A Common Stock. On May 4, 2010, our Board of Directors authorized an incremental 500,000 shares to be added to the current buyback authorization. For the three months ended September 30, 2010 and 2009, the Company repurchased 13,500 shares and 115,900 shares, respectively, at an average price per share of \$36.01 and \$45.14, respectively. For the nine months ended September 30, 2010 and 2009, the Company repurchased 424,200 shares and 119,400 shares, respectively, at an average price per share of \$42.13 and \$45.24, respectively. From the inception of the program through September 30, 2010, 6,633,283 shares have been repurchased at an average price of \$40.05 per share. At September 30, 2010, the total shares available under the program able to be repurchased were 784,136.

I. Goodwill and Identifiable Intangible Assets

The Company assesses the recoverability of goodwill and other intangible assets at least annually on November 30, or more often should events warrant, using a discounted cash flow method. There were no indicators of impairment for the three and nine months ended September 30, 2010 or 2009 and as such there was no impairment analysis performed or charge recorded. At September 30, 2010, \$3.5 million of goodwill is reflected within other assets on our condensed consolidated statements of financial condition related to our 93%-owned subsidiary, Gabelli Securities, Inc.

On March 10, 2008, the Enterprise Mergers and Acquisitions Fund's (the "Fund") Board of Directors, subsequent to obtaining shareholder approval, approved the assignment of the advisory contract to Gabelli Funds, LLC as the investment adviser to the Fund. GAMCO Asset Management Inc. had been the sub-adviser to the Fund. On July 8, 2008, the Fund was renamed the Gabelli Enterprise Merger and Acquisitions Fund. As a result of becoming the adviser to the rebranded Gabelli Enterprise Mergers and Acquisitions Fund and the associated consideration paid, the Company maintains an indefinite-lived identifiable intangible asset within other assets on the condensed consolidated statements of financial condition of approximately \$1.9 million at both September 30, 2010 and 2009. The investment advisory agreement is subject to annual renewal by the Fund's Board of Directors, which the Company expects will be renewed, and the Company does not expect to incur additional expense as a result, which is consistent with other investment advisory agreements entered into by the Company. The advisory contract is next up for renewal in February 2011.

J. Commitments and Contingencies

From time to time, the Company is named in legal actions. These actions may seek substantial compensatory as well as punitive damages. The Company is also subject to governmental or regulatory examinations or investigations. The examinations or investigations could result in adverse outcomes including fines, injunctions or other relief. The Company cannot predict the ultimate outcome of such matters. The condensed consolidated financial statements include the necessary provision for losses that are deemed to be probable and estimable. In the opinion of management, the resolution of such claims will not be material to the financial condition of the Company.

We indemnify the clearing brokers for our affiliated broker-dealer for losses they may sustain from the customer accounts that trade on margin introduced by our broker-dealer subsidiary. At September 30, 2010, the total amount of customer balances subject to indemnification (i.e., unsecured margin debits) was immaterial. The Company also has entered into arrangements with various other third parties many of which provide for indemnification of the third parties against losses, costs, claims and liabilities arising from the performance of our obligations under the agreements. The Company has had no claims or payments pursuant to these or prior agreements, and we believe the likelihood of a claim being made is remote. Management cannot estimate any potential maximum exposure due both to the remoteness of any potential claims and the fact that items that would be included within any such calculated claim would be beyond the control of management. Consequently, no accrual has been made in the condensed consolidated financial statements.

K. Subsequent Events

On October 13, 2010, Cascade was paid \$60.1 million of principal and accrued but unpaid interest, and the escrow agreement relating to the 2018 Note was terminated by mutual consent between the Company and Cascade. The remaining funds in the escrow account were no longer restricted and were sent to the Company.

On November 5, 2010, our Board of Directors declared a quarterly dividend of \$0.03 per share to all of its Class A and Class B shareholders, payable on December 28, 2010 to shareholders of record on December 14, 2010 and approved a special dividend of \$0.80 per share in cash and principal value of \$3.20 per share in the form of a 5 year

debenture. The debenture will be a zero coupon bond with a principal value of \$3.20 per share. This special dividend will be declared and paid in 2010. Further details will be announced in the future.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (INCLUDING QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK)

Overview

GAMCO through the Gabelli brand, well known for its Private Market Value (PMV) with a Catalyst™ investment approach, is a widely-recognized provider of investment advisory services to mutual funds, institutional and high net worth investors, and investment partnerships, principally in the United States. Through Gabelli & Company, Inc., we provide institutional research and brokerage services to institutional clients and investment partnerships and mutual fund distribution. We generally manage assets on a discretionary basis and invest in a variety of U.S. and international securities through various investment styles. Our revenues are based primarily on the firm's levels of assets under management and fees associated with our various investment products.

Since 1977, we have been identified with and have enhanced the "value" style approach to investing. Our investment objective is to earn a superior risk-adjusted return for our clients over the long-term through our proprietary fundamental research. In addition to our value portfolios, we offer our clients a broad array of investment strategies that include global, growth, international and convertible products. We also offer a series of investment partnership (performance fee-based) vehicles that provide a series of long-short investment opportunities in market and sector specific opportunities, including offerings of non-market correlated investments in merger arbitrage, as well as fixed income strategies.

Our revenues are highly correlated to the level of assets under management and fees associated with our various investment products, rather than our own corporate assets. Assets under management, which are directly influenced by the level and changes of the overall equity markets, can also fluctuate through acquisitions, the creation of new products, the addition of new accounts or the loss of existing accounts. Since various equity products have different fees, changes in our business mix may also affect revenues. At times, the performance of our equity products may differ markedly from popular market indices, and this can also impact our revenues. General stock market trends will have the greatest impact on our level of assets under management and hence, revenues.

We conduct our investment advisory business principally through: GAMCO Asset Management Inc. (Separate Accounts), Gabelli Funds, LLC (Mutual Funds) and Gabelli Securities, Inc. (Investment Partnerships). We also act as an underwriter, are a distributor of our open-end funds and provide institutional research through Gabelli & Company, Inc. ("Gabelli & Company"), our broker-dealer subsidiary.

Assets under management (“AUM”) were \$29.5 billion as of September 30, 2010, 20.6% greater than September 30, 2009 AUM of \$24.5 billion and 13.2% above the June 30, 2010 AUM of \$26.1 billion. Equity AUM were \$27.9 billion on September 30, 2010, 22.0% above the \$22.8 billion on September 30, 2009 and 13.8% above the June 30, 2010 equity AUM of \$24.5 billion. Highlights are as follows:

- Our open-end equity funds AUM were \$10.0 billion on September 30, 2010, 26.0% higher than the \$7.9 billion on September 30, 2009 and 14.7% above the \$8.7 billion on June 30, 2010. During the third quarter of 2010, we had net cash inflow of \$281 million.
- Our institutional and private wealth management business ended the quarter with \$12.4 billion in separately managed accounts, up 20.4% from the \$10.3 billion on September 30, 2009 and 13.8% higher than the June 30, 2010 level of \$10.9 billion. During the third quarter of 2010, we had net cash inflow of \$47 million.
- Our closed-end funds had AUM of \$5.0 billion on September 30, 2010, climbing 15.2% from the \$4.4 billion on September 30, 2009 and increasing 12.6% from the \$4.5 billion on June 30, 2010. During the third quarter of 2010, we had net cash inflow of \$111 million.
- Our investment partnerships AUM were \$466 million on September 30, 2010 versus \$291 million on September 30, 2009 and \$406 million on June 30, 2010. During the third quarter of 2010, we had net cash inflow of \$40 million.
- AUM in The Gabelli U.S. Treasury Money Market Fund, our 100% U.S. Treasury money market fund, was flat at \$1.6 billion at September 30, 2010 compared with \$1.6 billion at both June 30, 2010 and September 30, 2009.
- We have the opportunity to earn base fees and incentive fees for certain institutional client assets, assets attributable to preferred issues for our closed-end funds, our Gabelli Global Deal Fund (NYSE: GDL) and investment partnership assets. As of September 30, 2010, assets with incentive based fees were \$3.0 billion, 11.1% higher than the \$2.7 billion on September 30, 2009 and 7.1% above the \$2.8 billion on June 30, 2010.

The Company reported Assets Under Management as follows (in millions):

Table I: Fund Flows - 3rd Quarter 2010

| | Closed-end Fund | | Net cash flows (a) | Market appreciation/ (depreciation) | September 30, 2010 |
|------------------------------------|-----------------|-------------------------------------|--------------------|-------------------------------------|--------------------|
| | June 30, 2010 | distributions, net of reinvestments | | | |
| Equities: | | | | | |
| Open-end Funds | \$ 8,684 | \$ - | \$ 281 | \$ 997 | \$ 9,962 |
| Closed-end Funds | 4,470 | (83) | 111 | 535 | 5,033 |
| Institutional & PWM - direct | 8,988 | - | 10 | 1,174 | 10,172 |
| Institutional & PWM - sub-advisory | 1,935 | - | 37 | 246 | 2,218 |
| Investment Partnerships | 406 | - | 40 | 20 | 466 |
| Total Equities | 24,483 | (83) | 479 | 2,972 | 27,851 |
| Fixed Income: | | | | | |
| Money-Market Fund | 1,579 | - | 65 | - | 1,644 |
| Institutional & PWM | 26 | - | - | - | 26 |
| Total Fixed Income | 1,605 | - | 65 | - | 1,670 |
| Total Assets Under Management | \$ 26,088 | \$ (83) | \$ 544 | \$ 2,972 | \$ 29,521 |

(a) Includes \$111 million of shares issued for closed-end funds.

The Company reported Assets Under Management as follows (in millions):

Table II: Fund Flows - Nine months ended September 30, 2010

| | Closed-end Fund | | Net cash flows (a) | Market appreciation/ (depreciation) | September 30, 2010 |
|------------------------------------|-------------------|-------------------------------------|--------------------|-------------------------------------|--------------------|
| | December 31, 2009 | distributions, net of reinvestments | | | |
| Equities: | | | | | |
| Open-end Funds | \$ 8,476 | \$ - | \$ 742 | \$ 744 | \$ 9,962 |
| Closed-end Funds | 4,609 | (232) | 302 | 354 | 5,033 |
| Institutional & PWM - direct | 9,312 | - | (152) | 1,012 | 10,172 |
| Institutional & PWM - sub-advisory | 1,897 | - | 120 | 201 | 2,218 |
| | 305 | - | 134 | (b) 27 | 466 |

| | | | | | |
|-------------------------------|-----------|-----------|----------|----------|-----------|
| Investment Partnerships | | | | | |
| Total Equities | 24,599 | (232) | 1,146 | 2,338 | 27,851 |
| Fixed Income: | | | | | |
| Money-Market Fund | | | | | |
| | 1,721 | - | (78) | 1 | 1,644 |
| Institutional & PWM | | | | | |
| | 26 | - | - | - | 26 |
| Total Fixed Income | 1,747 | - | (78) | 1 | 1,670 |
| Total Assets Under Management | | | | | |
| | \$ 26,346 | \$ (232) | \$ 1,068 | \$ 2,339 | \$ 29,521 |

(a) Includes \$302 million of shares issued for closed-end funds.

(b) Includes \$50 million invested by the Company in a new merger arbitrage fund.

Table III: Assets
Under
Management

| | September 30, 2009 | September 30, 2010 | % Inc.(Dec.) |
|--|--------------------------|--------------------------|-----------------|
| Equities: | | | |
| Open-end Funds | \$ 7,906 | \$ 9,962 | 26.0 % |
| Closed-end Funds | 4,369 | 5,033 | 15.2 |
| Institutional & PWM - direct | 8,491 | 10,172 | 19.8 |
| Institutional & PWM - sub-advisory | 1,777 | 2,218 | 24.8 |
| Investment Partnerships | 291 | 466 | 60.1 |
| Total Equities | 22,834 | 27,851 | 22.0 |
| Fixed Income: | | | |
| Money-Market Fund | 1,616 | 1,644 | 1.7 |
| Institutional & PWM | 26 | 26 | - |
| Total Fixed Income | 1,642 | 1,670 | 1.7 |
| Total Assets Under Management | \$ 24,476 | \$ 29,521 | 20.6 % |

Table IV: Assets Under Management by Quarter

| | 9/09 | 12/09 | 3/10 | 6/10 | 9/10 | % Increase/ (decrease) from | |
|--|---------------|---------------|---------------|---------------|---------------|--------------------------------|-------------|
| | | | | | | 9/09 | 6/10 |
| Equities: | | | | | | | |
| Open-end Funds | \$ 7,906 | \$ 8,476 | \$ 9,153 | \$ 8,684 | \$ 9,962 | 26.0 % | 14.7 % |
| Closed-end Funds | 4,369 | 4,609 | 4,766 | 4,470 | 5,033 | 15.2 | 12.6 |
| Institutional & PWM - direct | 8,491 | 9,312 | 9,904 | 8,988 | 10,172 | 19.8 | 13.2 |
| Institutional & PWM - sub-advisory | 1,777 | 1,897 | 2,059 | 1,935 | 2,218 | 24.8 | 14.6 |
| Investment Partnerships | 291 | 305 | 341 | 406 | 466 | 60.1 | 14.8 |
| Total Equities | 22,834 | 24,599 | 26,223 | 24,483 | 27,851 | 22.0 | 13.8 |
| Fixed Income: | | | | | | | |
| Money-Market Fund | 1,616 | 1,721 | 1,727 | 1,579 | 1,644 | 1.7 | 4.1 |
| Institutional & PWM | 26 | 26 | 26 | 26 | 26 | - | - |

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| | | | | | | | |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|--------|--------|
| Total Fixed Income | 1,642 | 1,747 | 1,753 | 1,605 | 1,670 | 1.7 | 4.0 |
| Total Assets Under Management | \$ 24,476 | \$ 26,346 | \$ 27,976 | \$ 26,088 | \$ 29,521 | 20.6 % | 13.2 % |

25

Relative long-term investment performance remains strong. 55% of all firm mutual funds performed in the top half of their Lipper categories on a one-, three-, five-, and ten-year total return basis, respectively as of September 30, 2010. Also, 50% of the firm's mutual funds have a 4- or 5-star 3 year Morningstar Rating™.

Gabelli/GAMCO Funds Morningstar Ratings Based on Risk Adjusted returns as of September 30, 2010 for funds that we manage

| FUND | Morningstar Category | Overall Rating | | 3 Year Rating | | 5 Year Rating | | 10 Year Rating | |
|---|---------------------------|----------------|------------|---------------|------------|---------------|------------|----------------|------------|
| | | Stars | # of Funds | Stars | # of Funds | Stars | # of Funds | Stars | # of Funds |
| Gabelli ABC AAA | Mid-Cap Blend | ★★★★ | 371 | ★★★★ | 371 | ★★★★ | 306 | ★★★★ | 163 |
| Gabelli Asset AAA | Large Blend | ★★★★ | 1723 | ★★★★ | 1723 | ★★★★ | 1422 | ★★★★ | 761 |
| Gabelli Blue Chip Value AAA | Large Blend | ★★★★ | 1723 | ★★★★ | 1723 | ★★★★ | 1422 | ★★★★ | 761 |
| Gabelli Equity Income AAA | Large Value | ★★★★ | 1127 | ★★★★ | 1127 | ★★★★ | 642 | ★★★★ | 490 |
| Gabelli Small Cap Growth AAA | Small Blend | ★★★★ | 556 | ★★★★ | 556 | ★★★★ | 475 | ★★★★ | 254 |
| Gabelli SRI Green AAA | Mid-Cap Growth | ★★★★ | 690 | ★★★★ | 690 | n/a | n/a | n/a | n/a |
| Gabelli Utilities AAA | Specialty-Utilities | ★★★★ | 91 | ★★★★ | 91 | ★★★★ | 84 | ★★★★ | 57 |
| Gabelli Value A | Mid-Cap Blend | ★★★★ | 371 | ★★★★ | 371 | ★★★★ | 306 | ★★★★ | 163 |
| Gabelli Woodland Small Cap Value AAA | Small Blend | ★★★★ | 556 | ★★★★ | 556 | ★★★★ | 475 | n/a | n/a |
| GAMCO Global Convertible Secs AAA | Convertibles | ★★★★ | 64 | ★★★★ | 64 | ★★★★ | 57 | ★★★★ | 43 |
| GAMCO Global Growth AAA | World Stock | ★★★★ | 612 | ★★★★ | 612 | ★★★★ | 485 | ★★★★ | 264 |
| GAMCO Global Opportunity AAA | World Stock | ★★★★ | 612 | ★★★★ | 612 | ★★★★ | 485 | ★★★★ | 264 |
| GAMCO Global Telecommunications AAA | Specialty-Communications | ★★★★ | 39 | ★★★★ | 39 | ★★★★ | 33 | ★★★★ | 22 |
| GAMCO Gold AAA | Specialty-Precious Metals | ★★★★ | 71 | ★★★★ | 71 | ★★★★ | 60 | ★★★★ | 38 |
| GAMCO Growth AAA | Large Growth | ★★★★ | 1518 | ★★★★ | 1518 | ★★★★ | 1279 | ★★★★ | 752 |
| GAMCO International Growth AAA | Foreign Large Growth | ★★★★ | 209 | ★★★★ | 209 | ★★★★ | 154 | ★★★★ | 84 |
| GAMCO Mathers | Conservative Allocation | ★★★★ | 504 | ★★★★ | 504 | ★★★★ | 406 | ★★★★ | 159 |
| Gabelli Enterprise Mergers & Acquisitions A | Mid-cap Blend | ★★★★ | 371 | ★★★★ | 371 | ★★★★ | 306 | n/a | n/a |
| Comstock Capital Value AAA | Bear Market | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Percent of Rated funds rated 4 or 5 stars | | 50.00% | | 50.00% | | 47.06% | | 40.00% | |

The Overall Morningstar Rating™ is derived from a weighted average of the performance figures associated with its three, five and ten year (if applicable) Morningstar Rating metrics.

Data presented reflects past performance, which is no guarantee of future results. Ratings are for Class AAA or A shares only, other classes may have different performance

characteristics. Unrated funds and closed-end funds are not listed. For each fund with at least a three year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure (including the effects of sales charges, loads, and redemption fees) that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of the funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Strong relative performance is not indicative of positive fund returns. © 2010 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Investors should consider the investment objectives, risks, sales charges and expenses of the fund carefully before investing. Each Fund's prospectus contains this and other information about the Funds and is available, along with information on other Gabelli Funds, by calling 800-GABELLI (422-3554), online at www.gabelli.com/funds or from your financial advisor. The prospectus should be read carefully before investing. Distributed by Gabelli & Company, One Corporate Center, Rye, NY 10580 Call 1-800-GABELLI (422-3554) for a prospectus.

The inception date for the Gabelli SRI Green Fund was June 1, 2007. The inception date for the Gabelli Woodland Small Cap Value Fund was December 31, 2002.

The inception date for the Gabelli Enterprise Mergers & Acquisitions Fund was February 28, 2001. The inception date for the Comstock Capital Value Fund was October 10, 1985.

| GABELLI/GAMCO FUNDS | | Gabelli Funds Lipper Rankings as of September 30, 2010 | | | | | | | |
|-------------------------|------------------------------------|--|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|
| Fund Name | Lipper Category | 1 Yr - | | 3 Yrs - | | 5 Yrs - | | 10 Yrs - | |
| | | Percentile Rank | Total Funds | Percentile Rank | Total Funds | Percentile Rank | Total Funds | Percentile Rank | Total Funds |
| Gabelli Asset; AAA | Multi-Cap Core Funds | 6 | 46/875 | 18 | 135/761 | 7 | 39/610 | 16 | 41/265 |
| Gabelli Value Fund; A | Multi-Cap Core Funds | 1 | 3/875 | 27 | 204/761 | 20 | 119/610 | 27 | 70/265 |
| Gabelli SRI; AAA | Multi-Cap Growth Funds | 90 | 383/429 | 2 | 6/388 | - | - | - | - |
| Gabelli Eq;Eq Inc; AAA | Equity Income Funds | 50 | 138/276 | 22 | 52/237 | 22 | 43/195 | 13 | 13/106 |
| GAMCO Growth; AAA | Large-Cap Growth Funds | 97 | 824/856 | 74 | 543/737 | 70 | 429/619 | 73 | 255/350 |
| Gabelli Eq;SC Gro; AAA | Small-Cap Core Funds | 18 | 134/778 | 12 | 77/684 | 9 | 50/561 | 19 | 54/296 |
| Gabelli Eq;Wd SCV; AAA | Small-Cap Core Funds | 57 | 439/778 | 40 | 268/684 | 50 | 280/561 | - | - |
| GAMCO Gl;Oppty; AAA | Global Large-Cap Growth | 22 | 27/123 | 26 | 22/86 | 20 | 14/72 | 19 | 8/43 |
| GAMCO Gl;Growth; AAA | Global Large-Cap Growth | 73 | 91/123 | 29 | 25/86 | 47 | 34/72 | 74 | 34/43 |
| GAMCO Gold; AAA | Precious Metal Funds | 44 | 36/82 | 46 | 31/67 | 38 | 20/52 | 31 | 10/32 |
| GAMCO Intl Gro; AAA | International Large-Cap Growth | 8 | 15/202 | 30 | 50/167 | 59 | 74/126 | 52 | 44/84 |
| Gabelli Bl Chp Val; AAA | Large-Cap Core Funds | 42 | 401/976 | 22 | 180/828 | 28 | 193/699 | 32 | 136/426 |
| Gabelli Inv;ABC; AAA | Specialty Diversified Equity Funds | 63 | 25/39 | 14 | 5/35 | 22 | 5/22 | 30 | 3/9 |
| GAMCO Mathers; AAA | Specialty Diversified Equity Funds | 75 | 30/39 | 62 | 22/35 | 61 | 14/22 | 70 | 7/9 |
| Comstock Cap Val; A | Specialty Diversified Equity Funds | 93 | 37/39 | 48 | 17/35 | 83 | 19/22 | 60 | 6/9 |
| GAMCO Gl;Telecom; AAA | Telecommunications Funds | 71 | 31/43 | 26 | 9/34 | 32 | 9/28 | 10 | 2/21 |
| GAMCO Gl;Convert; AAA | Convertible Securities Funds | 26 | 17/66 | 95 | 52/54 | 92 | 46/49 | 84 | 36/42 |
| Gabelli Utilities; AAA | Utility Funds | 38 | 31/82 | 2 | 1/75 | 18 | 11/63 | 25 | 12/48 |

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| | | | | | | | | | |
|-------------------------------|--|-------|---------|-------|---------|-------|--------|-------|------|
| 787:Gabelli Merg&Acq; A | Mid-Cap Core Funds | 95 | 355/374 | 25 | 74/345 | 33 | 83/254 | - | - |
| Gabelli Capital Asset Fund | Distributed through Insurance Channel | 5 | 15/338 | 33 | 101/315 | 9 | 20/237 | 9 | 8/95 |
| % of funds in top half | | 55.0% | | 85.0% | | 73.7% | | 64.7% | |

Data presented reflects past performance, which is no guarantee of future results. Strong rankings are not indicative of positive fund performance. Absolute performance for some funds was negative for certain periods. Other share classes are available which may have different performance characteristics.

Lipper, a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments including mutual funds, retirement funds, hedge funds, fund fees and expenses to the asset management and media communities. Lipper ranks the performance of mutual funds within a classification of funds that have similar investment objectives.

Rankings are historical with capital gains and dividends reinvested and do not include the effect of loads. If an expense waiver was in effect, it may have had a material effect on the total return or yield for the period.

Relative long-term investment performance remained strong with approximately 55%, 85%, 74% and 65% of firmwide mutual funds in the top half of their Lipper categories on a one-, three-, five-, and ten-year total-return basis, respectively, as of September 30, 2010.

Investors should consider carefully the investment objective, risks, charges and expenses of a fund before investing. The Prospectus which contains more information about this and other matters, should be read carefully before investing. You can obtain a prospectus by calling 1-800 GABELLI. Distributed by Gabelli & Company. Other share classes are available that have different performance characteristics.

The inception date for the Gabelli SRI Green Fund was June 1, 2007. The inception date for the Gabelli Woodland Small Cap Value Fund was December 31, 2002. The inception date for the Gabelli Enterprise Mergers & Acquisitions Fund was February 28, 2001.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the notes thereto included in Item 1 to this report.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2010 Compared To Three Months Ended September 30, 2009

| (Unaudited; in thousands, except per share data) | | |
|--|------------------|------------------|
| | 2010 | 2009 |
| Revenues | | |
| Investment advisory and incentive fees | \$ 50,249 | \$ 40,957 |
| Institutional research services | 4,005 | 4,588 |
| Distribution fees and other income | 8,189 | 6,037 |
| Total revenues | 62,443 | 51,582 |
| Expenses | | |
| Compensation | 26,661 | 21,590 |
| Management fee | 3,540 | 2,638 |
| Distribution costs | 7,710 | 6,089 |
| Other operating expenses | 5,023 | 4,405 |
| Total expenses | 42,934 | 34,722 |
| Operating income | 19,509 | 16,860 |
| Other income (expense) | | |
| Net gain/(loss) from investments | 13,916 | 9,659 |
| Interest and dividend income | 2,012 | 598 |
| Interest expense | (3,295) | (3,296) |
| Total other income (expense), net | 12,633 | 6,961 |
| Income before income taxes | 32,142 | 23,821 |
| Income tax provision | 11,686 | 8,913 |
| Net income | 20,456 | 14,908 |
| Net income/(loss) attributable to noncontrolling interests | 350 | 257 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 20,106 | \$ 14,651 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders per share | | |
| Basic | \$ 0.75 | \$ 0.54 |
| Diluted | \$ 0.73 | \$ 0.53 |
| Reconciliation of net income attributable to GAMCO Investors, Inc.'s shareholders to Adjusted EBITDA: | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 20,106 | \$ 14,651 |
| Interest expense | 3,295 | 3,296 |
| Income tax provision and net income attributable to noncontrolling interests | 12,036 | 9,170 |

| | | |
|-------------------------------|-----------|-----------|
| Depreciation and amortization | 177 | 160 |
| Adjusted EBITDA (a) | \$ 35,614 | \$ 27,277 |

(a) Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and noncontrolling interests. Adjusted EBITDA is a non-GAAP measure and should not be considered as an alternative to any measure of performance as promulgated under accounting principles generally accepted in the United States nor should it be considered as an indicator of our overall financial performance. We use Adjusted EBITDA as a supplemental measure of performance as we believe it gives investors a more complete understanding of our operating results before the impact of financing activities as a tool for determining the private market value of an enterprise.

Total revenues were \$62.4 million in the third quarter of 2010, 20.9% above the \$51.6 million reported in the third quarter of 2009. Operating income was \$19.5 million, an increase of \$2.6 million or 15.4% from the \$16.9 million in the third quarter of 2009. Total other income, net of interest expense, was income of \$12.6 million for the third quarter 2010 versus income of \$7.0 million in the prior year's quarter. In the short-run, our results remain sensitive to changes in the equity markets. Net income attributable to GAMCO Investors, Inc.'s shareholders for the quarter was \$20.1 million or \$0.73 per fully diluted share versus \$14.7 million or \$0.53 per fully diluted share in the prior year's quarter.

Investment advisory fees for the third quarter 2010 were \$50.2 million, 22.4% above the 2009 comparative figure of \$41.0 million. Open-end mutual fund revenues increased by 25.1% to \$23.9 million from \$19.1 million in third quarter 2009 due to higher average AUM. Our closed-end fund revenues rose 22.4% to \$9.3 million in the third quarter 2010 from \$7.6 million in 2009 due to increased average AUM. Institutional and private wealth management accounts revenues, whose revenues are based upon prior quarter-end AUM, increased 19.0% to \$16.3 million from \$13.7 million in third quarter 2009, primarily due to higher AUM. Investment partnership revenues were \$726,000, an increase of 34.9% from the \$538,000 in 2009. This increase was primarily due to higher AUM in the current quarter as compared to the prior year's quarter.

Our institutional research subsidiary achieved revenues of \$4.0 million in the third quarter 2010, decreasing 13.0% from the \$4.6 million in the prior year.

Open-end fund distribution fees and other income were \$8.2 million for the third quarter 2010, an increase of 36.7% or \$2.2 million from the prior period's \$6.0 million, primarily due to higher quarterly average AUM in open-end equity mutual funds that generate such fees and an increased level of sales of load shares of mutual funds.

Compensation costs, which are largely variable, were \$26.7 million or 23.6% higher than the \$21.6 million recorded in the prior year period. This increase was driven by higher revenues across most business lines as AUM increased substantially quarter over quarter.

Management fee expense, which is completely variable and based on pretax income, increased to \$3.5 million in the third quarter of 2010 from \$2.6 million in the 2009 period.

Distribution costs were \$7.7 million, an increase of 26.2% from \$6.1 million in the prior year's period as average AUM in open-end equity mutual funds, the majority of which were obtained through third-party distribution programs, increased 28% in the third quarter 2010 from the third quarter of 2009.

Other operating expenses increased by \$0.6 million to \$5.0 million in the third quarter of 2010 from the prior year's third quarter of \$4.4 million.

Total expenses, excluding the management fee, were \$39.4 million in the third quarter of 2010, a 22.7% increase from \$32.1 million in the third quarter of 2009.

Operating income for the third quarter of 2010 was \$19.5 million, an increase of \$2.6 million from the third quarter 2009's \$16.9 million. This increase was largely due to the increase in revenues partially offset by a smaller increase in operating expenses.

Total other income (net of interest expense) was \$12.6 million for the third quarter 2010 versus \$7.0 million in the prior year's quarter. Interest income was lower by \$38,000 while dividend income was higher by \$1.5 million. Interest expense was unchanged at \$3.3 million for both the third quarter of 2010 and 2009.

The effective tax rate for the three months ended September 30, 2010 was 36.4% as compared to the prior year period's effective rate of 37.4%.

Nine Months Ended September 30, 2010 Compared To Nine Months Ended September 30, 2009

(Unaudited; in thousands, except per share data)

| | 2010 | 2009 |
|--|------------------|------------------|
| Revenues | | |
| Investment advisory and incentive fees | \$ 149,862 | \$ 112,145 |
| Insitutional research services | 11,953 | 12,187 |
| Distribution fees and other income | 23,125 | 15,780 |
| Total revenues | 184,940 | 140,112 |
| Expenses | | |
| Compensation | 78,745 | 62,056 |
| Management fee | 7,368 | 6,291 |
| Distribution costs | 21,840 | 17,094 |
| Other operating expenses | 15,528 | 13,648 |
| Total expenses | 123,481 | 99,089 |
| Operating income | 61,459 | 41,023 |
| Other income (expense) | | |
| Net gain/(loss) from investments | 11,351 | 22,981 |
| Interest and dividend income | 3,916 | 2,677 |
| Interest expense | (9,993) | (9,965) |
| Total other income (expense), net | 5,274 | 15,693 |
| Income before income taxes | 66,733 | 56,716 |
| Income tax provision | 24,381 | 20,034 |
| Net income | 42,352 | 36,682 |
| Net income attributable to noncontrolling interests | 471 | 503 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 41,881 | \$ 36,179 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders per share | | |
| Basic | \$ 1.55 | \$ 1.32 |
| Diluted | \$ 1.53 | \$ 1.32 |
| Reconciliation of net income attributable to GAMCO Investors, Inc.'s shareholders to Adjusted EBITDA: | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 41,881 | \$ 36,179 |
| Interest expense | 9,993 | 9,965 |
| Income tax provision and net income attributable to noncontrolling interests | 24,852 | 20,537 |
| Depreciation and amortization | 520 | 487 |
| Adjusted EBITDA (a) | \$ 77,246 | \$ 67,168 |

(a) Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and noncontrolling interests. Adjusted EBITDA is a non-GAAP measure and should not be considered as an alternative to any measure

of performance as promulgated under accounting principles generally accepted in the United States nor should it be considered as an indicator of our overall financial performance. We use Adjusted EBITDA as a supplemental measure of performance as we believe it gives investors a more complete understanding of our operating results before the impact of financing activities as a tool for determining the private market value of an enterprise.

Total revenues were \$184.9 million in the nine months ended September 30, 2010, 32.0% above the \$140.1 million reported in the nine months ended September 30, 2009. Operating income was \$61.5 million, an increase of \$20.5 million or 50.0% from the \$41.0 million in the nine months ended September 30, 2009. Total other income, net of interest expense, was income of \$5.3 million for the nine months ended September 30, 2010 versus income of \$15.7 million in the prior year's period. In the short-run, our results remain sensitive to changes in the equity markets. Net income attributable to GAMCO Investors, Inc.'s shareholders for the nine months ended September 30, 2010 was \$41.9 million or \$1.53 per fully diluted share versus \$36.2 million or \$1.32 per fully diluted share in the prior year's period.

Investment advisory fees for the nine months ended September 30, 2010 were \$149.9 million, 33.7% above the 2009 comparative figure of \$112.1 million. Open-end mutual fund revenues increased by 33.8% to \$69.2 million from \$51.7 million in the nine months ended September 30, 2009 due to higher average AUM. Our closed-end fund revenues rose 35.0% to \$27.0 million in the nine months ended September 30, 2010 from \$20.0 million in 2009 due to increased average AUM. Institutional and private wealth management accounts revenues, whose revenues are based upon prior quarter-end AUM, increased 32.1% to \$51.4 million from \$38.9 million in the nine months ended September 30, 2009, primarily due to higher AUM. Investment partnership revenues were \$2.2 million, an increase of 46.7% from the \$1.5 million in 2009. This increase was primarily due to higher AUM in the current nine month period as compared to the prior year's period.

Our institutional research subsidiary achieved revenues of \$12.0 million in the nine months ended September 30, 2010, down 1.6% from the \$12.2 million in the prior year.

Open-end fund distribution fees and other income were \$23.1 million for the nine months ended September 30, 2010, an increase of 46.2% or \$7.3 million from the prior year period's \$15.8 million, primarily due to higher quarterly average AUM in open-end equity mutual funds that generate such fees and an increased level of sales of load shares of mutual funds.

Compensation costs, which are largely variable, were \$78.7 million or 26.7% higher than the \$62.1 million recorded in the prior year period. This increase was driven by higher revenues across most business lines as AUM increased period over period.

Management fee expense, which is completely variable and based on pretax income, increased slightly to \$7.4 million in the nine months ended September 30, 2010 from \$6.3 million in the 2009 period.

Distribution costs were \$21.8 million, an increase of 27.5% from \$17.1 million in the prior year's period as average AUM in open-end mutual funds, the majority of which were obtained through third-party distribution programs, increased 40% for the nine months ended September 30, 2010 from the nine months ended September 30, 2009. Included in distribution costs are expense reimbursements that are paid back to the Funds to maintain their expense caps. These costs have an inverse relationship to the AUM in the Funds, so that as AUM rise the expense reimbursements decline. For the nine months ended September 30, 2010 the expense reimbursements were \$3.5 million, a decline of 12.5% or \$0.5 million from the \$4.0 million in the prior year period.

Other operating expenses increased by \$1.9 million to \$15.5 million in the nine months ended September 30, 2010 from the prior year period's \$13.6 million. Excluding the receipt of insurance reimbursements for legal fees and expenses expensed in prior periods, for both the 2010 and 2009 periods, other operating expenses would have been higher by \$1.1 million.

Total expenses, excluding the management fee, were \$116.1 million in the nine months ended September 30, 2010, a 25.1% increase from \$92.8 million in the nine months ended September 30, 2009.

Operating income for the nine months ended September 30, 2010 was \$61.5 million, an increase of \$20.5 million from the nine months ended September 30, 2009's \$41.0 million. This increase was largely due to the increase in revenues partially offset by a smaller increase in operating expenses.

Operating margin for the nine months ended September 30, 2010 was 33.2% versus 29.3% in the 2009 period.

Total other income (net of interest expense) was income of \$5.3 million for the nine months ended September 30, 2010 versus income of \$15.7 million in the prior year's period. The majority of the swing of \$10.4 million is due to the trading results of our investments in equity instruments. Interest income was lower by \$688,000 while dividend income was higher by \$1.9 million. Interest expense was flat at \$10.0 million for both the nine months ended September 30, 2010 and 2009.

The effective tax rate for the nine months ended September 30, 2010 was 36.5% as compared to the prior year period's effective rate of 35.3%. The prior year's rate included a reduction to certain income tax reserves.

LIQUIDITY AND CAPITAL RESOURCES

Our principal assets consist of cash and cash equivalents, short-term investments, securities held for investment purposes, investments in mutual funds, and investment partnerships and offshore funds, both proprietary and external. Cash and cash equivalents are comprised primarily of United States Treasury securities with maturities of three months or less and money market funds managed by GAMCO. Although the investment partnerships and offshore funds are for the most part illiquid, the underlying investments of such partnerships or funds are for the most part liquid, and the valuations of these products reflect that underlying liquidity.

Summary cash flow data is as follows:

| | Nine months ended | |
|--|-------------------|------------|
| | September 30, | |
| | 2010 | 2009 |
| Cash flows provided by (used in): | (in thousands) | |
| Operating activities | \$ (38,754) | \$ 136,313 |
| Investing activities | 3,853 | (54,196) |
| Financing activities | (71,404) | (12,259) |
| Effect of exchange rates on cash and cash equivalents | (2) | 83 |
| Net (decrease) increase | (106,307) | 69,941 |
| Cash and cash equivalents at beginning of period | 338,270 | 331,174 |
| Cash and cash equivalents at end of period | \$ 231,963 | \$ 401,115 |

Cash requirements and liquidity needs have historically been met through cash generated by operating activities and our borrowing capacity. Our shelf registration provides us opportunistic flexibility to sell any combination of senior and subordinate debt securities, convertible debt securities, equity securities (including common and preferred stock), and other securities up to a total amount of \$400 million. On February 25, 2010, Moody's Investors Service lowered the Company's investment grade rating one notch from Baa2 to Baa3 while maintaining a stable outlook.

At September 30, 2010, we had total cash and cash equivalents (excluding restricted cash) of \$232.0 million, a decrease of \$106.3 million from December 31, 2009. Cash and cash equivalents and investments in securities held in escrow relating to the \$60 million 6.5% convertible note and held by consolidated investment partnerships and offshore funds are restricted from use for general operating purposes. Total debt outstanding at September 30, 2010 was \$159.0 million, consisting of the \$60 million 6.5% convertible note ("2018 Note") and the \$99 million of 5.5% senior notes. The Company redeemed \$20 million of the 6% convertible note ("2011 Note") for 101% of par value on May 31, 2010 and the remaining \$20 million of the 6% convertible note for 101% of par value on September 30, 2010. On September 30, 2010, Cascade exercised the put option of the 2018 Note with respect to the entire \$60 million. On October 13, 2010, Cascade was paid \$60.1 million of principal and accrued but unpaid interest and the escrow agreement relating to the 2018 Note was terminated by mutual consent between the Company and Cascade. The remaining funds in the escrow account were no longer restricted and were sent to the Company.

For the nine months ended September 30, 2010, cash used in operating activities was \$38.8 million. The most significant contributor to the lower cash provided by operating activities in the first nine months of 2010 versus the first nine months of 2009 was the activity in the trading securities as there were net purchases of trading securities of \$64.9 million during 2010 while during the 2009 period there were net sales of trading securities of \$77.3 million. Cash provided by investing activities, related to purchases and proceeds from sales of available for sale

securities and change in restricted cash, was \$3.9 million in the first nine months of 2010. The most significant contributor to the cash provided in 2010 versus the cash used in 2009 was the change in the holdings of the escrow account to Treasury bills with maturities of less than 3 months and therefore classified as cash equivalents from Treasury bills with maturities of greater than 3 months that were classified as investments in securities. Cash used in financing activities in the first nine months of 2010 was \$71.4 million, including \$40.4 million to repay the 2011 Note, \$26.6 million paid in dividends and \$17.9 million paid for the purchase of treasury stock.

For the nine months ended September 30, 2009, cash provided by operating activities was \$136.3 million. Cash used in investing activities, related to purchases and sales of available for sale securities and change in restricted cash, was \$54.2 million in the first nine months of 2009. Cash used in financing activities in the first nine months of 2009 was \$12.3 million.

Based upon our current level of operations and anticipated growth, we expect that our current cash balances plus cash flows from operating activities and our borrowing capacity will be sufficient to finance our working capital needs for the foreseeable future. We have no material commitments for capital expenditures.

As a registered broker-dealer, Gabelli & Company is subject to certain net capital requirements. Gabelli & Company's net capital has historically exceeded these minimum net capital requirements. Gabelli & Company computes its net capital under the alternative method permitted, which requires minimum net capital of the greater of \$250,000 or 2% of the aggregate debt items in the reserve formula for those broker-dealers subject to Rule 15c3-3 promulgated under the Securities Exchange Act of 1934. The requirement was \$250,000 at September 30, 2010. At September 30, 2010, Gabelli & Company had net capital, as defined, of approximately \$11.6 million, exceeding the regulatory requirement by approximately \$11.4 million. Regulatory net capital requirements increase when Gabelli & Company is involved in underwriting activities.

Market Risk

Our primary market risk exposure is to changes in equity prices and interest rates. Since over 90% of our AUM are equities, our financial results are subject to equity-market risk as revenues from our investment management services are sensitive to stock market dynamics. In addition, returns from our proprietary investment portfolio are exposed to interest rate and equity market risk.

The Company earns substantially all of its revenue as advisory and distribution fees from our Mutual Fund, Institutional and Private Wealth Management, and Investment Partnership assets. Such fees represent a percentage of AUM and the majority of these assets are in equity investments. Accordingly, since revenues are proportionate to the value of those investments, a substantial increase or decrease in equity markets overall will have a corresponding effect on the Company's revenues.

With respect to our proprietary investment activities, included in investments in securities of \$228.2 million at September 30, 2010 were investments in mutual funds, largely invested in equity products, of \$63.5 million, a selection of common and preferred stocks totaling \$161.8 million, and other investments of approximately \$2.9 million. Investments in mutual funds generally lower market risk through the diversification of financial instruments within their portfolio. In addition, we may alter our investment holdings from time to time in response to changes in market risks and other factors considered appropriate by management. Of the approximately \$161.8 million invested in common and preferred stocks at September 30, 2010, \$31.6 million represented our investment in Westwood Holdings Group Inc., and \$16.3 million was invested in risk arbitrage opportunities in connection with mergers, consolidations, acquisitions, tender offers or other similar transactions. Securities sold, not yet purchased are stated at fair value and are subject to market risks resulting from changes in price and volatility. At September 30, 2010, the fair value of securities sold, not yet purchased was \$18.4 million. Investments in partnerships totaled \$79.2 million at September 30, 2010, the majority of which consisted of investment partnerships and offshore funds which invest in risk arbitrage opportunities. These transactions generally involve announced deals with agreed upon terms and conditions, including pricing, which typically involve less market risk than common stocks held in a trading portfolio. The principal risk associated with risk arbitrage transactions is the inability of the companies involved to complete the transaction.

GAMCO's exposure to interest rate risk results, principally, from its investment of excess cash in U.S. Government securities. These investments are primarily short term in nature, and the carrying value of these investments generally approximates fair value.

Critical Accounting Policies and Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those

estimates. See Note A and the Company's Critical Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations in GAMCO's 2009 Annual Report on Form 10-K filed with the SEC on March 15, 2010 for details on Significant Accounting Policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of its business, GAMCO is exposed to risk of loss due to fluctuations in the securities market and general economy. Management is responsible for identifying, assessing and managing market and other risks.

Our exposure to pricing risk in equity securities is directly related to our role as financial intermediary and advisor for AUM in our Mutual Funds, Separate Accounts, and Investment Partnerships as well as our proprietary investment and trading activities. At September 30, 2010, we had equity investments, including mutual funds largely invested in equity products, of \$228.2 million. Investments in mutual funds, \$113.6 million, usually generate lower market risk through the diversification of financial instruments within their portfolios. In addition, we may alter our investment holdings from time to time in response to changes in market risks and other factors considered appropriate by management. We also hold investments in partnerships which invest primarily in equity securities and which are subject to changes in equity prices. Investments in partnerships totaled \$79.2 million, of which \$25.9 million were invested in partnerships which invest in event-driven merger arbitrage strategies. These strategies are primarily dependent upon deal closure rather than the overall market environment. The equity investment portfolio is at fair value and will move in line with the equity markets. The trading portfolio changes will be recorded as net gain from investments in the condensed consolidated statements of income while the available for sale portfolio changes will be recorded in other comprehensive income in the condensed consolidated statements of financial condition.

Item 4. Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2010. Disclosure controls and procedures as defined under the Securities Exchange Act Rule 13a-15(e), are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures accumulated and communicated to our management, including our Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and Co-Principal Accounting Officers ("PAOs"), to allow timely decisions regarding required disclosure. Our CEO, CFO, and PAOs participated in this evaluation and concluded that, as of the date of September 30, 2010, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting as defined by Rule 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Forward-Looking Information

Our disclosure and analysis in this report contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements because they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning. They also appear in any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance of our products, expenses, the outcome of any legal proceedings, and financial results. Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ from our expectations or beliefs include, without limitation: the adverse effect from a decline in the securities markets; a decline in the performance of our products; a general downturn in the economy; changes in government policy or regulation; changes in our ability to attract or retain key employees; and unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations. We also direct your attention to any more specific discussions of risk contained in our Form 10-Q and other public filings. We are providing these statements as permitted by the Private Litigation Reform Act of 1995. We do not undertake to update publicly any forward-looking statements if we subsequently learn that we are unlikely to achieve our expectations or if we receive any additional information relating to the subject matters of our forward-looking statements.

Part II: Other Information

Item 1. Legal Proceedings

From time to time, the Company is named in legal actions. These actions may seek substantial compensatory as well as punitive damages. The Company is also subject to governmental or regulatory examinations or investigations. The examinations or investigations could result in adverse outcomes including fines, injunctions or other relief. The Company cannot predict the ultimate outcome of such matters.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to the repurchase of Class A Common Stock of GAMCO during the three months ended September 30, 2010:

| Period | (a) Total Number of Shares Repurchased | (b) Average Price Paid Per Share, net of Commissions | (c) Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|----------------------|---|--|---|--|
| 7/01/10 - 7/31/10 | 2,000 | \$ 34.70 | 2,000 | 795,636 |
| 8/01/10 - 8/31/10 | 11,100 | 36.22 | 11,100 | 784,536 |
| 9/01/10 - 9/30/10 | 400 | 36.66 | 400 | 784,136 |
| Totals | 13,500 | \$ 36.01 | 13,500 | |

Item 6. (a) Exhibits

31.1 Certification of CEO pursuant to Rule 13a-14(a).

31.2 Certification of CFO pursuant to Rule 13a-14(a).

32.1 Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GAMCO INVESTORS, INC.
(Registrant)

By:/s/ Kieran Caterina

Name: Kieran Caterina

Title: Co-Principal Accounting Officer

By:/s/ Diane M. LaPointe

Name: Diane M. LaPointe

Title: Co-Principal Accounting Officer

Date: November 5, 2010

Date: November 5, 2010

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