

GAMCO INVESTORS, INC. ET AL
Form 10-Q
November 08, 2011

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, 2011
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) 921-3700

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).

Yesx Noo

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, 2011 |
|---|------------------------------------|
| Class A Common Stock, .001 par value | 6,666,654 |
| Class B Common Stock, .001 par value | 20,106,746 |

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GAMCO INVESTORS, INC. AND SUBSIDIARIES

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- Nine months ended September 30, 2011 and 2010

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- September 30, 2010

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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, | |
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | | | | |
| Investment advisory and incentive fees | \$65,244 | \$50,249 | \$197,407 | \$149,862 |
| Institutional research services | 3,421 | 4,005 | 11,311 | 11,953 |
| Distribution fees and other income | 11,486 | 8,189 | 33,419 | 23,125 |
| Total revenues | 80,151 | 62,443 | 242,137 | 184,940 |
| Expenses | | | | |
| Compensation | 32,010 | 26,661 | 99,792 | 78,745 |
| Management fee | 1,387 | 3,540 | 8,126 | 7,368 |
| Distribution costs | 11,091 | 7,710 | 34,108 | 21,840 |
| Other operating expenses | 5,002 | 5,023 | 18,193 | 15,528 |
| Total expenses (a) | 49,490 | 42,934 | 160,219 | 123,481 |
| Operating income | 30,661 | 19,509 | 81,918 | 61,459 |
| Other income (expense) | | | | |
| Net gain/(loss) from investments | (16,152) | 13,916 | (3,743) | 11,351 |
| Interest and dividend income | 1,823 | 2,012 | 5,620 | 3,916 |
| Interest expense | (4,418) | (3,295) | (10,688) | (9,993) |
| Total other income (expense), net | (18,747) | 12,633 | (8,811) | 5,274 |
| Income before income taxes | 11,914 | 32,142 | 73,107 | 66,733 |
| Income tax provision | 4,745 | 11,686 | 26,978 | 24,381 |
| Net income | 7,169 | 20,456 | 46,129 | 42,352 |
| Net income/(loss) attributable to noncontrolling interests | (530) | 350 | 140 | 471 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$7,699 | \$20,106 | \$45,989 | \$41,881 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | | | | |
| per share: | | | | |
| Basic | \$0.29 | \$0.75 | \$1.72 | \$1.55 |
| Diluted | \$0.29 | \$0.73 | \$1.72 | \$1.53 |
| Weighted average shares outstanding: | | | | |
| Basic | 26,496 | 26,828 | 26,686 | 26,996 |
| Diluted | 26,576 | 28,364 | 26,772 | 27,818 |
| Dividends declared: | \$0.04 | \$0.93 | \$0.11 | \$0.99 |

(a) Nine months ended September 30, 2011 includes \$5.6 million in costs directly related to the launch of a new closed-end fund.

See accompanying notes.

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

(Dollars in thousands, except per share data)

| | September 30, 2011 | December 31, 2010 | September 30, 2010 |
|---|--------------------------|-------------------------|--------------------------|
| ASSETS | | | |
| Cash and cash equivalents, including restricted cash of \$0, \$0 and \$62,308, respectively | \$ 335,656 | \$ 169,601 | \$ 294,271 |
| Investments in securities | 270,323 | 305,486 | 228,210 |
| Investments in partnerships | 98,286 | 82,871 | 79,244 |
| Receivable from brokers | 67,064 | 46,621 | 62,209 |
| Investment advisory fees receivable | 23,451 | 44,660 | 17,145 |
| Income tax receivable and deferred tax assets | 227 | 325 | - |
| Other assets | 25,883 | 23,172 | 21,140 |
| Total assets | \$ 820,890 | \$ 672,736 | \$ 702,219 |
| LIABILITIES AND EQUITY | | | |
| Payable to brokers | \$ 15,590 | \$ 1,554 | \$ 4,151 |
| Income taxes payable and deferred tax liabilities | 21,235 | 23,225 | 4,533 |
| Capital lease obligation | 5,100 | 5,182 | 5,197 |
| Compensation payable | 31,559 | 23,771 | 23,575 |
| Securities sold, not yet purchased | 6,743 | 19,299 | 18,446 |
| Mandatorily redeemable noncontrolling interests | 1,490 | 1,444 | 1,367 |
| Accrued expenses and other liabilities | 31,450 | 23,089 | 25,436 |
| Sub-total | 113,167 | 97,564 | 82,705 |
| 5.5% Senior notes (due May 15, 2013) | 99,000 | 99,000 | 99,000 |
| 5.875% Senior notes (due June 1, 2021) | 100,000 | - | - |
| 6.5% Convertible note (due October 2, 2018; repaid October 13, 2010) | - | - | 60,000 |
| Zero coupon subordinated debentures, Face value: \$86.4 million (due December 31, 2015) | 62,973 | 59,580 | - |
| Total liabilities | 375,140 | 256,144 | 241,705 |
| Redeemable noncontrolling interests | 38,050 | 26,984 | 15,994 |
| Commitments and contingencies (Note J) | | | |
| Equity | | | |
| GAMCO Investors, Inc. stockholders' equity | | | |
| Class A Common Stock, \$0.001 par value; 100,000,000 shares authorized; | | | |
| 13,600,897, 13,255,503 and 13,202,489 issued, respectively; | | | |
| 6,666,654, | | | |
| 6,763,221 and 6,970,410 outstanding, respectively | | | |
| | 13 | 13 | 13 |
| Class B Common Stock, \$0.001 par value; 100,000,000 shares authorized; | | | |

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24,000,000 shares issued; 20,106,746, 20,290,140 and 20,292,104 shares

| | | | |
|---|------------|------------|------------|
| outstanding, respectively | 20 | 20 | 20 |
| Additional paid-in capital | 264,028 | 262,108 | 255,860 |
| Retained earnings | 413,295 | 370,272 | 425,383 |
| Accumulated comprehensive income | 18,425 | 25,389 | 19,306 |
| Treasury stock, at cost (6,934,243, 6,492,282 and 6,232,079 shares, respectively) | (291,781) | (271,773) | (259,442) |
| Total GAMCO Investors, Inc. stockholders' equity | 404,000 | 386,029 | 441,140 |
| Noncontrolling interests | 3,700 | 3,579 | 3,380 |
| Total equity | 407,700 | 389,608 | 444,520 |
| Total liabilities and equity | \$820,890 | \$672,736 | \$702,219 |

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, 2011 | | | | | | | | | |
| 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, 2010 | \$ 3,579 | \$ 33 | \$ 262,108 | \$ 370,272 | \$ 25,389 | \$ (271,773) | \$ 389,608 | \$ 26,984 | \$ - |
| Redemptions of redeemable noncontrolling interests | - | - | - | - | - | - | - | (2,340) | - |
| Contributions from redeemable noncontrolling interests | - | - | - | - | - | - | - | 17,490 | - |
| Deconsolidation of Partnership | - | - | - | - | - | - | - | (4,103) | - |
| Net income | 121 | - | - | 45,989 | - | - | 46,110 | 19 | 46,129 |
| Net unrealized losses on securities available for sale, net of income tax benefit (\$4,093) | - | - | - | - | (6,969) | - | (6,969) | - | (6,969) |
| Foreign currency translation | - | - | - | - | 5 | - | 5 | - | 5 |
| Dividends declared (\$0.11 per share) | - | - | - | (2,966) | - | - | (2,966) | - | - |
| Stock based compensation expense | - | - | 1,920 | - | - | - | 1,920 | - | - |
| Purchase of treasury stock | - | - | - | - | - | (20,008) | (20,008) | - | - |
| Balance at September 30, 2011 | \$ 3,700 | \$ 33 | \$ 264,028 | \$ 413,295 | \$ 18,425 | \$ (291,781) | \$ 407,700 | \$ 38,050 | \$ 39,165 |

| | |
|--|-----------|
| Comprehensive income attributable | |
| to noncontrolling interest | (140) |
| Total comprehensive income attributable to GAMCO Investors, Inc. | \$ 39,025 |

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 | Total | Redeemable | Comprehensive |
| | Interests | Stock | Paid-in | Earnings | Income | Stock | | Noncontrolling | Income |
| | | | Capital | | | | | Interests | |
| 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 gains on securities available for sale, net of income tax (\$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 CASH FLOWS

UNAUDITED

(In thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------|
| | 2011 | 2010 |
| Operating activities | | |
| Net income | \$46,129 | \$42,352 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Equity in net gains from partnerships | (268) | (4,869) |
| Depreciation and amortization | 642 | 520 |
| Stock based compensation expense | 1,920 | 4,221 |
| Deferred income taxes | (1,358) | 724 |
| Tax benefit from exercise of stock options | - | 8 |
| Foreign currency translation gain/(loss) | 5 | (2) |
| Fair value of donated securities | 111 | (608) |
| Gains on sales of available for sale securities | (584) | (13) |
| Amortization of discount on convertible debt | - | 52 |
| Accretion of zero coupon debentures | 3,393 | - |
| Loss on extinguishment of debt | - | 497 |
| (Increase) decrease in assets: | | |
| Investments in trading securities | 5,417 | (64,863) |
| Investments in partnerships: | | |
| Contributions to partnerships | (13,283) | (18,143) |
| Distributions from partnerships | 3,312 | 6,423 |
| Receivable from brokers | (26,130) | (32,137) |
| Investment advisory fees receivable | 21,339 | 18,539 |
| Income tax receivable and deferred tax assets | 98 | - |
| Other assets | (2,424) | (194) |
| Increase (decrease) in liabilities: | | |
| Payable to brokers | 14,036 | 3,756 |
| Income taxes payable and deferred tax liabilities | 3,726 | (4,843) |
| Compensation payable | 7,787 | 10,273 |
| Mandatorily redeemable noncontrolling interests | 47 | (255) |
| Accrued expenses and other liabilities | 9,579 | (192) |
| Total adjustments | 27,365 | (81,106) |
| Net cash provided by (used in) operating activities | \$73,494 | \$(38,754) |

GAMCO INVESTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED (continued)

(In thousands)

| | Nine Months Ended | |
|--|-------------------|------------|
| | September 30, | |
| | 2011 | 2010 |
| Investing activities | | |
| Purchases of available for sale securities | \$ (4,374) | \$ (12) |
| Proceeds from sales of available for sale securities | 5,685 | 2,014 |
| Return of capital on available for sale securities | 1,262 | 1,901 |
| Increase in restricted cash | - | (50) |
| Net cash provided by investing activities | 2,573 | 3,853 |
| Financing activities | | |
| Contributions from redeemable noncontrolling interests | 17,490 | 14,700 |
| Redemptions of redeemable noncontrolling interests | (2,340) | (475) |
| Issuance of 5.875% Senior notes due June 1, 2021 | 100,000 | - |
| Issuance costs on the 5.875% Senior notes due June 1, 2021 | (934) | - |
| Repayment of 6% Convertible note due August 14, 2011 | - | (40,400) |
| Proceeds from exercise of stock options | - | 40 |
| Dividends paid | (2,966) | (26,565) |
| Dividends paid to noncontrolling interests | - | (829) |
| Purchase of treasury stock | (20,008) | (17,875) |
| Net cash provided by (used in) financing activities | 91,242 | (71,404) |
| Effect of exchange rates on cash and cash equivalents | (3) | (2) |
| Net increase (decrease) in cash and cash equivalents | 167,306 | (106,307) |
| Cash and cash equivalents at beginning of period | 169,601 | 338,270 |
| Decrease in cash from deconsolidation of partnership | (1,251) | - |
| Cash and cash equivalents at end of period | \$ 335,656 | \$ 231,963 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 3,554 | \$ 9,775 |
| Cash paid for taxes | \$ 23,587 | \$ 28,004 |

Non-cash activity:

- On January 1, 2011, GAMCO Investors, Inc. was no longer deemed to have control over a certain partnership which resulted in the deconsolidation of that partnership and decreases of approximately \$1,251 of cash and cash equivalents, \$2,852 of net assets and \$4,103 of noncontrolling interests.

- For the nine months ended September 30, 2011 and September 30, 2010, the Company accrued restricted stock award dividends of \$27 and \$405, respectively.

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011
(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 (“GAAP”) 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 GAAP 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, including our new broker-dealer, G.distributors, LLC, a wholly-owned subsidiary of GAMCO, which became the distributor for the Gabelli/GAMCO family of funds on August 1, 2011. 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, 2010 from which the accompanying condensed consolidated financial statements were derived.

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. GAAP 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 January 2010, the Financial Accounting Standards Board (“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 purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the applicable portions of this guidance on January 1, 2011 without a material impact to the consolidated financial statement disclosures.

In May 2011, the FASB issued guidance on fair value measurement which expands existing disclosure requirements for fair value measurements and makes other amendments. The guidance requires, for level 3 fair value measurements, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation processes in place, and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs. Additionally, the guidance requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed and clarifies that the valuation premise and highest and best use concepts are not relevant to financial instruments. The guidance is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The application of this guidance will result in enhanced footnote disclosure upon adoption on January 1, 2012.

In June 2011, the FASB issued guidance which revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used currently, and the second statement would include components of other comprehensive income (“OCI”). The guidance does not change the items that must be reported in OCI. The guidance is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The application of this guidance is not expected to be material to the condensed consolidated financial statements.

In September 2011, the FASB issued guidance which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying value before applying the quantitative two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit’s fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. 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, 2011, December 31, 2010 and September 30, 2010 consisted of the following:

| | September 30, 2011 | | December 31, 2010 | | September 30, 2010 | |
|-------------------------------------|--------------------|------------|-------------------|------------|--------------------|------------|
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| | (In thousands) | | | | | |
| Trading securities: | | | | | | |
| Government obligations | \$18,698 | \$18,699 | \$27,327 | \$27,288 | \$1,388 | \$1,363 |
| Common stocks | 166,989 | 160,861 | 158,455 | 170,374 | 122,720 | 128,386 |
| Mutual funds | 1,096 | 1,202 | 1,205 | 1,554 | 1,194 | 1,365 |
| Convertible bonds | - | - | 574 | 620 | 762 | 938 |
| Preferred stocks | - | - | 1,783 | 1,973 | 1,783 | 1,834 |
| Other investments | 442 | 396 | 1,559 | 1,350 | 785 | 582 |
| Total trading securities | 187,225 | 181,158 | 190,903 | 203,159 | 128,632 | 134,468 |
| Available for sale securities: | | | | | | |
| Common stocks | 16,724 | 31,903 | 16,835 | 37,139 | 16,918 | 31,594 |
| Mutual funds | 41,718 | 57,262 | 43,707 | 65,188 | 44,717 | 62,148 |
| Total available for sale securities | 58,442 | 89,165 | 60,542 | 102,327 | 61,635 | 93,742 |
| Total investments in securities | \$245,667 | \$270,323 | \$251,445 | \$305,486 | \$190,267 | \$228,210 |

Securities sold, not yet purchased at September 30, 2011, December 31, 2010 and September 30, 2010 consisted of the following:

| | September 30, 2011 | | December 31, 2010 | | September 30, 2010 | |
|--|--------------------|------------|-------------------|------------|--------------------|------------|
| | Proceeds | Fair Value | Proceeds | Fair Value | Proceeds | Fair Value |

| Trading securities: | (In thousands) | | | | | |
|--|----------------|---------|----------|----------|----------|----------|
| Common stocks | \$7,979 | \$6,743 | \$19,071 | \$19,299 | \$18,026 | \$18,387 |
| Other | - | - | - | - | 56 | 59 |
| Total securities sold, not yet purchased | \$7,979 | \$6,743 | \$19,071 | \$19,299 | \$18,082 | \$18,446 |

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 was no impairment of AFS securities for the three or nine month periods ended September 30, 2011 and September 30, 2010.

The Company recognizes all derivatives as either assets or liabilities measured at fair value and includes them 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 and/or the partnerships and offshore funds that the Company consolidates will enter into hedging transactions to manage their exposure to foreign currencies and equity prices related to their proprietary investments. For the three and nine months ended September 30, 2011, the Company had no derivative transactions. For the three months ended September 30, 2010, the Company had derivative transactions in equity derivatives which resulted in net losses of \$36,000. For the nine months ended September 30, 2010, the Company had derivative transactions in equity derivatives which resulted in net losses of \$154,000. At December 31, 2010 and September 30, 2010, we held derivative contracts on 403,000 equity shares and 265,000 equity shares, respectively, and the fair value was \$1.0 million and \$285,000, respectively; these are included in investments in securities in the condensed consolidated statements of financial condition. At September 30, 2011, the Company did not hold any derivatives. These transactions are not designated as hedges for accounting purposes, and therefore changes in fair values of these derivatives are included in net gain/(loss) from investments in the condensed consolidated statements of income.

At September 30, 2011, December 31, 2010 and September 30, 2010, the fair value of common stock investments available for sale was \$31.9 million, \$37.1 million and \$31.6 million, respectively. The total unrealized gains for common stock investments available for sale securities with unrealized gains was \$15.2 million, \$20.3 million and \$14.7 million at September 30, 2011, December 31, 2010 and September 30, 2010, respectively. There were no unrealized losses for common stock investments available for sale at September 30, 2011, December 31, 2010 or September 30, 2010. At September 30, 2011, December 31, 2010 and September 30, 2010, the fair value of mutual fund investments available for sale with unrealized gains was \$57.2 million, \$65.2 million and \$62.1 million, respectively. The total unrealized gains for mutual fund investments available for sale securities with unrealized gains at September 30, 2011, December 31, 2010 and September 30, 2010 was \$15.6 million, \$21.5 million and \$17.4 million, respectively. At September 30, 2011, the fair value of mutual fund investments available for sale with unrealized losses was \$0.1 million. The total unrealized losses for mutual fund investments available for sale with unrealized losses was less than \$0.1 million at September 30, 2011. At December 31, 2010 and September 30, 2010, there were no unrealized losses for mutual fund investments available for sale.

Unrealized changes to fair value, net of taxes, for the three months ended September 30, 2011 and September 30, 2010 of \$7.9 million in losses and \$3.3 million in gains, respectively, have been included in other comprehensive income, a component of equity, at September 30, 2011 and September 30, 2010. Return of capital on available for sale securities for the three months ended September 30, 2011 and September 30, 2010 was \$0.5 million and \$0.6 million, respectively. There were no sales of investments available for sale for the three months ended September 30, 2011 or September 30, 2010. Unrealized changes to fair value, net of taxes, for the nine months ended September 30, 2011 and September 30, 2010 of \$7.0 million in losses and \$0.2 million in gains, respectively, have been included in other comprehensive income, a component of equity, at September 30, 2011 and September 30, 2010. Return of capital on available for sale securities for the nine months ended September 30, 2011 and September 30, 2010 was \$1.3 million and \$1.9 million, respectively. Proceeds from sales of investments available for sale were approximately \$5.7 million and \$2.0 million for the nine month periods ended September 30, 2011 and September 30, 2010, respectively. For the nine months ended September 30, 2011 and September 30, 2010, gross realized gains on the sale of investments available for sale amounted to \$0.6 million and \$13,000, respectively; there were no gross realized losses on the sale of investments available for sale.

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, 2011

December 31, 2010

September 30, 2010

| | Unrealized | | | Unrealized | | | Unrealized | | |
|----------------|------------|----------|------------|------------|--------|------------|------------|--------|------------|
| | Cost | Losses | Fair Value | Cost | Losses | Fair Value | Cost | Losses | Fair Value |
| (in thousands) | | | | | | | | | |
| Mutual Funds | \$100 | \$ (21) | \$79 | \$- | \$ - | \$- | \$- | \$ - | \$- |

At September 30, 2011, there was one holding in a loss position which was not deemed to be other-than-temporarily impaired because it passed scrutiny in our evaluation of the length of time that it had been in a loss position and our evaluation of issuer-specific and industry-specific considerations. In this specific instance, the investment at September 30, 2011 was a mutual fund with diversified holdings across multiple companies and across multiple industries. The one holding was impaired for four consecutive months and its fair value at September 30, 2011 was \$0.1 million.

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/(loss) 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 variable interest entities (“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, 2011, December 31, 2010 and September 30, 2010 were \$29.5 million, \$13.3 million and \$11.8 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, 2011, December 31, 2010 and September 30, 2010, we had a deferred carried interest in one of the VIE offshore funds of approximately \$47,000, \$325,000 and \$307,000, respectively, and it 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 for performing these roles. These revenues and associated receivables are dependent upon the AUM levels in the VIEs, would vary depending on these AUMs and would be reflected in the condensed consolidated statements of income, condensed consolidated statements of financial condition and condensed consolidated statements of cash flows.

In the case of two VIEs, we have determined that we are the primary beneficiary of each because we absorb a majority of each entity’s expected losses; therefore they are consolidated in the financial statements. The Company has not provided any financial support to these VIEs but does earn fees as the investment manager. The assets of these VIEs may only be used to satisfy obligations of the VIEs. The following table presents the balances related to these VIEs that were included on the condensed consolidated statements of financial condition as well as GAMCO’s net interest in these VIEs:

| | September 30, 2011 |
|-----------------------------|--------------------------|
| (In thousands) | |
| Cash and cash equivalents | \$ 251 |
| Investments in securities | 44,227 |
| Investments in partnerships | 1,489 |
| Receivable from brokers | 50,060 |
| Other assets | 70 |

| | |
|---|-----------|
| Securities sold, not yet purchased | (3,786) |
| Accrued expenses and other liabilities | (525) |
| Redeemable noncontrolling interests | (37,289) |
| GAMCO's net interests in consolidated VIEs | \$ 54,497 |

On January 1, 2011, upon analysis of several factors, including the additional contribution of capital from unrelated third parties into a partnership that we consolidated for the year ended and as of December 31, 2010, we determined that the Company was no longer deemed to control the partnership, resulting in the deconsolidation of this partnership, effective January 1, 2011. The deconsolidation did not result in the recognition of any gain or loss. The Company continues to serve as the general partner and earns fees for this role, and it also maintains an investment in the deconsolidated partnership which is included in investments in partnerships on the condensed consolidated statements of financial condition and is accounted for under the equity method (which approximates fair value).

At September 30, 2011, December 31, 2010 and September 30, 2010, and for the three and nine months ended September 30, 2011 and September 30, 2010, the Company consolidated two limited partnerships and one offshore fund (the "consolidated feeder funds") that owned 100% of their offshore master funds. The Company retained the specialized investment company 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, 2011, December 31, 2010 and September 30, 2010, are \$27.1 million \$27.7 million, and \$26.8 million, respectively, which represent the consolidated feeder fund's proportionate investment in the master funds carried at fair value at those dates.

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 investments in partnerships are also measured at fair value.

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, open-end mutual funds, closed-end 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 private 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 generally be 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 that trade infrequently 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 consolidated feeder fund to be the best estimate of fair value. Investments in private funds that are redeemable at the measurement date or within the near term, 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, 2011, December 31, 2010 and September 30, 2010 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, 2011 (in thousands)

| Assets | Quoted Prices in Active Markets for Identical | | | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of September 30, 2011 |
|------------------------------------|---|-----------|--------|--|---|--|
| | Assets (Level 1) | | | | | |
| Cash equivalents | \$ 335,098 | \$ - | \$ - | \$ - | \$ 335,098 | |
| Investments in partnerships | - | 27,071 | - | - | 27,071 | |
| Investments in securities: | | | | | | |
| AFS - Common stocks | 31,903 | - | - | - | 31,903 | |
| AFS - Mutual funds | 57,262 | - | - | - | 57,262 | |
| Trading - Government obligations | 18,699 | - | - | - | 18,699 | |
| Trading - Common stocks | 160,259 | 8 | 594 | 594 | 160,861 | |
| Trading - Mutual funds | 1,202 | - | - | - | 1,202 | |
| Trading - Other | 38 | - | 358 | 358 | 396 | |
| Total investments in securities | 269,363 | 8 | 952 | 952 | 270,323 | |
| Total investments | 269,363 | 27,079 | 952 | 952 | 297,394 | |
| Total assets at fair value | \$ 604,461 | \$ 27,079 | \$ 952 | \$ 952 | \$ 632,492 | |
| Liabilities | | | | | | |
| Trading - Common stocks | \$ 6,743 | \$ - | \$ - | \$ - | \$ 6,743 | |
| Securities sold, not yet purchased | \$ 6,743 | \$ - | \$ - | \$ - | \$ 6,743 | |

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2010 (in thousands)

| Assets | Quoted Prices in Active Markets for Identical | | | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2010 |
|----------------------------------|---|--------|------|--|---|---------------------------------------|
| | Assets (Level 1) | | | | | |
| Cash equivalents | \$ 167,548 | \$ - | \$ - | \$ - | \$ 167,548 | |
| Investments in partnerships | - | 27,690 | - | - | 27,690 | |
| Investments in securities: | | | | | | |
| AFS - Common stocks | 37,139 | - | - | - | 37,139 | |
| AFS - Mutual funds | 65,188 | - | - | - | 65,188 | |
| Trading - Government obligations | 27,288 | - | - | - | 27,288 | |
| Trading - Common stocks | 170,204 | 23 | 147 | 147 | 170,374 | |
| Trading - Mutual funds | 1,554 | - | - | - | 1,554 | |
| Trading - Convertible bonds | 620 | - | - | - | 620 | |
| Trading - Preferred stocks | 1,973 | - | - | - | 1,973 | |
| Trading - Other | 72 | 1,000 | 278 | 278 | 1,350 | |

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| | | | | |
|------------------------------------|------------|-----------|--------|------------|
| Total investments in securities | 304,038 | 1,023 | 425 | 305,486 |
| Total investments | 304,038 | 28,713 | 425 | 333,176 |
| Total assets at fair value | \$ 471,586 | \$ 28,713 | \$ 425 | \$ 500,724 |
| Liabilities | | | | |
| Trading - Common stocks | \$ 19,299 | \$ - | \$ - | \$ 19,299 |
| Securities sold, not yet purchased | \$ 19,299 | \$ - | \$ - | \$ 19,299 |

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 | | | Significant Unobservable Inputs (Level 3) | Balance as of September 30, 2010 |
|------------------------------------|--|--------------------------------|---|---|--|
| | Identical Assets (Level 1) | Observable Inputs (Level 2) | Significant Other Observable Inputs (Level 2) | | |
| 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 - Government obligations | 1,363 | - | - | - | 1,363 |
| Trading - Common stocks | 128,113 | 90 | 183 | 183 | 128,386 |
| Trading - Mutual funds | 1,365 | - | - | - | 1,365 |
| Trading - Convertible bonds | 938 | - | - | - | 938 |
| Trading - Preferred stocks | 1,821 | - | 13 | 13 | 1,834 |
| Trading - Other | 204 | 285 | 93 | 93 | 582 |
| Total investments in securities | 227,546 | 375 | 289 | 289 | 228,210 |
| Total investments | 227,546 | 27,170 | 289 | 289 | 255,005 |
| Total assets at fair value | \$ 521,207 | \$ 27,170 | \$ 289 | \$ 289 | \$ 548,666 |
| Liabilities | | | | | |
| Trading - Common stocks | \$ 18,387 | \$ - | \$ - | \$ - | \$ 18,387 |
| Trading - Other | 59 | - | - | - | 59 |
| Securities sold, not yet purchased | \$ 18,446 | \$ - | \$ - | \$ - | \$ 18,446 |

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, 2011 (in thousands)

| Asset | June 30, 2011 | Total Realized and Unrealized Gains or (Losses) in Income | Total Unrealized Gains or (Losses) | | Transfers In and/or (Out) of Level 3 | Ending Balance |
|------------------------------|---------------|---|------------------------------------|----------------------------------|--------------------------------------|----------------|
| | | | in Other Comprehensive Income | and Unrealized Gains or (Losses) | | |
| Financial instruments owned: | | | | | | |

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| | | | | | | | | | |
|-------------------------------|--------|-------|------|------|-------|------|----------|------|--------|
| Trading - Common stocks | \$ 584 | \$ 10 | \$ - | \$ - | \$ 10 | \$ - | \$ - | \$ - | \$ 594 |
| Trading - Other | 369 | 12 | - | - | 12 | 3 | (26) | - | 358 |
| Total | \$ 953 | \$ 22 | \$ - | \$ - | \$ 22 | \$ 3 | \$ (26) | \$ - | \$ 952 |

There were no transfers between any Levels during the three months ended September 30, 2011.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2011 (in thousands)

| Asset | Total | | AFS Investments | Comprehensive Income | Gains or (Losses) Included in Other | Total Realized and Unrealized | Purchases | Sales | Transfers In and/or (Out) of Level 3 | Ending Balance |
|------------------------------|-------------------|--|-----------------|----------------------|-------------------------------------|-------------------------------|-----------|-------|--------------------------------------|----------------|
| | December 31, 2010 | Unrealized Gains or (Losses) in Income | | | | | | | | |
| Financial instruments owned: | | | | | | | | | | |
| Trading - Common stocks | \$ 147 | \$ 47 | \$ - | \$ - | \$ 47 | \$ 414 | \$ (14) | \$ - | \$ - | \$ 594 |
| Trading - Other | 278 | 135 | - | - | 135 | 13 | (74) | 6 | 6 | 358 |
| Total | \$ 425 | \$ 182 | \$ - | \$ - | \$ 182 | \$ 427 | \$ (88) | \$ 6 | \$ 6 | \$ 952 |

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2011. During the nine months ended September 30, 2011, the Company reclassified approximately \$6,000 of investments from Level 1 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 reclassifications occurred.

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)

| Asset | Total | | AFS Investments | Comprehensive Income | Gains or (Losses) Included in Other | Total Realized and Unrealized | Purchases and Sales, net | Net Transfers In and/or (Out) of Level 3 | Ending Balance |
|------------------------------|---------------|--|-----------------|----------------------|-------------------------------------|-------------------------------|--------------------------|--|----------------|
| | June 30, 2010 | Unrealized Gains or (Losses) in Income | | | | | | | |
| Financial instruments owned: | | | | | | | | | |
| Trading - Common stocks | \$ 272 | \$ 18 | \$ - | \$ - | \$ 18 | \$ (107) | \$ - | \$ - | \$ 183 |

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| | | | | | | | | |
|---------------------|--------|-------|------|------|-------|-----------|------|--------|
| 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.

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 | Total Unrealized Gains or (Losses) Included in Other Comprehensive Income | | | | | | | Ending Balance |
|------------------------------|---|---|-----------------|----------------------|---|--------------------------|--|----------------|
| | December 31, 2009 | Total Realized and Unrealized Gains or (Losses) in Income | AFS Investments | Comprehensive Income | Realized and Unrealized Gains or (Losses) | Purchases and Sales, net | Net Transfers In and/or (Out) of Level 3 | |
| Beginning Balance | Trading | Investments | Income | (Losses) | and Sales, net | (Out) of Level 3 | Ending Balance | |
| 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 reclassification occurred.

Unrealized Level 3 gains and/or losses included within net gain/(loss) from investments in the condensed consolidated statements of income for the three months ended September 30, 2011 and September 30, 2010 were approximately \$22,000 of gains and \$20,000 of gains, respectively, and for the nine months ended September 30, 2011 and September 30, 2010 were approximately \$182,000 of gains and \$48,000 of gains, respectively, for those Level 3 securities held at September 30, 2011 and September 30, 2010, respectively.

E. Debt

| | September 30, 2011 | December 31, 2010 | September 30, 2010 |
|-------------------|--------------------|-------------------|--------------------|
| (In thousands) | | | |
| 5.5% Senior notes | \$ 99,000 | \$ 99,000 | \$ 99,000 |
| | 100,000 | - | - |

| | | | |
|--------------|------------|------------|------------|
| 5.875% | | | |
| Senior notes | | | |
| 6.5% | | | |
| Convertible | | | |
| note | - | - | 60,000 |
| 0% | | | |
| Subordinated | | | |
| debentures | 62,973 | 59,580 | - |
| Total | \$ 261,973 | \$ 158,580 | \$ 159,000 |

On May 31, 2011, the Company issued \$100 million of senior unsecured notes at par maturing on June 1, 2021 and paying interest at the annual rate of 5.875% (the “2021 Notes”). The net proceeds of \$99.1 million from the issuance of the 2021 Notes are being used for working capital and general corporate purposes, which may include acquisitions. The issuance costs have been capitalized and are being amortized over the term of the debt. The interest on the 2021 Notes is payable semi-annually on June 1 and December 1 of each year commencing on December 1, 2011. Upon the occurrence of a change of control triggering event, as defined in the indenture, the Company would be required to offer to repurchase the notes at 101% of their principal amount. The 2021 Notes were issued pursuant to the Company’s existing \$400 million shelf registration statement filed with the SEC under which the remaining \$300 million is available through July 27, 2012.

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 was used to calculate the fair value of the conversion option embedded in the convertible debt at September 30, 2010, with significant inputs including volatility of GBL stock, interest rates, dividend yield and maturity. At September 30, 2011, December 31, 2010 and September 30, 2010, the fair value of the Company’s debt is estimated to be \$255.1 million, \$163.0 million and \$166.6 million, respectively. The carrying value of the Company debt at September 30, 2011, December 31, 2010 and September 30, 2010 is \$262.0 million, \$158.6 million and \$159.0 million, respectively. At the time of issuance on December 31, 2010, the effective interest rate for the zero coupon subordinated debentures due December 31, 2015 was 7.45%. The discount on the debt is being accreted to interest expense over the term of the debenture using the effective interest rate.

F. Income Taxes

The effective tax rate for the three and nine months ended September 30, 2011 was 39.8% and 36.9%, respectively, compared to 36.4% and 36.5% for the prior year three and nine month periods, respectively. The third quarter 2011 rate increase results from the change in the mix of operating income and investment losses which raises our effective state tax rate in addition to losses from consolidated partnerships for which no tax benefits are recorded at the corporate level. The tax liability or benefit from these partnerships flow directly to its partners and to the extent they relate to interests not held by GAMCO are included in net income attributable to noncontrolling interests.

G. Earnings Per Share

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

| | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|--|--|---|---|
| (in thousands, except per share amounts) | | | | |
| Basic: | | | | |
| Net income attributable to GAMCO | | | | |
| Investors, Inc.'s shareholders | \$ 7,699 | \$ 20,106 | \$ 45,989 | \$ 41,881 |
| Weighted average shares outstanding | 26,496 | 26,828 | 26,686 | 26,996 |
| Basic net income attributable to GAMCO | | | | |
| Investors, Inc.'s | | | | |
| shareholders per share | \$ 0.29 | \$ 0.75 | \$ 1.72 | \$ 1.55 |
| Diluted: | | | | |
| Net income attributable to GAMCO | | | | |
| Investors, Inc.'s shareholders | \$ 7,699 | \$ 20,106 | \$ 45,989 | \$ 41,881 |
| Add interest expense on convertible notes, net of management | | | | |
| fee and taxes | - | 721 | - | 791 |
| Total | 7,699 | 20,827 | 45,989 | 42,672 |
| Weighted average share outstanding | 26,496 | 26,828 | 26,686 | 26,996 |
| Dilutive stock options and restricted stock | | | | |
| awards | 80 | 262 | 86 | 238 |
| Assumed conversion of convertible notes | - | 1,274 | - | 584 |
| Total | 26,576 | 28,364 | 26,772 | 27,818 |
| Diluted net income attributable to GAMCO | | | | |
| Investors, Inc.'s | | | | |
| shareholders per share | \$ 0.29 | \$ 0.73 | \$ 1.72 | \$ 1.53 |

H. Stockholders' Equity

Shares outstanding were 26.8 million on September 30, 2011, 27.1 million on December 31, 2010, and 27.3 million on September 30, 2010.

On February 8, 2011, 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 29, 2011 to shareholders of record on March 15, 2011. On May 6, 2011, our Board of Directors declared a quarterly dividend of \$0.04 per share on its Class A Shares and Class B Shares, payable on June 28, 2011 to shareholders of record on June 14, 2011. On August 2, 2011, our Board of Directors declared a quarterly dividend of \$0.04 per share on its Class A Shares and Class B Shares, payable on September 27, 2011 to shareholders of record on September 13, 2011.

On February 9, 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 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.

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. With respect to stock options, 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 January 15, 2011, and February 9, 2011, the Company approved the granting of 193,900 restricted stock award (“RSA”) shares and 3,300 RSA shares, respectively, at a grant date fair value of \$48.85 per share and \$45.77 per share, respectively. On February 9, 2010, the Company approved the granting of 88,800 RSA shares at a grant date fair value of \$40.64 per share to be issued on June 1, 2010. As of September 30, 2011 and September 30, 2010, there were 285,100 RSA shares and 439,900 RSA shares, respectively, outstanding that were previously issued at an average weighted grant price of \$45.52 and \$56.96, respectively. All grants of the RSA shares were recommended by the Company's Chairman, who did not receive any RSA shares, and approved by the Compensation Committee. This expense is being 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 RSA shares, less estimated forfeitures, are charged to retained earnings on the declaration date.

In the fourth quarter of 2010, the Board of Directors of the Company approved the acceleration of the vesting of certain RSA shares resulting in the recognition of \$5.5 million in stock compensation expense which would have been recorded in 2011 and 2012.

For the three months ended September 30, 2011 and September 30, 2010, we recognized stock-based compensation expense of \$0.7 million and \$1.4 million, respectively. For the nine months ended September 30, 2011 and September 30, 2010, we recognized stock-based compensation expense of \$1.9 million and \$4.2 million, respectively. Actual and projected stock-based compensation expense for RSA shares and options for the years ended December 31, 2010 through December 31, 2016 (based on awards currently issued or granted) is as follows (\$ in thousands):

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----|-----------|----------|----------|----------|----------|----------|-------|
| Q1 | \$ 1,383 | \$ 577 | \$ 651 | \$ 650 | \$ 405 | \$ 366 | \$ 46 |
| Q2 | 1,422 | 686 | 651 | 629 | 368 | 334 | - |
| Q3 | 1,416 | 655 | 650 | 585 | 368 | 271 | - |
| Q4 | 6,364 | 660 | 650 | 585 | 368 | 271 | - |
| | \$ 10,585 | \$ 2,578 | \$ 2,602 | \$ 2,449 | \$ 1,509 | \$ 1,242 | \$ 46 |

Full
Year

The total compensation costs related to non-vested restricted stock awards and options not yet recognized is approximately \$8.5 million. For the three and nine months ended September 30, 2011, there were no options exercised. For the three months ended September 30, 2010 there were no options exercised. For the nine months ended September 30, 2010, proceeds from the exercise of 1,600 stock options were \$40,000 resulting in a tax benefit to GAMCO of \$8,000.

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 and on May 6, 2011, 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, 2011 and September 30, 2010, the Company repurchased 11,752 shares and 13,500 shares, respectively, at an average price per share of \$42.07 and \$36.01, respectively. For the nine months ended September 30, 2011 and September 30, 2010, the Company repurchased 441,961 shares and 424,200 shares, respectively, at an average price per share of \$45.26 and \$42.13, respectively. From the inception of the program through September 30, 2011, 7,335,047 shares have been repurchased at an average price of \$40.62 per share. At September 30, 2011, the total shares available under the program to be repurchased in the future were 582,372.

I. Goodwill and Identifiable Intangible Assets

At September 30, 2011, \$3.5 million of goodwill is reflected on the condensed consolidated statements of financial condition related to a 93%-owned subsidiary, Gabelli Securities, Inc. ("GSI"). The Company assesses the recoverability of goodwill and other intangible assets at least annually, or more often should events warrant, using a discounted cash flow method and a market approach. Due to the second quarter 2011 decision, pursuant to regulatory approvals received in April, to transfer the mutual fund distribution business from GSI's broker dealer subsidiary to a direct subsidiary of GAMCO on August 1, 2011, an impairment analysis was performed during the three months ended June 30, 2011 on the goodwill related to GSI. The goodwill was not deemed to be impaired and no impairment charge was recorded. There were no indicators of impairment for the three months ended September 30, 2011 or the three and nine months ended September 30, 2010, and as such there was no impairment analysis performed or charge recorded.

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. The amount paid for the assignment of the advisory contract was calculated based upon AUM on the six-month anniversary date subject to certain minimums. 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 identifiable, indefinite-lived intangible asset within other assets on the condensed consolidated statements of financial condition at both September 30, 2011 and September 30, 2010. The investment advisory agreement is subject to annual renewal by the Fund's Board of Directors, which the Company expects to 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 2012. The Company assesses the recoverability of this intangible asset at least annually, or more often should events warrant. There were no indicators of impairment for the three and nine months ended September 30, 2011 or September 30, 2010, and as such there was no impairment analysis performed or charge recorded.

J. Commitments and Contingencies

From time to time, the Company is named in legal actions and proceedings. These actions may seek substantial or indeterminate compensatory as well as punitive damages or injunctive relief. The Company is also subject to governmental or regulatory examinations or investigations. The examinations or investigations could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief. The Company cannot predict the ultimate outcome of such matters. The consolidated financial statements include the necessary provisions for losses that the Company believes are probable and estimable. Such amounts are not considered material to the Company's financial condition, operations or cash flows.

We indemnify the clearing brokers of 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, 2011, 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

Subsequent to September 30, 2011, we redeemed \$49.2 million from a VIE, with a merger arbitrage strategy, and subsequently invested it into the GAMCO Merger Arbitrage Fund, a Luxembourg SICAV, in order to facilitate our penetration into the European market. Upon analysis of several factors including the redemption of the \$49.2 million of proprietary capital from this VIE that we consolidated for the period ended and as of September 30, 2011, we determined that the Company was no longer deemed to be the primary beneficiary of the VIE resulting in the deconsolidation of this VIE effective October 1, 2011. The deconsolidation did not result in the recognition of any gain or loss. The Company continues to serve as the investment manager of the VIE and earns fees for this role, and it also maintains an investment of \$4.3 million in the deconsolidated VIE. Accordingly effective October 1, 2011, the remaining \$4.3 million investment in the VIE will be included in investments in partnerships on the condensed consolidated statements of financial condition and will be accounted for under the equity method (which approximates fair value).

The following table is provided to illustrate the effects of the deconsolidation on the balance sheet as if the transaction had occurred on September 30, 2011.

| | As Reported | Adjustments | As Adjusted |
|-------------------------------------|----------------|--------------|----------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 335,656 | \$ 48,949 | \$ 384,605 |
| Investments in securities | 270,323 | (44,227) | 226,096 |
| Investments in partnerships | 98,286 | 4,250 | 102,536 |
| Receivable from brokers | 67,064 | (50,060) | 17,004 |
| Other assets | 49,561 | 14 | 49,575 |
| Total assets | \$ 820,890 | \$ (41,074) | \$ 779,816 |
| LIABILITIES AND EQUITY | | | |
| Total liabilities | 375,140 | (4,179) | 370,961 |
| Redeemable noncontrolling interests | 38,050 | (36,895) | 1,155 |
| Total equity | 407,700 | - | 407,700 |
| Total liabilities and equity | \$ 820,890 | \$ (41,074) | \$ 779,816 |

On November 7, 2011, our Board of Directors declared a special dividend of \$1.00 per share on its Class A Shares and Class B Shares, payable on November 22, 2011 to shareholders of record on November 17, 2011, as well as a quarterly dividend of \$0.04 per share on its Class A Shares and Class B Shares, payable on December 27, 2011 to shareholders of record on December 13, 2011.

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. ("Gabelli & Company"), we provide institutional research and brokerage services to institutional clients and investment partnerships. Through Gabelli & Company, until July 31, 2011, and through G.distributors, LLC effective August 1, 2011, we provide mutual fund distribution. We generally manage assets on a fully discretionary basis and invest in a variety of U.S. and international securities through various investment styles. Our revenues are based primarily on the Company'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, on 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 and provide institutional research through Gabelli & Company, one of our broker-dealer subsidiaries. The distribution of our open-end funds was conducted through Gabelli & Company, until July 31, 2011, and through G.distributors, LLC, our newly formed broker-dealer subsidiary, effective August 1, 2011.

Assets under management ("AUM") were \$31.3 billion as of September 30, 2011, an increase of 6.2% from AUM of \$29.5 billion at September 30, 2010 and 13.3% below the June 30, 2011 AUM of \$36.1 billion. Highlights are as follows:

- Our open-end equity funds' AUM were \$11.5 billion on September 30, 2011, 15.1% higher than the \$10.0 billion on September 30, 2010 and 11.2% lower than the \$12.9 billion on June 30, 2011.
- Our closed-end funds had AUM of \$5.4 billion on September 30, 2011, up 6.4% from \$5.0 billion on September 30, 2010 but down 14.4% from \$6.3 billion on June 30, 2011.
- Our institutional and private wealth management business ended the quarter with \$12.0 billion in AUM, declining 3.2% from the \$12.4 billion on September 30, 2010 and 18.4% below the June 30,

2011 level of \$14.7 billion.

- Our investment partnerships' AUM were \$627 million on September 30, 2011 versus \$466 million on September 30, 2010 and \$609 million on June 30, 2011.
- AUM in The Gabelli U.S. Treasury Money Market Fund, our 100% U.S. Treasury money market fund, was \$1.9 billion at September 30, 2011 increasing 15.3% from the \$1.6 billion at both June 30, 2011 and September 30, 2010.
- In addition to management fees, we earn 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, 2011, assets with incentive based fees were \$3.4 billion, unchanged from the \$3.4 billion on September 30, 2010 and 10.5% below the \$3.8 billion on June 30, 2011.

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

Table I: Fund Flows - 3rd Quarter 2011

| | | Market | Net cash | Closed-end Fund distributions, net of reinvestments | September 30, 2011 |
|---------------------------------------|------------------|---------------------------------|----------|---|--------------------------|
| | June 30, 2011 | appreciation/ (depreciation) | flows | | |
| Equities: | | | | | |
| Open-end Funds | \$ 12,912 | \$ (1,790) | \$ 347 | \$ - | \$ 11,469 |
| Closed-end Funds | 6,259 | (894) | 94 | (104) | 5,355 |
| Institutional & PWM - direct | 11,735 | (2,358) | 267 | - | 9,644 |
| Institutional & PWM - sub-advisory | 2,953 | (547) | (80) | - | 2,326 |
| Investment Partnerships | 609 | (1) | 19 | - | 627 |
| Total Equities | 34,468 | (5,590) | 647 | (104) | 29,421 |
| Fixed Income: | | | | | |
| Money-Market Fund | 1,643 | - | 252 | - | 1,895 |
| Institutional & PWM | 26 | - | - | - | 26 |
| Total Fixed Income | 1,669 | - | 252 | - | 1,921 |
| Total Assets Under Management | \$ 36,137 | \$ (5,590) | \$ 899 | \$ (104) | \$ 31,342 |

Table II: Fund Flows - Nine months
ended September 30, 2011

| | | Market | Net cash | Closed-end Fund distributions, net of reinvestments | September 30, 2011 |
|--|-------------------------|---------------------------------|----------|---|--------------------------|
| | December 31, 2010 | appreciation/ (depreciation) | flows | | |
| Equities: | | | | | |
| Open-end Funds | \$ 11,252 | \$ (1,228) | \$ 1,445 | \$ - | \$ 11,469 |
| Closed-end Funds | 5,471 | (556) | 725 | (a) (285) | 5,355 |
| Institutional & PWM - direct | 11,005 | (1,523) | 162 | - | 9,644 |
| Institutional & PWM - sub-advisory | 2,637 | (375) | 64 | - | 2,326 |
| Investment Partnerships | 515 | 8 | 104 | - | 627 |
| Total Equities | 30,880 | (3,674) | 2,500 | (285) | 29,421 |
| Fixed Income: | | | | | |
| Money-Market Fund | 1,616 | - | 279 | - | 1,895 |

| | | | | | |
|-------------------------------|-----------|-------------|----------|-----------|-----------|
| Institutional & PWM | 26 | - | - | - | 26 |
| Total Fixed Income | 1,642 | - | 279 | - | 1,921 |
| Total Assets Under Management | \$ 32,522 | \$ (3,674) | \$ 2,779 | \$ (285) | \$ 31,342 |

(a) Includes \$392 million from the launch of a new closed-end fund.

Table III: Assets
Under
Management

| | September 30, 2010 | September 30, 2011 | % Inc.(Dec.) |
|--|--------------------------|--------------------------|-----------------|
| Equities: | | | |
| Open-end Funds | \$ 9,962 | \$ 11,469 | 15.1 % |
| Closed-end Funds | 5,033 | 5,355 | 6.4 |
| Institutional & PWM - direct | 10,172 | 9,644 | (5.2) |
| Institutional & PWM - sub-advisory | 2,218 | 2,326 | 4.9 |
| Investment Partnerships | 466 | 627 | 34.5 |
| Total Equities | 27,851 | 29,421 | 5.6 |
| Fixed Income: | | | |
| Money-Market Fund | 1,644 | 1,895 | 15.3 |
| Institutional & PWM | 26 | 26 | - |
| Total Fixed Income | 1,670 | 1,921 | 15.0 |
| Total Assets Under Management | \$ 29,521 | \$ 31,342 | 6.2 % |

Table IV: Assets Under Management by Quarter

| | 9/10 | 12/10 | 3/11 | 6/11 | 9/11 | % Increase/ (decrease) from | |
|--|---------------|---------------|---------------|---------------|---------------|--------------------------------|---------------|
| | | | | | | 9/10 | 6/11 |
| Equities: | | | | | | | |
| Open-end Funds | \$ 9,962 | \$ 11,252 | \$ 12,348 | \$ 12,912 | \$ 11,469 | 15.1 % | (11.2%) |
| Closed-end Funds | 5,033 | 5,471 | 6,170 | 6,259 | 5,355 | 6.4 | (14.4) |
| Institutional & PWM - direct | 10,172 | 11,005 | 11,780 | 11,735 | 9,644 | (5.2) | (17.8) |
| Institutional & PWM - sub-advisory | 2,218 | 2,637 | 2,937 | 2,953 | 2,326 | 4.9 | (21.2) |
| Investment Partnerships | 466 | 515 | 547 | 609 | 627 | 34.5 | 3.0 |
| Total Equities | 27,851 | 30,880 | 33,782 | 34,468 | 29,421 | 5.6 | (14.6) |
| Fixed Income: | | | | | | | |
| Money-Market Fund | 1,644 | 1,616 | 1,583 | 1,643 | 1,895 | 15.3 | 15.3 |
| | 26 | 26 | 26 | 26 | 26 | - | - |

Institutional &
PWM

| | | | | | | | |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-------|----------|
| Total Fixed Income | 1,670 | 1,642 | 1,609 | 1,669 | 1,921 | 15.0 | 15.1 |
| Total Assets Under Management | \$ 29,521 | \$ 32,522 | \$ 35,391 | \$ 36,137 | \$ 31,342 | 6.2 % | (13.3 %) |

Relative long-term investment performance remains strong. 45% 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, 2011. Also, 44% of the firm's mutual funds that are rated have a 4- or 5-star 3 year Morningstar Rating™.

Gabelli/GAMCO Funds Morningstar Ratings Based on Risk Adjusted returns as of September 30, 2011 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 Growth | ★★★★ | 676 | ★★★ | 676 | ★★★★ | 601 | ★★★ | 404 |
| Gabelli Asset AAA | Large Blend | ★★★★ | 1652 | ★★★ | 1652 | ★★★★ | 1408 | ★★★★ | 832 |
| Gabelli Blue Chip Value AAA | Large Blend | ★★ | 1652 | ★★ | 1652 | ★★ | 1408 | ★★ | 832 |
| Gabelli Equity Income AAA | Large Value | ★★★★ | 1114 | ★★★ | 1114 | ★★★★ | 964 | ★★★★ | 545 |
| Gabelli Small Cap Growth AAA | Small Blend | ★★★★ | 578 | ★★★★ | 578 | ★★★★ | 493 | ★★★★ | 289 |
| Gabelli SRI Green AAA | World Stock | ★★★★ | 692 | ★★★★ | 692 | n/a | n/a | n/a | n/a |
| Gabelli Utilities AAA | Specialty-Utilities | ★★ | 73 | ★★ | 73 | ★★ | 71 | ★★ | 45 |
| Gabelli Value A | Mid-Cap Blend | ★★ | 369 | ★★ | 369 | ★★ | 305 | ★★ | 193 |
| Gabelli Woodland Small Cap Value AAA | Small Blend | ★★ | 578 | ★★ | 578 | ★★ | 493 | n/a | n/a |
| GAMCO Vertumnus AAA | Convertibles | ★★ | 58 | ★★ | 58 | ★ | 47 | ★★ | 39 |
| GAMCO Global Growth AAA | World Stock | ★★ | 692 | ★★ | 692 | ★★ | 491 | ★★ | 276 |
| GAMCO Global Opportunity AAA | World Stock | ★★★★ | 692 | ★★★★ | 692 | ★★★★ | 491 | ★★ | 276 |
| GAMCO Global Telecommunications AAA | Specialty-Communications | ★★ | 40 | ★★ | 40 | ★★ | 33 | ★★★★ | 30 |
| GAMCO Gold AAA | Specialty-Precious Metals | ★★ | 69 | ★★ | 69 | ★★ | 55 | ★★ | 40 |
| GAMCO Growth AAA | Large Growth | ★★ | 1479 | ★★ | 1479 | ★★ | 1261 | ★ | 788 |
| GAMCO International Growth AAA | Foreign Large Growth | ★★★★ | 206 | ★★★★ | 206 | ★★★★ | 163 | ★★ | 104 |
| GAMCO Mathers | Conservative Allocation | ★ | 544 | ★ | 544 | ★★ | 442 | ★ | 170 |
| Gabelli Enterprise Mergers & Acquisitions A | Mid-cap Blend | ★★★★ | 369 | ★★★★ | 369 | ★★★★ | 305 | ★★ | 193 |
| Percent of Rated funds rated 4 or 5 stars | | | 44.44% | | 44.44% | | 47.06% | | 31.25% |

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 noted above. Other classes may have different performance

characteristics. Unrated funds and closed-end funds are not listed above. The percentage of 4 and 5 star funds are calculated based on the total number of GAMCO/Gabelli Funds that are rated for a given period. 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. © 2011 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, charges and expenses of the funds 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 G.distributors, LLC, One Corporate Center, Rye, NY 10580. 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.

GABELLI/GAMCO
FUNDS

Gabelli/GAMCO Funds Lipper Rankings as of September 30, 2011

| Fund Name | Lipper Category | 1 Yr - 9/30/10-9/30/11 | | 3 Yrs - 9/30/08-9/30/11 | | 5 Yrs - 9/30/06-9/30/11 | | 10 Yrs - 9/30/01-9/30/11 | |
|-------------------------|------------------------------------|---------------------------|--------------------|----------------------------|--------------------|----------------------------|--------------------|-----------------------------|--------------------|
| | | Percentile Rank | Rank / Total Funds | Percentile Rank | Rank / Total Funds | Percentile Rank | Rank / Total Funds | Percentile Rank | Rank / Total Funds |
| Gabelli Asset; AAA | Multi-Cap Core Funds | 32 | 247/794 | 13 | 83/690 | 7 | 36/580 | 10 | 29/296 |
| Gabelli Value Fund; A | Multi-Cap Growth Funds | 50 | 247/500 | 22 | 88/413 | 45 | 147/333 | 37 | 83/228 |
| Gabelli SRI; AAA | Mid-Cap Growth Funds | 56 | 224/401 | 6 | 18/355 | - | - | - | - |
| Gabelli Eq:Eq Inc; AAA | Equity Income Funds | 47 | 133/288 | 26 | 64/251 | 25 | 49/202 | 9 | 10/103 |
| GAMCO Growth; AAA | Large-Cap Growth Funds | 88 | 683/777 | 85 | 573/676 | 83 | 483/587 | 84 | 310/371 |
| Gabelli Eq:SC Gro; AAA | Small-Cap Core Funds | 48 | 347/730 | 20 | 132/659 | 10 | 49/531 | 9 | 28/315 |
| Gabelli Eq:Wd SCV; AAA | Small-Cap Core Funds | 92 | 667/730 | 84 | 554/659 | 43 | 226/531 | - | - |
| GAMCO Gl:Oppty; AAA | Global Large-Cap Growth | 48 | 53/111 | 10 | 10/100 | 36 | 27/74 | 10 | 4/39 |
| GAMCO Gl:Growth; AAA | Global Large-Cap Growth | 59 | 65/111 | 44 | 44/100 | 40 | 30/74 | 53 | 21/39 |
| GAMCO Gold; AAA | Precious Metal Funds | 52 | 38/73 | 50 | 29/58 | 47 | 21/44 | 36 | 12/33 |
| GAMCO Intl Gro; AAA | International Large-Cap Growth | 4 | 8/247 | 2 | 3/219 | 19 | 33/180 | 32 | 37/116 |
| Gabelli Bl Chp Val; AAA | Large-Cap Core Funds | 87 | 960/1,107 | 58 | 569/990 | 54 | 449/835 | 42 | 212/510 |
| Gabelli Inv:ABC; AAA | Specialty Diversified Equity Funds | 22 | 9/40 | 49 | 15/30 | 30 | 8/26 | 10 | 1/9 |
| GAMCO Mathers; AAA | Specialty Diversified Equity Funds | 57 | 23/40 | 75 | 23/30 | 63 | 17/26 | 50 | 5/9 |
| Comstock Cap Val; A | Specialty Diversified Equity Funds | 71 | 29/40 | 88 | 27/30 | 86 | 23/26 | 70 | 7/9 |
| GAMCO Gl:Telecom; AAA | Telecommunications Funds | 75 | 29/38 | 75 | 24/31 | 36 | 9/24 | 20 | 4/20 |
| GAMCO Gl:Vertumnus; AAA | Convertible Securities Funds | 73 | 49/67 | 92 | 46/49 | 95 | 38/39 | 83 | 28/33 |
| Gabelli Utilities; AAA | Utility Funds | 69 | 50/72 | 39 | 26/66 | 27 | 16/59 | 40 | 16/40 |
| | | 16 | 48/311 | 41 | 110/273 | 37 | 82/226 | 89 | 125/141 |

| | | | | | | | | | |
|---|---|-------|--------|-------|--------|-------|--------|-------|--------|
| 787:Gabelli Merg&Acq; A Gabelli Capital Asset Fund | Mid-Cap Core Funds Distributed through Insurance Channel | 25 | 77/311 | 10 | 30/293 | 21 | 51/242 | 16 | 23/144 |
| % of funds in top half | | 45.0% | | 65.0% | | 73.7% | | 72.2% | |

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 45%, 65%, 74% and 72% 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, 2011.

Investors should carefully consider the investment objective, risks, charges, and expenses of each fund before investing. Each fund's prospectus contains information about these and other matters and should be read carefully before investing. Each fund's share price will fluctuate with changes in the market value of the fund's portfolio securities. Stocks are subject to market, economic and business risks that cause their prices to fluctuate. When you sell fund shares, they may be worth less than what you paid for them. Consequently, you can lose money by investing in the fund. You can obtain a prospectus by calling 800-GABELLI (422-3554), online at www.gabelli.com, or from your financial advisor. Distributed by G.distributors, LLC., One Corporate Center, Rye New York, 10580. 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 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, 2011 Compared To Three Months Ended September 30, 2010

(Unaudited; in thousands, except per share data)

| | 2011 | 2010 |
|--|-----------------|---------------|
| Revenues | | |
| Investment advisory and incentive fees | \$ 65,244 | \$ 50,249 |
| Institutional research services | 3,421 | 4,005 |
| Distribution fees and other income | 11,486 | 8,189 |
| Total revenues | 80,151 | 62,443 |
| Expenses | | |
| Compensation | 32,010 | 26,661 |
| Management fee | 1,387 | 3,540 |
| Distribution costs | 11,091 | 7,710 |
| Other operating expenses | 5,002 | 5,023 |
| Total expenses | 49,490 | 42,934 |
| Operating income | 30,661 | 19,509 |
| Other income (expense) | | |
| Net gain/(loss) from investments | (16,152) | 13,916 |
| Interest and dividend income | 1,823 | 2,012 |
| Interest expense | (4,418) | (3,295) |
| Total other income (expense), net | (18,747) | 12,633 |
| Income before income taxes | 11,914 | 32,142 |
| Income tax provision | 4,745 | 11,686 |
| Net income | 7,169 | 20,456 |
| Net income/(loss) attributable to noncontrolling interests | (530) | 350 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 7,699 | \$ 20,106 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders per share | | |
| Basic | \$ 0.29 | \$ 0.75 |
| Diluted | \$ 0.29 | \$ 0.73 |
| Reconciliation of net income attributable to GAMCO Investors, Inc.'s shareholders to Adjusted EBITDA: | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | | |
| Interest expense | 4,418 | 3,295 |
| | 4,215 | 12,036 |

| | | |
|--|-----------|-----------|
| Income tax provision and net income attributable to noncontrolling interests | | |
| Depreciation and amortization | 186 | 177 |
| Adjusted EBITDA (a) | \$ 16,518 | \$ 35,614 |

(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.

Overview

Total revenues were \$80.2 million in the third quarter of 2011, 28.5% above the \$62.4 million reported in the third quarter of 2010. Operating income was \$30.7 million, an increase of \$11.2 million or 57.4% from \$19.5 million in the third quarter of 2010. Total other income, net of interest expense, was an expense of \$18.7 million for the third quarter 2011 versus income of \$12.6 million in the comparable prior year quarter. Net income attributable to GAMCO Investors, Inc.'s shareholders for the quarter was \$7.7 million or \$0.29 per fully diluted share versus \$20.1 million or \$0.73 per fully diluted share in the prior year's quarter. Our results are largely driven by the levels of AUM and remain sensitive to changes in the equity markets.

Revenues

Investment advisory and incentive fees for the third quarter 2011 were \$65.2 million, 29.9% above the 2010 comparative figure of \$50.2 million. Open-end mutual fund revenues increased by 27.2% to \$30.4 million from \$23.9 million in third quarter 2010 driven by higher average AUM of 27.3% resulting from both net inflows and market performance. Our closed-end fund revenues rose 29.0% to \$12.0 million in the third quarter 2011 from \$9.3 million in 2010 due to higher average AUM which includes \$392 million from a new closed-end fund launched in the first quarter of 2011. Institutional and private wealth management account revenues, which are generally based on beginning of quarter AUM, increased 33.7% to \$21.8 million from \$16.3 million in third quarter 2010, primarily due to higher AUM resulting from market appreciation, and a \$1.0 million quarter over quarter increase in earned performance fees. Investment partnership revenues were \$1.1 million, an increase of 51.5% from \$726,000 in 2010.

Our institutional research subsidiary had revenues of \$3.4 million in the third quarter 2011, a decline of 15.0% from \$4.0 million in the prior year quarter as increased commission income was more than offset by lower syndicate and manager fees.

Open-end fund distribution fees and other income were \$11.5 million for the third quarter 2011, an increase of \$3.3 million or 40.2% from \$8.2 million in the prior year period, 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.

Expenses

Compensation costs, which are largely variable, were \$32.0 million or 19.9% higher than the \$26.7 million recorded in the prior year period. Variable based compensation comprised virtually all of this increase and was driven by higher revenues across most business lines as AUM increased quarter over quarter.

Management fee expense, which is wholly variable and based on pretax income, decreased to \$1.4 million in the third quarter of 2011 from \$3.5 million in the 2010 period.

Distribution costs were \$11.1 million, an increase of \$3.4 million or 44.2% from \$7.7 million in the prior year period as average AUM in open-end equity mutual funds, the majority of which were obtained through third-party distribution programs, increased 32.1% in the third quarter 2011 from the third quarter of 2010.

Other operating expenses remained flat at \$5.0 million for both the third quarter of 2011 and 2010.

Total expenses were \$49.5 million in the 2011 quarter, \$6.6 million or 15.4% ahead of the \$42.9 million reported in the third quarter of 2010. Total expenses, excluding the management fee, were \$48.1 million in the third quarter of 2011, a 22.1% increase from \$39.4 million in the third quarter of 2010.

Operating income for the third quarter of 2011 was \$30.7 million, an increase of \$11.2 million from the third quarter 2010's \$19.5 million. Operating income, as a percentage of revenues, was 38.3% in the 2011 quarter as compared to 31.2% in the 2010 quarter. Operating margin was positively impacted by both increased operating leverage as the increase in revenues was greater than the increase in fixed expenses and the effect of the negative \$31.3 million swing in other income on management fee expense.

Other

Total other income (net of interest expense) was an expense of \$18.7 million for the third quarter 2011 versus income of \$12.6 million in the prior year's quarter. Realized and unrealized gains in our trading portfolio fell by \$30.1 million on the relative weakness in the equity markets. Interest and dividend income was lower by \$0.2 million. Interest expense increased by \$1.1 million to \$4.4 million in the third quarter of 2011 from the \$3.3 million in third quarter of 2010. Due to the various redemptions and issuances of debt subsequent to September 30, 2010, we expect interest expense in the fourth quarter of 2011 to exceed interest expense recorded in the fourth quarter of 2010 by \$2.3 million.

The effective tax rate for the three months ended September 30, 2011 was 39.8% as compared to the prior year period's effective rate of 36.4%. The third quarter 2011 rate increase results from the change in the mix of operating income and investment losses which raises our effective state tax rate in addition to losses from consolidated partnerships for which no tax benefits are recorded at the corporate level. The tax liability or benefit from these partnerships flow directly to its partners and to the extent they relate to non GAMCO interests are included in net income attributable to noncontrolling interests.

Nine Months Ended September 30, 2011 Compared To Nine Months Ended September 30, 2010

(Unaudited; in thousands, except per share data)

| | 2011 | 2010 |
|--|-----------------|----------------|
| Revenues | | |
| Investment advisory and incentive fees | \$ 197,407 | \$ 149,862 |
| Institutional research services | 11,311 | 11,953 |
| Distribution fees and other income | 33,419 | 23,125 |
| Total revenues | 242,137 | 184,940 |
| Expenses | | |
| Compensation | 99,792 | 78,745 |
| Management fee | 8,126 | 7,368 |
| Distribution costs | 34,108 | 21,840 |
| Other operating expenses | 18,193 | 15,528 |
| Total expenses (a) | 160,219 | 123,481 |
| Operating income | 81,918 | 61,459 |
| Other income (expense) | | |
| Net gain/(loss) from investments | (3,743) | 11,351 |
| Interest and dividend income | 5,620 | 3,916 |
| Interest expense | (10,688) | (9,993) |
| Total other income (expense), net | (8,811) | 5,274 |
| Income before income taxes | 73,107 | 66,733 |
| Income tax provision | 26,978 | 24,381 |
| Net income | 46,129 | 42,352 |
| Net income attributable to noncontrolling interests | 140 | 471 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 45,989 | \$ 41,881 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders per share | | |
| Basic | \$ 1.72 | \$ 1.55 |
| Diluted | \$ 1.72 | \$ 1.53 |
| Reconciliation of net income attributable to GAMCO Investors, Inc.'s shareholders to Adjusted EBITDA: | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 45,989 | \$ 41,881 |

| | | |
|--|-----------|-----------|
| Interest expense | 10,688 | 9,993 |
| Income tax provision and net income attributable to noncontrolling interests | 27,118 | 24,852 |
| Depreciation and amortization | 642 | 520 |
| Adjusted EBITDA (b) | \$ 84,437 | \$ 77,246 |

(a) First nine months 2011 includes \$5.6 million in costs directly related to the launch of a new closed-end fund in the first quarter.

(b) 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.

Overview

Total revenues were \$242.1 million in the first nine months of 2011, 30.9% above the \$184.9 million reported in the first nine months of 2010. Operating income was \$81.9 million, an increase of \$20.4 million or 33.2% from \$61.5 million in the first nine months of 2010. Total other income, net of interest expense, was an expense of \$8.8 million for the first nine months of 2011 versus income of \$5.3 million in the comparable prior year period. Net income attributable to GAMCO Investors, Inc.'s shareholders for the first nine months was \$46.0 million or \$1.72 per fully diluted share versus \$41.9 million or \$1.53 per fully diluted share in the prior year's period. Our results are largely driven by the levels of AUM and remain sensitive to changes in the equity markets.

Revenues

Investment advisory and incentive fees for the first nine months of 2011 were \$197.4 million, 31.7% above the 2010 comparative figure of \$149.9 million. Open-end mutual fund revenues increased by 29.5% to \$89.6 million from \$69.2 million in the first nine months of 2010 driven by higher average AUM of 28.4% resulting from both net inflows and market performance. Our closed-end fund revenues rose 34.8% to \$36.4 million in the first nine months of 2011 from \$27.0 million in 2010 due to higher average AUM which includes \$392 million from a new closed-end fund launched in the first quarter of 2011. Institutional and private wealth management account revenues, which are generally based on beginning of quarter AUM, increased 32.9% to \$68.3 million from \$51.4 million in the first nine months of 2010, primarily due to higher AUM resulting from market appreciation, and a period over period \$4.8 million increase in earned performance fees. Investment partnership revenues were \$2.9 million, an increase of 31.8% from the \$2.2 million in 2010.

Our institutional research subsidiary had revenues of \$11.3 million in the first nine months of 2011, decreasing 5.8% from the \$12.0 million in the prior year.

Open-end fund distribution fees and other income were \$33.4 million for the first nine months of 2011, an increase of \$10.3 million or 44.6% from \$23.1 million in the prior year period, 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.

Expenses

Compensation costs, which are largely variable, were \$99.8 million or 26.8% higher than the \$78.7 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 wholly variable and based on pretax income, increased to \$8.1 million in the first nine months of 2011 from the first nine months of 2010's \$7.4 million.

Distribution costs were \$34.1 million, an increase of \$12.3 million or 56.4% from \$21.8 million in the prior year's period. Included in the current period was \$4.7 million in one-time pre-tax charges related to the launch of GNT. Excluding these one-time pre-tax charges, distribution costs would have been \$29.4 million for the first nine months of 2011, an increase of 34.9% from the 2010 first nine months amount of \$21.8 million and are primarily the result of increased distribution costs related to third-party distribution programs.

Other operating expenses increased by \$2.7 million or 17.4% to \$18.2 million in the first nine months of 2011 from \$15.5 million in the prior year period. Other operating expenses include costs related to accounting, insurance, legal, regulatory and data processing.

Total expenses were \$160.2 million in the first nine months of 2011, \$36.7 million or 29.7% ahead of the \$123.5 million reported in the first nine months of 2010. Total expenses, excluding the management fee, were \$152.1 million during the first nine months of 2011, a 31.0% increase from \$116.1 million in the 2010 period. Excluding the one-time pre-tax charges related to the launch of GNT in the first quarter of 2011, the total expenses, excluding the management fee, were \$146.5 million, a 26.2% increase from the 2010 level.

Operating income for the first nine months of 2011 was \$81.9 million, an increase of \$20.4 million from the first nine months of 2010's \$61.5 million. This increase was largely due to the increase in revenues partially offset by the one-time pre-tax launch costs for GNT of \$5.6 million. Excluding the one-time pre-tax charges for the launch of GNT, operating income was \$87.5 million, an increase of \$26.0 million or 42.3% from the first nine months of 2010. Operating income, as a percentage of revenues, was 33.8% in the 2011 period as compared to 33.2% in the 2010 period.

Other

Total other income (net of interest expense) was an expense of \$8.8 million for the first nine months of 2011 versus income of \$5.3 million in the prior year's period. Realized and unrealized gains in our trading portfolio fell by \$15.1 million on the relative weakness in the equity markets. Interest and dividend income was higher by \$1.7 million. Interest expense was \$10.7 million in the first nine months of 2011, higher by \$0.7 million, as compared to the \$10.0 million in the first nine months of 2010. Due to the various redemptions and issuances of debt subsequent to September 30, 2010, we expect interest expense in the fourth quarter of 2011 to exceed interest expense recorded in the fourth quarter of 2010 by \$2.3 million.

The effective tax rate for the nine months ended September 30, 2011 was 36.9% as compared to the prior year period's effective rate of 36.5%.

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 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, | |
| | 2011 | 2010 |
| Cash flows provided by (used in): | (in thousands) | |
| Operating activities | \$ 73,494 | \$ (38,754) |
| Investing activities | 2,573 | 3,853 |
| Financing activities | 91,242 | (71,404) |
| Effect of exchange rates on cash and cash equivalents | (3) | (2) |
| Net increase (decrease) | 167,306 | (106,307) |
| Cash and cash equivalents at beginning of period | 169,601 | 338,270 |
| Decrease in cash from deconsolidation of partnership | (1,251) | - |
| Cash and cash equivalents at end of period | \$ 335,656 | \$ 231,963 |

Cash requirements and liquidity needs have historically been met through cash generated by operating activities and our borrowing capacity. We filed a shelf registration with the SEC in 2009 which, among other things, 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 May 31, 2011, the Company issued \$100 million of senior unsecured notes at par. The net proceeds of \$99.1 million will be used for working capital and general corporate purposes, which may include acquisitions. The notes mature June 1, 2021 and bear interest, payable semi-annually, at 5.875% per annum. The notes were issued pursuant to the Company's shelf registration reducing the amount for future issuances to \$300 million. The shelf is available through July 27, 2012. We maintain an investment grade rating at both Moody's Investors Services (Baa3/stable) and Standard & Poor's (BBB/stable).

At September 30, 2011, we had total cash and cash equivalents of \$335.7 million, an increase of \$166.1 million from December 31, 2010. Cash and cash equivalents of \$2.4 million and investments in securities of \$49.9 million held by consolidated investment partnerships and offshore funds may not be readily available for the Company to access. Total debt outstanding at September 30, 2011 was \$262.0 million, consisting of \$63.0 million in five year zero coupon subordinated debentures due 2015 ("Debentures"), with a face value of \$86.4 million, \$100 million of 5.875% senior notes due 2021 and \$99 million of 5.5% senior notes due 2013.

For the nine months ended September 30, 2011, cash provided by operating activities was \$73.5 million, an increase of \$112.3 million from the prior year's period cash used of \$38.8 million. The most significant contributor to the increased use of cash from operating activities in the first nine months of 2011 versus the first nine months of 2010 was a decrease in trading investments of \$70.3 million and an increase of \$10.3 million in payable to brokers. Cash provided by investing activities, related to purchases and proceeds from sales of available for sale securities, was \$2.6 million in the first nine months of 2011. Cash provided by financing activities in the first nine months of 2011 was \$91.2 million, including \$100.0 million (\$99.1 million net of issuance costs) from the issuance of 5.875% senior unsecured notes due June 2021 less \$3.0 million paid in dividends and \$20.0 million paid for the purchase of treasury stock.

For the nine months ended September 30, 2010, cash used in operating activities was \$38.8 million. Cash provided by investing activities, related to purchases and proceeds from sales of available for sale securities, was \$3.9 million in the first nine months of 2010. Cash used in financing activities in the first nine months of 2010 was \$71.4 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 debit 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, 2011. At September 30, 2011, Gabelli & Company had net capital, as defined, of approximately \$12.1 million, exceeding the regulatory requirement by approximately \$11.8 million. During the second quarter of 2011, we received regulatory approval of our newly registered broker-dealer, G.distributors, LLC, which became the distributor of the open-end mutual funds on August 1, 2011. G.distributors, LLC 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 debit items in the reserve formula for those broker-dealers subject to Rule 15c3-3 promulgated under the Securities Exchange Act of 1934 ("Exchange Act"). The requirement was \$250,000 at September 30, 2011. At September 30, 2011, G.distributors, LLC had net capital, as defined, of approximately \$1.4 million, exceeding the regulatory requirement by approximately \$1.2 million. Net capital requirements for our affiliated broker-dealers may increase in accordance with rules and regulations to the extent they engage in other business 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 affiliated open-end and closed-end funds, 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 \$270.3 million at September 30, 2011 were investments in United States Treasury Bills and Notes of \$18.7 million, in mutual funds, largely invested in equity products, of \$58.5 million, a selection of common and preferred stocks totaling \$192.8 million, and other investments of approximately \$0.3 million. 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 \$192.8 million invested in common and preferred stocks at September 30, 2011, \$31.9 million represented our investment in Westwood Holdings Group Inc., and \$32.0 million was invested by the Company in risk arbitrage opportunities in connection with mergers, consolidations, acquisitions, tender offers or other similar transactions. Risk arbitrage generally involves 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. 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, 2011, the fair value of securities sold, not yet purchased was \$6.7 million. Investments in partnerships totaled \$98.4 million at September 30, 2011, the majority of which consisted of investment partnerships and offshore funds which invest in risk arbitrage opportunities.

The following table provides a sensitivity analysis for our investments in equity securities and partnerships and affiliates which invest primarily in equity securities, excluding arbitrage products for which the principal exposure is to deal closure and not overall market conditions, as of September 30, 2011. The sensitivity analysis assumes a 10% increase or decrease in the value of these investments (in thousands):

| | | Fair Value assuming 10% decrease in equity prices | Fair Value assuming 10% increase in equity prices |
|---|------------|--|--|
| (unaudited) | Fair Value | | |
| At September 30, 2011: | | | |
| Equity price sensitive investments, at fair value | \$ 297,459 | \$ 267,714 | \$ 327,205 |
| At December 31, 2010: | | | |
| Equity price sensitive investments, at fair value | \$ 359,699 | \$ 323,729 | \$ 395,669 |

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 2010 Annual Report on Form 10-K filed with the SEC on February 23, 2011 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 affiliated open-end and closed-end funds, institutional and private wealth management accounts, and Investment Partnerships as well as our proprietary investment and trading activities. At September 30, 2011, we had equity investments, including mutual funds largely invested in equity products, of \$270.3 million. Investments in mutual funds, \$58.5 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 \$98.3 million, of which \$39.3 million were invested in partnerships which invest in risk arbitrage. Risk arbitrage is 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/(loss) 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, 2011. Disclosure controls and procedures as defined under the 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 SEC rules and regulations. 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, 2011, 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 and proceedings. These actions may seek substantial or indeterminate compensatory as well as punitive damages or injunctive relief. The Company is also subject to governmental or regulatory examinations or investigations. The examinations or investigations could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief. The Company cannot predict the ultimate outcome of such matters. The consolidated financial statements include the necessary provisions for losses that the Company believes are probable and estimable. Such amounts are not considered material to the Company’s financial condition, operations or cash flows.

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, 2011:

| | | (c) Total Number of Shares Repurchased as Part of Publicly | (d) Maximum Number of Shares That May Yet Be |
|----------------------------------|--|--|--|
| (a) Total Number of Shares | (b) Average Price Paid Per Share, net of | | |

| Period | Repurchased | Commissions | Announced Plans or Programs | Purchased Under the Plans or Programs |
|----------------------|-------------|-------------|-----------------------------------|--|
| 7/01/11 - 7/31/11 | - | \$ - | - | 594,124 |
| 8/01/11 - 8/31/11 | 5,044 | 43.82 | 5,044 | 589,080 |
| 9/01/11 - 9/30/11 | 6,708 | 40.75 | 6,708 | 582,372 |
| Totals | 11,752 | \$ 42.07 | 11,752 | |

Our stock repurchase programs are not subject to expiration dates.

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

Date: November 7, 2011

By:/s/ Diane M. LaPointe

Name: Diane M. LaPointe

Title: Co-Principal Accounting Officer

Date: November 7, 2011

