

GENERAL AMERICAN INVESTORS CO INC

Form N-30B-2

October 26, 2004

GENERAL AMERICAN INVESTORS
COMPANY, INC.

THIRD QUARTER REPORT

SEPTEMBER 30, 2004

A Closed-End Investment Company
listed on the New York Stock Exchange

450 Lexington Avenue
New York, NY 10017
212-916-8400

E-mail: InvestorRelations@gainv.com
www.generalamericaninvestors.com

TO THE STOCKHOLDERS

For the nine months ended September 30, 2004, our stockholders experienced a decrease of 0.3% on their investment in our Common Stock (assuming reinvestment of all dividends). The net asset value per Common Share increased 0.8%. By comparison, the rate of return (including income) for our benchmark, the Standard & Poor's 500 Stock Index, was 1.5%. For the twelve months ended September 30, 2004, the return to our stockholders was 9.7% and the return on the net asset value per Common Share was 11.3%; these compare with a return of 13.7% for the S&P 500. During each period, the discount at which our shares traded increased slightly and at September 30, 2004, it was 11.2%.

As set forth in the accompanying financial statements (unaudited), as of September 30, 2004, the net assets applicable to the Company's Common Stock were \$962,775,917, equal to \$33.25 per Common Share.

The increase in net assets resulting from operations for the nine months ended September 30, 2004 was \$4,672,132. During this period, the net realized gain on securities sold was \$13,296,001 and the decrease in unrealized appreciation was \$3,420,819. Net investment income for the nine months was \$3,721,950 and distributions to Preferred Stockholders amounted to \$8,925,000.

During the nine months, 831,900 shares of the Company's Common Stock were repurchased for \$24,966,772 at an average discount from net asset value of 10%.

While equity markets continue to trade in a narrow range, recent results suggest that investors will be rewarded for holding the kind of quality companies, with strong earnings growth, that characterize General American's portfolio. There are, of course, serious impediments to a smooth advance. These include, conspicuously, the war in Iraq and elevated energy prices, as well as more conceptual issues such as too little savings and too much debt, all exacerbated by the current political campaign. Nonetheless, profits are continuing to grow, albeit at a decelerating rate, and, in our view, stocks remain attractive relative to bonds.

The information about the Company, including our investment objective, operating policies and procedures, investment results, record of dividend payments, financial reports and press releases, contained at our website has been updated

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through September 30, 2004. It can be accessed on the Internet at www.generalamericaninvestors.com.

By Order of the Board of Directors,

General American Investors Company, Inc.

Spencer Davidson
President and Chief Executive Officer

October 13, 2004

2 STATEMENT OF ASSETS AND LIABILITIES September 30, 2004 (Unaudited)

General American Investors

ASSETS

INVESTMENTS, AT VALUE (NOTE 1a)

Common stocks (cost \$627,356,685)
Convertible corporate notes (cost \$13,273,334)
Corporate discount notes (cost \$114,871,173)

Total investments (cost \$755,501,192)

CASH, RECEIVABLES AND OTHER ASSETS

| | |
|--|-----------|
| Cash, including margin account balance of \$71,930 | \$123,848 |
| Receivable for securities sold | 1,680,046 |
| Deposit with broker for securities sold short | 1,501,230 |
| Deposit with broker for options written | 384,084 |
| Dividends, interest and other receivables | 1,454,172 |
| Prepaid expenses | 7,376,169 |
| Other | 287,291 |
| | ----- |

TOTAL ASSETS

LIABILITIES

| | |
|--|-----------|
| Payable for securities purchased | 4,963,187 |
| Preferred dividend accrued but not yet declared | 231,389 |
| Securities sold short, at value (proceeds \$1,501,230) (note 1a) | 1,757,000 |
| Outstanding options written, at value (premiums received \$384,084) (note 1a) | 337,500 |
| Accrued expenses and other liabilities | 8,679,441 |
| | ----- |

TOTAL LIABILITIES

5.95% CUMULATIVE PREFERRED STOCK, SERIES B -

8,000,000 shares at a liquidation value of \$25 per share (note 2)

NET ASSETS APPLICABLE TO COMMON STOCK - 28,957,363 shares (note 2)

NET ASSET VALUE PER COMMON SHARE

NET ASSETS APPLICABLE TO COMMON STOCK

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| | |
|--|--------------|
| Common Stock, 28,957,363 shares at par value (note 2) | \$28,957,363 |
| Additional paid-in capital (note 2) | 514,731,660 |
| Undistributed realized gain on investments | 13,368,656 |
| Undistributed net investment income | 4,647,411 |
| Unallocated distributions on Preferred Stock | (9,156,389) |
| Unrealized appreciation on investments, securities sold short and options | 410,227,216 |

NET ASSETS APPLICABLE TO COMMON STOCK

(see notes to financial statements)

3 STATEMENT OF OPERATIONS Nine Months Ended September 30, 2004 (Unaudited)

General American Investors

INCOME

| | |
|---|-------------|
| Dividends (net of foreign withholding taxes of \$108,915) | \$9,686,143 |
| Interest | 1,915,500 |

EXPENSES

| | |
|---|-----------|
| Investment research | 4,992,600 |
| Administration and operations | 1,879,029 |
| Office space and general | 397,571 |
| Directors' fees and expenses | 148,285 |
| Auditing and legal fees | 131,400 |
| Transfer agent, custodian and registrar fees and expenses | 129,220 |
| Stockholders' meeting and reports | 114,304 |
| Miscellaneous taxes | 87,284 |

NET INVESTMENT INCOME

REALIZED GAIN AND CHANGE IN UNREALIZED APPRECIATION ON INVESTMENTS (NOTES 1f AND 4)

| | |
|--|-------------|
| Net realized gain on investments: | |
| Long transactions | 15,224,341 |
| Short sale transactions (note 1b) | (1,999,588) |
| Option transactions (note 1c) | 71,248 |
| Net realized gain on investments (long-term) | 13,296,001 |
| Net decrease in unrealized appreciation | (3,420,819) |

NET GAIN ON INVESTMENTS

DISTRIBUTIONS TO PREFERRED STOCKHOLDERS

INCREASE IN NET ASSETS RESULTING FROM OPERATIONS

(see notes to financial statements)

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 General American Investors

| | Nine Months Ended September 30, 2004 (Unaudited) |
|---|---|
| | ----- |
| OPERATIONS | |
| ----- | |
| Net investment income | \$3,721,950 |
| Net realized gain on investments | 13,296,001 |
| Net increase (decrease) in unrealized appreciation | (3,420,819) |
| | ----- |
| Distributions to Preferred Stockholders: | |
| From net income | - |
| From long-term capital gains | - |
| Unallocated distributions on Preferred Stock | (8,925,000) |
| | ----- |
| Decrease in net assets from Preferred distributions | (8,925,000) |
| | ----- |
| INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | 4,672,132 |
| | ----- |
| DISTRIBUTIONS TO COMMON STOCKHOLDERS | |
| ----- | |
| From net income | (385,811) |
| From long-term capital gains | (2,878,743) |
| | ----- |
| DECREASE IN NET ASSETS FROM COMMON DISTRIBUTIONS | (3,264,554) |
| | ----- |
| CAPITAL SHARE TRANSACTIONS | |
| ----- | |
| Value of Common Shares issued in payment of dividends (note 2) | - |
| Cost of Common Shares purchased (note 2) | (24,966,772) |
| Underwriting discount and other expenses associated with the issuance of Preferred Stock (note 2) | - |
| | ----- |
| DECREASE IN NET ASSETS - CAPITAL TRANSACTIONS | (24,966,772) |
| | ----- |
| NET INCREASE (DECREASE) IN NET ASSETS | (23,559,194) |
| NET ASSETS APPLICABLE TO COMMON STOCK | |
| ----- | |
| BEGINNING OF PERIOD | 986,335,111 |
| | ----- |
| END OF PERIOD (including undistributed net investment income of \$4,647,411 and \$1,311,272, respectively) | \$962,775,917 |
| | ===== |
| (see notes to financial statements) | |

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FINANCIAL HIGHLIGHTS

 General American Investors

The following table shows per share operating performance data, total investment

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return, ratios and supplemental data for the nine months ended September 30, 2004 and for each year in the five-year period ended December 31, 2003. This information has been derived from information contained in the financial statements and market price data for the Company's shares.

| | Nine Months Ended June 30, 2004 (Unaudited) | Year Ended December | | | |
|--|--|---------------------|-----------|-------------|-------------|
| | ----- | 2003 | 2002 | 2001 | 2000 |
| PER SHARE OPERATING PERFORMANCE | | | | | |
| Net asset value, beginning of period | \$33.11 | \$26.48 | \$35.14 | \$39.91 | \$41.11 |
| Net investment income | .13 | .03 | .19 | .41 | .61 |
| Net gain (loss) on securities - realized and unrealized | .43 | 7.72 | (7.88) | (.66) | 6.11 |
| Distributions on Preferred Stock: | | | | | |
| Dividends from investment income | - | (.01) | (.12) | (.07) (a) | (.07) |
| Distributions from capital gains Unallocated | (.31) | - | - | - | - |
| | (.31) | (.36) | (.35) | (.36) | (.36) |
| Total from investment operations | .25 | 7.39 | (8.04) | (.61) | 6.11 |
| Less distributions on Common Stock: | | | | | |
| Dividends from investment income | (.01) | (.02) | (.21) (d) | (.88) (e) | (2.11) |
| Distributions from capital gains | (.10) | (.52) | (.41) | (3.28) | (5.11) |
| | (.11) | (.54) | (.62) | (4.16) | (8.11) |
| Capital Stock transaction - effect of Preferred Stock offering | - | (.22) | - | - | - |
| Net asset value, end of period | \$33.25 | \$33.11 | \$26.48 | \$35.14 | \$39.91 |
| Per share market value, end of period | \$29.53 | \$29.73 | \$23.85 | \$33.47 | \$36.11 |
| TOTAL INVESTMENT RETURN - Stockholder Return, based on market price per share | (0.32)%* | 27.01% | (27.21)% | 4.33% | 19.11% |
| RATIOS AND SUPPLEMENTAL DATA | | | | | |
| Net assets applicable to Common Stock, end of period (000's omitted) | \$962,776 | \$986,335 | \$809,192 | \$1,097,530 | \$1,155,111 |
| Ratio of expenses to average net assets applicable to Common Stock | 0.81%* | 1.23% | 0.92% | 0.97% | 1.11% |
| Ratio of net income to average net assets applicable to Common Stock | 0.38%* | 0.13% | 0.61% | 1.15% | 1.11% |
| Portfolio turnover rate | 9.86%* | 18.62% | 22.67% | 23.81% | 40.11% |
| PREFERRED STOCK | | | | | |
| Liquidation value, end of period (000's omitted) | \$200,000 | \$200,000 | \$150,000 | \$150,000 | \$150,000 |

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| | | | | | |
|----------------------------------|---------|---------|---------|---------|---------|
| Asset coverage | 581% | 593% | 639% | 832% | |
| Liquidation preference per share | \$25.00 | \$25.00 | \$25.00 | \$25.00 | \$25.00 |
| Market value per share | \$24.75 | \$25.04 | \$25.85 | \$25.90 | \$24.75 |

6 STATEMENT OF INVESTMENTS September 30, 2004 (Unaudited)

General American Investors

Shares or
Principal Amount COMMON STOCKS

BUILDING AND REAL ESTATE (2.8%)

950,000 CEMEX, S.A. de C.V. (COST \$24,846,539)

COMMUNICATIONS AND INFORMATION SERVICES (7.3%)

550,000 American Tower Corporation (a)
550,000 CIENA Corporation (a)
900,000 Cisco Systems, Inc. (a)
620,000 Cox Communications, Inc. Class A (a)
150,000 Juniper Networks, Inc. (a)
500,000 Lamar Advertising Company Class A (a)

(COST \$58,318,248)

COMPUTER SOFTWARE AND SYSTEMS (5.9%)

300,000 EMC Corporation (a)
1,525,000 Microsoft Corporation
623,000 NetIQ Corporation (a)
233,500 VeriSign, Inc. (a)

(COST \$54,544,667)

CONSUMER PRODUCTS AND SERVICES (3.6%)

350,000 Diageo plc
275,000 Ethan Allen Interiors Inc.
150,000 PepsiCo, Inc.

(COST \$28,303,579)

ELECTRONICS (1.9%)

715,000 Molex Incorporated Class A (COST \$15,450,691)

ENVIRONMENTAL CONTROL (INCLUDING SERVICES) (3.6%)

1,175,000 Republic Services, Inc. (COST \$26,227,380)

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FINANCE AND INSURANCE (31.0%)

BANKING (10.2%)

| | |
|---------|-----------------------------------|
| 368,000 | Bank of America Corporation |
| 325,000 | Golden West Financial Corporation |
| 330,000 | M&T Bank Corporation |
| 205,000 | SunTrust Banks, Inc. |

(COST \$23,599,570)

INSURANCE (18.4%)

| | |
|---------|--|
| 265,000 | American International Group, Inc. |
| 625,000 | Annuity and Life Re (Holdings), Ltd. (a) |
| 300 | Berkshire Hathaway Inc. Class A (a) |
| 650,000 | Everest Re Group, Ltd. |
| 435,000 | MetLife, Inc. |
| 175,000 | Montpelier Re Holdings Ltd. |
| 500,000 | PartnerRe Ltd. |
| 445,000 | Reinsurance Group of America, Incorporated |
| 281,250 | Transatlantic Holdings, Inc. |

(COST \$84,976,740)

OTHER (2.4%)

| | |
|---------|----------------------------------|
| 775,000 | Annaly Mortgage Management, Inc. |
| 90,184 | Central Securities Corporation |
| 850,000 | MFA Mortgage Investments, Inc. |

(COST \$19,609,426)

(COST \$128,185,736)

7 STATEMENT OF INVESTMENTS September 30, 2004 (Unaudited) - continued

General American Investors

Shares or
Principal Amount COMMON STOCKS (continued)

HEALTH CARE (16.8%)

PHARMACEUTICALS (14.4%)

| | |
|-----------|--------------------------------------|
| 340,000 | Alkermes, Inc. (a) |
| 825,000 | Baxter International Inc. |
| 250,000 | Biogen Idec Inc. (a) |
| 300,000 | Bristol-Myers Squibb Company |
| 75,000 | Cytokinetics, Incorporated (a) |
| 270,000 | Genaera Corporation (a) |
| 560,000 | Genentech, Inc. (a) |
| 375,000 | Genta Incorporated (a) |
| 455,000 | MedImmune, Inc. (a) |
| 120,000 | Millennium Pharmaceuticals, Inc. (a) |
| 1,325,000 | Pfizer Inc |

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(COST \$100,333,012)

MEDICAL INSTRUMENTS AND DEVICES (2.4%)

450,000 Medtronic, Inc. (COST \$10,483,716)

(COST \$110,816,728)

MISCELLANEOUS (0.9%)

Other (b) (COST \$8,337,168)

OIL & NATURAL GAS (INCLUDING SERVICES) (12.6%)

390,000 Apache Corporation
 800,000 Devon Energy Corporation
 600,000 Halliburton Company
 247,000 Total S.A. ADR

(COST \$86,389,860)

RETAIL TRADE (20.3%)

700,000 Costco Wholesale Corporation
 1,920,000 The Home Depot, Inc. (c)
 2,500,000 The TJX Companies, Inc.
 675,000 Wal-Mart Stores, Inc.

(COST \$68,036,225)

SEMICONDUCTORS (0.8%)

491,500 Brooks Automation, Inc. (a)
 197,000 EMCORE Corporation (a)

(COST \$9,890,144)

SPECIAL HOLDINGS (a) (d) (NOTE 5) (0.2%)

200,000 Cytokinetics, Incorporated
 144,000 Silicon Genesis Corporation
 546,000 Standard MEMS, Inc. Series A Convertible Preferred

(COST \$8,009,720)

TOTAL COMMON STOCKS (107.7%)

(COST \$627,356,685)

CONVERTIBLE CORPORATE NOTES

COMMUNICATIONS AND INFORMATION SERVICES (0.3%)

\$2,321,000 American Tower Corporation 9 3/8% due 2/1/09 (COST \$2,451,141)

OIL & NATURAL GAS (INCLUDING SERVICES) (1.2%)

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| | | |
|--|------------------------------------|---------------------|
| \$22,500,000 | El Paso Corporation 0% due 2/28/21 | (COST \$10,822,193) |
| TOTAL CONVERTIBLE CORPORATE NOTES (1.5%) | | (COST \$13,273,334) |

8 STATEMENT OF INVESTMENTS September 30, 2004 (Unaudited) - continued

General American Investors

| Principal Amount | SHORT-TERM SECURITIES AND OTHER ASSETS | |
|---|--|----------------------|
| \$20,900,000 | American Express Credit Corporation notes due 10/7-10/28/04; 1.51%-1.66% | |
| 26,600,000 | American General Finance Corporation notes due 10/5-11/4/04; 1.55%-1.76% | |
| 24,600,000 | General Electric Capital Corporation notes due 10/14-11/1/04; 1.59%-1.68% | |
| 18,900,000 | General Motors Acceptance Corporation notes due 10/1-10/26/04; 1.66%-1.76% | |
| 13,900,000 | Prudential Funding, LLC notes due 10/18-11/2/04; 1.62%-1.76% | |
| 10,200,000 | Sears Roebuck Acceptance Corp. notes due 10/4-10/21/04; 1.70%-1.75% | |
| | Total Short-Term Securities (11.9%) | (COST \$114,871,173) |
| TOTAL INVESTMENTS (f) (121.1%) | | (COST \$755,501,192) |
| Liabilities in excess of cash, receivables and other assets (-0.3%) | | |
| PREFERRED STOCK (-20.8%) | | |
| NET ASSETS APPLICABLE TO COMMON STOCK (100%) | | |

STATEMENT OF SECURITIES SOLD SHORT September 30, 2004 (Unaudited)

General American Investors

| Shares | COMMON STOCKS | |
|--------|----------------------------|------------------------|
| 50,000 | NASDAQ-100 Trust, Series 1 | (PROCEEDS \$1,501,230) |

STATEMENT OF OPTIONS WRITTEN September 30, 2004 (Unaudited)

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 General American Investors

Contracts
 (100 shares each) COMMON STOCKS/EXPIRATION DATE/EXERCISE PRICE

 CALL OPTIONS

 COMMUNICATIONS AND INFORMATION SERVICES

1,225 Cox Communications, Inc. Class A/January 05/\$32.50 (PREMIUMS RECEIVED \$206,1

 PHARMACEUTICALS

200 Genentech, Inc./January 05/\$55 (PREMIUMS RECEIVED \$79,39

 PUT OPTIONS

 OIL & NATURAL GAS (INCLUDING SERVICES)

500 Apache Corporation/January 05/\$45 (PREMIUMS RECEIVED \$98,49

TOTAL OPTIONS (PREMIUMS RECEIVED \$384,0

(see notes to financial statements)

9 NOTES TO FINANCIAL STATEMENTS (Unaudited)

 General American Investors

1. SIGNIFICANT ACCOUNTING POLICIES

General American Investors Company, Inc. (the "Company"), established in 1927, is registered under the Investment Company Act of 1940 as a closed-end, diversified management investment company. It is internally managed by its officers under the direction of the Board of Directors.

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

Certain prior year financial statement items have been reclassified, from Other Comprehensive Income to a reduction of Expenses and an increase in Net Investment Income, to conform to the current year presentation.

a. SECURITY VALUATION Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the period. Securities reported on the NASDAQ national market are valued at the official closing price on that day. Listed and NASDAQ securities for which no sales or prices are reported on that day and other securities traded in the over-the-counter market are valued at the last bid price (asked price for open short positions and written options) on the valuation date. Corporate discount notes are valued at amortized cost, which approximates market value. Special

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holdings are valued at fair value in the opinion of the Directors. In determining fair value, in the case of restricted shares, consideration is given to cost, operating and other financial data and, where applicable, subsequent private offerings or market price of the issuer's unrestricted shares (to which a 30 percent discount is applied).

b. **SHORT SALES** The Company may make short sales of securities for either speculative or hedging purposes. When the Company makes a short sale, it borrows the securities sold short from a broker; in addition, the Company places cash with that broker and securities in a segregated account with the custodian, both as collateral for the short position. The Company may be required to pay a fee to borrow the securities and may also be obligated to pay any dividends declared on the borrowed securities. The Company will realize a gain if the security price decreases and a loss if the security price increases between the date of the short sale and the date on which the Company replaces the borrowed securities.

c. **OPTIONS** The Company may purchase and write (sell) put and call options. The risk associated with purchasing an option is that the Company pays a premium whether or not the option is exercised. Additionally, the Company bears the risk of loss of the premium and a change in market value should the counterparty not perform under the contract. Put and call options purchased are accounted for in the same manner as portfolio securities. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis for the securities purchased by the Company. The Company as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

d. **FEDERAL INCOME TAXES** The Company's policy is to fulfill the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all taxable income to its stockholders. Accordingly, no provision for Federal income taxes is required.

e. **INDEMNIFICATIONS** In the ordinary course of business, the Company enters into contracts that contain a variety of indemnifications. The Company's maximum exposure under these arrangements is unknown. However, the Company has not had prior claims or losses pursuant to these indemnification provisions and expects the risk of loss thereunder to be remote.

f. **OTHER** As customary in the investment company industry, securities transactions are recorded as of the trade date. Dividend income and distributions to stockholders are recorded as of the ex-dividend dates. Interest income, adjusted for amortization of discount and premium on investments, is earned from settlement date and is recognized on the accrual basis. Cost of short-term investments represents amortized cost.

2. CAPITAL STOCK AND DIVIDEND DISTRIBUTIONS

The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, \$1.00 par value, and 10,000,000 shares of Preferred Stock, \$1.00 par value, of which 28,957,363 shares and 8,000,000 shares, respectively, were outstanding at September 30, 2004.

On September 24, 2003, the Company issued and sold 8,000,000 shares of its 5.95% Cumulative Preferred Stock, Series B in an underwritten offering. The Preferred

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Shares are noncallable for 5 years and have a liquidation preference of \$25.00 per share plus an amount equal to accumulated and unpaid dividends to the date of redemption. The underwriting discount and other expenses associated with the Preferred Stock offering amounted to \$6,700,000 and were charged to paid-in capital.

The Company is required to allocate distributions from long-term capital gains and other types of income proportionately among holders of shares of Common Stock and Preferred Stock. To the extent that dividends on the shares of Preferred Stock are not paid from long-term capital gains, they will be paid from ordinary income or net short-term capital gains or will represent a return of capital.

Under the Investment Company Act of 1940, the Company is required to maintain an asset coverage of at least 200% for the Preferred Stock. In addition, pursuant to the Rating Agency Guidelines, the Company is required to maintain a certain discounted asset coverage for its portfolio that equals or exceeds the Basic Maintenance Amount under the guidelines established by Moody's Investors Service, Inc. The Company has met these requirements since the issuance of the Preferred Stock. If the Company fails to meet these requirements in the future and does not cure such failure, the Company may be required to redeem in whole or in part, shares of Preferred Stock at a redemption price of \$25.00 per share plus accumulated and unpaid dividends (whether or not earned or declared). In addition, the Company's failure to meet the foregoing asset coverage requirements could restrict its ability to pay dividends on shares of Common Stock and could lead to sales of portfolio securities at inopportune times.

The holders of Preferred Stock have voting rights equivalent to those of the holders of Common Stock (one vote per share) and, generally, vote together with the holders of Common Stock as a single class.

At all times, holders of Preferred Stock will elect two members of the Company's Board of Directors and the holders of Preferred and Common Stock, voting as a single class, will elect the remaining directors. If the Company fails to pay dividends on the Preferred Stock in an amount equal to two full years' dividends, the holders of Preferred Stock will have the right to elect a majority of the directors. In

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NOTES TO FINANCIAL STATEMENTS (Unaudited) - continued

General American Investors

2. CAPITAL STOCK AND DIVIDEND DISTRIBUTIONS - (Continued from bottom of previous page.)

addition, the Investment Company Act of 1940 requires that approval of the holders of a majority of any outstanding Preferred Shares, voting separately as a class, would be required to (a) adopt any plan of reorganization that would adversely affect the Preferred Stock and (b) take any action requiring a vote of security holders, including, among other things, changes in the Company's subclassification as a closed-end investment company or changes in its fundamental investment policies.

The Company classifies its Preferred Stock pursuant to the requirements of EITF D-98, Classification and Measurement of Redeemable Securities, which require that preferred stock for which its redemption is outside of the company's control should be presented outside of net assets in the statement of assets and liabilities.

Transactions in Common Stock during the nine months ended September 30, 2004 and the year ended December 31, 2003 were as follows:

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| | SHARES | | AMOUNT | |
|--|---------|-----------|----------------|--------|
| | 2004 | 2003 | 2004 | |
| Shares issued in payment of dividends (includes 334,507 shares issued from treasury) | - | 334,507 | - | 9 |
| Increase in paid-in capital | | | - | 9 |
| Total increase | | | - | 9 |
| Shares purchased (at an average discount from net asset value of 10.0% and 9.7%, respectively) | 831,900 | 1,106,600 | (\$831,900) | (1) |
| Decrease in paid-in capital | | | (24,134,872) | (27) |
| Total decrease | | | (24,966,772) | (28) |
| Net decrease | | | (\$24,966,772) | (\$18) |

Distributions for tax and book purposes are substantially the same.

At September 30, 2004, the Company held in its treasury 2,274,200 shares of Common Stock with an aggregate cost in the amount of \$53,719,711.

3. OFFICERS' COMPENSATION AND RETIREMENT AND THRIFT PLANS

The aggregate compensation paid by the Company during the nine months ended September 30, 2004 to its officers amounted to \$3,675,750.

The Company has non-contributory retirement plans and a contributory thrift plan which cover substantially all employees. The costs to the Company and the assets and liabilities of the plans are not material.

4. PURCHASES AND SALES OF SECURITIES

Purchases and sales of securities (other than short-term securities and options) for the nine months ended September 30, 2004 amounted to on long transactions \$203,715,685 and \$100,799,440, respectively, and, with respect to short sale transactions, purchases for the nine months amounted to \$14,182,940.

5. RESTRICTED SECURITIES

| | DATE ACQUIRED | COST | VALUE (NOTE 1a) |
|--|---------------|-------------|-----------------|
| Cytokinetics, Incorporated | 3/21/03 | \$2,000,000 | \$1,862,000 |
| Silicon Genesis Corporation | 2/16/01 | 3,006,720 | 21,600 |
| Standard MEMS, Inc. Series A Convertible Preferred | 12/17/99 | 3,003,000 | - |
| Total | | \$8,009,720 | \$1,883,600 |

6. OPERATING LEASE COMMITMENT

In July 1992, the Company entered into an operating lease agreement for office space which expires in 2007 and provides for future rental payments in the aggregate amount of approximately \$5.6 million. The lease agreement contains a clause whereby the Company received twenty months of free rent beginning in December 1992 and escalation clauses relating to operating costs and real property taxes.

Rental expense approximated \$240,600 for the nine months ended September 30, 2004. Minimum rental commitments under the operating lease are approximately \$505,000 per annum in 2004 through 2007.

In January 2003, the Company extended a sublease agreement (originally entered into in March 1996) which expires in 2007 and provides for future rental receipts. Minimum rental receipts under the sublease are approximately \$254,000 per annum in 2004 through 2007. The Company will also receive its proportionate share of operating expenses and real property taxes under the sublease.

Unaudited

In addition to purchases of the Company's Common Stock as set forth in Note 2 above, purchases of Common Stock may be made at such times, at such prices, in such amounts and in such manner as the Board of Directors may deem advisable.

11 MAJOR STOCK CHANGES* Three Months Ended September 30, 2004 (Unaudited)

General American Investors

| INCREASES | SHARES | SHARES OR PRINCIPAL AMOUNT HELD SEPTEMBER 30, 2004 |
|--|-----------|--|
| NEW POSITIONS | | |
| American Tower Corporation | - | 550,000 (a) |
| American Tower Corporation 9 3/8% due 2/1/09 | - | \$2,321,000 (a) |
| Lamar Advertising Company Class A | 225,000 | 500,000 (b) |
| ADDITIONS | | |
| Apache Corporation | 50,000 | 390,000 (b) |
| CEMEX, S.A. de C.V. | 400,000 | 950,000 |
| NetIQ Corporation | 20,000 | 623,000 |
| DECREASES | | |
| ELIMINATIONS | | |
| Applied Materials, Inc. | 133,000 | - |
| IQE plc | 1,644,900 | - |
| REDUCTIONS | | |
| Baxter International Inc. | 75,000 | 825,000 |
| Halliburton Company | 25,000 | 600,000 |
| Juniper Networks, Inc. | 300,000 | 150,000 |
| M&T Bank Corporation | 10,000 | 330,000 |

Proxy Voting Policies and Procedures
and Proxy Voting record (Unaudited)

General American Investors

The policies and procedures used by the Company to determine how to vote proxies relating to portfolio securities and the Company's proxy voting record for the twelve-month period ended June 30, 2004 are available: (1) without charge, upon request, by calling us at our toll-free telephone number (1-800-436-8401), (2) on the Company's website at <http://www.generalamericaninvestors.com> and (3) on the Securities and Exchange Commission's website at <http://www.sec.gov>.

DIRECTORS

| | |
|------------------------------------|------------------------|
| Lawrence B. Bottenwieser, Chairman | |
| Arthur G. Altschul, Jr. | Sidney R. Knafel |
| Lewis B. Cullman | Richard R. Pivirotto |
| Spencer Davidson | D. Ellen Shuman |
| Gerald M. Edelman | Joseph T. Stewart, Jr. |
| John D. Gordan, III | Raymond S. Troubh |

William O. Baker, Director Emeritus
William T. Golden, Director Emeritus

OFFICERS

Spencer Davidson, President & Chief Executive Officer
Andrew V. Vindigni, Vice-President
Eugene L. DeStaebler, Jr., Vice-President, Administration
Peter P. Donnelly, Vice-President & Trader
Diane G. Radosti, Treasurer
Carole Anne Clementi, Secretary

SERVICE COMPANIES

COUNSEL
Sullivan & Cromwell LLP

INDEPENDENT AUDITORS
Ernst & Young LLP

CUSTODIAN
State Street Bank and
Trust Company

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