

GAMCO INVESTORS, INC. ET AL  
Form 10-Q  
May 02, 2012

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 March 31, 2012  
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. 001-14761

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 April 30, 2012 |
|--------------------------------------|-------------------------------|
| Class A Common Stock, .001 par value | 6,592,716                     |
| Class B Common Stock, .001 par value | 20,040,746                    |

---

INDEX

GAMCO INVESTORS, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Income:

- Three months ended March 31, 2012 and 2011

Condensed Consolidated Statements of Comprehensive Income:

- Three months ended March 31, 2012 and 2011

Condensed Consolidated Statements of Financial Condition:

- March 31, 2012
- December 31, 2011
- March 31, 2011

Condensed Consolidated Statements of Equity:

- Three months ended March 31, 2012 and 2011

Condensed Consolidated Statements of Cash Flows:

- Three months ended March 31, 2012 and 2011

Notes to Unaudited Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk (Included in Item 2)

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits

SIGNATURES



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

(Dollars in thousands, except per share data)

|   | Three Months Ended |            |
|---|--------------------|------------|
|   | March 31,          |            |
|   | 2012               | 2011       |
| <b>Revenues</b>   |                    |            |
| Investment advisory and incentive fees  | \$ 67,783          | \$ 62,911  |
| Distribution fees and other income  | 11,623             | 10,345     |
| Institutional research services   | 2,343              | 3,649      |
| Total revenues  | 81,749             | 76,905     |
| <b>Expenses</b>   |                    |            |
| Compensation  | 34,554             | 33,417     |
| Management fee  | 4,184              | 3,113      |
| Distribution costs  | 10,177             | 13,429     |
| Other operating expenses  | 5,822              | 6,186      |
| Total expenses  | 54,737             | 56,145 (a) |
| Operating income  | 27,012             | 20,760     |
| <b>Other income (expense)</b>   |                    |            |
| Net gain from investments   | 13,878             | 8,740      |
| Interest and dividend income  | 1,236              | 1,936      |
| Interest expense  | (4,404 )           | (2,867 )   |
| Total other income, net   | 10,710             | 7,809      |
| Income before income taxes  | 37,722             | 28,569     |
| Income tax provision  | 13,756             | 10,288     |
| Net income  | 23,966             | 18,281     |
| Net income attributable to noncontrolling interests                               | 130                | 638        |
| Net income attributable to GAMCO Investors, Inc.'s shareholders                   | \$ 23,836          | \$ 17,643  |
| <b>Net income attributable to GAMCO Investors, Inc.'s shareholders per share:</b> |                    |            |
| Basic   | \$ 0.90            | \$ 0.66    |
| Diluted   | \$ 0.90            | \$ 0.65    |
| <b>Weighted average shares outstanding:</b>                                       |                    |            |
| Basic   | 26,415             | 26,901     |
| Diluted   | 26,533             | 27,008     |

|                     |         |         |
|---------------------|---------|---------|
| Dividends declared: | \$ 0.04 | \$ 0.03 |
|---------------------|---------|---------|

(a) 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 COMPREHENSIVE                  |                    |           |
| INCOME  |                    |           |
| UNAUDITED   |                    |           |
| (Dollars in thousands, except per share data)                       |                    |           |
|   | Three Months Ended |           |
|   | March 31,          |           |
|   | 2012               | 2011      |
| Net income  | \$ 23,966          | \$ 18,281 |
| Other comprehensive income, net of tax:                             |                    |           |
| Foreign currency translation  | (17 )              | 24        |
| Net unrealized gains on securities available for sale               | 3,457              | 2,487     |
| Other comprehensive income  | 3,440              | 2,511     |
| Comprehensive income  | 27,406             | 20,792    |
| Less: Comprehensive income attributable to noncontrolling interests | (130 )             | (638 )    |
| Comprehensive income attributable to GAMCO Investors, Inc.          | \$ 27,276          | \$ 20,154 |

See accompanying notes.

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

(Dollars in thousands, except per share data)

|  | March 31,<br>2012 | December<br>31,<br>2011 | March 31,<br>2011 |
|--|-------------------|-------------------------|-------------------|
| <b>ASSETS</b>  |                   |                         |                   |
| Cash and cash equivalents  | \$324,630         | \$276,340               | \$164,671         |
| Investments in securities  | 257,607           | 238,333                 | 279,713           |
| Investments in sponsored registered investment companies   | 62,305            | 59,214                  | 65,903            |
| Investments in partnerships  | 101,685           | 100,893                 | 94,584            |
| Receivable from brokers  | 29,298            | 20,913                  | 43,308            |
| Investment advisory fees receivable  | 27,193            | 32,156                  | 24,992            |
| Income tax receivable  | 39                | 39                      | 302               |
| Other assets   | 23,668            | 28,861                  | 24,030            |
| <b>Total assets</b>  | <b>\$826,425</b>  | <b>\$756,749</b>        | <b>\$697,503</b>  |
| <b>LIABILITIES AND EQUITY</b>  |                   |                         |                   |
| Payable to brokers   | \$22,366          | \$10,770                | \$7,998           |
| Income taxes payable and deferred tax liabilities  | 24,782            | 15,296                  | 25,035            |
| Capital lease obligation   | 5,043             | 5,072                   | 5,151             |
| Compensation payable   | 28,834            | 17,695                  | 22,883            |
| Securities sold, not yet purchased   | 9,657             | 5,488                   | 15,550            |
| Mandatorily redeemable noncontrolling interests  | 1,390             | 1,386                   | 1,466             |
| Accrued expenses and other liabilities   | 28,692            | 24,441                  | 28,351            |
| <b>Sub-total</b>   | <b>120,764</b>    | <b>80,148</b>           | <b>106,434</b>    |
| 5.5% Senior notes (due May 15, 2013)   | 99,000            | 99,000                  | 99,000            |
| 5.875% Senior notes (due June 1, 2021)   | 100,000           | 100,000                 | -                 |
| Zero coupon subordinated debentures, Face value: \$86.3 million at March 31, 2012 and December 31, 2011 and \$86.4 million at March 31, 2011 (due December 31, 2015)                             | 65,300            | 64,119                  | 60,697            |
| <b>Total liabilities</b>   | <b>385,064</b>    | <b>343,267</b>          | <b>266,131</b>    |
| Redeemable noncontrolling interests  | 16,828            | 6,071                   | 28,884            |
| Commitments and contingencies (Note J)   |                   |                         |                   |
| <b>Equity</b>  |                   |                         |                   |
| GAMCO Investors, Inc. stockholders' equity   |                   |                         |                   |
| Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding   |                   |                         |                   |
| Class A Common Stock, \$0.001 par value; 100,000,000 shares authorized; 13,760,697, 13,627,397 and 13,256,203 issued, respectively; 6,592,716, 6,684,149 and 6,872,333 outstanding, respectively |                   |                         |                   |
|  | 13                | 13                      | 13                |



Edgar Filing: GAMCO INVESTORS, INC. ET AL - Form 10-Q

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

|   |            |            |            |
|---|------------|------------|------------|
| 24,000,000 shares issued; 20,040,746, 20,070,746 and 20,190,140 shares            |            |            |            |
| outstanding, respectively   | 20         | 20         | 20         |
| Additional paid-in capital  | 265,280    | 264,409    | 262,686    |
| Retained earnings   | 431,963    | 409,191    | 387,101    |
| Accumulated other comprehensive income  | 25,960     | 22,520     | 27,900     |
| Treasury stock, at cost (7,167,981, 6,943,248 and 6,653,870 shares, respectively) | (302,152 ) | (292,181 ) | (278,870 ) |
| Total GAMCO Investors, Inc. stockholders' equity                                  | 421,084    | 403,972    | 398,850    |
| Noncontrolling interests  | 3,449      | 3,439      | 3,638      |
| Total equity  | 424,533    | 407,411    | 402,488    |
| Total liabilities and equity  | \$ 826,425 | \$ 756,749 | \$ 697,503 |

See accompanying notes.

**GAMCO INVESTORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

UNAUDITED

(In thousands)

For the three months ended March 31, 2012

GAMCO Investors, Inc. stockholders

Accumulated

|   | Noncontrolling<br>Interests | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total     | Redeemable<br>Noncontrolling<br>Interests |
|---|-----------------------------|-----------------|----------------------------------|----------------------|----------------------------------|-------------------|-----------|---|
| Balance at<br>December 31,<br>2011  | \$ 3,439                    | \$33            | \$ 264,409                       | \$ 409,191           | \$ 22,520                        | \$(292,181)       | \$407,411 | \$ 6,071                                  |
| Redemptions of<br>redeemable<br>noncontrolling<br>interests                                       | -                           | -               | -                                | -                    | -                                | -                 | -         | (3 )                                      |
| Contributions from<br>redeemable<br>noncontrolling<br>interests                                   | -                           | -               | -                                | -                    | -                                | -                 | -         | 10,640                                    |
| Net income (loss)   | 10                          | -               | -                                | 23,836               | -                                | -                 | 23,846    | 120                                       |
| Net unrealized<br>gains on<br>securities<br>available for sale,<br>net of income tax<br>(\$2,031) | -                           | -               | -                                | -                    | 3,457                            | -                 | 3,457     | -   |
| Foreign currency<br>translation   | -                           | -               | -                                | -                    | (17 )                            | -                 | (17 )     | -   |
| Dividends declared<br>(\$0.04 per<br>share)   | -                           | -               | -                                | (1,064 )             | -                                | -                 | (1,064 )  | -   |
| Stock based<br>compensation<br>expense  | -                           | -               | 871                              | -                    | -                                | -                 | 871       | -   |
| Purchase of<br>treasury stock   | -                           | -               | -                                | -                    | -                                | (9,971 )          | (9,971 )  | -   |
| Balance at March<br>31, 2012  | \$ 3,449                    | \$33            | \$ 265,280                       | \$ 431,963           | \$ 25,960                        | \$(302,152)       | \$424,533 | \$ 16,828                                 |

See accompanying  
notes.



**GAMCO INVESTORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

UNAUDITED

(In thousands)

For the three months ended March 31, 2011

GAMCO Investors, Inc. stockholders

Accumulated

|   | Noncontrolling<br>Interests | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total     | Redeemable<br>Noncontrolling<br>Interests |
|---|-----------------------------|-----------------|----------------------------------|----------------------|----------------------------------|-------------------|-----------|---|
| Balance at  |                             |                 |                                  |                      |                                  |                   |           |   |
| December 31, 2010   | \$ 3,579                    | \$33            | \$ 262,108                       | \$370,272            | \$ 25,389                        | \$(271,773)       | \$389,608 | \$ 26,984                                 |
| Redemptions of<br>redeemable<br>noncontrolling<br>interests                                       | -                           | -               | -                                | -                    | -                                | -                 | -         | (839 )                                    |
| Contributions from<br>redeemable<br>noncontrolling<br>interests                                   | -                           | -               | -                                | -                    | -                                | -                 | -         | 6,263                                     |
| Deconsolidation of<br>Partnership   | -                           | -               | -                                | -                    | -                                | -                 | -         | (4,103 )                                  |
| Net income  | 59                          | -               | -                                | 17,643               | -                                | -                 | 17,702    | 579                                       |
| Net unrealized<br>gains on<br>securities available<br>for sale,<br>net of income tax<br>(\$1,460) | -                           | -               | -                                | -                    | 2,487                            | -                 | 2,487     | -   |
| Foreign currency<br>translation   | -                           | -               | -                                | -                    | 24                               | -                 | 24        | -   |
| Dividends declared<br>(\$0.03 per share)  | -                           | -               | -                                | (814 )               | -                                | -                 | (814 )    | -   |
| Stock based<br>compensation<br>expense  | -                           | -               | 578                              | -                    | -                                | -                 | 578       | -   |
| Purchase of<br>treasury stock   | -                           | -               | -                                | -                    | -                                | (7,097 )          | (7,097 )  | -   |
| Balance at March<br>31, 2011  | \$ 3,638                    | \$33            | \$ 262,686                       | \$387,101            | \$ 27,900                        | \$(278,870)       | \$402,488 | \$ 28,884                                 |

See accompanying  
notes.



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

UNAUDITED

(In thousands)

|   | Three Months Ended |            |
|---|--------------------|------------|
|   | March 31,          |            |
|   | 2012               | 2011       |
| <b>Operating activities</b>   |                    |            |
| Net income  | \$23,966           | \$18,281   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                    |            |
| Equity in net gains from partnerships   | (3,351 )           | (2,977 )   |
| Depreciation and amortization   | 180                | 274        |
| Stock based compensation expense  | 871                | 578        |
| Deferred income taxes   | 1,515              | 1,649      |
| Foreign currency translation gain/(loss)  | (17 )              | 24         |
| Fair value of donated securities  | 83                 | -          |
| Gains on sales of available for sale securities   | (279 )             | (101 )     |
| Accretion of zero coupon debentures   | 1,180              | 1,117      |
| Loss on extinguishment of debt  | 1                  | -          |
| (Increase) decrease in assets:  |                    |            |
| Investments in trading securities   | (13,604 )          | (44,589 )  |
| Investments in partnerships:  |                    |            |
| Contributions to partnerships   | (23,293 )          | (6,583 )   |
| Distributions from partnerships   | 25,852             | 3,026      |
| Receivable from brokers   | (8,385 )           | (2,373 )   |
| Investment advisory fees receivable   | 4,963              | 19,798     |
| Income tax receivable and deferred tax assets   | -                  | 23         |
| Other assets  | 5,023              | (1,129 )   |
| Increase (decrease) in liabilities:   |                    |            |
| Payable to brokers  | 11,596             | 6,444      |
| Income taxes payable and deferred tax liabilities   | 5,940              | (1,035 )   |
| Compensation payable  | 11,139             | (891 )     |
| Mandatorily redeemable noncontrolling interests   | 4                  | 23         |
| Accrued expenses and other liabilities  | 4,227              | 6,531      |
| Total adjustments   | 23,645             | (20,191 )  |
| Net cash provided by (used in) operating activities   | \$47,611           | \$(1,910 ) |

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

UNAUDITED (continued)

(In thousands)

|   | Three Months Ended |           |
|---|--------------------|-----------|
|   | March 31,          |           |
|   | 2012               | 2011      |
| <b>Investing activities</b>                               |                    |           |
| Purchases of available for sale securities                | \$(4 )             | \$(4 )    |
| Proceeds from sales of available for sale securities      | 525                | 101       |
| Return of capital on available for sale securities        | 571                | 631       |
| Net cash provided by investing activities                 | 1,092              | 728       |
| <b>Financing activities</b>                               |                    |           |
| Contributions from redeemable noncontrolling interests    | 10,640             | 6,263     |
| Redemptions of redeemable noncontrolling interests        | (3 )               | (839 )    |
| Dividends paid  | (1,070 )           | (814 )    |
| Purchase of treasury stock                                | (9,971 )           | (7,097 )  |
| Net cash used in financing activities                     | (404 )             | (2,487 )  |
| Effect of exchange rates on cash and cash equivalents     | (9 )               | (10 )     |
| Net increase (decrease) in cash and cash equivalents      | 48,290             | (3,679 )  |
| Cash and cash equivalents at beginning of period          | 276,340            | 169,601   |
| Decrease in cash from deconsolidation of partnership      | -                  | (1,251 )  |
| Cash and cash equivalents at end of period                | \$324,630          | \$164,671 |
| <b>Supplemental disclosures of cash flow information:</b> |                    |           |
| Cash paid for interest                                    | \$322              | \$271     |
| Cash paid for taxes                                       | \$6,038            | \$9,167   |

**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 three months ended March 31, 2012 and March 31, 2011, the Company accrued restricted stock award dividends of \$13 and \$7, respectively.

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(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, 2011 from which the accompanying condensed consolidated financial statements were derived.

The Company has now separately disclosed the amount of investments in sponsored registered investment companies as a new line item in the condensed consolidated statements of financial condition. These amounts were previously included within investments in securities in the condensed consolidated statements of financial condition.

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 on the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Developments

In May 2011, the Financial Accounting Standards Board (“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 condition but whose fair value must be disclosed and clarifies that the valuation premise and highest and best use concepts are not relevant to financial assets or liabilities. The guidance



is effective for interim and annual periods beginning after December 15, 2011. The Company adopted this guidance on January 1, 2012 and has reflected the new disclosures in the condensed consolidated financial statements.

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. In December 2011, the FASB indefinitely deferred a portion of the guidance that would have required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which the net income is presented and the statement in which other comprehensive income is presented. The guidance is effective for fiscal years beginning after December 15, 2011, and for interim periods within those fiscal years. The Company adopted the guidance on January 1, 2012 and opted for the two separate but consecutive statements approach. Accordingly, the Company now presents the condensed consolidated statements of comprehensive income immediately following the condensed consolidated statements of income.

In December 2011, the FASB issued guidance which creates new disclosure requirements about the nature of an entity's right of offset and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards. The Company is currently evaluating the impact that the application of this guidance will have on its disclosures.

## B. Investment in Securities

Investments in securities at March 31, 2012, December 31, 2011 and March 31, 2011 consisted of the following:

|                                     | March 31, 2012 |            | December 31, 2011 |            | March 31, 2011 |            |
|-------------------------------------|----------------|------------|-------------------|------------|----------------|------------|
|                                     | Cost           | Fair Value | Cost              | Fair Value | Cost           | Fair Value |
|                                     | (In thousands) |            |                   |            |                |            |
| Trading securities:                 |                |            |                   |            |                |            |
| Government obligations              | \$48,624       | \$48,630   | \$42,124          | \$42,126   | \$12,069       | \$12,076   |
| Common stocks                       | 156,206        | 170,224    | 153,294           | 159,314    | 210,956        | 225,589    |
| Mutual funds                        | 1,086          | 1,495      | 1,084             | 1,307      | 1,190          | 1,629      |
| Convertible bonds                   | -              | -          | -                 | -          | 163            | 175        |
| Preferred stocks                    | -              | -          | -                 | -          | -              | -          |
| Other investments                   | 601            | 571        | 466               | 399        | 465            | 476        |
| Total trading securities            | 206,517        | 220,920    | 196,968           | 203,146    | 224,843        | 239,945    |
| Available for sale securities:      |                |            |                   |            |                |            |
| Common stocks                       | 16,158         | 34,578     | 16,487            | 33,282     | 16,835         | 37,408     |
| Mutual funds                        | 1,362          | 2,109      | 1,362             | 1,905      | 1,503          | 2,360      |
| Total available for sale securities | 17,520         | 36,687     | 17,849            | 35,187     | 18,338         | 39,768     |
| Total investments in securities     | \$224,037      | \$257,607  | \$214,817         | \$238,333  | \$243,181      | \$279,713  |

Securities sold, not yet purchased at March 31, 2012, December 31, 2011 and March 31, 2011 consisted of the following:

|  | March 31, 2012 |            | December 31, 2011 |            | March 31, 2011 |            |
|--|----------------|------------|-------------------|------------|----------------|------------|
|  | Cost           | Fair Value | Cost              | Fair Value | Cost           | Fair Value |
|  | (In thousands) |            |                   |            |                |            |
| Trading securities:                      |                |            |                   |            |                |            |
| Common stocks                            | \$9,016        | \$9,553    | \$5,271           | \$5,415    | \$14,044       | \$15,550   |
| Other                                    | 21             | 104        | 49                | 73         | -              | -          |
| Total securities sold, not yet purchased | \$9,037        | \$9,657    | \$5,320           | \$5,488    | \$14,044       | \$15,550   |

Investments in sponsored registered investment companies at March 31, 2012, December 31, 2011 and March 31, 2011 consisted of the following:

|  | March 31, 2012 |            | December 31, 2011 |            | March 31, 2011 |            |
|--|----------------|------------|-------------------|------------|----------------|------------|
|  | Cost           | Fair Value | Cost              | Fair Value | Cost           | Fair Value |
| (In thousands)   |                |            |                   |            |                |            |
| Trading securities:  |                |            |                   |            |                |            |
| Mutual funds   | \$15           | \$17       | \$15              | \$18       | \$15           | \$25       |
| Total trading securities                                       | 15             | 17         | 15                | 18         | 15             | 25         |
| Available for sale securities:                                 |                |            |                   |            |                |            |
| Closed-end funds   | 36,546         | 58,721     | 37,104            | 55,855     | 39,232         | 61,734     |
| Mutual funds   | 2,204          | 3,567      | 2,213             | 3,341      | 2,345          | 4,144      |
| Total available for sale securities                            | 38,750         | 62,288     | 39,317            | 59,196     | 41,577         | 65,878     |
| Total investments in sponsored registered investment companies | \$38,765       | \$62,305   | \$39,332          | \$59,214   | \$41,592       | \$65,903   |

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.

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 months ended March 31, 2012, the Company had derivative transactions in equity derivatives which resulted in net losses of \$29,000. At March 31, 2011, the Company did not hold any derivatives. At March 31, 2012 and December 31, 2011, we held derivative contracts on 1 million equity shares and 142,000 equity shares, respectively, and the fair value was \$105,000 and \$24,000, respectively; these are included in investments in securities in the condensed consolidated statements of financial condition. These transactions are not designated as hedges for accounting purposes, and therefore changes in fair values of these derivatives are included in net gain from investments in the condensed consolidated statements of income.

The following is a summary of the cost, gross unrealized gains, gross unrealized losses and fair value of available for sale investments as of March 31, 2012, December 31, 2011 and March 31, 2011:

| March 31, 2012                      |           |            |            |           |
|-------------------------------------|-----------|------------|------------|-----------|
|                                     |           | Gross      | Gross      | Fair      |
|                                     | Cost      | Unrealized | Unrealized | Value     |
|                                     |           | Gains      | Losses     |           |
| (In thousands)                      |           |            |            |           |
| Common stocks                       | \$ 16,158 | \$ 18,420  | \$ -       | \$ 34,578 |
| Closed-end Funds                    | 36,546    | 22,189     | (14 )      | 58,721    |
| Mutual funds                        | 3,566     | 2,110      | -          | 5,676     |
| Total available for sale securities | \$ 56,270 | \$ 42,719  | \$ (14 )   | \$ 98,975 |

| December 31, 2011                   |           |            |            |           |
|-------------------------------------|-----------|------------|------------|-----------|
|                                     |           | Gross      | Gross      | Fair      |
|                                     | Cost      | Unrealized | Unrealized | Value     |
|                                     |           | Gains      | Losses     |           |
| (In thousands)                      |           |            |            |           |
| Common stocks                       | \$ 16,487 | \$ 16,795  | \$ -       | \$ 33,282 |
| Closed-end Funds                    | 37,104    | 18,779     | (28 )      | 55,855    |
| Mutual funds                        | 3,575     | 1,671      | -          | 5,246     |
| Total available for sale securities | \$ 57,166 | \$ 37,245  | \$ (28 )   | \$ 94,383 |

| March 31, 2011                      |           |            |            |            |
|-------------------------------------|-----------|------------|------------|------------|
|                                     |           | Gross      | Gross      | Fair       |
|                                     | Cost      | Unrealized | Unrealized | Value      |
|                                     |           | Gains      | Losses     |            |
| (In thousands)                      |           |            |            |            |
| Common stocks                       | \$ 16,835 | \$ 20,573  | \$ -       | \$ 37,408  |
| Closed-end Funds                    | 39,232    | 22,502     | -          | 61,734     |
| Mutual funds                        | 3,848     | 2,656      | -          | 6,504      |
| Total available for sale securities | \$ 59,915 | \$ 45,731  | \$ -       | \$ 105,646 |

Unrealized changes to fair value, net of taxes, for the three months ended March 31, 2012 and March 31, 2011 of \$3.5 million and \$2.5 million in gains, respectively, have been included in other comprehensive income, a component of equity, at March 31, 2012 and March 31, 2011. Return of capital on available for sale securities were \$0.6 million for both the three months ended March 31, 2012 and March 31, 2011. Proceeds from sales of investments available for sale were approximately \$0.5 million and \$0.1 million for the three month periods ended March 31, 2012 and March 31, 2011, respectively. For the three months ended March 31, 2012 and March 31, 2011, gross gains on the sale of investments available for sale amounted to \$0.3 million and \$0.1 million, respectively, and were reclassified from other comprehensive income into the condensed consolidated statements of income. There were no losses on the sale of investments available for sale for the three months ended March 31, 2012 or March 31, 2011. The basis on which the cost of a security sold is determined is specific identification.

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

|                | March 31, 2012 |          |            | December 31, 2011 |          |            | March 31, 2011 |        |            |
|----------------|----------------|----------|------------|-------------------|----------|------------|----------------|--------|------------|
|                | Unrealized     |          | Fair Value | Unrealized        |          | Fair Value | Unrealized     |        | Fair Value |
|                | Cost           | Losses   |            | Cost              | Losses   |            | Cost           | Losses |            |
| (in thousands) |                |          |            |                   |          |            |                |        |            |
| Mutual Funds   | \$97           | \$ (14 ) | \$83       | \$101             | \$ (28 ) | \$73       | \$-            | \$ -   | \$-        |

At March 31, 2012 and December 31, 2011, there was one holding in a loss position which was not deemed to be other-than-temporarily impaired due to the length of time that it had been in a loss position and because it passed scrutiny in our evaluation of issuer-specific and industry-specific considerations. In this specific instance, the investment at March 31, 2012 and December 31, 2011 was a closed-end fund with diversified holdings across multiple companies and across multiple industries. The one holding was impaired for ten and seven consecutive months, respectively. The value of this holding at March 31, 2012 and December 31, 2011 was \$0.1 million for both periods.

At March 31, 2011, there were no available for sale holdings in loss positions.

For the three months ended March 31, 2012 and 2011, there were no losses on available for sale securities deemed to be other than temporary.

### C. Investments in Partnerships, Offshore Funds and Variable Interest Entities

The Company is general partner or co-general partner of various sponsored limited partnerships and the investment manager of various sponsored offshore funds, and have investments totaling \$86.9 million, \$86.9 million and \$74.4 million at March 31, 2012, December 31, 2011 and March 31, 2011, respectively, whose underlying assets consist primarily of marketable securities (the “affiliated entities”). We also have investments in unaffiliated partnerships, offshore funds and other entities of \$14.8 million, \$14.0 million and \$20.2 million at March 31, 2012, December 31, 2011 and March 31, 2011, respectively (the “unaffiliated entities”). We evaluate each entity for the appropriate accounting treatment and disclosure. Certain of the affiliated entities are consolidated. In addition, our statement of financial condition caption “Investments in partnerships” includes those investments, in both affiliated and unaffiliated entities, which the Company accounts for under the equity method of accounting, as well as certain investments that the feeder funds hold that are carried at fair value, as described in Note D. The Company reflects the equity in earnings of these equity method investees and the change in fair value of the consolidated feeder funds under the caption “Net gain from investments” on the condensed consolidated statements of income.

The following table highlights the number of entities that we consolidate as well as under which accounting guidance they are consolidated, including consolidated feeder funds (“CFFs”), which retain their specialized investment company accounting, partnerships and offshore funds.

| Entities consolidated                      | CFFs |      | Partnerships |      | Offshore Funds |      | Total |      |
|--|------|------|--------------|------|----------------|------|-------|------|
|  | VIEs | VOEs | VIEs         | VOEs | VIEs           | VOEs | VIEs  | VOEs |
| Entities consolidated at December 31, 2010 | 1    | 2    | -            | 2    | 1              | -    | 2     | 4    |
| Additional consolidated entities           | -    | -    | -            | -    | -              | 1    | -     | 1    |
| Deconsolidated entities                    | -    | -    | -            | (1 ) | -              | -    | -     | (1 ) |
| Entities consolidated at March 31, 2011    | 1    | 2    | -            | 1    | 1              | 1    | 2     | 4    |
| Additional consolidated entities           | -    | -    | -            | -    | -              | -    | -     | -    |
| Deconsolidated entities                    | -    | -    | -            | -    | (1 )           | -    | (1 )  | -    |
| Entities consolidated at December 31, 2011 | 1    | 2    | -            | 1    | -              | 1    | 1     | 4    |
| Additional consolidated entities           | -    | -    | -            | -    | -              | -    | -     | -    |
| Deconsolidated entities                    | -    | -    | -            | -    | -              | -    | -     | -    |
| Entities consolidated at March 31, 2012    | 1    | 2    | -            | 1    | -              | 1    | 1     | 4    |

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 earn 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).

The following table includes the net impact by line item on the condensed consolidated statements of financial condition for each category of entity consolidated (in thousands):

| March 31, 2012                                |                  |                |              |                 |                  |
|---|------------------|----------------|--------------|-----------------|------------------|
|   | Prior to         |                | Partnerships | Offshore Funds  | As Reported      |
|   | Consolidation    | CFFs           |              |                 |                  |
| <b>Assets</b>                                 |                  |                |              |                 |                  |
| Cash and cash equivalents                     | \$322,523        | \$-            | \$2,107      | \$-             | \$324,630        |
| Investments in securities                     | 236,387          | -              | 6,503        | 14,717          | 257,607          |
| Investments in sponsored investment companies | 62,289           | -              | 16           | -               | 62,305           |
| Investments in partnerships                   | 109,136          | 990            | (8,441 )     | -               | 101,685          |
| Receivable from brokers                       | 18,400           | -              | 121          | 10,777          | 29,298           |
| Investment advisory fees receivable           | 27,189           | 5              | (1 )         | -               | 27,193           |
| Other assets                                  | 23,691           | 16             | -            | -               | 23,707           |
| <b>Total assets</b>                           | <b>\$799,615</b> | <b>\$1,011</b> | <b>\$305</b> | <b>\$25,494</b> | <b>\$826,425</b> |
| <b>Liabilities and equity</b>                 |                  |                |              |                 |                  |
| Securities sold, not yet purchased            | \$9,633          | \$-            | \$-          | \$24            | \$9,657          |
| Accrued expenses and other liabilities        | 101,149          | 59             | 38           | 9,861           | 111,107          |
| <b>Total debt</b>                             | <b>264,300</b>   | <b>-</b>       | <b>-</b>     | <b>-</b>        | <b>264,300</b>   |
| Redeemable noncontrolling interests           | -                | 952            | 267          | 15,609          | 16,828           |
| <b>Total equity</b>                           | <b>424,533</b>   | <b>-</b>       | <b>-</b>     | <b>-</b>        | <b>424,533</b>   |
| <b>Total liabilities and equity</b>           | <b>\$799,615</b> | <b>\$1,011</b> | <b>\$305</b> | <b>\$25,494</b> | <b>\$826,425</b> |

| December 31, 2011                             |                  |              |              |                |                  |
|---|------------------|--------------|--------------|----------------|------------------|
|   | Prior to         |              | Partnerships | Offshore Funds | As Reported      |
|   | Consolidation    | CFFs         |              |                |                  |
| <b>Assets</b>                                 |                  |              |              |                |                  |
| Cash and cash equivalents                     | \$259,531        | \$15,000     | \$1,809      | \$-            | \$276,340        |
| Investments in securities                     | 225,599          | -            | 6,211        | 6,523          | 238,333          |
| Investments in sponsored investment companies | 59,197           | -            | 17           | -              | 59,214           |
| Investments in partnerships                   | 107,981          | 933          | (8,021 )     | -              | 100,893          |
| Receivable from brokers                       | 17,593           | -            | 270          | 3,050          | 20,913           |
| Investment advisory fees receivable           | 32,157           | 1            | (2 )         | -              | 32,156           |
| Other assets                                  | 43,889           | (14,989 )    | -            | -              | 28,900           |
| <b>Total assets</b>                           | <b>\$745,947</b> | <b>\$945</b> | <b>\$284</b> | <b>\$9,573</b> | <b>\$756,749</b> |
| <b>Liabilities and equity</b>                 |                  |              |              |                |                  |
| Securities sold, not yet purchased            | \$5,488          | \$-          | \$-          | \$-            | \$5,488          |
| Accrued expenses and other liabilities        | 69,929           | 51           | 28           | 4,652          | 74,660           |
| <b>Total debt</b>                             | <b>263,119</b>   | <b>-</b>     | <b>-</b>     | <b>-</b>       | <b>263,119</b>   |
| Redeemable noncontrolling interests           | -                | 894          | 256          | 4,921          | 6,071            |
| <b>Total equity</b>                           | <b>407,411</b>   | <b>-</b>     | <b>-</b>     | <b>-</b>       | <b>407,411</b>   |
| <b>Total liabilities and equity</b>           | <b>\$745,947</b> | <b>\$945</b> | <b>\$284</b> | <b>\$9,573</b> | <b>\$756,749</b> |

March 31, 2011



|   | Prior to          |                 |               |                  | As Reported       |
|---|-------------------|-----------------|---------------|------------------|-------------------|
|   | Consolidation     | CFFs            | Partnerships  | Offshore Funds   |                   |
| <b>Assets</b>                                 |                   |                 |               |                  |                   |
| Cash and cash equivalents                     | \$ 162,685        | \$-             | \$ 32         | \$ 1,954         | \$ 164,671        |
| Investments in securities                     | 196,142           | -               | 6,542         | 77,029           | 279,713           |
| Investments in sponsored investment companies | 65,879            | -               | 24            | -                | 65,903            |
| Investments in partnerships                   | 155,507           | 1,124           | (8,587 )      | (53,460 )        | 94,584            |
| Receivable from brokers                       | 24,631            | -               | 2,390         | 16,287           | 43,308            |
| Investment advisory fees receivable           | 25,043            | 9               | (2 )          | (58 )            | 24,992            |
| Other assets                                  | 24,258            | 10              | -             | 64               | 24,332            |
| <b>Total assets</b>                           | <b>\$ 654,145</b> | <b>\$ 1,143</b> | <b>\$ 399</b> | <b>\$ 41,816</b> | <b>\$ 697,503</b> |
| <b>Liabilities and equity</b>                 |                   |                 |               |                  |                   |
| Securities sold, not yet purchased            | \$ 3,279          | \$-             | \$ -          | \$ 12,271        | \$ 15,550         |
| Accrued expenses and other liabilities        | 88,681            | 95              | 55            | 2,053            | 90,884            |
| <b>Total debt</b>                             | <b>159,697</b>    | <b>-</b>        | <b>-</b>      | <b>-</b>         | <b>159,697</b>    |
| Redeemable noncontrolling interests           | -                 | 1,048           | 344           | 27,492           | 28,884            |
| <b>Total equity</b>                           | <b>402,488</b>    | <b>-</b>        | <b>-</b>      | <b>-</b>         | <b>402,488</b>    |
| <b>Total liabilities and equity</b>           | <b>\$ 654,145</b> | <b>\$ 1,143</b> | <b>\$ 399</b> | <b>\$ 41,816</b> | <b>\$ 697,503</b> |

The following table includes the net impact by line item on the condensed consolidated statements of income for each category of entity consolidated (in thousands):

| Three Months Ended March 31, 2012                   |               |        |              |                |             |
|---|---------------|--------|--------------|----------------|-------------|
|   | Prior to      |        |              |                | As Reported |
|   | Consolidation | CFFs   | Partnerships | Offshore Funds |             |
| Total revenues                                      | \$82,579      | \$(1 ) | \$(1 )       | \$(828 )       | \$81,749    |
| Total expenses                                      | 54,521        | 23     | 11           | 182            | 54,737      |
| Operating income                                    | 28,058        | (24 )  | (12 )        | (1,010 )       | 27,012      |
| Total other income, net                             | 9,544         | 85     | 23           | 1,058          | 10,710      |
| Income before income taxes                          | 37,602        | 61     | 11           | 48             | 37,722      |
| Income tax provision                                | 13,756        | -      | -            | -              | 13,756      |
| Net income  | 23,846        | 61     | 11           | 48             | 23,966      |
| Net income attributable to noncontrolling interests | 10            | 61     | 11           | 48             | 130         |
| Net income attributable to GAMCO                    | \$23,836      | \$-    | \$-          | \$-            | \$23,836    |
| Three Months Ended March 31, 2011                   |               |        |              |                |             |
|   | Prior to      |        |              |                | As Reported |
|   | Consolidation | CFFs   | Partnerships | Offshore Funds |             |
| Total revenues                                      | \$76,968      | \$(4 ) | \$(1 )       | \$(58 )        | \$76,905    |
| Total expenses                                      | 55,974        | 31     | 15           | 125            | 56,145      |
| Operating income                                    | 20,994        | (35 )  | (16 )        | (183 )         | 20,760      |
| Total other income, net                             | 6,996         | 251    | 96           | 466            | 7,809       |
| Income before income taxes                          | 27,990        | 216    | 80           | 283            | 28,569      |
| Income tax provision                                | 10,288        | -      | -            | -              | 10,288      |
| Net income  | 17,702        | 216    | 80           | 283            | 18,281      |
| Net income attributable to noncontrolling interests | 59            | 216    | 80           | 283            | 638         |
| Net income attributable to GAMCO                    | \$17,643      | \$-    | \$-          | \$-            | \$17,643    |

#### Variable Interest Entities

We also have sponsored a number of investment vehicles where we are the general partner or investment manager. These vehicles are 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 March 31, 2012, December 31, 2011 and March 31, 2011 were \$74.5 million, \$73.7 million and \$9.8 million, respectively. Our maximum exposure to loss as a result of our involvement with the VIEs is limited to the investment in one VIE and the deferred carried interest that we have in another. On March 31, 2012 and December 31, 2011, we had an investment in one of the VIE offshore funds of approximately \$8.2 million and \$5.0 million, respectively, which was included in investments in partnerships on the condensed consolidated statements of financial condition. On March 31, 2012, December 31, 2011 and March 31, 2011, we had a deferred carried interest in one of the VIE offshore funds of approximately \$49,000, \$47,000 and \$48,000, respectively, which was included in investments in partnerships on the condensed consolidated statements of financial condition. Additionally, as the general partner or investment manager to these VIEs the Company earns fees in relation to these roles, which given a decline in AUMs of the VIEs would result in lower fee revenues earned by the

Company which would be reflected on the condensed consolidated statements of income, condensed consolidated statements of financial condition and condensed consolidated statements of cash flows.

Prior to January 1, 2011, we were consolidating two VIEs since we had determined that we were the primary beneficiary of each because we had equity interests and absorbed a majority of each entity's expected losses; therefore they were consolidated in the financial statements. Effective October 1, 2011, we deconsolidated one of the VIEs upon analysis of several factors, including the redemption of \$49.2 million of proprietary capital from this VIE, we determined that the Company was no longer deemed to be the primary beneficiary of the VIE. The deconsolidation did not result in the recognition of any gain or loss. The Company has not provided any financial support to these VIEs but does continue to serve as the investment manager and earn fees for this role, and it also maintains an investment in the deconsolidated VIE, 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). 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 are consolidated and were included on the condensed consolidated statements of financial condition as well as GAMCO's net interest in these VIEs:

|  | March 31,<br>2012 | December<br>31,<br>2011 | March 31,<br>2011 |
|--|-------------------|-------------------------|-------------------|
| (In thousands)                             |                   |                         |                   |
| Cash and cash equivalents                  | \$-               | \$15,000                | \$-               |
| Investments in securities                  | -                 | -                       | -                 |
| Investments in partnerships                | 17,183            | 1,433                   | 1,598             |
| Receivable from brokers                    | -                 | -                       | -                 |
| Other assets                               | -                 | -                       | -                 |
| Securities sold, not yet purchased         | -                 | -                       | -                 |
| Accrued expenses and other liabilities     | (7 )              | (15,006 )               | (41 )             |
| Redeemable noncontrolling interests        | (403 )            | (381 )                  | (522 )            |
| GAMCO's net interests in consolidated VIEs | \$16,773          | \$1,046                 | \$1,035           |

#### 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.

The valuation process and policies reside with the financial reporting and accounting group which reports to the Chief Financial Officer. The Company uses the “market approach” valuation technique to value its investments in Level 3 investments. The Company’s valuation of the Level 3 investments has been based upon either i) the recent sale prices of the issuers or ii) the net assets, book value or cost basis of the issuer when there is no recent sales prices available.

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 master funds held by 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 generally classified as Level 1 assets or liabilities in the master funds' financial statements. We may redeem our investments in these funds monthly with 30 days' notice.

The following tables present information about the Company's assets and liabilities by major categories measured at fair value on a recurring basis as of March 31, 2012, December 31, 2011 and March 31, 2011 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 March 31, 2012 (in thousands)

|  | Quoted Prices in<br>Active<br>Markets for<br>Identical<br>Assets (Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level<br>2) | Significant<br>Unobservable<br>Inputs (Level<br>3) | Balance as of<br>March 31,<br>2012 |
|--|--|---|--|------------------------------------|
| Cash equivalents   | \$ 324,333   | \$ -  | \$ -   | \$ 324,333                         |
| Investments in<br>partnerships                               | -  | 23,166  | -  | 23,166                             |
| Investments in securities:                                   |  |   |  |                                    |
| AFS - Common stocks  | 34,578   | -   | -  | 34,578                             |
| AFS - Mutual funds   | 2,109  | -   | -  | 2,109                              |
| Trading - Gov't<br>obligations                               | 48,630   | -   | -  | 48,630                             |
| Trading - Common<br>stocks                                   | 169,463  | 114   | 647  | 170,224                            |
| Trading - Mutual funds                                       | 1,495  | -   | -  | 1,495                              |
| Trading - Other  | 293  | -   | 278  | 571                                |
| Total investments in<br>securities                           | 256,568  | 114   | 925  | 257,607                            |
| Investments in sponsored registered investment<br>companies: | 58,721   | -   | -  | 58,721                             |

|  |            |           |        |            |
|--|------------|-----------|--------|------------|
| AFS - Closed-end Funds   |            |           |        |            |
| AFS - Mutual Funds   | 3,567      | -         | -      | 3,567      |
| Trading - Mutual funds   | 17         | -         | -      | 17         |
| Total investments in sponsored registered investment companies |            |           |        |            |
|  | 62,305     | -         | -      | 62,305     |
| Total investments  | 318,873    | 23,280    | 925    | 343,078    |
| Total assets at fair value                                     | \$ 643,206 | \$ 23,280 | \$ 925 | \$ 667,411 |
| Liabilities  |            |           |        |            |
| Trading - Common stocks  |            |           |        |            |
|  | \$ 9,553   | \$ -      | \$ -   | \$ 9,553   |
| Trading - Other  |            |           |        |            |
|  | -          | 104       | -      | 104        |
| Securities sold, not yet purchased                             |            |           |        |            |
|  | \$ 9,553   | \$ 104    | \$ -   | \$ 9,657   |

Edgar Filing: GAMCO INVESTORS, INC. ET AL - Form 10-Q

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2011 (in thousands)

|   | Quoted Prices in<br>Active<br>Markets for<br>Identical | Significant<br>Other<br>Observable<br>Inputs (Level<br>2) | Significant<br>Unobservable<br>Inputs (Level<br>3) | Balance as of<br>December 31,<br>2011 |
|---|--|---|--|---------------------------------------|
| Assets  | Assets (Level 1)                                       |   |  |                                       |
| Cash equivalents  | \$ 260,969   | \$ -  | \$ -   | \$ 260,969                            |
| Investments in<br>partnerships  | -  | 27,122  | -  | 27,122                                |
| Investments in securities:  |  |   |  |                                       |
| AFS - Common stocks   | 33,282   | -   | -  | 33,282                                |
| AFS - Mutual funds  | 1,905  | -   | -  | 1,905                                 |
| Trading - Gov't<br>obligations  | 42,126   | -   | -  | 42,126                                |
| Trading - Common<br>stocks  | 158,623  | 21  | 670  | 159,314                               |
| Trading - Mutual funds  | 1,307  | -   | -  | 1,307                                 |
| Trading - Other   | 55   | 60  | 284  | 399                                   |
| Total investments in<br>securities                                      | 237,298  | 81  | 954  | 238,333                               |
| Investments in sponsored registered investment<br>companies:            |  |   |  |                                       |
| AFS - Closed-end<br>Funds   | 55,855   | -   | -  | 55,855                                |
| AFS - Mutual Funds  | 3,341  | -   | -  | 3,341                                 |
| Trading - Mutual funds  | 18   | -   | -  | 18                                    |
| Total investments in<br>sponsored<br>registered investment<br>companies | 59,214   | -   | -  | 59,214                                |
| Total investments   | 296,512  | 27,203  | 954  | 324,669                               |
| Total assets at fair value  | \$ 557,481   | \$ 27,203   | \$ 954   | \$ 585,638                            |
| Liabilities   |  |   |  |                                       |
| Trading - Common<br>stocks  | \$ 5,415   | \$ -  | \$ -   | \$ 5,415                              |
| Trading - Other   | -  | 73  | -  | 73                                    |
| Securities sold, not yet<br>purchased                                   | \$ 5,415   | \$ 73   | \$ -   | \$ 5,488                              |

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of March 31, 2011 (in thousands)

|        | Quoted Prices in<br>Active<br>Markets for<br>Identical | Significant<br>Other<br>Observable | Significant<br>Unobservable | Balance as of<br>March 31,<br>2011 |
|--------|--|------------------------------------|-----------------------------|------------------------------------|
| Assets | Assets (Level 1)                                       |                                    |                             |                                    |



|   |            | Inputs (Level<br>2) | Inputs (Level<br>3) |            |
|---|------------|---------------------|---------------------|------------|
| Cash equivalents  | \$ 161,946 | \$ -                | \$ -                | \$ 161,946 |
| Investments in<br>partnerships  | -          | 28,473              | -                   | 28,473     |
| Investments in securities:  |            |                     |                     |            |
| AFS - Common stocks   | 37,408     | -                   | -                   | 37,408     |
| AFS - Mutual funds  | 2,360      | -                   | -                   | 2,360      |
| Trading - Gov't<br>obligations  | 12,076     | -                   | -                   | 12,076     |
| Trading - Common<br>stocks  | 225,008    | 13                  | 568                 | 225,589    |
| Trading - Mutual funds  | 1,629      | -                   | -                   | 1,629      |
| Trading - Convertible<br>bonds  | 175        | -                   | -                   | 175        |
| Trading - Other   | 120        | -                   | 356                 | 476        |
| Total investments in<br>securities                                      | 278,776    | 13                  | 924                 | 279,713    |
| Investments in sponsored registered investment<br>companies:            |            |                     |                     |            |
| AFS - Closed-end<br>Funds   | 61,734     | -                   | -                   | 61,734     |
| AFS - Mutual Funds  | 4,144      | -                   | -                   | 4,144      |
| Trading - Mutual funds  | 25         | -                   | -                   | 25         |
| Total investments in<br>sponsored<br>registered investment<br>companies | 65,903     | -                   | -                   | 65,903     |
| Total investments   | 344,679    | 28,486              | 924                 | 374,089    |
| Total assets at fair value  | \$ 506,625 | \$ 28,486           | \$ 924              | \$ 536,035 |
| Liabilities   |            |                     |                     |            |
| Trading - Common<br>stocks  | \$ 15,550  | \$ -                | \$ -                | \$ 15,550  |
| Securities sold, not yet<br>purchased                                   | \$ 15,550  | \$ -                | \$ -                | \$ 15,550  |

The following tables present additional information about assets 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 March 31, 2012 (in thousands)

| Asset                        | December 31, 2011 | Total Realized and Unrealized Gains or (Losses) in Income | Total Unrealized Gains or (Losses) Included in Other Comprehensive Income |               | Purchases | Sales    | Transfers In and/or (Out) of Level 3 | Ending Balance |
|------------------------------|-------------------|---|---|---------------|-----------|----------|--------------------------------------|----------------|
|                              |                   |   | AFS   | Comprehensive |           |          |                                      |                |
| Financial instruments owned: |                   |   |   |               |           |          |                                      |                |
| Trading - Common stocks      | \$ 670            | \$ -  | \$ -  | \$ -          | \$ 57     | \$ (80 ) | \$ -                                 | \$ 647         |
| Trading - Other              | 284               | (2 )  | -   | -             | 4         | (8 )     | -                                    | 278            |
| Total                        | \$ 954            | \$ (2 )   | \$ -  | \$ -          | \$ 61     | \$ (88 ) | \$ -                                 | \$ 925         |

There were no transfers between any Levels during the three months ended March 31, 2012.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2011 (in thousands)

| Asset                        | December 31, 2010 | Total Realized and Unrealized Gains or (Losses) in Income | Total Unrealized Gains or (Losses) Included in Other Comprehensive Income |               | Purchases | Sales | Transfers In and/or (Out) of Level 3 | Ending Balance |
|------------------------------|-------------------|---|---|---------------|-----------|-------|--------------------------------------|----------------|
|                              |                   |   | AFS   | Comprehensive |           |       |                                      |                |
| Financial instruments owned: |                   |   |   |               |           |       |                                      |                |

|                               |        |        |      |      |        |        |          |      |        |
|-------------------------------|--------|--------|------|------|--------|--------|----------|------|--------|
| Trading -<br>Common<br>stocks | \$ 147 | \$ 21  | \$ - | \$ - | \$ 21  | \$ 400 | \$ -     | \$ - | \$ 568 |
| Trading -<br>Other            | 278    | 126    | -    | -    | 126    | -      | (48 )    | -    | 356    |
| Total                         | \$ 425 | \$ 147 | \$ - | \$ - | \$ 147 | \$ 400 | \$ (48 ) | \$ - | \$ 924 |

There were no transfers between any Levels during the three months ended March 31, 2011.

#### E. Debt

Debt consists of the following:

|                               | March 31, 2012    |                       | December 31, 2011 |                       | March 31, 2011    |                       |
|-------------------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|
|                               | Carrying<br>Value | Fair Value<br>Level 2 | Carrying<br>Value | Fair Value<br>Level 2 | Carrying<br>Value | Fair Value<br>Level 2 |
| (In thousands)                |                   |                       |                   |                       |                   |                       |
| 5.5% Senior notes             | \$ 99,000         | \$ 100,733            | \$ 99,000         | \$ 93,070             | \$ 99,000         | \$ 102,614            |
| 5.875% Senior notes           | 100,000           | 104,375               | 100,000           | 100,733               | -                 | -                     |
| 0% Subordinated<br>debentures | 65,300            | 66,774                | 64,119            | 58,899                | 60,697            | 57,006                |
| Total                         | \$ 264,300        | \$ 271,882            | \$ 263,119        | \$ 252,702            | \$ 159,697        | \$ 159,620            |

On May 31, 2011, the Company issued \$100 million of senior unsecured notes at par. The net proceeds of \$99.1 million were used for working capital and general corporate purposes. The issuance costs of \$0.9 million have been capitalized and will be amortized over the term of the debt. The notes mature on June 1, 2021 and bear interest at 5.875% per annum, payable semi-annually on June 1 and December 1 of each year and commenced 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.

On December 31, 2010, the Company issued \$86.4 million in par value of five year zero coupon subordinated debentures due December 31, 2015 (“Debentures”) to its shareholders of record on December 15, 2010 through the declaration of a special dividend of \$3.20 per share. The Debentures have a par value of \$100 and are callable at the option of the Company, in whole or in part, at any time or from time to time, at a redemption price equal to 100% of the principal amount of the Debentures to be redeemed. During the three months ended March 31, 2012, the Company repurchased 229 Debentures, having a face value of \$22,900. The redemption was accounted for as an extinguishment of debt and resulted in a loss of \$1,000 which was included in net gain from investments on the condensed consolidated statements of income. There were no repurchases for the three month period ended March 31, 2011. The debt is being accreted to its face value using the effective rate on the date of issuance of 7.45%. At March 31, 2012, December 31, 2011 and March 31, 2011, the debt was recorded at its accreted value of \$65.3 million, \$64.1 million and \$59.6 million, respectively.

The fair value of the Company’s debt, which is a Level 2 valuation, is estimated based on either quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities or using market standard models. Inputs in these standard models include credit rating, maturity and interest rate.

#### F. Income Taxes

The effective tax rate for the three months ended March 31, 2012 was 36.5% compared to 36.0% for the prior year three month period. Prior to the consolidation of certain partnerships and offshore entities, in which no tax liability or benefit is recorded at the corporate level but which flow directly to its partners, the effective tax rate was 36.5% and 36.8% for the first quarter of 2012 and 2011, respectively.

#### G. Earnings Per Share

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

|   | Three Months Ended March<br>31, |           |
|---|---------------------------------|-----------|
| (in thousands, except per share<br>amounts)   | 2012                            | 2011      |
| Basic:  |                                 |           |
| Net income attributable to GAMCO<br>Investors, Inc.'s shareholders                    | \$ 23,836                       | \$ 17,643 |
| Weighted average shares<br>outstanding  | 26,415                          | 26,901    |
| Basic net income attributable to<br>GAMCO Investors, Inc.'s<br>shareholders per share | \$ 0.90                         | \$ 0.66   |
| Diluted:  |                                 |           |

|   |           |           |
|---|-----------|-----------|
| Net income attributable to GAMCO Investors, Inc.'s shareholders                   | \$ 23,836 | \$ 17,643 |
| Weighted average share outstanding  | 26,415    | 26,901    |
| Dilutive stock options and restricted stock awards                                | 118       | 107       |
| Total   | 26,533    | 27,008    |
| Diluted net income attributable to GAMCO Investors, Inc.'s shareholders per share | \$ 0.90   | \$ 0.65   |

## H. Stockholders' Equity

Shares outstanding were 26.6 million on March 31, 2012, 26.8 million on December 31, 2011, and 27.1 million on March 31, 2011.

### Dividends

|                                   | Payment<br>Date | Record<br>Date | Amount  |
|-----------------------------------|-----------------|----------------|---------|
| Three months ended March 31, 2012 | March 27, 2012  | March 13, 2012 | \$ 0.04 |
| Three months ended March 31, 2011 | March 29, 2011  | March 15, 2011 | \$ 0.03 |

### Voting Rights

The holders of Class A Common stock ("Class A Shares") and Class B Common stock ("Class B Stock") have identical rights except that (i) holders of Class A Stock are entitled to one vote per share, while holders of Class B Stock are entitled to ten votes per share on all matters to be voted on by shareholders in general, and (ii) holders of Class A Stock are not eligible to vote on matters relating exclusively to Class B Stock 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 Stock have been reserved for issuance under each of the Plans by a committee of the Board of Directors responsible for administering the Plans ("Compensation Committee"). Under the Plans, the committee may grant RSAs and 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. Restricted stock award ("RSA") shares granted under the Plans vest 30% after three years and 100% after five years.

On January 3, 2012, the Company approved the granting of 105,300 RSA shares at a grant date fair value of \$43.49 per share. On January 15, 2011, and February 9, 2011, the Company approved the granting of 193,900 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. As of March 31, 2012, December 31, 2011 and March 31, 2011, there were 375,000 RSA shares, 275,600 RSA shares and 293,800 RSA shares, respectively, outstanding that were previously issued at an average weighted grant price of \$45.14, \$45.56 and \$45.54, respectively. All grants of the RSA shares were recommended by the Company's Chairman, who did not receive a RSA, and approved by the Compensation Committee. This expense, net of forfeitures, is recognized over the vesting period for these awards which is 30% over three years from the date of grant and 70% over five years from the date of grant. During the vesting period, dividends to RSA holders are held for them until the RSA vesting dates and are forfeited if the grantee is no longer employed by the Company on the

vesting dates. Dividends declared on these RSAs, less estimated forfeitures, are charged to retained earnings on the declaration date.

For the three months ended March 31, 2012 and March 31, 2011, we recognized stock-based compensation expense of \$0.9 million and \$0.6 million, respectively. Actual and projected stock-based compensation expense for RSA shares and options for the years ended December 31, 2011 through December 31, 2016 (based on awards currently issued or granted) is as follows (\$ in thousands):

|              | 2011     | 2012     | 2013     | 2014     | 2015     | 2016   |
|--------------|----------|----------|----------|----------|----------|--------|
| Q1           | \$ 577   | \$ 871   | \$ 870   | \$ 625   | \$ 494   | \$ 175 |
| Q2           | 686      | 870      | 848      | 588      | 462      | 128    |
| Q3           | 655      | 870      | 805      | 588      | 399      | 128    |
| Q4           | 670      | 870      | 805      | 588      | 399      | 128    |
| Full<br>Year | \$ 2,588 | \$ 3,481 | \$ 3,328 | \$ 2,389 | \$ 1,754 | \$ 559 |

The total compensation costs related to non-vested RSAs and options not yet recognized is approximately \$10.6 million as of March 31, 2012. There were no options exercised in either the three month period ended March 31, 2012 or March 31, 2011.

## 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 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 March 31, 2012 and March 31, 2011, the Company repurchased 224,733 shares and 161,588 shares, respectively, at an average price per share of \$44.35 and \$43.91, respectively. From the inception of the program through March 31, 2012, 7,568,785 shares have been repurchased at an average price of \$40.74 per share. At March 31, 2012, the total shares available under the program to be repurchased in the future were 348,634.

## I. Goodwill and Identifiable Intangible Assets

At March 31, 2012, \$3.5 million of goodwill is reflected within other assets on the condensed consolidated statements of financial condition with \$3.3 million related to a 93%-owned subsidiary, Gabelli Securities, Inc. and \$0.2 million related to G.distributors, LLC. The Company assesses the recoverability of goodwill at least annually, or more often should events warrant, using a qualitative assessment of whether it is more likely than not that an impairment has occurred to determine if a quantitative analysis is required. There were no indicators of impairment for the three months ended March 31, 2012 or the three months ended March 31, 2011, and as such there was no impairment analysis performed or charge recorded.

As a result of becoming the advisor to the Gabelli Enterprise Mergers and Acquisitions Fund and the associated consideration paid, the Company maintains an identifiable intangible asset of \$1.9 million within other assets on the condensed consolidated statements of financial condition at March 31, 2012, December 31, 2011 and March 31, 2011. 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 2013. 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 months ended March 31, 2012 or March 31, 2011, 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. Furthermore, the Company evaluates whether there exist losses which may be reasonably possible and, if material, makes the necessary disclosures. Such amounts, both those that are probable and those that are reasonably possible, are not considered material to the Company's financial condition, operations or cash flows.

The Company indemnifies the clearing brokers of Gabelli & Company for losses they may sustain from the customer accounts that trade on margin introduced by our broker-dealer subsidiary. At March 31, 2012, 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 obligations under the agreements. The Company has had no claims or payments pursuant to these or prior agreements, and believes the likelihood of a



claim being made is remote. The Company's estimate of the value of such agreements is de minimis, and therefore an accrual has not been made on the condensed consolidated financial statements.

#### K. Subsequent Events

On May 1, 2012, our Board of Directors declared a special dividend of \$0.25 per share to all of its Class A and Class B shareholders in addition to its quarterly dividend of \$0.04 per share payable on June 26, 2012 to its Class A and Class B shareholders of record on June 12, 2012.

On May 1, 2012 our Board of Directors authorized the Company to renew its shelf registration, before the expiration of its current shelf in July 2012, that will allow it to issue up to \$500 million in a combination of senior and subordinated debt securities, convertible debt securities and common and preferred securities.

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 G.distributors, LLC ("G.distributors") 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.

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 is conducted through G.distributors.

Assets under management ("AUM") were \$36.7 billion as of March 31, 2012, an increase of 3.6% from AUM of \$35.4 billion at March 31, 2011 and 7.6% above the December 31, 2011 AUM of \$34.1 billion. Fund flows in the first quarter of 2012 were \$2.6 billion consisting of market appreciation of \$2.3 billion and net cash inflows of \$0.3 billion. Average total AUM was \$35.8 billion in the 2012 quarter versus \$33.9 billion in the prior year period, an increase of 5.6%. Average AUM in our open-end equity funds, a key driver to our investment advisory fees, was \$12.8 billion in the first quarter of 2012, up 9.4% from the 2011 quarter average AUM of \$11.7 billion,

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 March 31, 2012, assets with incentive based fees were \$3.7 billion, 2.6% lower than the \$3.8 billion on March 31, 2011 but 2.8% above the \$3.6 billion on December 31, 2011.

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

Table I: Fund Flows - 1st Quarter 2012

|                                    | December<br>31,<br>2011 | Market<br>appreciation/<br>(depreciation) | Net cash<br>flows | Closed-end<br>Fund<br>distributions,<br>net of<br>reinvestments | March 31,<br>2012 |
|------------------------------------|-------------------------|---|-------------------|---|-------------------|
| Equities:                          |                         |   |                   |   |                   |
| Open-end Funds                     | \$ 12,273               | \$ 858                                    | \$(135 )          | \$ -  | \$ 12,996         |
| Closed-end Funds                   | 5,799                   | 336                                       | 40                | (108 )  | 6,067             |
| Institutional & PWM - direct       | 10,853                  | 883                                       | 295               | -   | 12,031            |
| Institutional & PWM - sub-advisory | 2,600                   | 252                                       | 72                | -   | 2,924             |
| Investment Partnerships            | 605                     | 15  | (26 )             | -   | 594               |
| SICAV (a)                          | 105                     | 2   | 11                | -   | 118               |
| Total Equities                     | 32,235                  | 2,346                                     | 257               | (108 )  | 34,730            |
| Fixed Income:                      |                         |   |                   |   |                   |
| Money-Market Fund                  | 1,824                   | -   | 98                | -   | 1,922             |
| Institutional & PWM                | 26                      | -   | -                 | -   | 26                |
| Total Fixed Income                 | 1,850                   | -   | 98                | -   | 1,948             |
| Total Assets Under Management      | \$ 34,085               | \$ 2,346                                  | \$ 355            | \$ (108 )   | \$ 36,678         |

Table II: Assets  
Under  
Management

|  | March 31,<br>2011 | March 31,<br>2012 | %<br>Inc.(Dec.) |
|--|-------------------|-------------------|-----------------|
| Equities:                                |                   |                   |                 |
| Open-end Funds                           | \$ 12,348         | \$ 12,996         | 5.2 %           |
| Closed-end<br>Funds                      | 6,170             | 6,067             | (1.7 )          |
| Institutional &<br>PWM - direct          | 11,780            | 12,031            | 2.1             |
| Institutional &<br>PWM -<br>sub-advisory | 2,937             | 2,924             | (0.4 )          |
| Investment<br>Partnerships               | 547               | 594               | 8.6             |
| SICAV (a)                                | -                 | 118               | n/m             |
| Total Equities                           | 33,782            | 34,730            | 2.8             |
| Fixed Income:                            |                   |                   |                 |
| Money-Market<br>Fund                     | 1,583             | 1,922             | 21.4            |
| Institutional &<br>PWM                   | 26                | 26                | -               |
|  | 1,609             | 1,948             | 21.1            |

|                                     |           |           |     |   |
|-------------------------------------|-----------|-----------|-----|---|
| Total Fixed<br>Income               |           |           |     |   |
| Total Assets<br>Under<br>Management | \$ 35,391 | \$ 36,678 | 3.6 | % |

Table III: Assets Under Management by Quarter

|  | 3/11      | 6/11      | 9/11      | 12/11     | 3/12      | % Increase/<br>(decrease) from |        |
|--|-----------|-----------|-----------|-----------|-----------|--------------------------------|--------|
|  |           |           |           |           |           | 3/11                           | 12/11  |
| Equities:                                |           |           |           |           |           |                                |        |
| Open-end Funds                           | \$ 12,348 | \$ 12,912 | \$ 11,469 | \$ 12,273 | \$ 12,996 | 5.2 %                          | 5.9 %  |
| Closed-end Funds                         | 6,170     | 6,259     | 5,355     | 5,799     | 6,067     | (1.7 )                         | 4.6    |
| Institutional &<br>PWM - direct          | 11,780    | 11,735    | 9,644     | 10,853    | 12,031    | 2.1                            | 10.9   |
| Institutional &<br>PWM -<br>sub-advisory | 2,937     | 2,953     | 2,326     | 2,600     | 2,924     | (0.4 )                         | 12.5   |
| Investment<br>Partnerships               | 547       | 609       | 627       | 605       | 594       | 8.6                            | (1.8 ) |
| SICAV (a)                                | -         | -         | -         | 105       | 118       | n/m                            | 12.4   |
| Total Equities                           | 33,782    | 34,468    | 29,421    | 32,235    | 34,730    | 2.8                            | 7.7    |
| Fixed Income:                            |           |           |           |           |           |                                |        |
| Money-Market<br>Fund                     | 1,583     | 1,643     | 1,895     | 1,824     | 1,922     | 21.4                           | 5.4    |
| Institutional &<br>PWM                   | 26        | 26        | 26        | 26        | 26        | -                              | -      |
| Total Fixed<br>Income                    | 1,609     | 1,669     | 1,921     | 1,850     | 1,948     | 21.1                           | 5.3    |
| Total Assets<br>Under<br>Management      | \$ 35,391 | \$ 36,137 | \$ 31,342 | \$ 34,085 | \$ 36,678 | 3.6 %                          | 7.6 %  |

(a) Includes \$100 million and \$102 million of proprietary seed capital at December 31, 2011 and March 31, 2012, respectively.

Relative long-term investment performance remained strong with approximately 30%, 45%, 63% and 67% of firm wide 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 March 31, 2012. Also, 33% of the firm's mutual funds that are rated have a 4- or 5-star overall Morningstar Rating™.

Gabelli/GAMCO Funds Morningstar Ratings Based on Risk Adjusted returns  
as of March 31, 2012 for funds that we manage

| FUND  | Morningstar<br>Category   | Overall Rating |               | 3 Year Rating |               | 5 Year Rating |               | 10 Year Rating |               |
|---|---------------------------|----------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|
|   |                           | Stars          | # of<br>Funds | Stars         | # of<br>Funds | Stars         | # of<br>Funds | Stars          | # of<br>Funds |
| Gabelli ABC AAA                                   | Mid-Cap Growth            | ★★★★           | 676           | ★             | 676           | ★★★★          | 601           | ★★★★           | 404           |
| Gabelli Asset AAA                                 | Large Blend               | ★★★★           | 1652          | ★★★★          | 1652          | ★★★★          | 1408          | ★★★★           | 832           |
| Gabelli Dividend<br>Growth AAA                    | Large Blend               | ★★             | 1652          | ★★            | 1652          | ★★            | 1408          | ★★             | 832           |
| Gabelli Equity Income<br>AAA                      | Large Value               | ★★★★           | 1114          | ★★★★          | 1114          | ★★★★          | 964           | ★★★★           | 545           |
| Gabelli Small Cap<br>Growth AAA                   | Small Blend               | ★★★★           | 578           | ★★            | 578           | ★★★★          | 493           | ★★★★           | 289           |
| Gabelli SRI Green<br>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 Focus Five<br>AAA                         | Small Blend               | ★★             | 578           | ★★            | 578           | ★★            | 493           | n/a            | n/a           |
| GAMCO Vertumnus<br>AAA                            | Convertibles              | ★★             | 58            | ★             | 58            | ★             | 47            | ★★             | 39            |
| GAMCO Global<br>Growth AAA                        | World Stock               | ★★             | 692           | ★★            | 692           | ★★★★          | 491           | ★★             | 276           |
| GAMCO Global<br>Opportunity AAA                   | World Stock               | ★★★★           | 692           | ★★            | 692           | ★★            | 491           | ★★★★           | 276           |
| GAMCO Global<br>Telecommunications<br>AAA         | Specialty-Communications  | ★★             | 40            | ★★            | 40            | ★★            | 33            | ★★★★           | 30            |
| Gabelli Gold AAA                                  | Specialty-Precious Metals | ★★             | 69            | ★★            | 69            | ★★            | 55            | ★★             | 40            |
| GAMCO Growth AAA                                  | Large Growth              | ★★             | 1479          | ★★            | 1479          | ★★            | 1261          | ★              | 788           |
| GAMCO International<br>Growth AAA                 | Foreign Large Growth      | ★★             | 206           | ★★★★          | 206           | ★★            | 163           | ★★             | 104           |
| GAMCO Mathers                                     | Conservative Allocation   | ★              | 544           | ★             | 544           | ★             | 442           | ★              | 170           |
| Gabelli Enterprise<br>Mergers &<br>Acquisitions A | Mid-cap Blend             | ★★             | 369           | ★★            | 369           | ★★★★          | 305           | ★★             | 193           |
| Percent of Rated funds<br>rated 4 or 5 stars      |                           | 33.33%         |               | 22.22%        |               | 41.18%        |               | 37.50%         |               |

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. Performance for some funds was negative for certain periods.

© 2012 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 carefully consider the investment objectives, 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 any of the funds. You can obtain a prospectus by calling 800-GABELLI (422-3554), online at [www.gabelli.com](http://www.gabelli.com), or from your financial advisor. Distributed by G.distributors, LLC, One Corporate Center, Rye New York, 10580.

The inception date for the Gabelli SRI Green Fund was June 1, 2007. The inception date for the Gabelli Focus Five Fund was December 31, 2002.

GABELLI/GAMCO  
FUNDS

## Gabelli/GAMCO Funds Lipper Rankings as of March 31, 2012

| Fund Name                         | Lipper Category                    | 1 Yr -<br>3/31/11-3/31/12 |                          | 3 Yrs -<br>3/31/09-3/31/12 |                          | 5 Yrs -<br>3/31/07-3/31/12 |                          | 10 Yrs -<br>3/31/02-3/31/12 |                          |
|-----------------------------------|------------------------------------|---------------------------|--------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-----------------------------|--------------------------|
|                                   |                                    | Percentile<br>Rank        | Rank /<br>Total<br>Funds | Percentile<br>Rank         | Rank /<br>Total<br>Funds | Percentile<br>Rank         | Rank /<br>Total<br>Funds | Percentile<br>Rank          | Rank /<br>Total<br>Funds |
| Gabelli Asset; AAA                | Multi-Cap Core Funds               | 57                        | 406/715                  | 17                         | 103/620                  | 13                         | 68/540                   | 11                          | 30/291                   |
| Gabelli Value Fund; A             | Multi-Cap Core Funds               | 60                        | 426/715                  | 4                          | 21/620                   | 29                         | 152/540                  | 27                          | 78/291                   |
| Gabelli SRI; AAA                  | Global Small/Mid-Cap Funds         | 96                        | 78/81                    | 68                         | 49/72                    | -                          | -                        | -                           | -                        |
| Gabelli Eq:Eq Inc; AAA            | Equity Income Funds                | 67                        | 195/294                  | 22                         | 55/251                   | 25                         | 53/214                   | 9                           | 9/109                    |
| GAMCO Growth; AAA                 | Large-Cap Core Funds               | 48                        | 483/1,045                | 43                         | 395/937                  | 27                         | 215/819                  | 86                          | 444/519                  |
| Gabelli Eq:SC Gro; AAA            | Small-Cap Core Funds               | 54                        | 361/680                  | 70                         | 428/618                  | 14                         | 68/501                   | 11                          | 31/296                   |
| Gabelli Focus Five Fund;AAA       | Small-Cap Core Funds               | 93                        | 633/680                  | 70                         | 430/618                  | 49                         | 244/501                  | -                           | -                        |
| GAMCO Gl:Oppty; AAA               | Global Large-Cap Growth            | 82                        | 84/102                   | 45                         | 39/87                    | 53                         | 39/73                    | 20                          | 9/45                     |
| GAMCO Gl:Growth; AAA              | Global Large-Cap Growth            | 28                        | 28/102                   | 11                         | 9/87                     | 26                         | 19/73                    | 46                          | 21/45                    |
| GAMCO Gold; AAA                   | Precious Metal Funds               | 11                        | 8/74                     | 54                         | 32/59                    | 46                         | 23/50                    | 53                          | 19/35                    |
| GAMCO Intl Gro; AAA               | International Large-Cap Growth     | 16                        | 36/226                   | 7                          | 14/214                   | 30                         | 53/180                   | 37                          | 42/113                   |
| Gabelli Dividend Growth Fund; AAA | Large-Cap Core Funds               | 69                        | 721/1,045                | 68                         | 630/937                  | 59                         | 482/819                  | 22                          | 112/519                  |
| Gabelli Inv:ABC; AAA              | Specialty Diversified Equity Funds | 23                        | 11/48                    | 57                         | 18/31                    | 39                         | 10/25                    | 10                          | 1/9                      |
| GAMCO Mathers; AAA                | Specialty Diversified Equity Funds | 70                        | 34/48                    | 72                         | 23/31                    | 70                         | 18/25                    | 50                          | 5/9                      |
| Comstock Cap Val; A               | Specialty Diversified Equity Funds | 86                        | 42/48                    | 88                         | 28/31                    | 89                         | 23/25                    | 70                          | 7/9                      |
| GAMCO Gl:Telecom; AAA             | Telecommunications Funds           | 70                        | 27/38                    | 69                         | 24/34                    | 56                         | 15/26                    | 22                          | 4/18                     |
| GAMCO Gl:Vertumnus; AAA           | Convertible Securities Funds       | 97                        | 62/63                    | 93                         | 50/53                    | 95                         | 37/38                    | 91                          | 29/31                    |
| Gabelli Utilities; AAA            | Utility Funds                      | 75                        | 55/73                    | 36                         | 24/67                    | 20                         | 12/61                    | 52                          | 22/42                    |

Edgar Filing: GAMCO INVESTORS, INC. ET AL - Form 10-Q

|   |   |       |        |       |         |       |         |       |         |
|---|---|-------|--------|-------|---------|-------|---------|-------|---------|
| 787:Gabelli<br>Merg&Acq; A<br>Gabelli Capital<br>Asset Fund | Mid-Cap Core<br>Funds<br>Distributed through<br>Insurance Channel | 31    | 95/309 | 98    | 263/268 | 78    | 180/231 | 88    | 138/157 |
| % of funds in top<br>half                                   |   | 30.0% |        | 45.0% |         | 63.2% |         | 66.7% |         |

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

Lipper, a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments including mutual funds, retirement funds, hedge funds, fund fees and expenses to the asset management and media communities. Lipper ranks the performance of mutual funds within a classification of funds that have similar investment objectives. Rankings are historical with capital gains and dividends reinvested and do not include the effect of loads. If an expense waiver was in effect, it may have had a material effect on the total return or yield for the period.

Relative long-term investment performance remained strong with approximately 30%, 45%, 63% and 67% 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 March 31, 2012.

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 a fund. You can obtain a prospectus by calling 800-GABELLI (422-3554), online at [www.gabelli.com](http://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 Focus Five 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 March 31, 2012 Compared To Three Months Ended March 31, 2011

(Unaudited; in thousands, except per share data)

|   | 2012      | 2011      |
|---|-----------|-----------|
| <b>Revenues</b>   |           |           |
| Investment advisory and incentive fees                          | \$ 67,783 | \$ 62,911 |
| Distribution fees and other income                              | 11,623    | 10,345    |
| Institutional research services                                 | 2,343     | 3,649     |
| Total revenues  | 81,749    | 76,905    |
| <b>Expenses</b>   |           |           |
| Compensation  | 34,554    | 33,417    |
| Management fee  | 4,184     | 3,113     |
| Distribution costs  | 10,177    | 13,429    |
| Other operating expenses  | 5,822     | 6,186     |
| Total expenses (a)  | 54,737    | 56,145    |
| Operating income  | 27,012    | 20,760    |
| <b>Other income (expense)</b>                                   |           |           |
| Net gain from investments                                       | 13,878    | 8,740     |
| Interest and dividend income                                    | 1,236     | 1,936     |
| Interest expense  | (4,404 )  | (2,867 )  |
| Total other income, net   | 10,710    | 7,809     |
| Income before income taxes                                      | 37,722    | 28,569    |
| Income tax provision  | 13,756    | 10,288    |
| Net income  | 23,966    | 18,281    |
| Net income attributable to noncontrolling interests             | 130       | 638       |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 23,836 | \$ 17,643 |

Net income attributable to GAMCO Investors, Inc.'s shareholders per share:

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 0.90 | \$ 0.66 |
| Diluted | \$ 0.90 | \$ 0.65 |

Reconciliation of net income attributable to GAMCO Investors, Inc.'s shareholders to Adjusted EBITDA:

|  |           |           |
|--|-----------|-----------|
| Net income attributable to GAMCO Investors, Inc.'s shareholders              | \$ 23,836 | \$ 17,643 |
| Interest expense   | 4,404     | 2,867     |
| Income tax provision and net income attributable to noncontrolling interests | 13,886    | 10,926    |
| Depreciation and amortization  | 180       | 274       |

Adjusted EBITDA (b) \$ 42,306 \$ 31,710

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

(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

Net income attributable to shareholders of GAMCO Investors, Inc. for the quarter was \$23.8 million or \$0.90 per fully diluted share versus \$17.6 million or \$0.65 per fully diluted share in the prior year's quarter. Included in the 2011 quarter was \$5.6 million, or \$0.12 per diluted share, of pre-tax charges related to the launch of a new closed-end fund. The quarter to quarter comparison further benefitted from an increase in total revenues, largely driven by higher AUM, and an increase in investment gains in our proprietary portfolios which were offset by increased operating expenses, interest expense on higher average debt balances outstanding and a higher effective tax rate.

## Revenues

Investment advisory and incentive fees for the first quarter 2012 were \$67.8 million, 7.8% above the 2011 comparative figure of \$62.9 million. Open-end mutual fund revenues increased by 10.9% to \$31.5 million from \$28.4 million in first quarter 2011 driven by a 10.9% increase in average AUM resulting from both net inflows and positive market performance. Our closed-end fund revenues rose 5.1% to \$12.3 million in the first quarter 2012 from \$11.7 million in 2011 due to a 3.7% increase in average AUM. Institutional and private wealth management account revenues, which are generally based on beginning of quarter AUM, increased \$0.8 million, or 3.7%, to \$22.7 million from \$21.9 million in first quarter 2011, largely due to an increase of \$0.3 million in incentive fees and a 1.6% increase in billable AUM. Investment partnership revenues were \$1.3 million, an increase of 44.4% from \$0.9 million in first quarter 2011.

Open-end fund distribution fees and other income were \$11.6 million for the first quarter 2012, an increase of \$1.3 million or 12.6% from \$10.3 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.

Our institutional research subsidiary had revenues of \$2.3 million in the first quarter 2012, down 36.1% from \$3.6 million in the prior year quarter principally due to lower trading volume.

## Expenses

Compensation costs, which are largely variable, were \$34.6 million or 3.6% higher than the \$33.4 million incurred in the prior year period. Included in the 2011 quarter was \$0.4 million in one-time costs related to the launch of a new closed-end fund. Excluding these costs the quarter over quarter increase was \$1.6 million or 4.8%, and was largely comprised of \$1.9 million of increased variable compensation related to the increased AUM and \$0.3 million in amortization expense for RSAs issued in January 2012 offset by a \$0.9 million decrease in commissions and payouts related to lower trading volume and sales of open-end funds.

Management fee expense, which is wholly variable and based on pretax income, increased to \$4.2 million in the first quarter of 2012 from \$3.1 million in the 2011 period.

Distribution costs were \$10.2 million, a decrease of \$3.2 million or 23.9% from \$13.4 million in the prior year's period. Costs were lower on a comparable basis due to \$4.7 million in one-time charges related to the launch of GNT during the first quarter of 2011. Excluding these one-time charges, distribution costs increased \$1.5 million, or 17.2%, to \$10.2 million from \$8.7 million for the first quarter of 2011. This increase in distribution costs was mostly due to the 9.6% increase in average AUM in our open-end equity funds, increased amortization of costs associated with sales of Class C shares and higher expense reimbursements.

Other operating expenses were \$5.8 million in the first quarter of 2012, a decline of \$0.4 million, or 6.5%, from the \$6.2 million in the first quarter of 2011 largely due to the one-time charges of \$0.5 million incurred in the 2011 quarter related to the launch of GNT.

Total expenses, excluding the management fee, were \$50.6 million in the first quarter of 2012, a 4.5% decrease from \$53.0 million in the first quarter of 2011, primarily due to the \$5.6 million in one-time charges related to the launch of GNT in the first quarter of 2011.

Operating income for the first quarter of 2012 was \$27.0 million, an increase of \$6.2 million from the first quarter 2011's \$20.8 million. Operating income, as a percentage of revenues, was 33.0% in the 2012 quarter as compared to 27.0% in the 2011 quarter. The 2011 operating income and operating margin was negatively impacted by \$5.6 million in one-time charges related to the launch of GNT.

## Other

Total other income (net of interest expense) was \$10.7 million for the first quarter 2012 versus \$7.8 million in the prior year's quarter. Realized and unrealized gains in our trading portfolio were \$13.9 million in the 2012 quarter, an increase of \$5.2 million versus \$8.7 million in the 2011 quarter largely on the relative strength in the equity markets. Interest and dividend income was lower by \$0.7 million. Interest expense increased by \$1.5 million to \$4.4 million in the first quarter of 2012 from the \$2.9 million in first quarter of 2011 due to an increase in total debt outstanding.

The effective tax rate for the three months ended March 31, 2012 was 36.5% as compared to the prior year period's effective rate of 36.0%.

## 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:

|   | Three months ended |             |
|---|--------------------|-------------|
|   | March 31,          |             |
|   | 2012               | 2011        |
| Cash flows provided by<br>(used in):                        | (in thousands)     |             |
| Operating activities  | \$ 47,611          | \$ (1,910 ) |
| Investing activities  | 1,092              | 728         |
| Financing activities  | (404 )             | (2,487 )    |
| Effect of exchange<br>rates on cash and cash<br>equivalents | (9 )               | (10 )       |
| Net (decrease)<br>increase                                  | 48,290             | (3,679 )    |
| Cash and cash<br>equivalents at beginning<br>of period      | 276,340            | 169,601     |
| Decrease in cash from<br>deconsolidation                    | -                  | (1,251 )    |
| Cash and cash<br>equivalents at end of<br>period            | \$ 324,630         | \$ 164,671  |

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 the 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 were

used for working capital and general corporate purposes. 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. We currently plan on renewing our shelf registration on or before its expiration on July 27, 2012.

At March 31, 2012, we had total cash and cash equivalents of \$324.6 million, an increase of \$48.3 million from December 31, 2011. Cash and cash equivalents of \$2.1 million and investments in securities of \$6.5 million held by consolidated investment partnerships and offshore funds may not be readily available for the Company to access. Total debt outstanding at March 31, 2012 was \$264.3 million, consisting of \$65.3 million in five year zero coupon subordinated debentures due 2015 ("Debentures"), with a face value of \$86.3 million, \$100 million of 5.875% senior notes due 2021 and \$99 million of 5.5% senior notes due 2013.

For the three months ended March 31, 2012, cash provided by operating activities was \$47.6 million, an increase of \$49.5 million from cash used in the prior year period of \$1.9 million. Cash was provided by an increase in net income of \$5.7 million, net distributions received from partnerships of \$6.1 million, a \$31.0 million decrease in trading investments, \$22.9 million in increased payables and \$4.2 million from other sources. Reducing cash was \$20.4 million largely from increases in investment advisory receivables. Cash provided by investing activities, related to purchases and proceeds from sales of available for sale securities, was \$1.1 million in the first three months of 2012. Cash used in financing activities in the first three months of 2012 was \$0.4 million, including \$1.1 million paid in dividends and \$10.0 million paid for the purchase of treasury stock offset by \$10.6 million in contributions from redeemable noncontrolling interests.

For the three months ended March 31, 2011, cash used in operating activities was \$1.9 million. Cash provided by investing activities, related to purchases and proceeds from sales of available for sale securities, was \$0.7 million in the first three months of 2011. Cash used in financing activities in the first three months of 2011 was \$2.5 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 March 31, 2012. At March 31, 2012, Gabelli & Company had net capital, as defined, of approximately \$6.9 million, exceeding the regulatory requirement by approximately \$6.7 million. During the second quarter of 2011, we received regulatory approval of our newly registered broker-dealer, G.distributors, which became the distributor of the open-end mutual funds on August 1, 2011. G.distributors 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 March 31, 2012. At March 31, 2012, G.distributors had net capital, as defined, of approximately \$2.8 million, exceeding the regulatory requirement by approximately \$2.5 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's Chief Investment Officer oversees the proprietary investment portfolios and allocations of proprietary capital among the various strategies. The Chief Investment Officer and the Board of Directors review the proprietary investment portfolios throughout the year. Additionally, the Company has a risk committee which monitors the proprietary investment portfolios to ensure that they are in compliance with the Company's guidelines.

#### Equity Price 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 \$257.6 million at March 31, 2012 were investments in United States Treasury Bills and Notes of \$48.6 million, in mutual funds, largely invested in equity products, of \$3.6 million, a selection of common and preferred stocks totaling \$204.9 million, and other investments of approximately \$0.5 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 \$204.9 million invested in common and preferred stocks at March 31, 2012, \$34.6 million represented our investment in Westwood Holdings Group Inc., and \$70.3 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 March 31, 2012, the fair value of securities sold, not yet purchased was \$9.7 million. Investments in partnerships totaled \$101.7 million at March 31, 2012, 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 March 31, 2012. The sensitivity analysis assumes a 10% increase or decrease in the value of these investments (in thousands):

|   |            | Fair Value<br>assuming<br>10%<br>decrease in<br>equity<br>prices | Fair Value<br>assuming<br>10%<br>increase in<br>equity<br>prices |
|---|------------|--|--|
| (unaudited)                                       | Fair Value |  |  |
| At March 31, 2012:                                |            |  |  |
| Equity price sensitive investments, at fair value | \$ 291,867 | \$ 262,680   | \$ 321,054   |
| At December 31, 2011:                             |            |  |  |
| Equity price sensitive investments, at fair value | \$ 261,024 | \$ 234,922   | \$ 287,126   |

### Interest Rate Risk

Our exposure to interest rate risk results, principally, from our investment of excess cash in a money market fund that holds U.S. Government securities. These investments are primarily short term in nature, and the carrying value of these investments generally approximates fair value. Based on March 31, 2012, cash and cash equivalent balance of \$324.6 million a 1% increase in interest rates would increase our interest income by \$3.3 million annually. Given that our current return on these cash equivalent investment is approximately 0.00% annually, an analysis of a 1% decrease is not meaningful.

As the advisor to a money market fund that invests 100% in U.S. Government securities our exposure to interest rate risk results from the fund's potential inability to earn a return in excess of the fund's expenses. If the fund were to earn no return on its \$1.9 billion in assets, the advisor could be responsible to cover the fund's expenses of approximately \$570,000, or 0.03%, annually.

### 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 2011 Annual Report on Form 10-K filed with the SEC on March 7, 2012 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 March 31, 2012, we had equity investments, including mutual funds largely invested in equity products, of \$319.9 million. Investments in mutual funds, \$65.9 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 \$101.7 million, of which \$49.8 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 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 March 31, 2012. 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-Chief Accounting Officers (“CAOs”), to allow timely decisions regarding required disclosure. Our CEO, CFO, and CAOs participated in this evaluation and concluded that, as of the date of March 31, 2012, 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. Furthermore, the Company evaluates whether there exist losses which may be reasonably possible and, if material, makes the necessary disclosures. Such amounts, both those that are probable and those that are reasonably possible, 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 March 31, 2012:

|                        |                               | (c) Total<br>Number of<br>Shares   | (d) Maximum<br>Number of<br>Shares |
|------------------------|-------------------------------|------------------------------------|------------------------------------|
| (a) Total<br>Number of | (b) Average<br>Price Paid Per | Repurchased as<br>Part of Publicly |                                    |

|                   |             |               | Announced   | That May Yet<br>Be       |
|-------------------|-------------|---------------|-------------|--------------------------|
|                   | Shares      | Share, net of | Plans       | Purchased Under          |
| Period            | Repurchased | Commissions   | or Programs | the Plans or<br>Programs |
| 1/01/12 - 1/31/12 | 1,462       | \$ 43.49      | 1,462       | 571,905                  |
| 2/01/12 - 2/28/12 | 12,995      | 47.79         | 12,995      | 558,910                  |
| 3/01/12 - 3/31/12 | 210,276     | 44.14         | 210,276     | 348,634                  |
| Totals            | 224,733     | \$ 44.35      | 224,733     |                          |

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-Chief Accounting Officer

Date: May 1, 2012

By:/s/ Diane M. LaPointe

Name: Diane M. LaPointe

Title: Co-Chief Accounting Officer

Date: May 1, 2012

