

GAMCO INVESTORS, INC. ET AL
Form 10-Q
November 04, 2016
SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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)

Delaware 13-4007862
(State of other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Corporate Center, Rye, NY 10580-1422
(Address of principle executive offices) (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.

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

Yes No

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

| Class | Outstanding at October 31, 2016 |
|--|---------------------------------|
| Class A Common Stock, .001 par value (Including 424,840 restricted stock awards) | 10,401,705 |
| Class B Common Stock, .001 par value | 19,093,311 |

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 September 30, 2016 and 2015
- Nine Months Ended September 30, 2016 and 2015

Condensed Consolidated Statements of Comprehensive Income:

- Three Months Ended September 30, 2016 and 2015
- Nine Months Ended September 30, 2016 and 2015

Condensed Consolidated Statements of Financial Condition:

- September 30, 2016
- December 31, 2015
- September 30, 2015

Condensed Consolidated Statements of Equity:

- Nine Months Ended September 30, 2016 and 2015

Condensed Consolidated Statements of Cash Flows:

- Nine Months Ended September 30, 2016 and 2015

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 September 30, | | Nine Months Ended September 30, | |
|--|--|----------|------------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | |
| Investment advisory and incentive fees | \$75,952 | \$79,900 | \$219,594 | \$251,269 |
| Distribution fees and other income | 11,769 | 12,260 | 33,456 | 39,390 |
| Total revenues | 87,721 | 92,160 | 253,050 | 290,659 |
| Expenses | | | | |
| Compensation | 21,233 | 34,022 | 62,130 | 109,177 |
| Management fee | 1,163 | 4,056 | 3,376 | 12,385 |
| Distribution costs | 11,568 | 12,363 | 32,786 | 40,093 |
| Other operating expenses | 5,681 | 4,443 | 14,993 | 14,157 |
| Total expenses | 39,645 | 54,884 | 113,285 | 175,812 |
| Operating income | 48,076 | 37,276 | 139,765 | 114,847 |
| Other income (expense) | | | | |
| Net gain from investments | 55 | 72 | 518 | 220 |
| Interest and dividend income | 371 | 553 | 1,104 | 1,584 |
| Interest expense | (3,155) | (1,815) | (9,729) | (5,575) |
| Total other expense, net | (2,729) | (1,190) | (8,107) | (3,771) |
| Income before income taxes | 45,347 | 36,086 | 131,658 | 111,076 |
| Income tax provision | 14,486 | 13,635 | 47,229 | 41,702 |
| Income from continuing operations | 30,861 | 22,451 | 84,429 | 69,374 |
| Loss from discontinued operations, net of taxes | - | (7,482) | - | (5,528) |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$30,861 | \$14,969 | \$84,429 | \$63,846 |
| Net income/(loss) attributable to GAMCO Investors, Inc.'s shareholders per share: | | | | |
| Basic - Continuing operations | \$1.06 | \$0.90 | \$2.89 | \$2.77 |
| Basic - Discontinued operations | - | (0.30) | - | (0.22) |
| Basic - Total | \$1.06 | \$0.60 | \$2.89 | \$2.55 |
| Diluted - Continuing operations | \$1.03 | \$0.89 | \$2.85 | \$2.74 |
| Diluted - Discontinued operations | - | (0.30) | - | (0.22) |
| Diluted - Total | \$1.03 | \$0.59 | \$2.85 | \$2.52 |
| Weighted average shares outstanding: | | | | |
| Basic | 29,185 | 24,947 | 29,222 | 25,047 |
| Diluted | 30,406 | 25,241 | 29,811 | 25,337 |
| Dividends declared: | \$0.02 | \$0.07 | \$0.06 | \$0.21 |

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 September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|---|--|----------|---|----------|
| Net income | \$30,861 | \$14,969 | \$84,429 | \$63,846 |
| Other comprehensive gain/(loss), net of tax: | | | | |
| Foreign currency translation | (28) | (35) | (121) | (22) |
| Net unrealized gain/(loss) on securities available for sale (a) | 506 | (6,696) | 323 | (7,417) |
| Other comprehensive gain/(loss) | 478 | (6,731) | 202 | (7,439) |
| Comprehensive income attributable to GAMCO Investors, Inc. | \$31,339 | \$8,238 | \$84,631 | \$56,407 |

(a) Net of income tax expense/(benefit) of \$297, (\$3,932), \$190 and (\$4,356), respectively.

See accompanying notes.

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

(Dollars in thousands, except per share data)

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|--|--------------------------|-------------------------|--------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$33,852 | \$13,719 | \$62,561 |
| Investments in securities | 32,889 | 32,975 | 34,095 |
| Receivable from brokers | 344 | 1,091 | 1,157 |
| Investment advisory fees receivable | 26,606 | 31,048 | 26,638 |
| Receivable from affiliates | 4,745 | 5,041 | 27,957 |
| Income tax receivable and deferred tax asset | 10,634 | 6,787 | 2,409 |
| Other assets | 12,198 | 13,238 | 10,776 |
| Assets of discontinued operations | - | - | 706,523 |
| Total assets | \$121,268 | \$103,899 | \$872,116 |
| LIABILITIES AND EQUITY | | | |
| Payable to brokers | \$10,203 | \$12 | \$533 |
| Income taxes payable and deferred tax liabilities | 164 | 4,823 | 5,963 |
| Capital lease obligation | 5,094 | 5,170 | 5,191 |
| Compensation payable | 31,469 | 24,426 | 83,700 |
| Securities sold, not yet purchased | - | 129 | - |
| Payable to affiliates | 7,679 | 7,687 | 153 |
| Accrued expenses and other liabilities | 31,801 | 28,882 | 32,467 |
| Liabilities of discontinued operations | - | - | 66,614 |
| Sub-total | 86,410 | 71,129 | 194,621 |
| 4.5% Convertible note (net of issuance costs of \$174) (due August 15, 2021) (Note F) | 109,826 | - | - |
| AC 4% PIK Note (due November 30, 2020) (Note F) | 100,000 | 250,000 | - |
| Loan from GGCP (due December 28, 2016) (Note F) | - | 35,000 | - |
| 5.875% Senior notes (net of issuance costs of \$110, \$128 and \$553, respectively) (due June 1, 2021) (Note F) | 24,115 | 24,097 | 99,447 |
| Zero coupon subordinated debentures, Face value: \$0.0 million at September 30, 2016, \$0.0 million at December 31, 2015 and \$6.9 million at September 30, 2015, respectively (due December 31, 2015) (Note F) | - | - | 6,750 |
| Total liabilities | 320,351 | 380,226 | 300,818 |
| Redeemable noncontrolling interests from discontinued operations | - | - | 6,018 |
| Commitments and contingencies (Note I) | - | - | - |
| Equity | | | |
| GAMCO Investors, Inc. stockholders' equity | | | |
| Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding | - | - | - |
| Class A Common Stock, \$.001 par value; 100,000,000 shares authorized; 15,480,032, 15,422,901 and 15,387,701 issued, respectively; 10,454,392, | - | - | - |

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

| | | | |
|--|----------------|----------------|----------------|
| 10,664,107 and 6,340,992 outstanding, respectively | 14 | 14 | 14 |
| Class B Common Stock, \$0.001 par value; 100,000,000 shares authorized; 24,000,000 shares issued; 19,093,311, 19,156,792 and 19,196,792 shares outstanding, respectively | 19 | 19 | 19 |
| Additional paid-in capital | 3,135 | 345 | 299,769 |
| Retained earnings (deficit) | 48,412 | (34,224) | 661,415 |
| Accumulated other comprehensive income | 9,317 | 9,115 | 17,575 |
| Treasury stock, at cost (5,025,640, 4,758,794 and 9,046,709 shares, respectively) | (259,980) | (251,596) | (416,147) |
| Total GAMCO Investors, Inc. stockholders' equity (deficit) | (199,083) | (276,327) | 562,645 |
| Noncontrolling interests from discontinued operations | - | - | 2,635 |
| Total equity (deficit) | (199,083) | (276,327) | 565,280 |
| Total liabilities and equity (deficit) | \$ 121,268 | \$ 103,899 | \$ 872,116 |

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
UNAUDITED
(In thousands)

For the Nine Months Ended September 30, 2015

| | GAMCO Investors, Inc. stockholders | | | | | | | Redeemable Noncontrolling Interests |
|---|------------------------------------|-----------------|----------------------------------|----------------------|---|-------------------|-----------|---|
| | Noncontrolling Interests | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total | |
| Balance at December 31, 2014 | \$ 2,734 | \$33 | \$291,681 | \$602,950 | \$ 25,014 | \$(394,617) | \$527,795 | \$ 68,334 |
| Redemptions of redeemable noncontrolling interests | - | - | - | - | - | - | - | (602) |
| Contributions from redeemable noncontrolling interest | - | - | - | - | - | - | - | 1,036 |
| Consolidation of a consolidated feeder fund and a partnership | - | - | - | - | - | - | - | 996 |
| Deconsolidation of offshore fund | - | - | - | - | - | - | - | (63,256) |
| Net income (loss) | (99) | - | - | 63,846 | - | - | 63,747 | (490) |
| Net unrealized losses on securities available for sale, net of income tax benefit (\$4,341) | - | - | - | - | (7,392) | - | (7,392) | - |
| Amount reclassified from accumulated other comprehensive income, net of income tax benefit (\$15) | - | - | - | - | (25) | - | (25) | - |
| Foreign currency translation | - | - | - | - | (22) | - | (22) | - |
| Dividends declared (\$0.21 per share) | - | - | - | (5,381) | - | - | (5,381) | - |
| Stock based compensation expense | - | - | 6,819 | - | - | - | 6,819 | - |
| Exercise of stock options including tax benefit (\$102) | - | - | 1,269 | - | - | - | 1,269 | - |
| | - | - | - | - | - | (21,530) | (21,530) | - |

Purchase of treasury
stock

Balance at September

| | | | | | | | | |
|----------|----------|------|-----------|-----------|-----------|-------------|-----------|----------|
| 30, 2015 | \$ 2,635 | \$33 | \$299,769 | \$661,415 | \$ 17,575 | \$(416,147) | \$565,280 | \$ 6,018 |
|----------|----------|------|-----------|-----------|-----------|-------------|-----------|----------|

See accompanying notes.

6

GAMCO INVESTORS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
 UNAUDITED
 (In thousands)

For the Nine Months Ended September 30, 2016

| | GAMCO Investors, Inc. stockholders | | | | | |
|--|------------------------------------|----------|------------|---------------|-------------|-------------|
| | Additional | | Retained | Accumulated | Treasury | Total |
| | Common | Paid-in | Earnings | Other | Stock | |
| | Stock | Capital | (Deficit) | Comprehensive | | |
| | | | | Income | | |
| Balance at December 31, 2015 | \$33 | \$ 345 | \$(34,224) | \$ 9,115 | \$(251,596) | \$(276,327) |
| Net income | - | - | 84,429 | - | - | 84,429 |
| Net unrealized gains on securities available for sale, net of income tax expense (\$129) | - | - | - | 221 | - | 221 |
| Amounts reclassified from accumulated other comprehensive income, net of income tax expense (\$61) | - | - | - | 102 | - | 102 |
| Foreign currency translation | - | - | - | (121) | - | (121) |
| Dividends declared (\$0.06 per share) | - | - | (1,793) | - | - | (1,793) |
| Stock based compensation expense | - | 3,258 | - | - | - | 3,258 |
| Reduction of deferred tax asset for excess of recorded RSA tax benefit over actual tax benefit | - | (468) | - | - | - | (468) |
| Purchase of treasury stock | - | - | - | - | (8,384) | (8,384) |
| Balance at September 30, 2016 | \$33 | \$ 3,135 | \$48,412 | \$ 9,317 | \$(259,980) | \$(199,083) |

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
(In thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2016 | 2015 |
| Operating activities | | |
| Net income | \$84,429 | \$63,846 |
| Add: Loss from discontinued operations, net of taxes | - | 5,528 |
| Income from continuing operations | 84,429 | 69,374 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 470 | 466 |
| Stock based compensation expense | 3,258 | 4,923 |
| Deferred income taxes | (3,930) | (1,902) |
| Tax benefit from exercise of stock options | - | 102 |
| Foreign currency translation loss | (121) | (22) |
| Cost basis of donated securities | 68 | 31 |
| Net gains on sales of available for sale securities | (4) | (5) |
| Accretion of zero coupon debentures | - | 502 |
| Loss on extinguishment of zero coupon debentures | - | 310 |
| (Increase) decrease in assets: | | |
| Investments in trading securities | 223 | - |
| Receivable from affiliates | 290 | (1,517) |
| Receivable from brokers | 747 | 526 |
| Investment advisory fees receivable | 4,442 | 11,090 |
| Income tax receivable and deferred tax assets | (3,847) | 24 |
| Other assets | 534 | 1,617 |
| Increase (decrease) in liabilities: | | |
| Payable to affiliates | (8) | (202) |
| Payable to brokers | 10,190 | 522 |
| Income taxes payable and deferred tax liabilities | (1,384) | (8,349) |
| Compensation payable | 7,051 | 52,901 |
| Accrued expenses and other liabilities | 2,804 | 4,470 |
| Total adjustments | 20,783 | 65,487 |
| Net cash provided by operating activities from continuing operations | \$105,212 | \$134,861 |

GAMCO INVESTORS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 UNAUDITED (continued)
 (In thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2016 | 2015 |
| Investing activities | | |
| Purchases of available for sale securities | \$(223) | \$- |
| Proceeds from sales of available for sale securities | 408 | 51 |
| Net cash provided by investing activities from continuing operations | 185 | 51 |
| Financing activities | | |
| Net cash transferred from AC | - | 77,533 |
| Issuance of 4.5% Convertible note | 109,826 | - |
| Proceeds from exercise of stock options | - | 1,167 |
| Dividends paid | (1,752) | (5,252) |
| Repurchase of Zero coupon subordinated debentures | - | (6,224) |
| Purchase of treasury stock | (8,384) | (21,530) |
| Repayment of AC 4% PIK Note | (150,000) | - |
| Repayment of loan from GGCP | (35,000) | - |
| Amortization of debt issuance costs | 18 | 73 |
| Net cash (used in) provided by financing activities from continuing operations | (85,292) | 45,767 |
| Cash flows of discontinued operations | | |
| Net cash provided by operating activities | - | 59,154 |
| Net cash used in investing activities | - | (41,464) |
| Net cash used in financing activities | - | (148,510) |
| Net cash used in discontinued operations | - | (130,820) |
| Effect of exchange rates on cash and cash equivalents | 28 | 8 |
| Net increase in cash and cash equivalents | 20,133 | 49,867 |
| Cash and cash equivalents at beginning of period | 13,719 | 12,694 |
| Cash and cash equivalents at end of period | \$33,852 | \$62,561 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$4,561 | \$3,531 |
| Cash paid for taxes | \$55,216 | \$49,587 |

Non-cash activity:

For the nine months ended September 30, 2016 and September 30, 2015, the Company accrued dividends on restricted stock awards of \$41 and \$129, respectively.

For the nine months ended September 30, 2016, the Company recorded \$468 as a reduction to its deferred tax asset and additional paid-in capital for the excess of the recorded restricted stock award tax benefit over the actual tax benefit.

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016
(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 predecessors 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 U.S. 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 interim condensed consolidated financial statements include the accounts of GAMCO and its subsidiaries. Intercompany accounts and transactions are eliminated.

These interim 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, 2015.

Reclassifications

Certain amounts reported for the prior period in the accompanying condensed consolidated financial statements have been reclassified in order to conform to the current period’s presentation. Assets and liabilities related to the spin-off (“Spin-off”) of Associated Capital Group, Inc. (“AC”) on November 30, 2015 on the Company’s condensed consolidated statement of financial condition as of September 30, 2015 have been reclassified as assets and liabilities of discontinued operations (See Note J. Discontinued Operations for further details). All assets and liabilities related to discontinued operations are excluded from the footnotes for all periods presented unless otherwise noted. In addition, the historical results of AC and certain investment partnerships and offshore funds have been reflected in the accompanying consolidated statements of income for the quarter and nine months ended September 30, 2015 as discontinued operations and financial information related to discontinued operations has been excluded from the notes to these interim condensed consolidated financial statements for all periods presented.

Use of Estimates

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

Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in the Accounting Standards Codification ("Codification") Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods and is to be retrospectively applied. Early adoption is not permitted. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, which amends the presentation of debt issuance costs in financial statements. This amended guidance requires entities to present the cost of debt issuances as a reduction of the related debt rather than as an asset. This guidance is effective for the Company beginning January 1, 2016. The Company adopted this guidance retrospectively on January 1, 2016. As a result, the debt issuance costs related to the 5.875% Senior Notes are now shown net in the liability section on the consolidated statements of financial condition. At December 31, 2015 and September 30, 2015, the 5.875% Senior Notes are now disclosed net of issuance costs of \$128,000 and \$553,000, respectively. These amounts were previously disclosed in other assets on the consolidated statements of financial condition.

In January 2016, the FASB issued ASU 2016-01, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Although the ASU retains many current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. For public companies, the new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. To adopt the amendments, entities will be required to make a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the guidance is effective. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, which amends the guidance in U.S. GAAP for the accounting for leases. ASU 2016-02 requires a lessee to recognize assets and liabilities arising from most operating leases in the condensed consolidated statement of financial position. ASU 2016-02 is effective beginning January 1, 2019. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. For public companies, the ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, which adds and clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. For public companies, the ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

B. Investment in Securities

Investments in securities at September 30, 2016, December 31, 2015 and September 30, 2015 consisted of the following:

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|--------------------------|-----------------------|---------------|----------------------|---------------|-----------------------|---------------|
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| | (In thousands) | | | | | |
| Trading securities: | | | | | | |
| Common stocks | \$16 | \$16 | \$385 | \$368 | \$- | \$- |
| Total trading securities | 16 | 16 | 385 | 368 | - | - |

Available for sale securities:

| | | | | | | |
|-------------------------------------|--------|--------|--------|--------|--------|--------|
| Common stocks | 17,649 | 32,873 | 17,898 | 32,607 | 13,561 | 34,095 |
| Total available for sale securities | 17,649 | 32,873 | 17,898 | 32,607 | 13,561 | 34,095 |

| | | | | | | |
|---------------------------------|----------|----------|----------|----------|----------|----------|
| Total investments in securities | \$17,665 | \$32,889 | \$18,283 | \$32,975 | \$13,561 | \$34,095 |
|---------------------------------|----------|----------|----------|----------|----------|----------|

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

Securities sold, not yet purchased at September 30, 2016, December 31, 2015 and September 30, 2015 consisted of the following:

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|--|--------------------|-------|-------------------|-------|--------------------|-------|
| | Fair Value | | Fair Value | | Fair Value | |
| | Proceeds | Value | Proceeds | Value | Proceeds | Value |
| Trading securities: | (In thousands) | | | | | |
| Common stocks | \$- | \$ - | \$123 | \$129 | \$ - | \$ - |
| Total securities sold, not yet purchased | \$- | \$ - | \$123 | \$129 | \$ - | \$ - |

Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of the date of each condensed consolidated statement of financial condition. 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 the time of purchase are classified as cash equivalents. The portion of investments in securities held for resale in anticipation of short-term market movements 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 ("OTT") which are recorded as realized losses in the condensed consolidated statements of income.

The following table identifies all reclassifications out of accumulated other comprehensive income ("AOCI") into income for the three and nine months ended September 30, 2016 and 2015 (in thousands):

| Amount | Affected Line Items | Reason for |
|---------------------------------------|--|---|
| Reclassified from AOCI | in the Statements Of Income | Reclassification from AOCI |
| Three Months Ended September 30, 2016 | | |
| 2015 | | |
| \$- | Net gain from investments | Realized gain on sale of AFS securities |
| 7 | Other operating expenses/net gain from investments | Realized gain on donation of AFS securities |
| 7 | Income before income taxes | |
| (3) | Income tax provision | |
| \$4 | Net income | |

| Amount | Affected Line Items | Reason for |
|--------------------------------------|--|---|
| Reclassified from AOCI | in the Statements Of Income | Reclassification from AOCI |
| Nine Months Ended September 30, 2016 | | |
| 2015 | | |
| \$4 | Net gain from investments | Realized gain on sale of AFS securities |
| 159 | Other operating expenses/net gain from investments | Realized gain on donation of AFS securities |
| 163 | Income before income taxes | |

| | | |
|-------|------|----------------------|
| (61) | (32) | Income tax provision |
| \$102 | \$53 | Net income |

12

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

The following is a summary of the cost, gross unrealized gains, gross unrealized losses and fair value of available for sale investments as of September 30, 2016, December 31, 2015 and September 30, 2015:

| | September 30, 2016 | | | |
|-------------------------------------|--------------------|-----------|------------------|-----------|
| | Gross Unrealized | | Gross Unrealized | Fair |
| | Cost | Gains | Losses | Value |
| | (In thousands) | | | |
| Common stocks | \$ 17,649 | \$ 15,224 | \$ - | \$ 32,873 |
| Total available for sale securities | \$ 17,649 | \$ 15,224 | \$ - | \$ 32,873 |

| | December 31, 2015 | | | |
|-------------------------------------|-------------------|-----------|------------------|-----------|
| | Gross Unrealized | | Gross Unrealized | Fair |
| | Cost | Gains | Losses | Value |
| | (In thousands) | | | |
| Common stocks | \$ 17,898 | \$ 14,709 | \$ - | \$ 32,607 |
| Total available for sale securities | \$ 17,898 | \$ 14,709 | \$ - | \$ 32,607 |

| | September 30, 2015 | | | |
|-------------------------------------|--------------------|-----------|------------------|-----------|
| | Gross Unrealized | | Gross Unrealized | Fair |
| | Cost | Gains | Losses | Value |
| | (In thousands) | | | |
| Common stocks | \$ 13,561 | \$ 20,534 | \$ - | \$ 34,095 |
| Total available for sale securities | \$ 13,561 | \$ 20,534 | \$ - | \$ 34,095 |

Changes in net unrealized gain, net of taxes, for the three months ended September 30, 2016 of \$0.5 million and changes in net unrealized loss, net of taxes, for the three months ended September 30, 2015 of \$6.7 million have been included in other comprehensive income, a component of equity, at September 30, 2016 and September 30, 2015, respectively. There were no sales of investments available for sale for the three months ended September 30, 2016 and September 30, 2015. Changes in net unrealized gain, net of taxes, for the nine months ended September 30, 2016 of \$0.3 million and changes in net unrealized loss, net of taxes, for the nine months ended September 30, 2015 of \$7.4 million have been included in other comprehensive income, a component of equity, at September 30, 2016 and September 30, 2015, respectively. During the nine months ended September 30, 2016 and September 30, 2015, proceeds from the sales of investments available for sale were approximately \$408,000 and \$51,000, respectively. For the nine months ended September 30, 2016 and September 30, 2015, gross gains on the sale of investments available for sale amounted to \$4,000 and \$5,000, respectively, and were reclassified from other comprehensive income into net gain from investments in the condensed consolidated statements of income. There were no realized losses on the sale of investments available for sale for the nine months ended September 30, 2016 or September 30, 2015. The basis on which the cost of a security sold is determined using specific identification. Accumulated other comprehensive income on the consolidated statements of equity is primarily comprised of unrealized gains/losses, net of taxes, for AFS securities.

GBL has an established accounting policy and methodology to determine other-than-temporary impairment on available for sale securities. Under this policy, available for sale securities are evaluated for other than temporary impairments and any impairment charges are recorded in net gain/(loss) from investments on the condensed consolidated statements of income. Management reviews all available for sale securities whose cost exceeds their

market value to determine if the impairment is other than temporary. Management uses qualitative factors such as diversification of the investment, the amount of time that the investment has been impaired, the intent to sell and the severity of the decline in determining whether the impairment is other than temporary.

There were no investments classified as available for sale that were in an unrealized loss position at September 30, 2016, December 31, 2015 or September 30, 2015.

For the three and nine months ended September 30, 2016 and 2015 there were no losses on available for sale securities that were deemed to be other than temporary.

C. Fair Value

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 September 30, 2016, December 31, 2015 and September 30, 2015 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2016 (in thousands)

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of September 30, 2016 |
|--|---|---|--|--|
| Assets | | | | |
| Cash equivalents | \$ 33,576 | \$ - | \$ - | \$ 33,576 |
| Investments in securities: | | | | |
| AFS - Common stocks | 32,873 | - | - | 32,873 |
| Trading - Common stocks | 16 | - | - | 16 |
| Total investments in securities | 32,889 | - | - | 32,889 |
| Total assets at fair value | \$ 66,465 | \$ - | \$ - | \$ 66,465 |
| Liabilities | | | | |
| Securities sold, not yet purchased: | | | | |
| Trading - Common stocks | \$ - | \$ - | \$ - | \$ - |
| Total securities sold, not yet purchased | \$ - | \$ - | \$ - | \$ - |

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2015 (in thousands)

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2015 |
|--|---|---|--|---|
| Assets | | | | |
| Cash equivalents | \$ 13,538 | \$ - | \$ - | \$ 13,538 |
| Investments in securities: | | | | |
| AFS - Common stocks | 32,607 | - | - | 32,607 |
| Trading - Common stocks | 368 | - | - | 368 |
| Total investments in securities | 32,975 | - | - | 32,975 |
| Total assets at fair value | \$ 46,513 | \$ - | \$ - | \$ 46,513 |
| Liabilities | | | | |
| Securities sold, not yet purchased: | | | | |
| Trading - Common stocks | \$ 129 | \$ - | \$ - | \$ 129 |
| Total securities sold, not yet purchased | \$ 129 | \$ - | \$ - | \$ 129 |

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2015 (in thousands)

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of September 30, 2015 |
|--|---|---|--|--|
| Assets | | | | |
| Cash equivalents | \$ 62,398 | \$ - | \$ - | \$ 62,398 |
| Investments in securities: | | | | |
| AFS - Common stocks | 34,095 | - | - | 34,095 |
| Trading - Common stocks | - | - | - | - |
| Total investments in securities | 34,095 | - | - | 34,095 |
| Total assets at fair value | \$ 96,493 | \$ - | \$ - | \$ 96,493 |
| Liabilities | | | | |
| Securities sold, not yet purchased: | | | | |
| Trading - Common stocks | \$ - | \$ - | \$ - | \$ - |
| Total securities sold, not yet purchased | \$ - | \$ - | \$ - | \$ - |

During the quarters ended September 30, 2016 and 2015, there were no transfers between any Level 1 and Level 2 holdings, or between Level 1 and Level 3 holdings.

Other than certain securities which were part of the Spin-off, the Company did not hold any Level 2 or 3 securities at September 30, 2016, December 31, 2015 or September 30, 2015.

D. Income Taxes

The effective tax rate ("ETR") for the three months ended September 30, 2016 and September 30, 2015 was 31.9% and 37.8%, respectively. The ETR for the nine months ended September 30, 2016 and September 30, 2015 was 35.9% and 37.5%, respectively. The change in rates is primarily due to the reversal of tax accruals related to the closing out of a state audit.

E. Earnings Per Share

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|----------|---------------------------------------|----------|
| (in thousands, except per share amounts) | 2016 | 2015 | 2016 | 2015 |
| Basic: | | | | |
| Income from continuing operations | \$30,861 | \$22,451 | \$84,429 | \$69,374 |
| Income from discontinued operations, net of taxes | - | (7,482) | - | (5,528) |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$30,861 | \$14,969 | \$84,429 | \$63,846 |
| Weighted average shares outstanding | 29,185 | 24,947 | 29,222 | 25,047 |
| Basic net income per share attributable to GAMCO Investors, Inc.'s shareholders: | | | | |
| Continuing operations | \$1.06 | \$0.90 | \$2.89 | \$2.77 |
| Discontinued operations | - | (0.30) | - | (0.22) |
| Total | \$1.06 | \$0.60 | \$2.89 | \$2.55 |
| Diluted: | | | | |
| Income from continuing operations | \$30,861 | \$22,451 | \$84,429 | \$69,374 |
| Add interest on convertible note, net of management fee and taxes | 387 | - | 387 | - |
| Total income from continuing operations | 31,248 | 22,451 | 84,816 | 69,374 |
| Income from discontinued operations, net of taxes | - | (7,482) | - | (5,528) |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$31,248 | \$14,969 | \$84,816 | \$63,846 |
| Weighted average share outstanding | 29,185 | 24,947 | 29,222 | 25,047 |
| Dilutive stock options and restricted stock awards | 221 | 294 | 253 | 290 |
| Assumed conversion of convertible note | 1,000 | - | 336 | - |
| Total | 30,406 | 25,241 | 29,811 | 25,337 |
| Diluted net income per share attributable to GAMCO Investors, Inc.'s shareholders: | | | | |
| Continuing operations | \$1.03 | \$0.89 | \$2.85 | \$2.74 |

| | | | | |
|-------------------------|--------|---------|--------|---------|
| Discontinued operations | - | (0.30) | - | (0.22) |
| Total | \$1.03 | \$0.59 | \$2.85 | \$2.52 |

15

F. Debt

Debt consists of the following:

| | September 30, 2016 | | December 31, 2015 | | September 30, 2015 | |
|----------------------------|--------------------|--------------------|-------------------|--------------------|--------------------|--------------------|
| | Carrying Value | Fair Value Level 2 | Carrying Value | Fair Value Level 2 | Carrying Value | Fair Value Level 2 |
| (In thousands) | | | | | | |
| 4.5 % Convertible note | \$ 109,826 | \$ 112,172 | \$- | \$- | \$- | \$- |
| AC 4% PIK Note | 100,000 | 101,347 | 250,000 | 250,000 | - | - |
| Loan from GGCP | - | - | 35,000 | 35,000 | - | - |
| 5.875% Senior notes | 24,115 | 25,073 | 24,097 | 24,437 | 99,447 | 106,625 |
| 0% Subordinated debentures | - | - | - | - | 6,750 | 6,800 |
| Total | \$233,941 | \$238,592 | \$309,097 | \$309,437 | \$106,197 | \$113,425 |

4.5% Convertible Note

On August 15, 2016, the Company issued and sold a 5-year, \$110 million convertible note (“Convertible Note”). The note bears interest at a rate of 4.5% per annum and is convertible into shares of the Company’s Class A Common stock (“Class A Stock”) at an initial conversion price of \$55.00 per share. The Convertible Note is initially convertible into two million shares of the Company’s Class A Stock, subject to adjustment pursuant to the terms of the Convertible Note. The Company is required to repurchase the Convertible Note at the request of the holder on specified dates or after certain circumstances involving a Fundamental Change (as defined in the Convertible Note). The Company recorded \$174,000 of costs in connection with the issuance of the Convertible Note. GGCP, Inc. (“GGCP”), which owns approximately 62% of the equity interest of the Company, has deposited cash equal to the principal amount of the Note and six months interest (“Initial Deposit”) into an escrow account established pursuant to an escrow agreement by and among GGCP, the Company, the Convertible Note holder and the escrow agent. In connection with the Initial Deposit made by GGCP, the Company has agreed that GGCP has a right to demand payment in an amount equal to any funds withdrawn from the escrow account by the Convertible Note holder.

AC 4% PIK Note

In connection with the spin-off of AC on November 30, 2015, the Company issued a \$250 million promissory note (the “AC 4% PIK Note”) payable to AC. The AC 4% PIK Note bears interest at 4.0% per annum. The original principal amount has a maturity date of November 30, 2020. Interest on the AC 4% PIK Note will accrue from the date of the last interest payment, or if no interest has been paid, from the effective date of the AC 4% PIK Note. At the election of the Company, payment of interest on the AC 4% PIK Note may be paid in kind (in whole or in part) on the then-outstanding principal amount (a “PIK Amount”) in lieu of cash. All PIK Amounts added to the outstanding principal amount of the AC 4% PIK Note will mature on the fifth anniversary from the date the PIK Amount was added to the outstanding principal of the AC 4% PIK Note. In no event may any interest be paid in kind subsequent to November 30, 2019. The Company may prepay the AC 4% PIK Note (in whole or in part) prior to maturity without penalty.

During the three months ended September 30, 2016, the Company prepaid \$150 million of principal of the AC 4% PIK Note. \$50 million of the prepayment was applied against the principal amount due on November 30, 2016, \$40 million against the principal amount due on November 30, 2017, \$30 million against the principal amount due on November 30, 2018, and \$30 million against the principal amount due on November 30, 2019. Of the \$100 million principal amount outstanding at September 30, 2016, \$10 million is due on November 30, 2017, \$20 million is due on November 30, 2018, \$20 million is due on November 30, 2019, and \$50 million is due on November 30, 2020.

5.875% Senior notes

On May 31, 2011, the Company issued 10-year, \$100 million senior notes ("Senior Notes"). The Senior 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 Senior Notes at 101% of their principal amount.

On November 18, 2015, the Company commenced a tender offer (the "Offer") to purchase for cash up to \$100 million aggregate principal amount of the Senior Notes at a price of 101% of the principal amount. \$75.8 million of face value Senior Notes were tendered upon the expiration of the Offer. At September 30, 2016, December 31, 2015 and September 30, 2015, the debt was recorded at its face value, net of issuance costs, of \$24.1 million, \$24.1 million and \$99.4 million, respectively.

16

Loan from GGCP

In connection with the Offer, the Company borrowed \$35.0 million from GGCP. The loan has a term of one year and bears interest at 90-day LIBOR plus 3.25%, reset and payable quarterly. On March 18, 2016, the Company paid back \$15.0 million of the loan. During the second quarter of 2016 the Company paid back the remaining \$20.0 million of the loan. At December 31, 2015, the debt was recorded at its face value of \$35.0 million.

Zero coupon Subordinated debentures due December 31, 2015

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 and nine month periods ended September 30, 2015 the Company repurchased 16 Debentures and 62,242 Debentures, respectively, having a face value of \$1,600 and \$6.2 million, respectively. The redemptions were accounted for as extinguishments of debt and resulted in losses of less than \$1,000 and \$310,000, respectively, which was included in net gain from investments on the condensed consolidated statements of income. The debt was being accreted to its face value using the effective rate on the date of issuance of 7.45%. At September 30, 2015, the debt was recorded at its accreted value of \$6.8 million. The debt matured on December 31, 2015 and was fully paid at that time.

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.

On May 4, 2015, the Securities and Exchange Commission ("SEC") declared effective the "shelf" registration statement filed by the Company. The "shelf" provides the Company with the flexibility of issuing any combination of senior and subordinated debt securities, convertible securities and common and preferred securities up to a total amount of \$500 million and replaced the existing shelf registration which expired in May 2015. As of September 30, 2016, \$500 million is available on the shelf.

G. Stockholders' Equity

Shares outstanding were 29.5 million, 29.8 million and 25.5 million on September 30, 2016, December 31, 2015 and September 30, 2015, respectively.

Dividends

| | Payment Date | Record Date | Amount |
|---------------------------------------|--------------------|-----------------------|---------|
| Three months ended March 31, 2016 | March 29, 2016 | March 15, 2016 | \$ 0.02 |
| Three months ended June 30, 2016 | June 28, 2016 | June 14, 2016 | 0.02 |
| Three months ended September 30, 2016 | September 27, 2016 | September 13, 2016 | 0.02 |
| Nine months ended September 30, 2016 | | | \$ 0.06 |
| Three months ended March 31, 2015 | March 31, 2015 | March 17, 2015 | \$ 0.07 |

| | | | |
|---------------------------------------|--------------------|-----------------------|---------|
| Three months ended June 30, 2015 | June 30, 2015 | June 16, 2015 | 0.07 |
| Three months ended September 30, 2015 | September 29, 2015 | September 15, 2015 | 0.07 |
| Nine months ended September 30, 2015 | | | \$ 0.21 |

Voting Rights

The holders of Class A Stock 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.

17

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 GBL 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 3.5 million shares of Class A Stock have been reserved for issuance under 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.

As of September 30, 2016, December 31, 2015 and September 30, 2015, there were 427,290 RSA shares, 553,100 RSA shares and 688,550 RSA shares outstanding, respectively, that were previously issued at an average weighted grant price of \$65.72, \$64.02 and \$67.34, respectively. These RSA grants occurred prior to the spin-off of Associated Capital. On November 30, 2015, pursuant to the spin-off, all RSA grant holders received shares of Associated Capital's Class A common stock as a result of their ownership of their GAMCO unvested RSAs (one share of Associated Capital for each share of GBL). 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 estimated forfeitures, is recognized over the vesting period for these awards which is either (1) 30% over three years from the date of grant and 70% over five years from the date of grant or (2) 30% over three years from the date of grant and 10% each year over years four through ten 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 (deficit) on the declaration date.

For the three months ended September 30, 2016 and September 30, 2015, we recognized stock-based compensation expense of \$1.2 million and \$1.6 million, respectively. For the nine months ended September 30, 2016 and September 30, 2015, we recognized stock-based compensation expense of \$3.3 million and \$4.9 million, respectively. Actual and projected stock-based compensation expense for RSA shares for the years ended December 31, 2015 through December 31, 2024 (based on awards currently issued or granted) is as follows (in thousands):

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------|---------|---------|---------|---------|---------|------|------|------|------|------|
| Q1 | \$1,639 | \$1,037 | \$685 | \$464 | \$365 | 219 | 145 | 93 | 48 | 7 |
| Q2 | 1,640 | 1,036 | 685 | 453 | 365 | 204 | 145 | 93 | 48 | 7 |
| Q3 | 1,644 | 1,186 | 602 | 402 | 323 | 169 | 114 | 66 | 24 | 5 |
| Q4 | 4,945 | 691 | 520 | 366 | 295 | 145 | 93 | 48 | 7 | - |
| Full | | | | | | | | | | |
| Year | \$9,868 | \$3,950 | \$2,492 | \$1,685 | \$1,348 | 737 | 497 | 300 | 127 | 19 |

The total compensation cost related to non-vested RSAs not yet recognized is approximately \$7.9 million as of September 30, 2016. There were no options exercised for the three or nine months ended September 30, 2016. For both the three and nine months ended September 30, 2015 proceeds from the exercise of 26,000 stock options were \$1.2 million resulting in a tax benefit to GAMCO of \$102,000.

Stock Repurchase Program

In March 1999, GAMCO's Board of Directors established the Stock Repurchase Program to grant management the authority to repurchase shares of our Class A Common Stock. For the three months ended September 30, 2016 and September 30, 2015, the Company repurchased 223,811 shares and 172,007 shares, respectively, at an average price per share of \$31.50 and \$61.11, respectively. For the nine months ended September 30, 2016 and September 30,

2015, the Company repurchased 266,846 shares and 321,488 shares, respectively, at an average price per share of \$31.41 and \$66.96, respectively. From the inception of the program through September 30, 2016, 9,819,499 shares have been repurchased at an average price of \$44.44 per share. At September 30, 2016, the total shares available under the program to be repurchased in the future were 315,309.

H. Identifiable Intangible Assets

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 September 30, 2016, December 31, 2015 and September 30, 2015. 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 2017. On November 1, 2015, as a result of becoming the advisor to the Bancroft Fund Ltd. and the Ellsworth Growth and Income Fund Ltd. and the associated consideration paid, the Company maintains an identifiable intangible asset of \$1.6 million within other assets on the condensed consolidated statement of financial condition at September 30, 2016 and December 31, 2015. The advisory contracts for the Bancroft Fund Ltd. and the Ellsworth Growth and Income Fund Ltd. are both next up for renewal in November 2017. 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 September 30, 2016 or September 30, 2015, and as such there was no impairment analysis performed or charge recorded.

18

I. Commitments and Contingencies

From time to time, the Company may be 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. For any such matters, the condensed 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 will, if material, make the necessary disclosures. However, management believes such amounts, both those that are probable and those that are reasonably possible, are not material to the Company's financial condition, operations or cash flows at September 30, 2016.

J. Discontinued Operations

As a result of the Spin-off, the results of AC's operations through the Spin-off Date, as well as transaction costs related to the Spin-off, have been classified in the condensed consolidated statements of income as discontinued operations. There was no gain or loss on the Spin-off for the Company, and it was a tax-free spin-off to GAMCO's shareholders.

The three and nine months ended September 30, 2015 results include \$0 and \$1.5 million, respectively, in costs incurred with respect to the Spin-off and are included in Other operating expenses below. Operating results for the period from January 1, 2015 through September 30, 2015 is summarized below:

| | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2015 |
|--|---|--|
| Revenues | | |
| Investment advisory and incentive fees | \$ 2,560 | \$ 6,954 |
| Distribution fees and other income | 41 | 276 |
| Institutional research services | 2,446 | 7,278 |
| Total revenues | 5,047 | 14,508 |
| Expenses | | |
| Compensation | 5,079 | 16,555 |
| Stock based compensation | 630 | 1,895 |
| Management fee | (1,374) | (1,025) |
| Distribution costs | (19) | (82) |
| Other operating expenses | 1,811 | 6,922 |
| Total expenses | 6,127 | 24,265 |
| Operating loss | (1,080) | (9,757) |
| Other income (expense) | | |
| Net gain from investments | (11,539) | (834) |
| Interest and dividend income | 551 | 2,303 |
| Interest expense | (322) | (984) |
| Total other income (expense), net | (11,310) | 485 |
| Loss from discontinued operations before income taxes | (12,390) | (9,272) |
| Income tax benefit | (4,390) | (3,155) |
| Loss from discontinued operations, net of taxes | (8,000) | (6,117) |
| Net loss attributable to noncontrolling interests | (518) | (589) |
| Net loss attributable to GAMCO Investors, Inc.'s discontinued operations, net of taxes | \$ (7,482) | \$ (5,528) |

The assets and liabilities of AC have been classified in the consolidated statement of financial condition as of September 30, 2015 as assets and liabilities of discontinued operations and consist of the following:

| | September 30, 2015 |
|--|-----------------------|
| Cash and cash equivalents | \$ 363,055 |
| Investments in securities | 92,822 |
| Investments in sponsored registered investment companies | 115,046 |
| Investments in partnerships | 101,025 |
| Receivable from brokers | 51,761 |
| Investment advisory fees receivable | 1,991 |
| Receivable from affiliates | (27,957) |
| Income tax receivable | - |
| Other assets | 8,780 |
| Total assets of discontinued operations | 706,523 |
| Payable to brokers | 48,541 |
| Income taxes payable and deferred tax liabilities | 4,566 |
| Compensation payable | 5,047 |
| Securities sold, not yet purchased | 5,577 |
| Payable to affiliates | (153) |
| Mandatorily redeemable noncontrolling interests | 1,257 |
| Accrued expenses and other liabilities | 1,779 |
| Total liabilities of discontinued operations | 66,614 |
| Redeemable noncontrolling interests from discontinued operations | 6,018 |
| Noncontrolling interests from discontinued operations | 2,635 |
| Net assets of discontinued operations | \$ 631,256 |

K. Subsequent Events

On November 4, 2016, the Board of Directors declared its regular quarterly dividend of \$0.02 per share to all of its shareholders, payable on December 27, 2016 to shareholders of record on December 13, 2016.

From October 1, 2016 to November 4, 2016, the Company repurchased 60,237 shares at \$29.06 per share.

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 open-end funds, closed-end funds, and institutional and private wealth management investors principally in the United States. Through G.distributors, LLC (“G.distributors”), we provide open-end 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 the following subsidiaries: GAMCO Asset Management Inc. (Institutional and Private Wealth Management) and Gabelli Funds, LLC (Funds). The distribution of our open-end funds is conducted through G.distributors, our broker-dealer subsidiary.

Assets under management (“AUM”) were \$39.6 billion as of September 30, 2016, an increase of \$0.3 billion, or 0.8%, from June 30, 2016 of \$39.3 billion and an increase of \$1.1 billion, or 2.9% from the September 30, 2015 AUM of \$38.5 billion. The third quarter 2016 activity consisted of net cash outflows of \$0.5 billion, \$1.0 billion of market appreciation and recurring distributions, net of reinvestments, from open-end and closed-end funds of \$0.2 billion. Average total AUM was \$39.9 billion in the 2016 quarter versus \$41.6 billion in the prior year period, a decrease of 4.1%. Average AUM in our open-end equity funds, a key driver to our investment advisory fees, was \$14.0 billion in the third quarter of 2016, falling 7.9% from the 2015 quarter average AUM of \$15.2 billion.

In addition to management fees, we earn incentive fees for certain institutional client assets, certain assets attributable to preferred issues of our closed-end funds and our GDL Fund (NYSE: GDL). As of September 30, 2016, assets under management with incentive based fees were \$2.4 billion, the same as June 30, 2016 and 14.3% lower than the \$2.8 billion on September 30, 2015. The Company reported Assets Under Management as follows (in millions):

21

Table I: Fund Flows - 3rd Quarter 2016

| | June 30, 2016 | Market appreciation/ (depreciation) | Net cash flows | Fund distributions, net of reinvestments | September 30, 2016 |
|------------------------------------|------------------|---|----------------------|---|--------------------------|
| Equities: | | | | | |
| Open-end Funds | \$ 13,981 | \$ 259 | \$(416) | \$ (25) | \$ 13,799 |
| Closed-end Funds | 6,917 | 131 | 257 | (127) | 7,178 |
| Institutional & PWM - direct | 13,326 | 429 | (510) | - | 13,245 |
| Institutional & PWM - sub-advisory | 3,459 | 186 | (103) | - | 3,542 |
| SICAV | 40 | 1 | 1 | - | 42 |
| Total Equities | 37,723 | 1,006 | (771) | (152) | 37,806 |
| Fixed Income: | | | | | |
| Money-Market Fund | 1,518 | 1 | 219 | - | 1,738 |
| Institutional & PWM | 32 | - | 5 | - | 37 |
| Total Fixed Income | 1,550 | 1 | 224 | - | 1,775 |
| Total Assets Under Management | \$ 39,273 | \$ 1,007 | \$(547) | \$ (152) | \$ 39,581 |

Table II: Fund Flows - Year to date September 2016

| | December 31, 2015 | Market appreciation/ (depreciation) | Net cash flows | Fund distributions, net of reinvestments | September 30, 2016 |
|------------------------------------|-------------------------|---|----------------------|---|--------------------------|
| Equities: | | | | | |
| Open-end Funds | \$ 13,811 | \$ 1,204 | \$(1,170) | \$ (46) | \$ 13,799 |
| Closed-end Funds | 6,492 | 619 | 437 | (370) | 7,178 |
| Institutional & PWM - direct | 13,366 | 904 | (1,025) | - | 13,245 |
| Institutional & PWM - sub-advisory | 3,401 | 314 | (173) | - | 3,542 |
| SICAV | 37 | 3 | 2 | - | 42 |
| Total Equities | 37,107 | 3,044 | (1,929) | (416) | 37,806 |
| Fixed Income: | | | | | |
| Money-Market Fund | 1,514 | 2 | 222 | - | 1,738 |
| Institutional & PWM | 38 | - | (1) | - | 37 |
| Total Fixed Income | 1,552 | 2 | 221 | - | 1,775 |
| Total Assets Under Management | \$ 38,659 | \$ 3,046 | \$(1,708) | \$ (416) | \$ 39,581 |

Table III: Assets Under Management by Quarter

| | September 30, 2016 | December 31, 2015 | September 30, 2015 | % Change From December September | |
|------------------------------------|--------------------------|-------------------------|--------------------------|--|-------------|
| | | | | 31, 2015 | 30, 2015 |
| Equities: | | | | | |
| Open-end Funds | \$ 13,799 | \$ 13,811 | \$ 14,075 | (0.1 %) | (2.0 %) |
| Closed-end Funds | 7,178 | 6,492 | 6,205 | 10.6 | 15.7 |
| Institutional & PWM - direct | 13,245 | 13,366 | 13,190 | (0.9) | 0.4 |
| Institutional & PWM - sub-advisory | 3,542 | 3,401 | 3,302 | 4.1 | 7.3 |
| SICAV | 42 | 37 | 36 | 13.5 | 16.7 |
| Total Equities | 37,806 | 37,107 | 36,808 | 1.9 | 2.7 |
| Fixed Income: | | | | | |
| Money-Market Fund | 1,738 | 1,514 | 1,637 | 14.8 | 6.2 |
| Institutional & PWM | 37 | 38 | 45 | (2.6) | (17.8) |
| Total Fixed Income | 1,775 | 1,552 | 1,682 | 14.4 | 5.5 |
| Total Assets Under Management | \$ 39,581 | \$ 38,659 | \$ 38,490 | 2.4 % | 2.8 % |

Institutional & PWM - direct includes \$286 million, \$226 million and \$227 million of Money Market Fund AUM at September 30, 2016, December 31, 2015 and September 30, 2015, respectively.

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

RESULTS OF OPERATIONS

Three Months Ended September 30, 2016 Compared To Three Months Ended September 30, 2015

(Unaudited; in thousands, except per share data)

| | 2016 | 2015 |
|---|----------|----------|
| Revenues | | |
| Investment advisory and incentive fees | \$75,952 | \$79,900 |
| Distribution fees and other income | 11,769 | 12,260 |
| Total revenues | 87,721 | 92,160 |
| Expenses | | |
| Compensation | 21,233 | 34,022 |
| Management fee | 1,163 | 4,056 |
| Distribution costs | 11,568 | 12,363 |
| Other operating expenses | 5,681 | 4,443 |
| Total expenses | 39,645 | 54,884 |
| Operating income | 48,076 | 37,276 |
| Other income (expense) | | |
| Net gain from trading securities | 55 | 72 |
| Interest and dividend income | 371 | 553 |
| Interest expense | (3,155) | (1,815) |
| Total other income/(expense), net | (2,729) | (1,190) |
| Income before income taxes | 45,347 | 36,086 |
| Income tax provision | 14,486 | 13,635 |
| Income from continuing operations | 30,861 | 22,451 |
| Loss from discontinued operations | - | (7,482) |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$30,861 | \$14,969 |
| Net income/(loss) attributable to GAMCO Investors, Inc.'s shareholders per share: | | |
| Basic - Continuing operations | \$1.06 | \$0.90 |
| Basic - Discontinued operations | - | (0.30) |
| Basic - Total | \$1.06 | \$0.60 |
| Diluted - Continuing operations | \$1.03 | \$0.89 |
| Diluted - Discontinued operations | - | (0.30) |
| Diluted - Total | \$1.03 | \$0.59 |

Overview

Income from continuing operations for the quarter was \$30.9 million, or \$1.03 per fully diluted share, versus \$22.5 million, or \$0.89 per fully diluted share, in the prior year's quarter. The quarter to quarter comparison was impacted by lower variable compensation partially offset by lower revenues and lower income from firm investments.

Revenues

Investment advisory and incentive fees for the third quarter 2016 were \$76.0 million, 4.9% lower than the 2015 comparative figure of \$79.9 million. Open-end fund revenues decreased by 8.7% to \$33.6 million from \$36.8 million in the third quarter of 2015 driven by a 7.9% decrease in average open-end equity AUM. Our closed-end fund

revenues increased 7.7% to \$15.4 million in the third quarter 2016 from \$14.3 million in 2015 due to an 8.1% increase in non-performance fee based average AUM. Institutional and private wealth management account revenues, excluding incentive fees, which are generally based on beginning of quarter AUM, decreased \$2.6 million to \$26.2 million from \$28.8 million in third quarter 2015. There were no incentive fees earned during the third quarters 2016 and 2015. Revenues relating to the SICAV were \$0.8 million in the third quarter of 2016 versus less than \$0.1 million in the third quarter of 2015.

Open-end fund distribution fees and other income were \$11.8 million for the third quarter 2016, a decrease of \$0.5 million or 4.1% from \$12.3 million in the prior year period, primarily due to lower average AUM in open-end equity funds that generate distribution fees and decreased level of sales of load shares of open-end funds.

Expenses

Compensation costs, which are largely variable, were \$21.2 million or 37.6% lower than prior year compensation costs of \$34.0 million. The deferred compensation agreement entered into by the Company with Mr. Gabelli resulted in variable compensation being reduced by \$10.9 million during the third quarter of 2016. This expense will be recognized ratably over the vesting period through January 1, 2020. The remainder of the quarter over quarter decrease was comprised of a \$1.5 million decrease in variable compensation related to the decreased levels of AUM, a \$0.5 million decrease in stock compensation expense offset by a \$0.1 million increase in fixed compensation, primarily relating to increased bonus accruals in the current quarter.

Management fee expense, which is wholly variable and based on pretax income, decreased to \$1.2 million in the third quarter of 2016 from \$4.0 million in the 2015 period. The management fee expense for the third quarter of 2016 was lower by \$2.4 million due to the accounting of the deferred compensation agreement with Mr. Gabelli.

Distribution costs were \$11.6 million, a decrease of \$0.8 million or 6.5% from \$12.4 million in the prior year's period. The decline in distribution costs was primarily driven by lower AUM which resulted in reduced payments to third parties for distribution of \$0.4 million and lower amortization of advanced commissions of \$0.3 million.

Other operating expenses were \$5.7 million in the third quarter of 2016, an increase of \$1.3 million, or 29.5%, from \$4.4 million in the third quarter of 2015. The current year quarter included \$0.6 million of expenses incurred in the launching of the Gabelli Go Anywhere Trust, our 15th closed-end fund.

Operating income for the third quarter of 2016 was \$48.1 million, an increase of \$10.8 million, or 29.0%, from the \$37.3 million in the third quarter of 2015. Operating income, as a percentage of revenues, was 54.8% in the 2016 quarter as compared to 40.4% in the 2015 quarter.

Other expense

Total other expense, net was an expense of \$2.7 million for the third quarter 2016 versus an expense of \$1.2 million in the prior year's quarter. Net gains from trading securities decreased to \$55,000 in the third quarter of 2016. Interest and dividend income decreased to \$0.4 million in the third quarter 2016 from \$0.6 million in the third quarter 2015. Interest expense increased \$1.4 million to \$3.2 million in the third quarter of 2016 from \$1.8 million in the third quarter of 2015. In 2016, the AC 4% PIK Note issued in November 2015 was outstanding as was the 4.5% convertible note issued in August 2016, offset in part by the tender of \$78 million of the Senior Notes in December 2015.

The effective tax rates ("ETR") for the three months ended September 30, 2016 and September 30, 2015 were 31.9% and 37.8%, respectively. The change in rates is primarily due to the reversal of tax accruals related to the closing out of a state audit.

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

Nine Months Ended September 30, 2016 Compared To Nine Months Ended September 30, 2015

(Unaudited; in thousands, except per share data)

| | 2016 | 2015 |
|--|-----------|-----------|
| Revenues | | |
| Investment advisory and incentive fees | \$219,594 | \$251,269 |
| Distribution fees and other income | 33,456 | 39,390 |
| Total revenues | 253,050 | 290,659 |
| Expenses | | |
| Compensation | 62,130 | 109,177 |
| Management fee | 3,376 | 12,385 |
| Distribution costs | 32,786 | 40,093 |
| Other operating expenses | 14,993 | 14,157 |
| Total expenses | 113,285 | 175,812 |
| Operating income | 139,765 | 114,847 |
| Other income (expense) | | |
| Net gain from trading securities | 518 | 220 |
| Interest and dividend income | 1,104 | 1,584 |
| Interest expense | (9,729) | (5,575) |
| Total other expense, net | (8,107) | (3,771) |
| Income before income taxes | 131,658 | 111,076 |
| Income tax provision | 47,229 | 41,702 |
| Income from continuing operations | 84,429 | 69,374 |
| Loss from discontinued operations | - | (5,528) |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$84,429 | \$63,846 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders per share: | | |
| Basic - Continuing operations | \$2.89 | \$2.77 |
| Basic - Discontinued operations | - | (0.22) |
| Basic - Total | \$2.89 | \$2.55 |
| Diluted - Continuing operations | \$2.85 | \$2.74 |
| Diluted - Discontinued operations | - | (0.22) |
| Diluted - Total | \$2.85 | \$2.52 |

Overview

Income from continuing operations for the first nine months of 2016 was \$84.4 million, or \$2.85 per fully diluted share, versus \$69.4 million, or \$2.74 per fully diluted share, in the prior year's first nine months. The period to period comparison was impacted by lower variable compensation partially offset by lower revenues and lower income from firm investments.

Revenues

Investment advisory and incentive fees for the nine months ended September 30, 2016 were \$219.6 million, 12.6% lower than the 2015 comparative figure of \$251.3 million. Open-end fund revenues decreased by 16.6% to \$97.6 million in the nine months ended September 30, 2016 from \$117.0 million in 2015 driven by a 15.8% decrease in average open-end equity AUM. Our closed-end fund revenues decreased 4.3% to \$42.7 million in the nine months ended September 30, 2016 from \$44.6 million in 2015 due to a 3.7% decrease in non-performance fee based average AUM. Institutional and private wealth management account revenues, excluding incentive fees, which are generally based on beginning of quarter AUM, decreased \$11.5 million to \$77.3 million from \$88.8 million in nine months

ending September 30, 2015. There were no incentive fees earned during the nine months ended September 30, 2016. Incentive fees earned during the nine months ended September 30, 2015 were \$0.8 million.

Open-end fund distribution fees and other income were \$33.5 million for the nine months ended September 30, 2016, a decrease of \$5.9 million or 15.0% from \$39.4 million in the prior year period, primarily due to lower average AUM in open-end equity funds that generate distribution fees and decreased level of sales of load shares of open-end funds.

Expenses

Compensation costs, which are largely variable, were \$62.1 million or 43.1% lower than prior year compensation costs of \$109.2 million. The deferred compensation agreement entered into by the Company with Mr. Gabelli resulted in variable compensation being reduced by \$32.0 million during the nine months ending September 30, 2016. This expense will be recognized ratably over the vesting period through January 1, 2020. The remainder of the period over period decrease was comprised of an \$11.8 million decrease in variable compensation related to the decreased levels of AUM, a \$1.7 million decrease in stock compensation expense and a \$1.6 million decrease in fixed compensation, primarily relating to reduced bonus accruals in the current period.

Management fee expense, which is wholly variable and based on pretax income, decreased to \$3.4 million in the first nine months of 2016 from \$12.4 million in the 2015 period. The management fee expense for the first nine months of 2016 was lower by \$6.9 million due to the accounting of the deferred compensation agreement with Mr. Gabelli.

Distribution costs were \$32.8 million, a decrease of \$7.3 million or 18.2% from \$40.1 million in the prior year's period. The decline in distribution costs was driven by lower AUM which resulted in reduced payments to third parties for distribution of \$5.4 million and lower amortization of advanced commissions of \$1.0 million.

Other operating expenses were \$15.0 million in the first nine months of 2016, an increase of \$0.8 million, or 5.6%, from \$14.2 million in the first nine months of 2015.

Operating income for the first nine months of 2016 was \$139.8 million, an increase of \$25.0 million, or 21.8%, from the \$114.8 million in the first nine months of 2015. Operating income, as a percentage of revenues, was 55.2% in the 2016 period as compared to 39.5% in the 2015 period.

Other expense

Total other expense, net was an expense of \$8.1 million for the nine months ended September 30, 2016 versus an expense of \$3.8 million in the prior year's period. Net gains from trading securities increased \$0.3 million to \$0.5 million in the nine months ending September 30, 2016. Interest and dividend income decreased to \$1.1 million in the nine months ended September 30, 2016 from \$1.6 million in the first nine months of 2015. Interest expense increased \$4.1 million to \$9.7 million in the first nine months of 2016 from \$5.6 million in the first nine months of 2015. In 2016, the AC 4% PIK Note issued in November 2015 was outstanding as was the 4.5% convertible note issued in August 2016, offset in part by the tender of \$78 million of the Senior Notes in December 2015.

The ETR for the nine months ended September 30, 2016 and September 30, 2015 were 35.9% and 37.5%, respectively. The change in rates is primarily due to the reversal of tax accruals related to the closing out of a state audit.

DEFERRED COMPENSATION

On December 21, 2015, GAMCO entered into a deferred compensation agreement with Mr. Gabelli whereby his variable compensation for 2016 will be in the form of Restricted Stock Units ("RSUs") determined by the volume-weighted average price of the Company's Class A Stock during 2016. When the restrictions lapse on January 1, 2020 (the "Lapse Date"), this RSU agreement can be settled in either cash or stock. Notwithstanding its ability to settle the RSU agreement in stock, GAMCO currently intends to make a cash payment to Mr. Gabelli on the Lapse Date in an amount, under the terms of the agreement, equal to the number of RSUs valued at the lesser of the volume-weighted average price of the Company's Class A Stock for the 2016 fiscal year or the volume-weighted average price on the Lapse Date or, if not a trading day, then the first trading date thereafter. The Board's decision to grant these RSUs and thereby defer the cash payment of his 2016 variable compensation until January 1, 2020 was to provide the Company with greater financial flexibility. While the issuance of the award itself does not change Mr.

Gabelli's compensation, the GAAP reporting for his compensation has changed. The three and nine month 2016 results were materially bolstered by the GAAP-mandated treatment of these RSUs. Margins for the third quarter and first nine months of 2016 therefore are not comparable with prior periods. Under GAAP, only 25% of this deferred compensation expense is being recognized in the current year with the remainder amortized as expense in 2017, 2018, and 2019. Expressed another way, the 2016 third quarter and first nine months as well as the remainder of 2016 benefit from a reduction of 75% of the compensation, and 2017, 2018, and 2019 will, in turn, be impacted by an additional 25% of the compensation from 2016 in each year. No decision has been made regarding whether an RSU grant will be repeated for 2017.

The balance sheet is also impacted; the compensation payable at September 30, 2016 and in each future period-end of 2016 is only 25% of the full amount of the 2016 compensation that will be due once the RSUs are fully vested. At September 30, 2016, the amount of unrecognized compensation was \$38.9 million.

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

The following tables show a reconciliation of our results for the third quarter of 2016, the first nine months of 2016 and our balance sheet at September 30, 2016 between the GAAP basis and a non-GAAP adjusted basis of the deferred compensation (the RSU grant) as if all of the expense was recognized in 2016. We believe this adjusted measure is useful in evaluating the ongoing operating results of the Company absent the material adjustment related to the treatment of the deferred compensation agreement.

| | Three Months Ended September 30, 2016 | | |
|---|--|---------------------------------------|-----------|
| | Reported GAAP | Impact of Deferred Compensation | Non-GAAP |
| Revenues | | | |
| Investment advisory and incentive fees | \$75,952 | \$ - | \$ 75,952 |
| Distribution fees and other income | 11,769 | - | 11,769 |
| Total revenues | 87,721 | - | 87,721 |
| Expenses | | | |
| Compensation | 21,233 | 10,885 | 32,118 |
| Management fee | 1,163 | 2,400 | 3,563 |
| Distribution costs | 11,568 | - | 11,568 |
| Other operating expenses | 5,681 | - | 5,681 |
| Total expenses | 39,645 | 13,285 | 52,930 |
| Operating income | 48,076 | (13,285) | 34,791 |
| Other income (expense) | | | |
| Net gain from investments | 55 | - | 55 |
| Interest and dividend income | 371 | - | 371 |
| Interest expense | (3,155) | - | (3,155) |
| Total other expense, net | (2,729) | - | (2,729) |
| Income before income taxes | 45,347 | (13,285) | 32,062 |
| Income tax provision | 14,486 | (5,075) | 9,411 |
| Income from continuing operations | 30,861 | (8,210) | 22,651 |
| Income from discontinued operations, net of taxes | - | - | - |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$30,861 | \$ (8,210) | \$ 22,651 |
| per share: | | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | | | |
| Basic | \$1.06 | \$ (0.28) | \$ 0.78 |
| Diluted | \$1.03 | \$ (0.27) | \$ 0.76 |

| | Nine Months Ended September 30, 2016 | | |
|---|---|---------------------------------------|------------|
| | Reported GAAP | Impact of Deferred Compensation | Non-GAAP |
| Revenues | | | |
| Investment advisory and incentive fees | \$219,594 | \$ - | \$ 219,594 |
| Distribution fees and other income | 33,456 | - | 33,456 |
| Total revenues | 253,050 | - | 253,050 |
| Expenses | | | |
| Compensation | 62,130 | 32,016 | 94,146 |
| Management fee | 3,376 | 6,926 | 10,302 |
| Distribution costs | 32,786 | - | 32,786 |
| Other operating expenses | 14,993 | - | 14,993 |
| Total expenses | 113,285 | 38,942 | 152,227 |
| Operating income | 139,765 | (38,942) | 100,823 |
| Other income (expense) | | | |
| Net gain from investments | 518 | - | 518 |
| Interest and dividend income | 1,104 | - | 1,104 |
| Interest expense | (9,729) | - | (9,729) |
| Total other expense, net | (8,107) | - | (8,107) |
| Income before income taxes | 131,658 | (38,942) | 92,716 |
| Income tax provision | 47,229 | (14,811) | 32,418 |
| Income from continuing operations | 84,429 | (24,131) | 60,298 |
| Income from discontinued operations, net of taxes | - | - | - |
| Net income attributable to GAMCO Investors, Inc.'s shareholders per share: | \$84,429 | \$ (24,131) | \$ 60,298 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | | | |
| Basic | \$2.89 | \$ (0.83) | \$ 2.06 |
| Diluted | \$2.85 | \$ (0.81) | \$ 2.04 |

| | September 30, 2016 | | |
|--|--------------------|--------------|------------|
| | Reported | Impact of | |
| | GAAP | Deferred | Non-GAAP |
| | | Compensation | |
| ASSETS | | | |
| Cash and cash equivalents | \$33,852 | \$ - | \$ 33,852 |
| Investments in securities | 32,889 | - | 32,889 |
| Receivable from brokers | 344 | - | 344 |
| Investment advisory fees receivable | 26,606 | - | 26,606 |
| Receivable from affiliates | 4,745 | - | 4,745 |
| Income tax receivable | 10,634 | 14,811 | 25,445 |
| Other assets | 12,198 | - | 12,198 |
| Total assets | \$121,268 | \$ 14,811 | \$ 136,079 |
| LIABILITIES AND EQUITY | | | |
| Payable to brokers | 10,203 | - | 10,203 |
| Income taxes payable and deferred tax liabilities | 164 | - | 164 |
| Capital lease obligation | 5,094 | - | 5,094 |
| Compensation payable | 31,469 | 38,942 | 70,411 |
| Payable to affiliates | 7,679 | - | 7,679 |
| Accrued expenses and other liabilities | 31,801 | - | 31,801 |
| Sub-total | 86,410 | 38,942 | 125,352 |
| 4.5% Convertible note (due August 15, 2021) | 109,826 | - | 109,826 |
| AC 4% PIK Note (due November 30, 2020) | 100,000 | - | 100,000 |
| Loan from GGCP (due December 28, 2016) | - | - | - |
| 5.875% Senior notes (due June 1, 2021) | 24,115 | - | 24,115 |
| Total liabilities | 320,351 | 38,942 | 359,293 |
| Equity | | | |
| GAMCO Investors, Inc. stockholders' equity | | | |
| Class A Common Stock | 14 | - | 14 |
| Class B Common Stock | 19 | - | 19 |
| Additional paid-in capital | 3,135 | - | 3,135 |
| Retained earnings (deficit) | 48,412 | (24,131) | 24,281 |
| Accumulated other comprehensive income | 9,317 | - | 9,317 |
| Treasury stock, at cost | (259,980) | - | (259,980) |
| Total GAMCO Investors, Inc. stockholders' equity (deficit) | (199,083) | (24,131) | (223,214) |
| Total liabilities and equity (deficit) | \$121,268 | \$ 14,811 | \$ 136,079 |

The following table further illustrates the effect that the GAAP accounting for the compensation deferral will have on our results for 2016 through 2019 under certain assumptions. For simplicity in arriving at the 2016 through 2019 illustrative effects, we have assumed that the third quarter RSU expense is predictive of the full year results but there is no assurance that this will be the case.

Effect of recording RSU on a GAAP basis versus recording all of the expense in 2016:

| | 2016 | 2017 | 2018 | 2019 |
|----------------------|--------|--------|--------|--------|
| RSU expense (52,228) | 17,409 | 17,409 | 17,409 | 17,409 |

LIQUIDITY AND CAPITAL RESOURCES

Our principal assets are highly liquid in nature and consist of cash and cash equivalents, short-term investments and securities held for investment purposes. Cash and cash equivalents are comprised primarily of 100% U.S. Treasury money market funds managed by GAMCO.

Summary cash flow data is as follows:

| | Nine months ended | |
|--|-------------------|-----------|
| | September 30, | |
| | 2016 | 2015 |
| Cash flows provided by continuing operations : | (in thousands) | |
| Operating activities | \$105,212 | \$134,861 |
| Investing activities | 185 | 51 |
| Financing activities | (85,292) | 45,767 |
| Increase in cash and cash equivalents from continuing operations | 20,105 | 180,679 |
| Cash flows of discontinued operations: | | |
| Operating activities | - | 59,154 |
| Investing activities | - | (41,464) |
| Financing activities | - | (148,510) |
| Decrease in cash and cash equivalents from discontinued operations | - | (130,820) |
| Effect of exchange rates on cash and cash equivalents | 28 | 8 |
| Net increase | 20,133 | 49,867 |
| Cash and cash equivalents at beginning of period | 13,719 | 12,694 |
| Cash and cash equivalents at end of period | \$33,852 | \$62,561 |

Cash and liquidity requirements have historically been met through cash generated by operating income and our borrowing capacity. We filed a registration statement with the SEC in 2015 which, among other things, provides us opportunistic flexibility to sell any combination of senior and subordinate debt securities, convertible debt securities, equity securities (including common and preferred stock), and other securities up to a total amount of \$500 million. The shelf is available through April 2018, at which time it may be renewed.

At September 30, 2016, we had total cash and cash equivalents of \$33.9 million, an increase of \$20.1 million from December 31, 2015 primarily due to the Company's operating activities described below. Total debt outstanding at September 30, 2016 was \$234 million, consisting of \$100 million of a 4% PIK Note due November 30, 2020, \$110 million of a 4.5% convertible note due August 15, 2021, and \$24 million of 5.875% senior notes due 2021. It is anticipated that the majority of our free cash flow will go towards servicing our debt for the next few years.

For the nine months ended September 30, 2016, cash provided by operating activities was \$105.2 million, a decrease of \$29.7 million from cash provided in the prior year period of \$134.9 million. Cash was provided through an increase in net income of \$15.1 million, an increase in income taxes payable and deferred tax liabilities of \$7.0 million, an increase to payable to brokers of \$9.7 million, and a decrease in receivable from affiliates of \$1.8 million. Reducing cash was an increase in investment advisory fees receivable of \$6.6 million, an increase in income tax receivable and deferred tax assets of \$3.9 million, a decrease in compensation payable of \$45.9 million, a decrease to stock based compensation expense of \$1.7 million, , and \$5.2 million from other sources. Cash provided by investing activities, related to proceeds from sales of available for sale securities, was \$0.2 million in the first nine months of 2016. Cash used in financing activities in the first nine months of 2016 was \$85.3 million, including \$150.0 million for the partial payment of the 4% PIK Note, \$35.0 million for the full repayment of the loan from GGCP, \$8.4 million paid for the purchase of treasury stock, and \$1.8 million paid in dividends partially offset by the issuance of the 4.5% Convertible note for \$109.8 million.

For the nine months ended September 30, 2015, cash provided by operating activities was \$134.9 million. Cash provided by investing activities, related to proceeds from sales of available for sale securities, was \$51,000 in the first nine months of 2015. Cash provided by financing activities in the first nine months of 2015 was \$45.8 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.

We have one broker-dealer, G.distributors, which is subject to certain net capital requirements. 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. The requirement was \$250,000 for the broker-dealer at September 30, 2016. At September 30, 2016, G.distributors had net capital, as defined, of approximately \$2.5 million, exceeding the regulatory requirement by approximately \$2.3 million. Net capital requirements for our affiliated broker-dealer 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 approximately 96% 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 monitors its 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 affiliated open-end and closed-end funds and Institutional and Private Wealth Management 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, investments in securities of \$32.9 million, \$33.0 million and \$34.1 million at September 30, 2016, December 31, 2015 and September 30, 2015, respectively, included investments in common stocks. Of the \$32.9 million, \$33.0 million and \$34.1 million, invested in common stocks at September 30, 2016, December 31, 2015 and September 30, 2015, respectively, \$32.9 million, \$32.6 million and \$34.1 million, respectively, was related to our investment in Westwood Holdings Group Inc. Securities sold, not yet purchased are financial instruments purchased under agreements to resell and financial instruments sold under agreement to repurchase. These financial instruments are stated at fair value and are subject to market risks resulting from changes in price and volatility. At December 31, 2015, the fair value of securities sold, not yet purchased was \$0.1 million. At September 30, 2016 and September 30, 2015, there were no securities sold, not yet purchased.

The following table provides a sensitivity analysis for our investments in equity securities and partnerships and affiliates which invest primarily in equity securities, excluding arbitrage products for which the principal exposure is to deal closure and not overall market conditions, as of September 30, 2016 and December 31, 2015. The sensitivity analysis assumes a 10% increase or decrease in the value of these investments (in thousands):

| | |
|----------|----------|
| Fair | Fair |
| Value | Value |
| assuming | assuming |
| 10% | 10% |
| decrease | increase |
| in | in |

(unaudited)

| | Fair Value | equity prices | equity prices |
|---|---------------|------------------|------------------|
| At September 30, 2016: | | | |
| Equity price sensitive investments, at fair value | \$32,889 | \$29,600 | \$36,178 |
| At December 31, 2015: | | | |
| Equity price sensitive investments, at fair value | \$32,848 | \$29,563 | \$36,133 |

Interest Rate Risk

Our exposure to interest rate risk results, principally, from our investment of excess cash in a sponsored 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 September 30, 2016, cash and cash equivalent balance of \$33.9 million, a 1% increase in interest rates would increase our interest income by \$0.3 million annually. Given that our current return on these cash equivalent investments in this low interest rate environment is approximately 0.23% annually, an analysis of a 1% decrease is not meaningful.

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 2015 Annual Report on Form 10-K filed with the SEC on March 15, 2016 for details on Critical Accounting Policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Our exposure to pricing risk in equity securities is directly related to our role as financial intermediary and advisor for AUM in our affiliated open-end and closed-end funds, institutional and private wealth management accounts, and investment partnerships as well as our proprietary investment and trading activities. At September 30, 2016, we had equity investments of \$32.9 million. We may alter our investment holdings from time to time in response to changes in market risks and other factors considered appropriate by management. The equity investment portfolio is at fair value and will move in line with the equity markets. The trading portfolio changes are recorded as net gain from investments in the condensed consolidated statements of income while the available for sale portfolio changes are recorded in accumulated other comprehensive income in the condensed consolidated statements of financial condition.

Item 4. Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. 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") and Co-Chief Accounting Officers ("CAOs"), to allow timely decisions regarding required disclosure. Our CEO and CAOs participated in this evaluation and concluded that, as of the date of September 30, 2016, 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," "be" 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 may be 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. For any such matters, the condensed 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 will, if material, make the necessary disclosures. However, management believes such amounts, both those that are probable and those that are reasonably possible, are not material to the Company's financial condition, operations or cash flows at September 30, 2016.

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

The following table provides information with respect to the repurchase of Class A Common Stock of GAMCO during the three months ended September 30, 2016:

| Period | (a) Total Number of Shares | (b) Average Price Paid Per Share, net of Commissions | (c) Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|-------------------|----------------------------------|--|---|--|
| 7/01/16 - 7/31/16 | 23,877 | \$ 34.14 | 23,877 | 515,243 |
| 8/01/16 - 8/31/16 | 151,124 | 31.67 | 151,124 | 364,119 |
| 9/01/16 - 9/30/16 | 48,810 | 29.66 | 48,810 | 315,309 |
| Totals | 223,811 | \$ 31.50 | 223,811 | |

Item 6. (a) Exhibits

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

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

31.3 Certification of co-CAO 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 co-CAOs pursuant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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 | By: /s/ Diane M. LaPointe |
| Name: Kieran Caterina | Name: Diane M. LaPointe |
| Title: Co-Chief Accounting Officer | Title: Co-Chief Accounting Officer |

Date: November 4, 2016

Date: November 4, 2016

