

GAMCO INVESTORS, INC. ET AL
Form 10-Q
August 08, 2013
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 June 30, 2013

or

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

For the transition period from ___ to ___

Commission File No. 001-14761

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

New York 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

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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 July 31, 2013
Class A Common Stock, .001 par value	6,145,806
Class B Common Stock, .001 par value	19,484,174

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

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Investment advisory and incentive fees	\$77,443	\$67,210	\$150,050	\$134,993
Distribution fees and other income	12,522	11,006	23,875	22,629
Institutional research services	2,325	2,808	4,546	5,151
Total revenues	92,290	81,024	178,471	162,773
Expenses				
Compensation	37,759	32,921	73,411	67,475
Management fee	4,846	2,615	8,826	6,799
Distribution costs	11,871	10,012	22,881	20,189
Other operating expenses	6,030	5,109	10,842	10,931
Total expenses	60,506	50,657	115,960	105,394
Operating income	31,784	30,367	62,511	57,379
Other income (expense)				
Net gain/(loss) from investments	12,141	(4,171)	24,432	9,707
Interest and dividend income	2,507	1,782	3,852	3,018
Interest expense	(2,796)	(4,429)	(6,284)	(8,833)
Shareholder-designated contribution	-	-	(5,000)	-
Total other income (expense), net	11,852	(6,818)	17,000	3,892
Income before income taxes	43,636	23,549	79,511	61,271
Income tax provision	15,724	8,686	28,919	22,442
Net income	27,912	14,863	50,592	38,829
Net income/(loss) attributable to noncontrolling interests	19	(242)	154	(112)
Net income attributable to GAMCO Investors, Inc.'s shareholders	\$27,893	\$15,105	\$50,438	\$38,941
Net income attributable to GAMCO Investors, Inc.'s shareholders per share:				
Basic	\$1.09	\$0.58	\$1.96	\$1.48
Diluted	\$1.09	\$0.57	\$1.96	\$1.47
Weighted average shares outstanding:				
Basic	25,679	26,258	25,710	26,338
Diluted	25,689	26,426	25,723	26,501
Dividends declared:	\$0.05	\$0.29	\$0.10	\$0.33

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$27,912	\$14,863	\$50,592	\$38,829
Other comprehensive income, net of tax:				
Foreign currency translation	1	22	(48)	5
Net unrealized gains/(losses) on securities available for sale (a)	(6,900)	(2,579)	(860)	878
Other comprehensive income	(6,899)	(2,557)	(908)	883
Comprehensive income	21,013	12,306	49,684	39,712
Less: Comprehensive income/(loss) attributable to noncontrolling interests	(19)	242	(154)	112
Comprehensive income attributable to GAMCO Investors, Inc.	\$20,994	\$12,548	\$49,530	\$39,824

(a) Net of income tax (benefit) / expense of (\$4,052), (\$1,516), (\$505) and \$515, respectively.

See accompanying notes.

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

(Dollars in thousands, except per share data)

	June 30, 2013	December 31, 2012	June 30, 2012
ASSETS			
Cash and cash equivalents	\$222,776	\$190,608	\$324,440
Investments in securities	220,440	218,843	249,630
Investments in sponsored registered investment companies	52,341	61,872	59,561
Investments in partnerships	94,535	97,549	102,119
Receivable from brokers	39,669	50,655	41,513
Investment advisory fees receivable	28,240	42,429	26,026
Income tax receivable	413	1,018	402
Other assets	25,087	27,759	23,039
Total assets	\$683,501	\$690,733	\$826,730
LIABILITIES AND EQUITY			
Payable to brokers	\$14,986	\$14,346	\$20,113
Income taxes payable and deferred tax liabilities	27,864	25,398	12,846
Capital lease obligation	4,877	4,949	5,013
Compensation payable	59,643	10,535	28,985
Securities sold, not yet purchased	7,598	3,136	7,010
Mandatorily redeemable noncontrolling interests	1,322	1,342	1,352
Accrued expenses and other liabilities	31,971	26,365	29,641
Sub-total	148,261	86,071	104,960
5.5% Senior notes (repaid May 15, 2013)	-	99,000	99,000
5.875% Senior notes (due June 1, 2021)	100,000	100,000	100,000
Zero coupon subordinated debentures, Face value: \$20.5 million at June 30, 2013, \$21.7 million at December 31, 2012 and \$86.3 million at June 30, 2012 (due December 31, 2015)	17,028	17,366	66,598
Total liabilities	265,289	302,437	370,558
Redeemable noncontrolling interests	7,021	17,362	26,162
Commitments and contingencies (Note J)			
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; 14,295,769, 14,203,146 and 13,781,213 issued, respectively; 6,095,806, 6,121,585 and 6,609,863 outstanding, respectively			
	13	13	13
Class B Common Stock, \$.001 par value; 100,000,000 shares authorized; 24,000,000 shares issued; 19,534,174, 19,624,174 and 20,020,730 shares outstanding, respectively			
	20	20	20
Additional paid-in capital	280,210	280,089	266,231

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Retained earnings	456,163	408,295	439,292
Accumulated other comprehensive income	25,392	26,300	23,403
Treasury stock, at cost (8,199,963, 8,081,561 and 7,171,350 shares, respectively)	(353,385)	(347,109)	(302,300)
Total GAMCO Investors, Inc. stockholders' equity	408,413	367,608	426,659
Noncontrolling interests	2,778	3,326	3,351
Total equity	411,191	370,934	430,010
Total liabilities and equity	\$683,501	\$690,733	\$826,730

See accompanying notes.

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

For the six months ended June 30, 2013

	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, 2012	\$ 3,326	\$33	\$280,089	\$408,295	\$ 26,300	\$(347,109)	\$370,934	\$ 17,362
Redemptions of noncontrolling interests	(524)	-	-	-	-	-	(524)	(13,394)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	2,875
Net income (loss)	(24)	-	-	50,438	-	-	50,414	178
Net unrealized gains on securities available for sale, net of income tax (\$3,477)	-	-	-	-	5,921	-	5,921	-
Amounts reclassified from accumulated other comprehensive income, net of income tax benefit (\$3,982)	-	-	-	-	(6,781)	-	(6,781)	-
Foreign currency translation	-	-	-	-	(48)	-	(48)	-
Dividends declared (\$0.10 per share)	-	-	-	(2,570)	-	-	(2,570)	-
Stock based compensation expense	-	-	29	-	-	-	29	-
Exercise of stock options including tax benefit	-	-	92	-	-	-	92	-
Purchase of treasury stock	-	-	-	-	-	(6,276)	(6,276)	-
Balance at June 30, 2013	\$ 2,778	\$33	\$280,210	\$456,163	\$ 25,392	\$(353,385)	\$411,191	\$ 7,021

See accompanying notes.

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

For the six months ended June 30, 2012

	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, 2011	\$ 3,439	\$33	\$264,409	\$409,191	\$ 22,520	\$(292,181)	\$407,411	\$ 6,071
Redemptions of noncontrolling interests	-	-	-	-	-	-	-	(393)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	20,508
Net income (loss)	(88)	-	-	38,941	-	-	38,853	(24)
Net unrealized gains on securities available for sale, net of income tax (\$515)	-	-	-	-	878	-	878	-
Foreign currency translation	-	-	-	-	5	-	5	-
Dividends declared (\$0.33 per share)	-	-	-	(8,840)	-	-	(8,840)	-
Stock based compensation expense	-	-	1,740	-	-	-	1,740	-
Exercise of stock options including tax benefit	-	-	82	-	-	-	82	-
Purchase of treasury stock	-	-	-	-	-	(10,119)	(10,119)	-
Balance at June 30, 2012	\$ 3,351	\$33	\$266,231	\$439,292	\$ 23,403	\$(302,300)	\$430,010	\$ 26,162

See accompanying notes.

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

	Six Months Ended June 30,	
	2013	2012
Operating activities		
Net income	\$50,592	\$38,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net gains/(losses) from partnerships	1,418	(2,651)
Depreciation and amortization	406	359
Stock based compensation expense	29	1,740
Deferred income taxes	1,421	1,434
Tax benefit from exercise of stock options	16	24
Foreign currency translation gain/(loss)	(48)	5
Other-than-temporary loss on available for sale securities	14	20
Fair value of donated securities	277	181
Gains on sales of available for sale securities	(10,446)	(408)
Accretion of zero coupon debentures	645	2,497
Loss on extinguishment of debt	137	1
(Increase) decrease in assets:		
Investments in trading securities	2,538	(10,137)
Investments in partnerships:		
Contributions to partnerships	(8,221)	(25,743)
Distributions from partnerships	9,818	27,168
Receivable from brokers	10,986	(20,601)
Investment advisory fees receivable	14,189	6,131
Income tax receivable and deferred tax assets	605	(362)
Other assets	2,246	5,466
Increase (decrease) in liabilities:		
Payable to brokers	640	9,343
Income taxes payable and deferred tax liabilities	1,551	(4,401)
Compensation payable	49,108	11,289
Mandatorily redeemable noncontrolling interests	(20)	(34)
Accrued expenses and other liabilities	5,530	4,988
Total adjustments	82,839	6,309
Net cash provided by operating activities	\$133,431	\$45,138

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

	Six Months Ended June 30,	
	2013	2012
Investing activities		
Purchases of available for sale securities	\$(3,953)	\$(8)
Proceeds from sales of available for sale securities	21,978	780
Return of capital on available for sale securities	625	842
Net cash provided by investing activities	18,650	1,614
Financing activities		
Contributions from redeemable noncontrolling interests	2,875	20,508
Redemptions of redeemable noncontrolling interests	(13,394)	(393)
Redemption of 5.5% Senior Notes	(99,000)	-
Redemptions of noncontrolling interests	(524)	-
Proceeds from exercise of stock options	76	58
Repurchase of zero coupon subordinated debentures	(1,119)	(18)
Dividends paid	(2,570)	(8,685)
Purchase of treasury stock	(6,275)	(10,119)
Net cash (used in) provided by financing activities	(119,931)	1,351
Effect of exchange rates on cash and cash equivalents	18	(3)
Net increase in cash and cash equivalents	32,168	48,100
Cash and cash equivalents at beginning of period	190,608	276,340
Cash and cash equivalents at end of period	\$222,776	\$324,440
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$6,262	\$4,979
Cash paid for taxes	\$25,165	\$25,479

Non-cash activity:

- For the six months ended June 30, 2013 and June 30, 2012, the Company accrued dividends on restricted stock awards of \$0 and \$106, respectively.

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013
(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 condensed consolidated financial statements include the accounts of GAMCO and its subsidiaries. Intercompany accounts and transactions are eliminated.

These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 from which the accompanying condensed consolidated financial statements were derived.

Use of Estimates

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

Recent Accounting Developments

In December 2011, the Financial Accounting Standards Board ("FASB") issued guidance which creates new disclosure requirements about the nature of an entity's right of offset and related arrangements associated with its financial instruments and derivative instruments. In January 2013, the FASB issued guidance which clarifies the scope of the disclosure requirements. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards. The Company adopted this guidance on January 1, 2013 and now presents the disclosures required by this guidance in Note B.

In July 2012, the FASB issued guidance allowing companies to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If a company determines, on the basis of qualitative factors, that the fair value of such asset is not more likely than not impaired, it would not need to calculate the fair value of such asset. However, if a company concludes otherwise, it must calculate the fair value of

the asset, compare the value with its carrying amount and record an impairment charge, if any. To perform the qualitative assessment, a company must identify and evaluate events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company adopted this guidance on January 1, 2013 without a material impact to the financial statements.

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In February 2013, the FASB issued guidance which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income ("AOCI"). The guidance is intended to help entities improve the transparency of changes in other comprehensive income ("OCI") and items reclassified out of AOCI in their financial statements. It does not amend any existing requirements for reporting net income or OCI in the financial statements.

The guidance requires entities to disclose additional information about reclassification adjustments, including changes in AOCI balances by component and significant items reclassified out of AOCI. The guidance requires an entity to present information about significant items reclassified out of AOCI by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. The guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company adopted this guidance on January 1, 2013 and now presents the disclosures required by this guidance in Note B.

B. Investment in Securities

Investments in securities at June 30, 2013, December 31, 2012 and June 30, 2012 consisted of the following:

	June 30, 2013		December 31, 2012		June 30, 2012	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
(In thousands)						
Trading securities:						
Government obligations	\$27,986	\$27,996	\$42,973	\$42,989	\$50,119	\$50,139
Common stocks	137,600	155,088	125,697	138,478	154,470	162,883
Mutual funds	1,074	1,675	1,072	1,484	1,086	1,406
Other investments	470	719	328	630	323	374
Total trading securities	167,130	185,478	170,070	183,581	205,998	214,802
Available for sale securities:						
Common stocks	14,077	33,478	14,822	33,560	15,934	32,815
Mutual funds	843	1,484	1,105	1,702	1,361	2,013
Total available for sale securities	14,920	34,962	15,927	35,262	17,295	34,828
Total investments in securities	\$182,050	\$220,440	\$185,997	\$218,843	\$223,293	\$249,630

Securities sold, not yet purchased at June 30, 2013, December 31, 2012 and June 30, 2012 consisted of the following:

	June 30, 2013		December 31, 2012		June 30, 2012	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
(In thousands)						
Trading securities:						
Common stocks	\$7,668	\$7,381	\$2,593	\$2,867	\$6,194	\$6,687
Other investments	71					