

GAMCO INVESTORS, INC. ET AL
Form 10-K
February 23, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended December 31, 2010

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 number 1-14761

GAMCO Investors, Inc.

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	13-4007862 (I.R.S. Employer Identification No.)
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One Corporate Center, Rye, NY (Address of principal executive offices)	10580-1422 (Zip Code)
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Registrant's telephone number, including area code (914) 921-5100
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value \$0.001 per share	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes o No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act Yes No .

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes No .

The aggregate market value of the class A common stock held by non-affiliates of the registrant as of June 30, 2010 (the last business day of the Registrant’s most recently completed second fiscal quarter) was \$253,089,047.

As of February 1, 2011, 6,949,921 shares of class A common stock and 20,290,140 shares of class B common stock were outstanding. 19,779,500 shares of class B common stock were held by a subsidiary of GGCP, Inc.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant’s definitive proxy statement relating to the 2011 Annual Meeting of Shareholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part II of this report.

GAMCO Investors, Inc.

Annual Report on Form 10-K For the Fiscal Year Ended December 31, 2010

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PART I

Forward-Looking Statements

Our disclosure and analysis in this report and in documents that are incorporated by reference contain some forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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. You should not place undue reliance on these statements. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words and terms of similar meaning. They also appear in any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance of our products, expenses, the outcome of any legal proceedings, and financial results.

Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ from our expectations or beliefs include, without limitation: the adverse effect from a decline in the securities markets; a decline in the performance of our products; a general downturn in the economy; changes in government policy or regulation; changes in our ability to attract or retain key employees; and unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations. We also direct your attention to any more specific discussions of risk contained in Item 1A below and in our other public filings or in documents incorporated by reference here or in prior filings or reports.

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.

ITEM 1: BUSINESS

Unless we have indicated otherwise, or the context otherwise requires, references in this report to “GAMCO Investors, Inc.,” “GBL,” “Gabelli,” “we,” “us” and “our” or similar terms are to GAMCO Investors, Inc., its predecessors and subsidiaries.

Overview

GAMCO Investors, Inc. (New York Stock Exchange (“NYSE”): GBL), a company incorporated under the laws of New York, well known for our value investing hallmark Private Market Value (PMV) with a Catalyst™ investment approach, is a widely-recognized provider of investment advisory services to mutual funds, institutional and private wealth management investors, and investment partnerships, principally in the United States. Through Gabelli & Company, Inc. (“Gabelli & Company”), our broker-dealer subsidiary, we provide institutional research services to institutional clients and investment partnerships. We generally manage assets on a discretionary basis and invest in a variety of U.S. and international securities through various investment styles. Our revenues are based primarily on the firm’s levels of assets under management (“AUM”) and to a lesser extent, incentive fees associated with our various investment products.

Since 1977, we have been identified with and enhanced the “value” style approach to investing. Over the 33 years since the inception of the firm, consistent with our fundamental objective of providing an absolute rate of return for our clients, we have generated over \$16.2 billion in investment returns for our institutional and private wealth

management clients. As stated in our mission statement, our investment objective is to earn a superior risk-adjusted return for our valued clients over the long-term through our proprietary fundamental research. In addition to our value portfolios, GAMCO and other brands offer our clients a broad array of investment strategies that include global, growth, international and convertible products. We also offer a series of investment partnership (performance fee-based) vehicles that provide a series of long-short investment opportunities, both market and sector specific opportunities, including offerings of non-market correlated investments in merger arbitrage, as well as a fixed income strategy.

As of December 31, 2010, we had \$32.5 billion of AUM. We conduct our investment advisory business principally through our subsidiaries: GAMCO Asset Management Inc. (Institutional and Private Wealth Management), Gabelli Funds, LLC (Mutual Funds) and Gabelli Securities, Inc. (Investment Partnerships). We also act as an underwriter, are a distributor of our open-end funds and provide institutional research services through Gabelli & Company.

Our AUM are organized into three groups:

- **Investment Partnerships:** We provide advisory services to limited partnerships and offshore funds (“Investment Partnerships”). We managed a total of \$515 million in Investment Partnership assets on December 31, 2010.
- **Institutional and Private Wealth Management:** We provide advisory services to a broad range of investors, including private wealth management, corporate pension and profit-sharing plans, foundations, endowments, jointly-trusted plans and municipalities, and also serve as sub-advisor to certain other third party investment funds including registered investment companies (“Institutional and Private Wealth Management”). Each Institutional and Private Wealth Management (“PWM”) portfolio is managed to meet the needs and objectives of the particular client by utilizing investment strategies and techniques within our areas of expertise. On December 31, 2010, we had \$13.7 billion of Institutional and Private Wealth Management AUM.
- **Open and Closed-End Funds:** We provide advisory services to twenty-one open-end funds and nine closed-end funds under Gabelli, GAMCO and Comstock brands (collectively, the “Funds”). The Funds had \$18.3 billion of AUM on December 31, 2010.

GBL is a holding company formed in connection with our initial public offering (“Offering”) in February 1999. GGCP Holdings, LLC, a subsidiary of GGCP, Inc. owns a majority of the outstanding shares of Class B Common Stock (“Class B Stock”) of GBL. Such ownership represented approximately 94% of the combined voting power of the outstanding common stock and approximately 73% of the equity interest on December 31, 2010. GGCP, Inc. is majority-owned by Mr. Mario J. Gabelli (“Mr. Gabelli”). Accordingly, Mr. Gabelli is deemed to control GBL.

Our principal executive offices are located at One Corporate Center, Rye, New York 10580. Our telephone number is (914) 921-5100. We post or provide a link on our website, www.gabelli.com, to the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (“Commission” or “SEC”): our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings on our website are available free of charge.

2010

Since our Offering in February 1999, GBL’s Class A Common Stock (“Class A Stock”) has generated an annual compounded return of 11.2% (including dividends) for its shareholders through December 31, 2010 versus an annual compounded return of 2.04% (including dividends) for the S&P 500 Index during that time. Our Class A Stock, which is traded on the NYSE under the symbol “GBL”, ended the year at a closing market price of \$48.01 per share.

During 2010, we returned \$139.2 million of our earnings to shareholders through dividends and our stock buyback program. We paid \$49.4 million, or \$1.82 per share, in cash dividends to our common shareholders, \$59.6 million (\$86.4 million in face value or \$3.20 of principal per share), in zero coupon subordinated debentures due 2015 and repurchased 684,003 shares at an average investment of \$44.15 per share or \$30.2 million.

Since the Offering, we have returned \$591.2 million in total of which \$313.2 million was in the form of dividends and \$278.0 million was through buybacks.

As of December 31, 2010, nine open-end funds that we manage have a 4 or 5-star three year Morningstar Rating™ representing 76% of open-end fund equity assets under management.

Our liquid balance sheet provides access to financial markets and the flexibility to opportunistically add operating resources to our firm, repurchase our stock and consider strategic initiatives. As a result of GBL's shelf registration in the third quarter 2009, we have the ability to issue any combination of senior and subordinate debt securities, convertible debt securities and equity securities (including common and preferred securities) up to a total amount of \$400 million. Our financial strength is underscored by having received an investment grade rating from two ratings agencies, Moody's Investors Services and Standard and Poor's Ratings Services. We believe that maintaining these investment grade ratings will assist in providing greater access to the capital markets, enhance liquidity and lower overall borrowing costs. However, we will also consider the use of leverage as part of our corporate financial strategy even if it results in a lowering of our investment rating.

Gabelli & Company, which conducts our institutional research business, hosted eight institutional symposiums and conferences during 2010. These meetings are an important component of the research services the firm provides its institutional clients. Specifically, 2010 featured our 34th annual Automotive Aftermarket Symposium, 20th annual Pump Valve & Motor Symposium, 16th annual Aircraft Supplier Conference, eighth annual Smallcap Healthcare Conference, fourth annual Water Investment Summit, third annual Specialty Chemicals and Best Ideas Conferences, and our second Movie Industry Conference.

Business Strategy

Our business strategy targets global growth of the franchise through continued leveraging of our proven asset management strengths including our brand name, long-term performance record, diverse product offerings and experienced investment, research and client service professionals. In order to achieve growth in AUM and profitability, we are pursuing a strategy which includes the following key elements:

- Gabelli “Private Market Value (PMV) with a Catalyst™” Investment Approach. While we have expanded our investment product offerings, our “value investing” approach remains the core of our business. This method is based on the value investing principles articulated by Graham & Dodd in 1934 and further augmented by Mario J. Gabelli, CFA, with his development of Private Market Value (PMV) with a Catalyst™ as the value investment methodology. The development of PMV analysis combined with the concept of a catalyst has evolved from the original Graham & Dodd value investing approach to a Gabelli augmented Graham & Dodd.

Private Market Value (PMV) with a Catalyst™ investing is a disciplined, research-driven approach based on intensive security analysis. In this process, we generally select stocks whose intrinsic value, based on our estimate of current asset value and future growth and earnings power, is significantly different from the value as reflected in the public market. We then calculate the firm’s PMV, which is defined as the price an informed industrial buyer would be likely to pay to acquire the business.

Our value team generally looks for situations in which catalyst(s) is (are) working to help to narrow the spread between the public market price and the estimated PMV. Catalysts which are company specific include: realization of hidden assets, recognition of underperforming subsidiaries, share buybacks, spin-offs, mergers and acquisitions, balance sheet changes, new products, accounting changes, new management and cross-shareholder unwinding. Other catalysts are related to industry dynamics or macroeconomics and include but are not limited to: industry consolidation, deregulation, accounting, tax, pension and political reforms, technological change and the macroeconomic backdrop. The time horizons for catalysts to trigger change can either be short-term, medium-term or long-term.

- Establishing Research Centers. To enhance our research in our core research competency, we have two Asian research offices in Shanghai and Hong Kong supplementing our existing offices in London, New York, Chicago, Greenwich, Connecticut, Minneapolis and St. Louis, Missouri. We will continue to evaluate adding additional research offices throughout the world. In addition to research, these centers along with Reno, Nevada and Palm Beach, Florida serve as relationships centers.
- Introducing New Products and Services. We believe we have the capacity for development of new products and services around the Gabelli and GAMCO brands to complement our existing product offerings. New products since our initial public offering include:
 - Eight closed-end funds: The Gabelli Dividend & Income Trust, The GDL Fund, The Gabelli Global Utility and Income Trust, The Gabelli Global Gold, Natural Resources & Income Trust, The Gabelli

Utility Trust, The Gabelli Healthcare and WellnessRX Trust, and The Gabelli Natural Resources, Gold & Income Trust. In January 2011, we added the eighth closed end fund since going public and our tenth closed end fund overall, with the offering of The Gabelli Natural Resources, Gold & Income Trust (GNT).

- Four open-end funds: Gabelli Blue Chip Value Fund, Gabelli Utilities Fund, Gabelli Woodland Small Cap Value Fund, Gabelli SRI Fund, rebranded as Gabelli Green SRI Fund, Inc.
- Four offshore funds: Gabelli Global Partners, Ltd., Gabelli Capital Structure Arbitrage Fund Ltd., Gabelli Associates Limited II E and GAMCO Strategic Value Fund, a Luxembourg SICAV.
- Eight private limited partnerships: Gemini Global Partners, L.P., Gabelli Capital Structure Arbitrage Fund L.P., Gabelli Intermediate Credit, L.P., Gabelli Japanese Value Partners, L.P., Gabelli Associates Fund II, L.P., GAMA Select Energy Plus, L.P., GAMCO Medical Opportunities, L.P. and Gabelli Green Fund, L.P.

- **Incentive Fees and Fulcrum Fees.** We strive to receive an increasing portion of our revenues and earnings through various products with incentive and fulcrum fees. Since we envision that a growing percentage of the firm's revenues will be directly linked to performance-based fees, this may increase the variability of our revenues and profits, largely booked in the fourth quarter. As of December 31, 2010, approximately \$1.8 billion of Institutional and Private Wealth Management assets are managed on a performance fee basis along with \$875 million of preferred issues of closed-end funds, the \$414 million The GDL Fund and \$515 million of investment partnership assets. Unlike most money management firms, we elected not to receive a management fee on a majority of the preferred offerings in our closed-end funds until the fund's overall performance exceeds each preferred's nominal cost of capital. In addition, the incubation of new product strategies using proprietary capital will compensate the investment team with a performance fee model to reinforce our pay-for-performance approach.
- **Expanding Mutual Fund Distribution.** We continue to expand our distribution network primarily through national and regional brokerage firms and have developed additional classes of shares for most of our mutual funds for sale through these firms and other third party distribution channels on a commission basis. We have increased our wholesaling efforts to market the multi-class shares, which have been designed to meet the needs of investors who seek advice through financial consultants.
- **Increasing Presence in Private Wealth Management Market.** Our private wealth management business focuses, in general, on serving clients who have established an account relationship of \$1 million or more with us. According to industry estimates, the number of households with over \$1 million in investable assets will continue to grow in the future, subject to ups and downs in the equity and fixed income markets. With our 33-year history of serving this segment, long-term performance record, customized portfolio approach, dominant, tax-sensitive, investment strategy, brand name recognition and broad array of product offerings, we believe that we are well-positioned to capitalize on the growth opportunities in this market.
- **Increasing Marketing for Institutional and Private Wealth Management.** The Institutional and Private Wealth Management business was principally developed through direct marketing channels. Historically, pension and financial consultants have not been a major source of new institutional and private wealth management business for us. We plan to augment our institutional sales force through the addition of staff to market directly to the consultant community as well as our traditional marketing channels.
- **Attracting and Retaining Experienced Professionals.** We offer significant variable compensation that provides opportunities to our staff. We have increased the scope of our investment management capabilities by adding portfolio managers and other investment personnel in order to expand our broad array of products. The ability to attract and retain highly-experienced investment and other professionals with a long-term commitment to us and our clients has been, and will continue to be, a significant factor in our long-term growth. At December 31, 2010, we had 123,100 restricted stock awards ("RSAs") outstanding to our professional staff recommended by and excluding Mr. Gabelli, who has not received options or RSAs, which originally had three- and five-year vesting, which will align our professional team with our commitment to our long term goals.
- **Sponsorship of Industry Conferences.** Gabelli & Company, our institutional research services firm, sponsors industry conferences and management events throughout the year. At these conferences and events, senior management from leading industry companies share their thoughts on the industry, competition, regulatory issues and the challenges and opportunities in their businesses with portfolio managers and securities analysts.

· Hosting of Institutional Investor Symposiums. We have a tradition of sponsoring institutional investor symposiums that bring together prominent portfolio managers, members of academia and other leading business professionals to present, discuss and debate current issues and topics in the investment industry.

- 1997 “Active vs. Passive Stock Selection”
- 1998 “The Role of Hedge Funds as a Way of Generating Absolute Returns”
- 2001 “Virtues of Value Investing”
- 2003 “Dividends, Taxable versus Non-Taxable Issues”
- 2006 “Closed-End Funds: Premiums vs. Discounts, Dividends and Distributions”

We also hold annual conferences for our investment partnership clients and prospects in New York and London at which our portfolio management team discusses the investment environment, our strategies and portfolios, and event-driven investment opportunities.

· Capitalizing on Acquisitions, Alliances and Lift-outs. We intend to selectively and opportunistically pursue acquisitions, alliances and lift-outs that will broaden our product offerings and add new sources of distribution. On October 1, 1999, we completed our alliance with Mathers and Company, Inc. and now act as investment advisor to the Mathers Fund (renamed GAMCO Mathers Fund), and in May 2000, we added Comstock Partners Funds, Inc., (renamed Comstock Funds, Inc.). The Mathers and Comstock funds are part of our Non-Market Correlated mutual fund product line. In November 2002, we completed our alliance with Woodland Partners LLC, a Minneapolis based investment advisor focused on investing in small capitalization companies. On March 11, 2008, Funds Advisor assumed the role of investment advisor to the AXA Enterprise Mergers and Acquisitions Fund, subsequently renamed Gabelli Enterprise Mergers and Acquisitions Fund, a fund that has been sub-advised by GAMCO since the fund's inception on February 28, 2001. On August 1, 2010, the clients of Florida-based NMF Asset Management, head by Nola Maddox Falcone, became part of the institutional and private wealth operation of GAMCO.

We believe that we have the financial capacity to pursue acquisitions and lift-outs.

We believe that our growth to date is traceable to the following factors:

- Strong Industry Fundamentals: According to data compiled by the U.S. Federal Reserve, the investment management industry has grown faster than more traditional segments of the financial services industry, including the banking and insurance industries. Since GBL began managing assets for institutional and private wealth management clients in 1977, world equity markets have grown at a 11.1% compounded annual growth rate through December 31, 2010 to nearly \$52 trillion(a). The U.S. equity market comprises about \$15.4 trillion(a) or roughly 30% of world markets. We believe that demographic trends and the growing role of money managers in the placement of capital compared to the traditional role played by banks and life insurance companies will result in continued growth of the investment management industry.
- Long-Term Performance: We have a superior long-term record of achieving relatively high returns for our Institutional and Private Wealth Management clients. We believe that our performance record represents a competitive advantage and a recognized component of our franchise.
- Stock Market Gains: Since we began managing for institutional and private wealth management clients in 1977, our traditional value-oriented Institutional and Private Wealth Management composite has earned a compound annual return of 16.3% net of fees versus a compound annual return of 11.1% for the S&P 500 through December 31, 2010.
- Widely-Recognized "Gabelli" and "GAMCO" Brand Names: For much of our history, our portfolio managers and investment products have been featured in a variety of financial print media, including both U.S. and international publications such as The Wall Street Journal, Financial Times, Money Magazine, Barron's, Fortune, Business Week, Nikkei Financial News, Forbes Magazine, Consumer Reports and Investor's Business Daily. We also underwrite publications written by our investment professionals, including Deals...Deals...and More Deals which examines the history of merger arbitrage and Global Convertible Investing: