

GAMCO INVESTORS, INC. ET AL
Form 10-Q
November 08, 2011

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, 2011
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. 1-106

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

New York
(State of other jurisdiction
of incorporation or
organization)

13-4007862
(I.R.S. Employer
Identification No.)

One Corporate Center, Rye,
NY
(Address of principle
executive offices)

10580-1422
(Zip Code)

(914) 921-3700

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yesx Noo

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

Yesx Noo

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding at October 31, 2011
Class A Common Stock, .001 par value	6,666,654
Class B Common Stock, .001 par value	20,106,746

INDEX

GAMCO INVESTORS, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Income:

- Three months ended September 30, 2011 and 2010
- Nine months ended September 30, 2011 and 2010

Condensed Consolidated Statements of Financial Condition:

- September 30, 2011
- December 31, 2010
- September 30, 2010

Condensed Consolidated Statements of Equity and Comprehensive Income:

- Nine months ended September 30, 2011 and 2010

Condensed Consolidated Statements of Cash Flows:

- Nine months ended September 30, 2011 and 2010

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

2

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

(Dollars in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues				
Investment advisory and incentive fees	\$65,244	\$50,249	\$197,407	\$149,862
Institutional research services	3,421	4,005	11,311	11,953
Distribution fees and other income	11,486	8,189	33,419	23,125
Total revenues	80,151	62,443	242,137	184,940
Expenses				
Compensation	32,010	26,661	99,792	78,745
Management fee	1,387	3,540	8,126	7,368
Distribution costs	11,091	7,710	34,108	21,840
Other operating expenses	5,002	5,023	18,193	15,528
Total expenses (a)	49,490	42,934	160,219	123,481
Operating income	30,661	19,509	81,918	61,459
Other income (expense)				
Net gain/(loss) from investments	(16,152)	13,916	(3,743)	11,351
Interest and dividend income	1,823	2,012	5,620	3,916
Interest expense	(4,418)	(3,295)	(10,688)	(9,993)
Total other income (expense), net	(18,747)	12,633	(8,811)	5,274
Income before income taxes	11,914	32,142	73,107	66,733
Income tax provision	4,745	11,686	26,978	24,381
Net income	7,169	20,456	46,129	42,352
Net income/(loss) attributable to noncontrolling interests	(530)	350	140	471
Net income attributable to GAMCO Investors, Inc.'s shareholders	\$7,699	\$20,106	\$45,989	\$41,881
Net income attributable to GAMCO Investors, Inc.'s shareholders				
per share:				
Basic	\$0.29	\$0.75	\$1.72	\$1.55
Diluted	\$0.29	\$0.73	\$1.72	\$1.53
Weighted average shares outstanding:				
Basic	26,496	26,828	26,686	26,996
Diluted	26,576	28,364	26,772	27,818
Dividends declared:	\$0.04	\$0.93	\$0.11	\$0.99

(a) Nine months ended September 30, 2011 includes \$5.6 million in costs directly related to the launch of a new closed-end fund.

See accompanying notes.

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

(Dollars in thousands, except per share data)

	September 30, 2011	December 31, 2010	September 30, 2010
ASSETS			
Cash and cash equivalents, including restricted cash of \$0, \$0 and \$62,308, respectively	\$ 335,656	\$ 169,601	\$ 294,271
Investments in securities	270,323	305,486	228,210
Investments in partnerships	98,286	82,871	79,244
Receivable from brokers	67,064	46,621	62,209
Investment advisory fees receivable	23,451	44,660	17,145
Income tax receivable and deferred tax assets	227	325	-
Other assets	25,883	23,172	21,140
Total assets	\$ 820,890	\$ 672,736	\$ 702,219
LIABILITIES AND EQUITY			
Payable to brokers	\$ 15,590	\$ 1,554	\$ 4,151
Income taxes payable and deferred tax liabilities	21,235	23,225	4,533
Capital lease obligation	5,100	5,182	5,197
Compensation payable	31,559	23,771	23,575
Securities sold, not yet purchased	6,743	19,299	18,446
Mandatorily redeemable noncontrolling interests	1,490	1,444	1,367
Accrued expenses and other liabilities	31,450	23,089	25,436
Sub-total	113,167	97,564	82,705
5.5% Senior notes (due May 15, 2013)	99,000	99,000	99,000
5.875% Senior notes (due June 1, 2021)	100,000	-	-
6.5% Convertible note (due October 2, 2018; repaid October 13, 2010)	-	-	60,000
Zero coupon subordinated debentures, Face value: \$86.4 million (due December 31, 2015)	62,973	59,580	-
Total liabilities	375,140	256,144	241,705
Redeemable noncontrolling interests	38,050	26,984	15,994
Commitments and contingencies (Note J)			
Equity			
GAMCO Investors, Inc. stockholders' equity			
Class A Common Stock, \$0.001 par value; 100,000,000 shares authorized;			
13,600,897, 13,255,503 and 13,202,489 issued, respectively;			
6,666,654,			
6,763,221 and 6,970,410 outstanding, respectively			
	13	13	13
Class B Common Stock, \$0.001 par value; 100,000,000 shares authorized;			

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

24,000,000 shares issued; 20,106,746, 20,290,140 and 20,292,104 shares

outstanding, respectively	20	20	20
Additional paid-in capital	264,028	262,108	255,860
Retained earnings	413,295	370,272	425,383
Accumulated comprehensive income	18,425	25,389	19,306
Treasury stock, at cost (6,934,243, 6,492,282 and 6,232,079 shares, respectively)	(291,781)	(271,773)	(259,442)
Total GAMCO Investors, Inc. stockholders' equity	404,000	386,029	441,140
Noncontrolling interests	3,700	3,579	3,380
Total equity	407,700	389,608	444,520
Total liabilities and equity	\$820,890	\$672,736	\$702,219

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES									
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME									
UNAUDITED									
(In thousands)									
For the Nine Months Ended September 30, 2011									
GAMCO Investors, Inc. shareholders									
	Noncontrolling	Common	Additional	Retained	Accumulated	Treasury		Redeemable	Comprehensive
	Interests	Stock	Paid-in	Earnings	Income	Stock	Total	Interests	Income
			Capital						
Balance at December 31, 2010	\$ 3,579	\$ 33	\$ 262,108	\$ 370,272	\$ 25,389	\$ (271,773)	\$ 389,608	\$ 26,984	\$ -
Redemptions of redeemable noncontrolling interests	-	-	-	-	-	-	-	(2,340)	-
Contributions from redeemable noncontrolling interests	-	-	-	-	-	-	-	17,490	-
Deconsolidation of Partnership	-	-	-	-	-	-	-	(4,103)	-
Net income	121	-	-	45,989	-	-	46,110	19	46,129
Net unrealized losses on securities available for sale, net of income tax benefit (\$4,093)	-	-	-	-	(6,969)	-	(6,969)	-	(6,969)
Foreign currency translation	-	-	-	-	5	-	5	-	5
Dividends declared (\$0.11 per share)	-	-	-	(2,966)	-	-	(2,966)	-	-
Stock based compensation expense	-	-	1,920	-	-	-	1,920	-	-
Purchase of treasury stock	-	-	-	-	-	(20,008)	(20,008)	-	-
Balance at September 30, 2011	\$ 3,700	\$ 33	\$ 264,028	\$ 413,295	\$ 18,425	\$ (291,781)	\$ 407,700	\$ 38,050	\$ 39,165

Comprehensive income attributable	
to noncontrolling interest	(140)
Total comprehensive income attributable to GAMCO Investors, Inc.	\$ 39,025

See
accompanying
notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES									
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME									
UNAUDITED									
(In thousands)									
For the Nine Months Ended September 30, 2010									
GAMCO Investors, Inc. shareholders									
	Noncontrolling	Common	Additional	Retained	Accumulated	Treasury	Total	Redeemable	Comprehensive
	Interests	Stock	Paid-in	Earnings	Income	Stock		Noncontrolling	Income
Balance at December 31, 2009	\$ 4,043	\$ 33	\$ 251,591	\$ 410,473	\$ 19,088	\$ (241,567)	\$ 443,661	\$ 1,464	\$ -
Redemptions of redeemable noncontrolling interests	-	-	-	-	-	-	-	(475)	-
Contributions from redeemable noncontrolling interests	-	-	-	-	-	-	-	14,700	-
Dividends paid to noncontrolling interests	(829)	-	-	-	-	-	(829)	-	-
Net income	166	-	-	41,881	-	-	42,047	305	42,352
Net unrealized gains on securities available for sale, net of income tax (\$129)	-	-	-	-	220	-	220	-	220
Foreign currency translation	-	-	-	-	(2)	-	(2)	-	(2)
Dividends declared (\$0.99 per share)	-	-	-	(26,971)	-	-	(26,971)	-	-
Stock based compensation expense	-	-	4,221	-	-	-	4,221	-	-
Exercise of stock options including tax benefit	-	-	48	-	-	-	48	-	-

Purchase of treasury stock	-	-	-	-	-	(17,875)	(17,875)	-	-
Balance at September 30, 2010	\$ 3,380	\$ 33	\$ 255,860	\$ 425,383	\$ 19,306	\$ (259,442)	\$ 444,520	\$ 15,994	\$ 42,570
Comprehensive income attributable to noncontrolling interest									(471)
Total comprehensive income attributable to GAMCO Investors, Inc.									\$ 42,099
See accompanying notes.									

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

	Nine Months Ended September 30,	
	2011	2010
Operating activities		
Net income	\$46,129	\$42,352
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in net gains from partnerships	(268)	(4,869)
Depreciation and amortization	642	520
Stock based compensation expense	1,920	4,221
Deferred income taxes	(1,358)	724
Tax benefit from exercise of stock options	-	8
Foreign currency translation gain/(loss)	5	(2)
Fair value of donated securities	111	(608)
Gains on sales of available for sale securities	(584)	(13)
Amortization of discount on convertible debt	-	52
Accretion of zero coupon debentures	3,393	-
Loss on extinguishment of debt	-	497
(Increase) decrease in assets:		
Investments in trading securities	5,417	(64,863)
Investments in partnerships:		
Contributions to partnerships	(13,283)	(18,143)
Distributions from partnerships	3,312	6,423
Receivable from brokers	(26,130)	(32,137)
Investment advisory fees receivable	21,339	18,539
Income tax receivable and deferred tax assets	98	-
Other assets	(2,424)	(194)
Increase (decrease) in liabilities:		
Payable to brokers	14,036	3,756
Income taxes payable and deferred tax liabilities	3,726	(4,843)
Compensation payable	7,787	10,273
Mandatorily redeemable noncontrolling interests	47	(255)
Accrued expenses and other liabilities	9,579	(192)
Total adjustments	27,365	(81,106)
Net cash provided by (used in) operating activities	\$73,494	\$(38,754)

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

UNAUDITED (continued)

(In thousands)

	Nine Months Ended	
	September 30,	
	2011	2010
Investing activities		
Purchases of available for sale securities	\$ (4,374)	\$ (12)
Proceeds from sales of available for sale securities	5,685	2,014
Return of capital on available for sale securities	1,262	1,901
Increase in restricted cash	-	(50)
Net cash provided by investing activities	2,573	3,853
Financing activities		
Contributions from redeemable noncontrolling interests	17,490	14,700
Redemptions of redeemable noncontrolling interests	(2,340)	(475)
Issuance of 5.875% Senior notes due June 1, 2021	100,000	-
Issuance costs on the 5.875% Senior notes due June 1, 2021	(934)	-
Repayment of 6% Convertible note due August 14, 2011	-	(40,400)
Proceeds from exercise of stock options	-	40
Dividends paid	(2,966)	(26,565)
Dividends paid to noncontrolling interests	-	(829)
Purchase of treasury stock	(20,008)	(17,875)
Net cash provided by (used in) financing activities	91,242	(71,404)
Effect of exchange rates on cash and cash equivalents	(3)	(2)
Net increase (decrease) in cash and cash equivalents	167,306	(106,307)
Cash and cash equivalents at beginning of period	169,601	338,270
Decrease in cash from deconsolidation of partnership	(1,251)	-
Cash and cash equivalents at end of period	\$ 335,656	\$ 231,963
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3,554	\$ 9,775
Cash paid for taxes	\$ 23,587	\$ 28,004

Non-cash activity:

- On January 1, 2011, GAMCO Investors, Inc. was no longer deemed to have control over a certain partnership which resulted in the deconsolidation of that partnership and decreases of approximately \$1,251 of cash and cash equivalents, \$2,852 of net assets and \$4,103 of noncontrolling interests.

- For the nine months ended September 30, 2011 and September 30, 2010, the Company accrued restricted stock award dividends of \$27 and \$405, respectively.

See accompanying notes.

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

September 30, 2011

(Unaudited)

A. Significant Accounting Policies

Basis of Presentation

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

The unaudited interim condensed consolidated financial statements of GAMCO included herein have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP in the United States for complete financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position, results of operations and cash flows of GAMCO for the interim periods presented and are not necessarily indicative of a full year’s results.

The condensed consolidated financial statements include the accounts of GAMCO and its subsidiaries, including our new broker-dealer, G.distributors, LLC, a wholly-owned subsidiary of GAMCO, which became the distributor for the Gabelli/GAMCO family of funds on August 1, 2011. Intercompany accounts and transactions are eliminated.

These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010 from which the accompanying condensed consolidated financial statements were derived.

Certain items previously reported have been reclassified to conform to the current period’s condensed consolidated financial statements presentation.

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

Recent Accounting Developments

In January 2010, the Financial Accounting Standards Board (“FASB”) issued guidance to improve disclosures about fair value measurements. The guidance affects all entities that are required to make disclosures about recurring and nonrecurring fair value measurements. The guidance requires new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the applicable portions of this guidance on January 1, 2011 without a material impact to the consolidated financial statement disclosures.

In May 2011, the FASB issued guidance on fair value measurement which expands existing disclosure requirements for fair value measurements and makes other amendments. The guidance requires, for level 3 fair value measurements, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation processes in place, and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs. Additionally, the guidance requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed and clarifies that the valuation premise and highest and best use concepts are not relevant to financial instruments. The guidance is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The application of this guidance will result in enhanced footnote disclosure upon adoption on January 1, 2012.

In June 2011, the FASB issued guidance which revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used currently, and the second statement would include components of other comprehensive income (“OCI”). The guidance does not change the items that must be reported in OCI. The guidance is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The application of this guidance is not expected to be material to the condensed consolidated financial statements.

In September 2011, the FASB issued guidance which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying value before applying the quantitative two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit’s fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. The application of this guidance is not expected to be material to the condensed consolidated financial statements.

B. Investment in Securities

Investments in securities at September 30, 2011, December 31, 2010 and September 30, 2010 consisted of the following:

	September 30, 2011		December 31, 2010		September 30, 2010	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
	(In thousands)					
Trading securities:						
Government obligations	\$18,698	\$18,699	\$27,327	\$27,288	\$1,388	\$1,363
Common stocks	166,989	160,861	158,455	170,374	122,720	128,386
Mutual funds	1,096	1,202	1,205	1,554	1,194	1,365
Convertible bonds	-	-	574	620	762	938
Preferred stocks	-	-	1,783	1,973	1,783	1,834
Other investments	442	396	1,559	1,350	785	582
Total trading securities	187,225	181,158	190,903	203,159	128,632	134,468
Available for sale securities:						
Common stocks	16,724	31,903	16,835	37,139	16,918	31,594
Mutual funds	41,718	57,262	43,707	65,188	44,717	62,148
Total available for sale securities	58,442	89,165	60,542	102,327	61,635	93,742
Total investments in securities	\$245,667	\$270,323	\$251,445	\$305,486	\$190,267	\$228,210

Securities sold, not yet purchased at September 30, 2011, December 31, 2010 and September 30, 2010 consisted of the following:

	September 30, 2011		December 31, 2010		September 30, 2010	
	Proceeds	Fair Value	Proceeds	Fair Value	Proceeds	Fair Value

Trading securities:	(In thousands)					
Common stocks	\$7,979	\$6,743	\$19,071	\$19,299	\$18,026	\$18,387
Other	-	-	-	-	56	59
Total securities sold, not yet purchased	\$7,979	\$6,743	\$19,071	\$19,299	\$18,082	\$18,446

Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Investments in United States Treasury Bills and Notes with maturities of greater than three months at the time of purchase are classified as investments in securities, and those with maturities of three months or less at time of purchase are classified as cash equivalents. A substantial portion of investments in securities are held for resale in anticipation of short-term market movements and therefore are classified as trading securities. Trading securities are stated at fair value, with any unrealized gains or losses, reported in current period earnings. Available for sale ("AFS") investments are stated at fair value, with any unrealized gains or losses, net of taxes, reported as a component of equity except for losses deemed to be other than temporary which are recorded as unrealized losses in the condensed consolidated statements of income. There was no impairment of AFS securities for the three or nine month periods ended September 30, 2011 and September 30, 2010.

The Company recognizes all derivatives as either assets or liabilities measured at fair value and includes them in either investments in securities or securities sold, not yet purchased on the condensed consolidated statements of financial condition. From time to time, the Company and/or the partnerships and offshore funds that the Company consolidates will enter into hedging transactions to manage their exposure to foreign currencies and equity prices related to their proprietary investments. For the three and nine months ended September 30, 2011, the Company had no derivative transactions. For the three months ended September 30, 2010, the Company had derivative transactions in equity derivatives which resulted in net losses of \$36,000. For the nine months ended September 30, 2010, the Company had derivative transactions in equity derivatives which resulted in net losses of \$154,000. At December 31, 2010 and September 30, 2010, we held derivative contracts on 403,000 equity shares and 265,000 equity shares, respectively, and the fair value was \$1.0 million and \$285,000, respectively; these are included in investments in securities in the condensed consolidated statements of financial condition. At September 30, 2011, the Company did not hold any derivatives. These transactions are not designated as hedges for accounting purposes, and therefore changes in fair values of these derivatives are included in net gain/(loss) from investments in the condensed consolidated statements of income.

At September 30, 2011, December 31, 2010 and September 30, 2010, the fair value of common stock investments available for sale was \$31.9 million, \$37.1 million and \$31.6 million, respectively. The total unrealized gains for common stock investments available for sale securities with unrealized gains was \$15.2 million, \$20.3 million and \$14.7 million at September 30, 2011, December 31, 2010 and September 30, 2010, respectively. There were no unrealized losses for common stock investments available for sale at September 30, 2011, December 31, 2010 or September 30, 2010. At September 30, 2011, December 31, 2010 and September 30, 2010, the fair value of mutual fund investments available for sale with unrealized gains was \$57.2 million, \$65.2 million and \$62.1 million, respectively. The total unrealized gains for mutual fund investments available for sale securities with unrealized gains at September 30, 2011, December 31, 2010 and September 30, 2010 was \$15.6 million, \$21.5 million and \$17.4 million, respectively. At September 30, 2011, the fair value of mutual fund investments available for sale with unrealized losses was \$0.1 million. The total unrealized losses for mutual fund investments available for sale with unrealized losses was less than \$0.1 million at September 30, 2011. At December 31, 2010 and September 30, 2010, there were no unrealized losses for mutual fund investments available for sale.

Unrealized changes to fair value, net of taxes, for the three months ended September 30, 2011 and September 30, 2010 of \$7.9 million in losses and \$3.3 million in gains, respectively, have been included in other comprehensive income, a component of equity, at September 30, 2011 and September 30, 2010. Return of capital on available for sale securities for the three months ended September 30, 2011 and September 30, 2010 was \$0.5 million and \$0.6 million, respectively. There were no sales of investments available for sale for the three months ended September 30, 2011 or September 30, 2010. Unrealized changes to fair value, net of taxes, for the nine months ended September 30, 2011 and September 30, 2010 of \$7.0 million in losses and \$0.2 million in gains, respectively, have been included in other comprehensive income, a component of equity, at September 30, 2011 and September 30, 2010. Return of capital on available for sale securities for the nine months ended September 30, 2011 and September 30, 2010 was \$1.3 million and \$1.9 million, respectively. Proceeds from sales of investments available for sale were approximately \$5.7 million and \$2.0 million for the nine month periods ended September 30, 2011 and September 30, 2010, respectively. For the nine months ended September 30, 2011 and September 30, 2010, gross realized gains on the sale of investments available for sale amounted to \$0.6 million and \$13,000, respectively; there were no gross realized losses on the sale of investments available for sale.

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

September 30, 2011

December 31, 2010

September 30, 2010

	Unrealized			Unrealized			Unrealized		
	Cost	Losses	Fair Value	Cost	Losses	Fair Value	Cost	Losses	Fair Value
(in thousands)									
Mutual Funds	\$100	\$ (21)	\$79	\$-	\$ -	\$-	\$-	\$ -	\$-

At September 30, 2011, there was one holding in a loss position which was not deemed to be other-than-temporarily impaired because it passed scrutiny in our evaluation of the length of time that it had been in a loss position and our evaluation of issuer-specific and industry-specific considerations. In this specific instance, the investment at September 30, 2011 was a mutual fund with diversified holdings across multiple companies and across multiple industries. The one holding was impaired for four consecutive months and its fair value at September 30, 2011 was \$0.1 million.

C. Investments in Partnerships

The Company is general partner or co-general partner of various sponsored limited partnerships and the investment manager of various sponsored offshore funds whose underlying assets consist primarily of marketable securities (the “affiliated entities”). We also have investments in unaffiliated partnerships, offshore funds and other entities. Certain of the affiliated entities are consolidated, generally because a majority of the equity is owned by the Company. Other investment partnerships for which we serve as the general partner but have only a minority ownership interest are not consolidated because the limited partners have substantive rights to replace the Company as general partner. Our balance sheet caption “investments in partnerships” includes those investments, in both affiliated and unaffiliated entities, which the Company accounts for under the equity method of accounting and certain investments in consolidated feeder funds that the Company accounts for at fair value, as described below. The Company reflects the equity in earnings of these equity method investees and the change in fair value of the consolidated feeder funds under the caption net gain/(loss) from investments on the condensed consolidated statements of income.

We also have sponsored a number of investment vehicles where we are the investment manager in which we do not have an equity investment. These vehicles are considered variable interest entities (“VIEs”), and we are not the primary beneficiary because we do not absorb a majority of the entities’ expected losses or expected returns. The Company has not provided any financial or other support to these entities. The total assets of these entities at September 30, 2011, December 31, 2010 and September 30, 2010 were \$29.5 million, \$13.3 million and \$11.8 million, respectively. Our maximum exposure to loss as a result of our involvement with the VIEs is limited to the deferred carried interest that we have in one of the VIEs. On September 30, 2011, December 31, 2010 and September 30, 2010, we had a deferred carried interest in one of the VIE offshore funds of approximately \$47,000, \$325,000 and \$307,000, respectively, and it was included in investments in partnerships on the condensed consolidated statements of financial condition. Additionally, as the general partner or investment manager to these VIEs, the Company earns fees for performing these roles. These revenues and associated receivables are dependent upon the AUM levels in the VIEs, would vary depending on these AUMs and would be reflected in the condensed consolidated statements of income, condensed consolidated statements of financial condition and condensed consolidated statements of cash flows.

In the case of two VIEs, we have determined that we are the primary beneficiary of each because we absorb a majority of each entity’s expected losses; therefore they are consolidated in the financial statements. The Company has not provided any financial support to these VIEs but does earn fees as the investment manager. The assets of these VIEs may only be used to satisfy obligations of the VIEs. The following table presents the balances related to these VIEs that were included on the condensed consolidated statements of financial condition as well as GAMCO’s net interest in these VIEs:

	September 30, 2011
(In thousands)	
Cash and cash equivalents	\$ 251
Investments in securities	44,227
Investments in partnerships	1,489
Receivable from brokers	50,060
Other assets	70

Securities sold, not yet purchased	(3,786)
Accrued expenses and other liabilities	(525)
Redeemable noncontrolling interests	(37,289)
GAMCO's net interests in consolidated VIEs	\$ 54,497

On January 1, 2011, upon analysis of several factors, including the additional contribution of capital from unrelated third parties into a partnership that we consolidated for the year ended and as of December 31, 2010, we determined that the Company was no longer deemed to control the partnership, resulting in the deconsolidation of this partnership, effective January 1, 2011. The deconsolidation did not result in the recognition of any gain or loss. The Company continues to serve as the general partner and earns fees for this role, and it also maintains an investment in the deconsolidated partnership which is included in investments in partnerships on the condensed consolidated statements of financial condition and is accounted for under the equity method (which approximates fair value).

At September 30, 2011, December 31, 2010 and September 30, 2010, and for the three and nine months ended September 30, 2011 and September 30, 2010, the Company consolidated two limited partnerships and one offshore fund (the "consolidated feeder funds") that owned 100% of their offshore master funds. The Company retained the specialized investment company accounting of the consolidated feeder funds in the Company's consolidated financial statements. Included in the investment in partnerships on the Company's consolidated statement of financial condition as of September 30, 2011, December 31, 2010 and September 30, 2010, are \$27.1 million \$27.7 million, and \$26.8 million, respectively, which represent the consolidated feeder fund's proportionate investment in the master funds carried at fair value at those dates.

D. Fair Value

All of the instruments within cash and cash equivalents, investments in securities and securities sold, not yet purchased are measured at fair value. Certain investments in partnerships are also measured at fair value.

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the FASB's guidance on fair value measurement. The levels of the fair value hierarchy and their applicability to the Company are described below:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date. Level 1 assets include cash equivalents, government obligations, open-end mutual funds, closed-end funds and equities.
- Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities that are not active and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly-quoted intervals. Assets that generally are included in this category may include certain limited partnership interests in private funds in which the valuations for substantially all of the investments within the fund are based upon Level 1 or Level 2 inputs and over the counter derivatives that have inputs to the valuations that can generally be corroborated by observable market data.
- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Assets included in this category generally include equities that trade infrequently and direct private equity investments held within consolidated partnerships.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Investments are transferred into or out of any level at their beginning period values.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized as Level 3.

In the absence of a closing price, an average of the bid and ask price is used. Bid prices reflect the highest price that the market is willing to pay for an asset. Ask prices represent the lowest price that the market is willing to accept for an asset.

Cash equivalents – Cash equivalents primarily consist of an affiliated money market mutual fund which is invested solely in U.S. Treasuries. U.S. Treasury Bills and Notes with maturities of three months or less at the time of purchase are also considered cash equivalents. Cash equivalents are valued using quoted market prices.

Investments in securities and securities sold, not yet purchased – Investments in securities and securities sold, not yet purchased are generally valued based on quoted prices from an exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in Level 1 of the fair value hierarchy. Securities categorized in Level 2 investments are valued using other observable inputs. Nonpublic and infrequently traded investments are included in Level 3 of the fair value hierarchy because significant inputs to measure fair value are unobservable.

Investments in Partnerships – The Company’s investments include limited partner investments in consolidated feeder funds. The Company considers the net asset value of the consolidated feeder fund to be the best estimate of fair value. Investments in private funds that are redeemable at the measurement date or within the near term, are categorized in Level 2 of the fair value hierarchy. These funds primarily invest in long and short investments in debt and equity securities that are traded in public and over-the-counter exchanges in the United States and are classified as Level 1 assets or liabilities in the funds’ financial statements. We may redeem our investments in these funds monthly with 30 days’ notice.

The following table presents information about the Company's assets and liabilities by major categories measured at fair value on a recurring basis as of September 30, 2011, December 31, 2010 and September 30, 2010 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, 2011 (in thousands)

Assets	Quoted Prices in	Significant Other	Significant	Balance as of
	Active			
	Markets for			
	Identical	Observable	Unobservable	September 30,
Assets	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	2011
Cash equivalents	\$ 335,098	\$ -	\$ -	\$ 335,098
Investments in partnerships	-	27,071	-	27,071
Investments in securities:				
AFS - Common stocks	31,903	-	-	31,903
AFS - Mutual funds	57,262	-	-	57,262
Trading - Government obligations	18,699	-	-	18,699
Trading - Common stocks	160,259	8	594	160,861
Trading - Mutual funds	1,202	-	-	1,202
Trading - Other	38	-	358	396
Total investments in securities	269,363	8	952	270,323
Total investments	269,363	27,079	952	297,394
Total assets at fair value	\$ 604,461	\$ 27,079	\$ 952	\$ 632,492
Liabilities				
Trading - Common stocks	\$ 6,743	\$ -	\$ -	\$ 6,743
Securities sold, not yet purchased	\$ 6,743	\$ -	\$ -	\$ 6,743

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2010 (in thousands)

Assets	Quoted Prices in	Significant Other	Significant	Balance as of
	Active			
	Markets for			
	Identical	Observable	Unobservable	December 31,
Assets	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	2010
Cash equivalents	\$ 167,548	\$ -	\$ -	\$ 167,548
Investments in partnerships	-	27,690	-	27,690
Investments in securities:				
AFS - Common stocks	37,139	-	-	37,139
AFS - Mutual funds	65,188	-	-	65,188
Trading - Government obligations	27,288	-	-	27,288
Trading - Common stocks	170,204	23	147	170,374
Trading - Mutual funds	1,554	-	-	1,554
Trading - Convertible bonds	620	-	-	620
Trading - Preferred stocks	1,973	-	-	1,973
Trading - Other	72	1,000	278	1,350

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

Total investments in securities	304,038	1,023	425	305,486
Total investments	304,038	28,713	425	333,176
Total assets at fair value	\$ 471,586	\$ 28,713	\$ 425	\$ 500,724
Liabilities				
Trading - Common stocks	\$ 19,299	\$ -	\$ -	\$ 19,299
Securities sold, not yet purchased	\$ 19,299	\$ -	\$ -	\$ 19,299

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2010 (in thousands)

Assets	Quoted Prices in Active Markets for			Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2010
	Identical Assets (Level 1)	Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 2)		
Cash equivalents	\$ 293,661	\$ -	\$ -	\$ -	\$ 293,661
Investments in partnerships	-	26,795	-	-	26,795
Investments in securities:					
AFS - Common stocks	31,594	-	-	-	31,594
AFS - Mutual funds	62,148	-	-	-	62,148
Trading - Government obligations	1,363	-	-	-	1,363
Trading - Common stocks	128,113	90	183	183	128,386
Trading - Mutual funds	1,365	-	-	-	1,365
Trading - Convertible bonds	938	-	-	-	938
Trading - Preferred stocks	1,821	-	13	13	1,834
Trading - Other	204	285	93	93	582
Total investments in securities	227,546	375	289	289	228,210
Total investments	227,546	27,170	289	289	255,005
Total assets at fair value	\$ 521,207	\$ 27,170	\$ 289	\$ 289	\$ 548,666
Liabilities					
Trading - Common stocks	\$ 18,387	\$ -	\$ -	\$ -	\$ 18,387
Trading - Other	59	-	-	-	59
Securities sold, not yet purchased	\$ 18,446	\$ -	\$ -	\$ -	\$ 18,446

The following tables present additional information about assets and liabilities by major categories measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2011 (in thousands)

Asset	June 30, 2011	Total Realized and Unrealized Gains or (Losses) in Income	Total Unrealized Gains or (Losses)		Transfers In and/or (Out) of Level 3	Ending Balance
			in Other Comprehensive Income	and Unrealized Gains or (Losses)		
Financial instruments owned:						

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

Trading - Common stocks	\$ 584	\$ 10	\$ -	\$ -	\$ 10	\$ -	\$ -	\$ -	\$ 594
Trading - Other	369	12	-	-	12	3	(26)	-	358
Total	\$ 953	\$ 22	\$ -	\$ -	\$ 22	\$ 3	\$ (26)	\$ -	\$ 952

There were no transfers between any Levels during the three months ended September 30, 2011.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2011 (in thousands)

Asset	December 31, 2010		Total Unrealized Gains or (Losses) in Other Comprehensive Income		Total Realized and Included in	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
	Beginning Balance	Trading	AFS Investments	Comprehensive Income					
Financial instruments owned:									
Trading - Common stocks	\$ 147	\$ 47	\$ -	\$ -	\$ 47	\$ 414	\$ (14)	\$ -	\$ 594
Trading - Other	278	135	-	-	135	13	(74)	6	358
Total	\$ 425	\$ 182	\$ -	\$ -	\$ 182	\$ 427	\$ (88)	\$ 6	\$ 952

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2011. During the nine months ended September 30, 2011, the Company reclassified approximately \$6,000 of investments from Level 1 to Level 3. The reclassifications were due to decreased availability of market price quotations and were based on the values at the beginning of the period in which the reclassifications occurred.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2010 (in thousands)

Asset	June 30, 2010		Total Unrealized Gains or (Losses) in Other Comprehensive Income		Total Realized and Included in	Purchases and Sales, net	Net Transfers In and/or (Out) of Level 3	Ending Balance
	Beginning Balance	Trading	AFS Investments	Comprehensive Income				
Financial instruments owned:								
Trading - Common stocks	\$ 272	\$ 18	\$ -	\$ -	\$ 18	\$ (107)	\$ -	\$ 183

Trading - Preferred								
stocks	11	2	-	-	2	-	-	13
Trading - Other	93	-	-	-	-	-	-	93
Total	\$ 376	\$ 20	\$ -	\$ -	\$ 20	\$ (107)	\$ -	\$ 289

There were no transfers between any Levels during the three months ended September 30, 2010.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2010 (in thousands)

Asset	Total Unrealized Gains or (Losses) Included in Other Comprehensive Income							Ending Balance
	December 31, 2009	Total Realized and Unrealized Gains or (Losses) in Income	AFS Investments	Comprehensive Income	Total Realized and Unrealized Gains or (Losses)	Purchases and Sales, net	Net Transfers In and/or (Out) of Level 3	
Beginning Balance	Trading	AFS Investments	Comprehensive Income	Total Realized and Unrealized Gains or (Losses)	Purchases and Sales, net	Net Transfers In and/or (Out) of Level 3	Ending Balance	
Financial instruments owned:								
Trading - Common stocks	\$ 205	\$ 47	\$ -	\$ -	\$ 47	\$ (139)	\$ 70	\$ 183
Trading - Preferred stocks	15	(2)	-	-	(2)	-	-	13
Trading - Other	90	3	-	-	3	-	-	93
Total	\$ 310	\$ 48	\$ -	\$ -	\$ 48	\$ (139)	\$ 70	\$ 289

There were no transfers between Level 1 and Level 2 holdings during the nine months ended September 30, 2010. During the nine months ended September 30, 2010, the Company reclassified approximately \$23,000 of investments from Level 1 to Level 3 and \$47,000 from Level 2 to Level 3. The reclassifications were due to decreased availability of market price quotations and were based on the values at the beginning of the period in which the reclassification occurred.

Unrealized Level 3 gains and/or losses included within net gain/(loss) from investments in the condensed consolidated statements of income for the three months ended September 30, 2011 and September 30, 2010 were approximately \$22,000 of gains and \$20,000 of gains, respectively, and for the nine months ended September 30, 2011 and September 30, 2010 were approximately \$182,000 of gains and \$48,000 of gains, respectively, for those Level 3 securities held at September 30, 2011 and September 30, 2010, respectively.

E. Debt

	September 30, 2011	December 31, 2010	September 30, 2010
(In thousands)			
5.5% Senior notes	\$ 99,000	\$ 99,000	\$ 99,000
	100,000	-	-

5.875%			
Senior notes			
6.5%			
Convertible			
note	-	-	60,000
0%			
Subordinated			
debentures	62,973	59,580	-
Total	\$ 261,973	\$ 158,580	\$ 159,000

On May 31, 2011, the Company issued \$100 million of senior unsecured notes at par maturing on June 1, 2021 and paying interest at the annual rate of 5.875% (the “2021 Notes”). The net proceeds of \$99.1 million from the issuance of the 2021 Notes are being used for working capital and general corporate purposes, which may include acquisitions. The issuance costs have been capitalized and are being amortized over the term of the debt. The interest on the 2021 Notes is payable semi-annually on June 1 and December 1 of each year commencing on December 1, 2011. Upon the occurrence of a change of control triggering event, as defined in the indenture, the Company would be required to offer to repurchase the notes at 101% of their principal amount. The 2021 Notes were issued pursuant to the Company’s existing \$400 million shelf registration statement filed with the SEC under which the remaining \$300 million is available through July 27, 2012.

The fair value of the Company’s debt is estimated based on either quoted market prices for the same or similar issues or using market standard models depending on the characteristics of the debt issuance. Inputs in these standard models include credit rating, maturity and interest rate. A standard option pricing model was used to calculate the fair value of the conversion option embedded in the convertible debt at September 30, 2010, with significant inputs including volatility of GBL stock, interest rates, dividend yield and maturity. At September 30, 2011, December 31, 2010 and September 30, 2010, the fair value of the Company’s debt is estimated to be \$255.1 million, \$163.0 million and \$166.6 million, respectively. The carrying value of the Company debt at September 30, 2011, December 31, 2010 and September 30, 2010 is \$262.0 million, \$158.6 million and \$159.0 million, respectively. At the time of issuance on December 31, 2010, the effective interest rate for the zero coupon subordinated debentures due December 31, 2015 was 7.45%. The discount on the debt is being accreted to interest expense over the term of the debenture using the effective interest rate.

F. Income Taxes

The effective tax rate for the three and nine months ended September 30, 2011 was 39.8% and 36.9%, respectively, compared to 36.4% and 36.5% for the prior year three and nine month periods, respectively. The third quarter 2011 rate increase results from the change in the mix of operating income and investment losses which raises our effective state tax rate in addition to losses from consolidated partnerships for which no tax benefits are recorded at the corporate level. The tax liability or benefit from these partnerships flow directly to its partners and to the extent they relate to interests not held by GAMCO are included in net income attributable to noncontrolling interests.

G. Earnings Per Share

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
(in thousands, except per share amounts)				
Basic:				
Net income attributable to GAMCO				
Investors, Inc.'s shareholders	\$ 7,699	\$ 20,106	\$ 45,989	\$ 41,881
Weighted average shares outstanding	26,496	26,828	26,686	26,996
Basic net income attributable to GAMCO				
Investors, Inc.'s				
shareholders per share	\$ 0.29	\$ 0.75	\$ 1.72	\$ 1.55
Diluted:				
Net income attributable to GAMCO				
Investors, Inc.'s shareholders	\$ 7,699	\$ 20,106	\$ 45,989	\$ 41,881
Add interest expense on convertible notes, net of management				
fee and taxes	-	721	-	791
Total	7,699	20,827	45,989	42,672
Weighted average share outstanding				
	26,496	26,828	26,686	26,996
Dilutive stock options and restricted stock				
awards	80	262	86	238
Assumed conversion of convertible notes	-	1,274	-	584
Total	26,576	28,364	26,772	27,818
Diluted net income attributable to GAMCO				
Investors, Inc.'s				
shareholders per share	\$ 0.29	\$ 0.73		