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

SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012
or

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

For the transition period from ___ to ___

Commission File No. 001-14761

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

New York (State of other jurisdiction of incorporation or organization)	13-4007862 (I.R.S. Employer Identification No.)
One Corporate Center, Rye, NY (Address of principle executive offices)	10580-1422 (Zip Code)

(914) 921-3700
Registrant’s telephone number, including area code

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

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

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, 2012
Class A Common Stock, .001 par value	6,684,215
Class B Common Stock, .001 par value	19,919,818

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GAMCO INVESTORS, INC. AND SUBSIDIARIES

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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 September 30,		Nine Months Ended September 30,		
	2012	2011	2012	2011	
Revenues					
Investment advisory and incentive fees	$ 67,790	$ 65,244	$ 202,783	$ 197,407	
Distribution fees and other income	11,139	11,486	33,768	33,419	
Institutional research services	3,302	3,421	8,453	11,311	
Total revenues	82,231	80,151	245,004	242,137	
Expenses					
Compensation	32,948	32,010	100,423	99,792	
Management fee	3,056	1,387	9,855	8,126	
Distribution costs	10,386	11,091	30,575	34,108	
Other operating expenses	6,829	5,002	17,760	18,193	
Total expenses	53,219	49,490	158,613	160,219	(a)
Operating income	29,012	30,661	86,391	81,918	
Other income (expense)					
Net gain/(loss) from investments	7,525	(16,152)	17,234	(3,743)	
Extinguishment of debt (b)	(6,305)	-	(6,307)	-	
Interest and dividend income	920	1,823	3,938	5,620	
Interest expense	(3,586)	(4,418)	(12,419)	(10,688)	
Total other income (expense), net	(1,446)	(18,747)	2,446	(8,811)	
Income before income taxes	27,566	11,914	88,837	73,107	
Income tax provision	8,467	4,745	30,909	26,978	
Net income	19,099	7,169	57,928	46,129	
Net income/(loss) attributable to noncontrolling interests	95	(530)	(17)	140	
Net income attributable to GAMCO Investors, Inc.'s shareholders	$ 19,004	$ 7,699	$ 57,945	$ 45,989	
Net income attributable to GAMCO Investors, Inc.'s shareholders per share:					
Basic	$ 0.72	$ 0.29	$ 2.20	$ 1.72	
Diluted	$ 0.72	$ 0.29	$ 2.19	$ 1.72	

Weighted average shares outstanding:										
Basic		26,250			26,496		26,309		26,686	
Diluted		26,439			26,576		26,480		26,772	
Dividends declared:	$	0.30	(c)	$	0.04	$	0.63	$	0.11	

(a) Includes $5.6 million in costs directly related to the launch of a new closed-end fund.
(b) Relates to repurchase of $64.6 million (face value) of Subordinated Debentures.
(c) Includes regular quarterly dividend of $0.05 per share and special dividend of $0.25 per share.

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
UNAUDITED
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$19,099	$7,169	$57,928	$46,129
Other comprehensive income/(loss), net of tax:				
Foreign currency translation	(34)	(18)	(29)	5
Net unrealized gains/(losses) on securities available for sale	2,938	(7,906)	3,816	(6,969)
Other comprehensive income/(loss)	2,904	(7,924)	3,787	(6,964)
Comprehensive income/(loss)	22,003	(755)	61,715	39,165
Less: Comprehensive income/(loss) attributable to noncontrolling interests	(95)	530	17	(140)
Comprehensive income/(loss) attributable to GAMCO Investors, Inc.	$21,908	$(225)	$61,732	$39,025

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
UNAUDITED
(Dollars in thousands, except per share data)

	September 30, 2012	December 31, 2011	September 30, 2011
ASSETS			
Cash and cash equivalents	$288,685	$276,340	$335,656
Investments in securities	235,445	238,333	214,759
Investments in sponsored registered investment companies	64,223	59,214	55,564
Investments in partnerships	102,604	100,893	98,286
Receivable from brokers	55,159	20,913	67,064
Investment advisory fees receivable	29,187	32,156	23,451
Income tax receivable	1,018	39	227
Other assets	22,250	28,861	25,883
Total assets	$798,571	$756,749	$820,890
LIABILITIES AND EQUITY			
Payable to brokers	$28,039	$10,770	$15,590
Income taxes payable and deferred tax liabilities	16,445	15,296	21,235
Capital lease obligation	4,982	5,072	5,100
Compensation payable	33,998	17,695	31,559
Securities sold, not yet purchased	3,856	5,488	6,743
Mandatorily redeemable noncontrolling interests	1,356	1,386	1,490
Accrued expenses and other liabilities	30,175	24,441	31,450
Sub-total	118,851	80,148	113,167
5.5% Senior notes (due May 15, 2013)	99,000	99,000	99,000
5.875% Senior notes (due June 1, 2021)	100,000	100,000	100,000
Zero coupon subordinated debentures, Face value: $21.8 million at September 30, 2012,			
$86.3 million at December 31, 2011 and $86.4 million at September 30, 2011			
(due December 31, 2015)	17,118	64,119	62,973
Total liabilities	334,969	343,267	375,140
Redeemable noncontrolling interests	20,228	6,071	38,050
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, $0.001 par value; 100,000,000 shares authorized;			
13,904,190, 13,627,397 and 13,600,897 issued, respectively; 6,685,414,			

6,684,149 and 6,666,654 outstanding, respectively	13	13	13
Class B Common Stock, $0.001 par value; 100,000,000 shares authorized;			
24,000,000 shares issued; 19,920,730, 20,070,746 and 20,106,746 shares			
outstanding, respectively	20	20	20
Additional paid-in capital	267,914	264,409	264,028
Retained earnings	450,326	409,191	413,295
Accumulated other comprehensive income	26,307	22,520	18,425
Treasury stock, at cost (7,218,776, 6,943,248 and 6,934,243 shares, respectively)	(304,567)	(292,181)	(291,781)
Total GAMCO Investors, Inc. stockholders' equity	440,013	403,972	404,000
Noncontrolling interests	3,361	3,439	3,700
Total equity	443,374	407,411	407,700
Total liabilities and equity	$798,571	$756,749	$820,890

See accompanying notes.

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

For the nine months ended September 30, 2012

		GAMCO Investors, Inc. stockholders						
	Noncontrolling Interests	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total	Redeemable Noncontrolling Interests
Balance at December 31, 2011	$ 3,439	$33	$ 264,409	$409,191	$ 22,520	$(292,181)	$407,411	$ 6,071
Redemptions of redeemable noncontrolling interests	-	-	-	-	-	-	-	(8,566)
Contributions from redeemable noncontrolling interests	-	-	-	-	-	-	-	22,662
Net income (loss)	(78)	-	-	57,945	-	-	57,867	61
Net unrealized gains on securities available for sale, net of income tax ($2,241)	-	-	-	-	3,816	-	3,816	-
Foreign currency translation	-	-	-	-	(29)	-	(29)	-
Dividends declared ($0.63 per share)	-	-	-	(16,810)	-	-	(16,810)	-
Stock based compensation expense	-	-	2,615	-	-	-	2,615	-
Exercise of stock options including tax benefit	-	-	890	-	-	-	890	-
Purchase of treasury stock	-	-	-	-	-	(12,386)	(12,386)	-
Balance at September 30, 2012	$ 3,361	$33	$ 267,914	$450,326	$ 26,307	$(304,567)	$443,374	$ 20,228

See accompanying notes.

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

For the nine months ended September 30, 2011

		GAMCO Investors, Inc. stockholders						
	Noncontrolling Interests	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total	Redeemable Noncontrolling Interests
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
Net unrealized gains on securities available for sale, net of income tax benefit ($4,093)	-	-	-	-	(6,969)	-	(6,969)	-
Foreign currency translation	-	-	-	-	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

See accompanying notes.

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

	Nine Months Ended September 30,	
	2012	2011
Operating activities		
Net income	$57,928	$46,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net gains from partnerships	(4,445)	(268)
Depreciation and amortization	580	642
Stock based compensation expense	2,615	1,920
Deferred income taxes	1,708	(1,358)
Tax benefit from exercise of stock options	108	-
Foreign currency translation	(29)	5
Other-than-temporary loss on available for sale securities	20	-
Fair value of donated securities	393	111
Gains on sales of available for sale securities	(1,503)	(584)
Accretion of zero coupon debentures	2,908	3,393
Extinguishment of debt	6,307	-
(Increase) decrease in assets:		
Investments in trading securities	(60)	5,417
Investments in partnerships:		
Contributions to partnerships	(26,893)	(13,283)
Distributions from partnerships	29,627	3,312
Receivable from brokers	(34,246)	(26,130)
Investment advisory fees receivable	2,970	21,339
Income tax receivable and deferred tax assets	(979)	98
Other assets	6,045	(2,424)
Increase (decrease) in liabilities:		
Payable to brokers	17,268	14,036
Income taxes payable and deferred tax liabilities	(2,802)	3,726
Compensation payable	16,301	7,787
Mandatorily redeemable noncontrolling interests	(30)	47
Accrued expenses and other liabilities	5,394	9,579
Total adjustments	21,257	27,365
Net cash provided by operating activities	$79,185	$73,494

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

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Investing activities		
Purchases of available for sale securities	$(1,264)	$(4,374)
Proceeds from sales of available for sale securities	3,068	5,685
Return of capital on available for sale securities	1,650	1,262
Net cash provided by investing activities	3,454	2,573
Financing activities		
Contributions from redeemable noncontrolling interests	22,662	17,490
Redemptions of redeemable noncontrolling interests	(8,566)	(2,340)
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)
Proceeds from exercise of stock options	781	-
Repurchase of zero coupon subordinated debentures	(56,215)	-
Dividends paid	(16,558)	(2,966)
Purchase of treasury stock	(12,386)	(20,008)
Net cash (used in) provided by financing activities	(70,282)	91,242
Effect of exchange rates on cash and cash equivalents	(12)	(3)
Net increase in cash and cash equivalents	12,345	167,306
Cash and cash equivalents at beginning of period	276,340	169,601
Decrease in cash from deconsolidation of partnership	-	(1,251)
Cash and cash equivalents at end of period	$288,685	$335,656
Supplemental disclosures of cash flow information:		
Cash paid for interest	$4,684	$3,554
Cash paid for taxes	$31,639	$23,587

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, 2012 and September 30, 2011, the Company accrued restricted stock award dividends of $203 and $27, respectively.

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

A. Significant Accounting Policies

Basis of Presentation

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

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

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

These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 from which the accompanying condensed consolidated financial statements were derived.

Beginning with the period ended March 31, 2012 the Company has now separately disclosed the amount of investments in sponsored registered investment companies as a new line item in the condensed consolidated statements of financial condition. These amounts were previously included within investments in securities in the condensed consolidated statements of financial condition.

Use of Estimates

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

Recent Accounting Developments

In May 2011, the Financial Accounting Standards Board (“FASB”) issued guidance on fair value measurement which expands existing disclosure requirements for fair value measurements and makes other amendments. The guidance requires, for level 3 fair value measurements, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation processes in place, and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs. Additionally, the guidance requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value in the statement of financial condition but whose fair value must be disclosed and clarifies that the valuation premise and highest and best use concepts are not relevant to financial assets or liabilities. The guidance is effective for interim and annual periods beginning after December 15, 2011. The Level 3 investments held by the Company are not material, and therefore the adoption of this standard did not have a material impact on the Company.

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 historically, and the second statement would include components of other comprehensive income ("OCI"). The guidance does not change the items that must be reported in OCI. In December 2011, the FASB indefinitely deferred a portion of the guidance that would have required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which the net income is presented and the statement in which other comprehensive income is presented. The guidance is effective for fiscal years beginning after December 15, 2011, and for interim periods within those fiscal years. The Company adopted the guidance on January 1, 2012 and opted for the two separate but consecutive statements approach. Accordingly, the Company now presents the condensed consolidated statements of comprehensive income immediately following the condensed consolidated statements of income.

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

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 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, 2012, December 31, 2011 and September 30, 2011 consisted of the following:

	September 30, 2012		December 31, 2011		September 30, 2011	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
			(In thousands)			
Trading securities:						
Government obligations	$28,731	$28,742	$42,124	$42,126	$18,698	$18,699
Common stocks	160,027	170,846	153,294	159,314	166,989	160,861
Mutual funds	1,064	1,461	1,084	1,307	1,081	1,178
Other investments	382	484	466	399	442	396
Total trading securities	190,204	201,533	196,968	203,146	187,210	181,134
Available for sale securities:						
Common stocks	14,931	32,239	16,487	33,282	16,724	31,903
Mutual funds	1,105	1,673	1,362	1,905	1,361	1,722
Total available for sale securities	16,036	33,912	17,849	35,187	18,085	33,625
Total investments in securities	$206,240	$235,445	$214,817	$238,333	$205,295	$214,759

Securities sold, not yet purchased at September 30, 2012, December 31, 2011 and September 30, 2011 consisted of the following:

	September 30, 2012		December 31, 2011		September 30, 2011	
	Proceeds	Fair Value	Proceeds	Fair Value	Proceeds	Fair Value
Trading securities:			(In thousands)			

Common stocks	$3,044	$3,816	$5,271	$5,415	$7,979	$6,743
Other investments	-	40	49	73	-	-
Total securities sold, not yet purchased	$3,044	$3,856	$5,320	$5,488	$7,979	$6,743

Investments in sponsored registered investment companies at September 30, 2012, December 31, 2011 and September 30, 2011 consisted of the following:

	September 30, 2012		December 31, 2011		September 30, 2011	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
	(In thousands)					
Trading securities:						
Mutual funds	$19	$24	$15	$18	$15	$24
Total trading securities	19	24	15	18	15	24
Available for sale securities:						
Closed-end funds	36,721	60,731	37,104	55,855	38,116	52,156
Mutual funds	2,080	3,468	2,213	3,341	2,241	3,384
Total available for sale securities	38,801	64,199	39,317	59,196	40,357	55,540
Total investments in sponsored registered investment companies	$38,820	$64,223	$39,332	$59,214	$40,372	$55,564

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 the time of purchase are classified as cash equivalents. A substantial portion of investments in securities is held for resale in anticipation of short-term market movements and therefore is classified as trading securities. Trading securities are stated at fair value, with any unrealized gains or losses reported in current period earnings. Available for sale ("AFS") investments are stated at fair value, with any unrealized gains or losses, net of taxes, reported as a component of equity except for losses deemed to be other than temporary which are recorded as unrealized losses in the condensed consolidated statements of income.

The Company recognizes all derivatives as either assets or liabilities measured at fair value and includes them in either investments in securities or securities sold, not yet purchased on the condensed consolidated statements of financial condition. From time to time, the Company and/or the partnerships and offshore funds that the Company consolidates will enter into hedging transactions to manage their exposure to foreign currencies and equity prices related to their proprietary investments. For the three and nine months ended September 30, 2012, the Company had derivative transactions in equity derivatives which resulted in net losses of $411,000 and net losses of $425,000, respectively. For the three and nine months ended September 30, 2011, the Company had no derivative transactions. At September 30, 2011, the Company did not hold any derivatives. At September 30, 2012 and December 31, 2011, we held derivative contracts on 1.1 million equity shares and 142,000 equity shares, respectively, and the fair value was ($6,000) and $24,000, respectively; these are included in investments in securities in the condensed consolidated statements of financial condition. These transactions are not designated as hedges for accounting purposes, and therefore changes in fair values of these derivatives are included in net gain/(loss) from investments in the condensed consolidated statements of income.

The following is a summary of the cost, gross unrealized gains, gross unrealized losses and fair value of available for sale investments as of September 30, 2012, December 31, 2011 and September 30, 2011:

	September 30, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Common stocks	$ 14,931	$ 17,308	$ -	$ 32,239
Closed-end Funds	36,721	24,010	-	60,731
Mutual funds	3,185	1,956	-	5,141
Total available for sale securities	$ 54,837	$ 43,274	$ -	$ 98,111

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

	September 30, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Common stocks	$ 16,724	$ 15,179	$ -	$ 31,903
Closed-end Funds	38,116	14,040	-	52,156
Mutual funds	3,602	1,504	-	5,106
Total available for sale securities	$ 58,442	$ 30,723	$ -	$ 89,165

Unrealized changes to fair value, net of taxes, for the three months ended September 30, 2012 and September 30, 2011 of $2.9 million in gains and $7.9 million in losses, respectively, have been included in other comprehensive income, a component of equity, at September 30, 2012 and September 30, 2011. Return of capital on available for sale securities was $0.8 million and $0.5 million for the three months ended September 30, 2012 and September 30, 2011, respectively. Proceeds from sales of investments available for sale were approximately $2.3 million for the three months ended September 30, 2012. There were no sales of investments available for sale for the three months ended September 30, 2011. For the three months ended September 30, 2012, gross gains on the sale of investments available for sale amounted to $1.1 million and were reclassed from other comprehensive income into the condensed consolidated statements of income. There were no losses on the sale of investments available for sale for the three months ended September 30, 2012. Unrealized changes to fair value, net of taxes, for the nine months ended September 30, 2012 and September 30, 2011 of $3.8 million in gains and $7.0 million in losses, respectively, have been included in other comprehensive income, a component of equity, at September 30, 2012 and September 30,

2011. Return of capital on available for sale securities was $1.7 million and $1.3 million for the nine months ended September 30, 2012 and September 30, 2011, respectively. Proceeds from sales of investments available for sale were approximately $3.1 million and $5.7 million for the nine month periods ended September 30, 2012 and September 30, 2011, respectively. For the nine months ended September 30, 2012 and September 30, 2011, gross gains on the sale of investments available for sale amounted to $1.5 million and $0.6 million, respectively, and were reclassed from other comprehensive income into the condensed consolidated statements of income. There were no losses on the sale of investments available for sale for the nine months ended September 30, 2012 or September 30, 2011. The basis on which the cost of a security sold is determined is specific identification.

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

	September 30, 2012			December 31, 2011			September 30, 2011		
		Unrealized			Unrealized			Unrealized	
	Cost	Losses	Fair Value	Cost	Losses	Fair Value	Cost	Losses	Fair Value
(in thousands)									
Mutual Funds	$-	$ -	$-	$101	$ (28)	$73	$100	$ (21)	$79

At December 31, 2011 and September 30, 2011, there was one holding in a loss position which was not deemed to be other-than-temporarily impaired due to the length of time that it had been in a loss position and because it passed scrutiny in our evaluation of issuer-specific and industry-specific considerations. In this specific instance, the investment at December 31, 2011 and September 30, 2011 was a closed-end fund with diversified holdings across multiple companies and across multiple industries. The one holding was impaired for seven and four consecutive months at December 31, 2011 and September 30, 2011, respectively. The value of this holding at both December 31, 2011 and September 30, 2011 was $0.1 million.

At September 30, 2012, there were no available for sale holdings in loss positions.

For the nine months ended September 30, 2012, there was $20,000 of losses on available for sale securities deemed to be other than temporary.

C. Investments in Partnerships, Offshore Funds and Variable Interest Entities (“VIEs”)

The Company is general partner or co-general partner of various sponsored limited partnerships and the investment manager of various sponsored offshore funds, in which the Company has investments totaling $88.3 million, $86.9 million and $80.2 million at September 30, 2012, December 31, 2011 and September 30, 2011, respectively, and whose underlying assets consist primarily of marketable securities (the “affiliated entities”). We also have investments in unaffiliated partnerships, offshore funds and other entities of $14.3 million, $14.0 million and $18.1 million at September 30, 2012, December 31, 2011 and September 30, 2011, respectively (the “unaffiliated entities”). We evaluate each entity for the appropriate accounting treatment and disclosure. Certain of the affiliated entities are consolidated. In addition, our statement of financial condition caption “Investments in partnerships” includes those investments, in both affiliated and unaffiliated entities, which the Company accounts for under the equity method of accounting, as well as certain investments that the feeder funds hold that are carried at fair value, as described in Note D. The Company reflects the equity in earnings of these equity method investees and the change in fair value of the consolidated feeder funds under the caption “Net gain/(loss) from investments” on the condensed consolidated statements of income.

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

Entities consolidated								
	CFFs		Partnerships		Offshore Funds		Total	
	VIEs	VOEs	VIEs	VOEs	VIEs	VOEs	VIEs	VOEs
	1	2	-	2	1	-	2	4

Entities consolidated at December 31, 2010								
Additional consolidated entities	-	-	-	-	-	1	-	1
Deconsolidated entities	-	-	-	(1)	-	-	-	(1)
Entities consolidated at September 30, 2011	1	2	-	1	1	1	2	4
Additional consolidated entities	-	-	-	-	-	-	-	-
Deconsolidated entities	-	-	-	-	(1)	-	(1)	-
Entities consolidated at December 31, 2011	1	2	-	1	-	1	1	4
Additional consolidated entities	-	-	-	-	-	-	-	-
Deconsolidated entities	-	-	-	-	-	-	-	-
Entities consolidated at September 30, 2012	1	2	-	1	-	1	1	4

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

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

	September 30, 2012				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
Assets					
Cash and cash equivalents	$ 287,806	$ -	$ 879	$ -	$ 288,685
Investments in securities	222,489	-	6,908	6,048	235,445
Investments in sponsored registered investment companies	64,223	-	-	-	64,223
Investments in partnerships	109,801	1,540	(8,737)	-	102,604
Receivable from brokers	27,597	-	1,255	26,307	55,159
Investment advisory fees receivable	29,182	6	(1)	-	29,187
Other assets	23,047	9	-	212	23,268
Total assets	$ 764,145	$ 1,555	$ 304	$ 32,567	$ 798,571
Liabilities and equity					
Securities sold, not yet purchased	$ 3,879	$ -	$ -	$ (23)	$ 3,856
Accrued expenses and other liabilities	100,774	68	30	14,123	114,995
Total debt	216,118	-	-	-	216,118
Redeemable noncontrolling interests	-	1,487	274	18,467	20,228
Total equity	443,374	-	-	-	443,374
Total liabilities and equity	$ 764,145	$ 1,555	$ 304	$ 32,567	$ 798,571

	December 31, 2011				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
Assets					
Cash and cash equivalents	$ 259,531	$ 15,000	$ 1,809	$ -	$ 276,340
Investments in securities	225,599	-	6,211	6,523	238,333
Investments in sponsored registered investment companies	59,197	-	17	-	59,214

Investments in partnerships		107,981		933		(8,021)		-		100,893
Receivable from brokers		17,593		-		270		3,050		20,913
Investment advisory fees receivable		32,157		1		(2)		-		32,156
Other assets		43,889		(14,989)		-		-		28,900
Total assets	$	745,947	$	945	$	284	$	9,573	$	756,749
Liabilities and equity										
Securities sold, not yet purchased	$	5,488	$	-	$	-	$	-	$	5,488
Accrued expenses and other liabilities		69,929		51		28		4,652		74,660
Total debt		263,119		-		-		-		263,119
Redeemable noncontrolling interests		-		894		256		4,921		6,071
Total equity		407,411		-		-		-		407,411
Total liabilities and equity	$	745,947	$	945	$	284	$	9,573	$	756,749

	September 30, 2011				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
Assets					
Cash and cash equivalents	$ 333,230	$ -	$ 2,175	$ 251	$ 335,656
Investments in securities	164,916	-	5,616	44,227	214,759
Investments in sponsored registered investment companies	55,540	-	24	-	55,564
Investments in partnerships	158,432	1,007	(7,703)	(53,450)	98,286
Receivable from brokers	16,846	-	158	50,060	67,064
Investment advisory fees receivable	23,524	12	(1)	(84)	23,451
Other assets	26,029	11	-	70	26,110
Total assets	$ 778,517	$ 1,030	$ 269	$ 41,074	$ 820,890
Liabilities and equity					
Securities sold, not yet purchased	$ 2,957	$ -	$ -	$ 3,786	$ 6,743
Accrued expenses and other liabilities	105,887	109	35	393	106,424
Total debt	261,973	-	-	-	261,973
Redeemable noncontrolling interests	-	921	234	36,895	38,050
Total equity	407,700	-	-	-	407,700
Total liabilities and equity	$ 778,517	$ 1,030	$ 269	$ 41,074	$ 820,890

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

	Three Months Ended September 30, 2012				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
Total revenues	$82,489	$(2)	$(1)	$(255)	$82,231
Total expenses	52,976	28	11	204	53,219
Operating income	29,513	(30)	(12)	(459)	29,012
Total other income (expense), net	(2,032)	78	34	474	(1,446)
Income before income taxes	27,481	48	22	15	27,566
Income tax provision	8,467	-	-	-	8,467
Net income	19,014	48	22	15	19,099
Net loss attributable to noncontrolling interests	10	48	22	15	95
Net income attributable to GAMCO	$19,004	$-	$-	$-	$19,004

	Three Months Ended September 30, 2011				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
Total revenues	$80,237	$(1)	$(1)	$(84)	$80,151
Total expenses	49,463	38	7	(18)	49,490
Operating income	30,774	(39)	(8)	(66)	30,661
Total other income (expense), net	(18,299)	(109)	66	(405)	(18,747)
Income before income taxes	12,475	(148)	58	(471)	11,914
Income tax provision	4,745	-	-	-	4,745
Net income	7,730	(148)	58	(471)	7,169
Net income/(loss) attributable to noncontrolling interests	31	(148)	58	(471)	(530)
Net income attributable to GAMCO	$7,699	$-	$-	$-	$7,699

	Nine Months Ended September 30, 2012				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
Total revenues	$245,771	$(4)	$(2)	$(761)	$245,004
Total expenses	158,146	76	30	361	158,613
Operating income	87,625	(80)	(32)	(1,122)	86,391
Total other income, net	1,151	175	51	1,069	2,446
Income before income taxes	88,776	95	19	(53)	88,837
Income tax provision	30,909	-	-	-	30,909
Net income	57,867	95	19	(53)	57,928
Net income/(loss) attributable to noncontrolling interests	(78)	95	19	(53)	(17)
Net income attributable to GAMCO	$57,945	$-	$-	$-	$57,945

	Nine Months Ended September 30, 2011				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
Total revenues	$242,357	$(5)	$(2)	$(213)	$242,137
Total expenses	159,869	97	30	223	160,219
Operating income	82,488	(102)	(32)	(436)	81,918
Total other income (expense), net	(9,400)	70	2	517	(8,811)
Income before income taxes	73,088	(32)	(30)	81	73,107
Income tax provision	26,978	-	-	-	26,978
Net income	46,110	(32)	(30)	81	46,129
Net income/(loss) attributable to noncontrolling interests	121	(32)	(30)	81	140
Net income attributable to GAMCO	$45,989	$-	$-	$-	$45,989

Variable Interest Entities

We also have sponsored a number of investment vehicles where we are the general partner or investment manager. These vehicles are 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, 2012, December 31, 2011 and September 30, 2011 were $78.6 million, $73.7 million and $29.5 million, respectively. Our maximum exposure to loss as a result of our involvement with the VIEs is limited to the investment in one VIE and the deferred carried interest that we have in another. On September 30, 2012 and December 31, 2011, we had an investment in one of the VIE offshore funds of approximately $8.2 million and $5.0 million, respectively, which was included in investments in partnerships on the condensed consolidated statements of financial condition. On September 30, 2012, December 31, 2011 and September 30, 2011, we had a deferred carried interest in one of the VIE offshore funds of approximately $42,000, $47,000 and $47,000, respectively, which was included in investments in partnerships on the condensed consolidated statements of financial condition. Additionally, as the general partner or investment manager to these VIEs the Company earns fees in relation to these roles, which given a decline in AUMs of the VIEs would result in lower fee revenues earned by the Company which would be reflected on the condensed consolidated statements of income, condensed consolidated statements of financial condition and condensed consolidated statements of cash flows.

Prior to January 1, 2011, we were consolidating two VIEs since we had determined that we were the primary beneficiary of each because we had equity interests and absorbed a majority of each entity's expected losses; therefore they were consolidated in the financial statements. Effective October 1, 2011, we deconsolidated one of the VIEs upon analysis of several factors, including the redemption of $49.2 million of proprietary capital from this VIE by which, we determined that the Company was no longer deemed to be the primary beneficiary of the VIE. The deconsolidation did not result in the recognition of any gain or loss. The Company has not provided any financial support to these VIEs but does continue to serve as the investment manager and earn fees for this role, and it also maintains an investment in the deconsolidated VIE, which is included in investments in partnerships on the condensed consolidated statements of financial condition and is accounted for under the equity method (which approximates fair value). The assets of these VIEs may only be used to satisfy obligations of the VIEs. The following table presents the balances related to these VIEs that are consolidated and were included on the condensed consolidated statements of financial condition as well as GAMCO's net interest in these VIEs. Only one VIE is consolidated at September 30, 2012 and December 31, 2011 and two are consolidated at September 30, 2011:

	September 30, 2012	December 31, 2011	September 30, 2011
(In thousands)			
Cash and cash equivalents	$-	$15,000	$251
Investments in securities	-	-	44,227
Investments in partnerships	23,086	1,433	1,489
Receivable from brokers	-	-	50,060
Other assets	-	-	70
Securities sold, not yet purchased	-	-	(3,786)
Accrued expenses and other liabilities	(15)	(15,006)	(525)
Redeemable noncontrolling interests	(962)	(381)	(37,289)
GAMCO's net interests in consolidated VIEs	$22,109	$1,046	$54,497

D. Fair Value

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

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

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date. Level 1 assets include cash equivalents, government obligations, open-end mutual funds, closed-end funds and equities.
- Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities that are not active and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly-quoted intervals. Assets that generally are included in this category may include certain limited partnership interests in private funds in which the valuations for substantially all of the investments within the fund are based upon Level 1 or Level 2 inputs and over the counter derivatives that have inputs to the valuations that can

generally be corroborated by observable market data.

- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Assets included in this category generally include equities that trade infrequently and direct private equity investments held within consolidated partnerships.

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

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

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

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

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

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

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

The following tables present information about the Company’s assets and liabilities by major categories measured at fair value on a recurring basis as of September 30, 2012, December 31, 2011 and September 30, 2011 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2012 (in thousands)

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2012
Cash equivalents	$ 288,450	$ -	$ -	$ 288,450
Investments in partnerships	-	24,976	-	24,976
Investments in securities:				
AFS - Common stocks	32,239	-	-	32,239
AFS - Mutual funds	1,673	-	-	1,673
Trading - Gov't obligations	28,742	-	-	28,742
Trading - Common stocks	170,159	10	677	170,846
Trading - Mutual funds	1,461	-	-	1,461
Trading - Other	59	77	348	484
Total investments in securities	234,333	87	1,025	235,445
Investments in sponsored registered investment companies:				
AFS - Closed-end Funds	60,731	-	-	60,731
AFS - Mutual Funds	3,468	-	-	3,468
Trading - Mutual funds	24	-	-	24
Total investments in sponsored registered investment companies	64,223	-	-	64,223
Total investments	298,556	25,063	1,025	324,644
Total assets at fair value	$ 587,006	$ 25,063	$ 1,025	$ 613,094
Liabilities				
Trading - Common stocks	$ 3,816	$ -	$ -	$ 3,816
Trading - Other	-	40	-	40
Securities sold, not yet purchased	$ 3,816	$ 40	$ -	$ 3,856

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2011 (in thousands)

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 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	1,722	-	-	1,722
Trading - Gov't obligations	18,699	-	-	18,699
Trading - Common stocks	160,259	8	594	160,861
Trading - Mutual funds	1,178	-	-	1,178
Trading - Other	38	-	358	396
Total investments in securities	213,799	8	952	214,759
Investments in sponsored registered investment companies:				
AFS - Closed-end Funds	52,156	-	-	52,156
AFS - Mutual Funds	3,384	-	-	3,384
Trading - Mutual funds	24	-	-	24
Total investments in sponsored registered investment companies	55,564	-	-	55,564
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

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

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2012 (in thousands)

	Total

Asset	June 30, 2012 Beginning Balance	Total Realized and Unrealized Gains or (Losses) in Income: Trading	Total Realized and Unrealized Gains or (Losses) in Income: AFS Investments	Unrealized Gains or (Losses) Included in Other Comprehensive Income	Total Realized and Unrealized Gains or (Losses)	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
Financial instruments owned:									
Trading - Common stocks	$ 671	$ 6	$ -	$ -	$ 6	$ -	$ -	$ -	$ 677
Trading - Other	351	15	-	-	15	-	(18)	-	348
Total	$ 1,022	$ 21	$ -	$ -	$ 21	$ -	$ (18)	$ -	$ 1,025

There were no transfers between any Levels during the three months ended September 30, 2012.

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 Beginning Balance	Total Realized and Unrealized Gains or (Losses) in Income: Trading	Total Realized and Unrealized Gains or (Losses) in Income: AFS Investments	Total Unrealized Gains or (Losses) Included in Other Comprehensive Income	Total Realized and Unrealized Gains or (Losses)	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
Financial instruments owned:									
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, 2012 (in thousands)

Asset	December 31, 2011 Beginning Balance	Total Realized and Unrealized Gains or (Losses) in Income: Trading	Total Realized and Unrealized Gains or (Losses) in Income: AFS Investments	Total Unrealized Gains or (Losses) Included in Other Comprehensive Income	Total Realized and Unrealized Gains or (Losses)	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
Financial instruments owned:									
Trading - Common stocks	$ 670	$ 30	$ -	$ -	$ 30	$ 57	$ (80)	$ -	$ 677
Trading - Other	284	72	-	-	72	18	(26)	-	348
Total	$ 954	$ 102	$ -	$ -	$ 102	$ 75	$ (106)	$ -	$ 1,025

There were no transfers between any Levels during the nine months ended September 30, 2012.

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 Beginning Balance	Total Realized and Unrealized Gains or (Losses) in Income Trading	Total Realized and Unrealized Gains or (Losses) in Income AFS Investments	Total Unrealized Gains or (Losses) Included in Other Comprehensive Income	Total Realized and Unrealized Gains or (Losses)	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
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 reclassed 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 reclass occurred.

E. Debt

Debt consists of the following:

	September 30, 2012		December 31, 2011		September 30, 2011	
	Carrying Value	Fair Value Level 2	Carrying Value	Fair Value Level 2	Carrying Value	Fair Value Level 2
(In thousands)						
5.5% Senior notes	$99,000	$100,832	$99,000	$100,733	$99,000	$100,643
5.875% Senior notes	100,000	104,458	100,000	93,070	100,000	96,120
0% Subordinated debentures	17,118	19,612	64,119	58,899	62,973	58,302
Total	$216,118	$224,902	$263,119	$252,702	$261,973	$255,065

On May 31, 2011, the Company issued $100 million of senior unsecured notes at par. The net proceeds of $99.1 million were used for working capital and general corporate purposes. The issuance costs of $0.9 million have been capitalized and are being amortized over the term of the debt. The notes mature on June 1, 2021 and bear interest at 5.875% per annum, payable semi-annually on June 1 and December 1 of each year and commenced on December 1, 2011. Upon the occurrence of a change of control triggering event, as defined in the indenture, the Company would be required to offer to repurchase the notes at 101% of their principal amount.

On December 31, 2010, the Company issued $86.4 million in par value of five year zero coupon subordinated debentures due December 31, 2015 ("Debentures") to its shareholders of record on December 15, 2010 through the declaration of a special dividend of $3.20 per share. The Debentures have a par value of $100 and are callable at the option of the Company, in whole or in part, at any time or from time to time, at a redemption price equal to 100% of the principal amount of the Debentures to be redeemed. During the three months ended September 30, 2012, the Company repurchased 645,779 Debentures having a face value of $64.6 million. The redemption was accounted for as an extinguishment of debt and resulted in a loss of $6.3 million, which was included in extinguishment of debt on the condensed consolidated statements of income. During the nine months ended September 30, 2012, the Company repurchased 646,008 Debentures having a face value of $64.6 million. The redemption was accounted for as an extinguishment of debt and resulted in a loss of $6.3 million, which was included in extinguishment of debt on the condensed consolidated statements of income. There were no repurchases for the three and nine month periods ended September 30, 2011. The debt is being accreted to its face value using the effective rate on the date of issuance of 7.45%. At September 30, 2012, December 31, 2011 and September 30, 2011, the debt was recorded at its accreted value of $17.1 million, $64.1 million and $63.0 million, respectively.

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

On May 30, 2012, the Securities and Exchange Commission ("SEC") declared effective the "shelf" registration statement filed by the Company. The "shelf" provides the Company with the flexibility of issuing any combination of senior and subordinated debt securities, convertible securities and common and preferred securities up to a total amount of $500 million and replaced the existing shelf registration which was due to expire in July 2012. As of September 30, 2012, $400 million is available on the shelf.

F. Income Taxes

The effective tax rate for the three months ended September 30, 2012 was 30.7% compared to 39.8% for the prior year three month period. The effective tax rate for the nine months ended September 30, 2012 was 34.8% compared to 36.9% for the prior year nine month period. The third quarter 2012 rate included a benefit of 5.1% resulting from the difference between the tax and book basis of Subordinated Debentures repurchased, including the tender offer completed in July 2012. In addition, the third quarter 2011 rate was affected by the change in the mix of operating income and investment losses which increased the effective state tax rate for the period. The 2012 nine month rate included a benefit of 1.6% resulting from the difference between the tax and book basis of Subordinated Debentures repurchased, including the tender offer completed in July 2012.

G. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	2012	2011	2012	2011
Basic:				
Net income attributable to GAMCO Investors, Inc.'s shareholders	$19,004	$7,699	$57,945	$45,989
Weighted average shares outstanding	26,250	26,496	26,309	26,686
Basic net income attributable to GAMCO Investors, Inc.'s shareholders per share	$0.72	$0.29	$2.20	$1.72
Diluted:				
Net income attributable to GAMCO Investors, Inc.'s shareholders	$19,004	$7,699	$57,945	$45,989
Weighted average share outstanding	26,250	26,496	26,309	26,686
Dilutive stock options and restricted stock awards	189	80	171	86
Total	26,439	26,576	26,480	26,772
Diluted net income attributable to GAMCO Investors, Inc.'s shareholders per share	$0.72	$0.29	$2.19	$1.72

H. Stockholders' Equity

Shares outstanding were 26.6 million on September 30, 2012, 26.8 million on December 31, 2011, and 26.8 million on September 30, 2011.

Dividends

	Payment Date	Record Date	Amount
Three months ended March 31, 2012	March 27, 2012	March 13, 2012	$ 0.04
Three months ended June 30, 2012	June 26, 2012	June 12, 2012	0.29
Three months ended September 30, 2012	September 11, 2012	September 25, 2012	0.30
Nine months ended September 30, 2012			$ 0.63
Three months ended March 31, 2011	March 29, 2011	March 15, 2011	$ 0.03
Three months ended June 30, 2011	June 28, 2011	June 14, 2011	0.04
Three months ended September 30, 2011	September 13, 2011	September 27, 2011	0.04
Nine months ended September 30, 2011			$ 0.11

Voting Rights

The holders of Class A Common stock ("Class A Stock") and Class B Common stock ("Class B Stock") have identical rights except that (i) holders of Class A Stock are entitled to one vote per share, while holders of Class B Stock are entitled to ten votes per share on all matters to be voted on by shareholders in general, and (ii) holders of Class A Stock are not eligible to vote on matters relating exclusively to Class B Stock and vice versa.

Stock Award and Incentive Plan

The Company maintains two plans approved by the shareholders, which are designed to provide incentives which will attract and retain individuals key to the success of GAMCO through direct or indirect ownership of our common stock. Benefits under the Plans may be granted in any one or a combination of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, dividend equivalents and other stock or cash based awards. A maximum of 1.5 million shares of Class A Stock have been reserved for issuance under each of the Plans by a committee of the Board of Directors responsible for administering the Plans (“Compensation Committee”). Under the Plans, the committee may grant restricted stock awards (“RSA”) and either incentive or nonqualified stock options with a term not to exceed ten years from the grant date and at an exercise price that the committee may determine. Options granted under the plans typically vest 75% after three years and 100% after four years from the date of grant and expire after ten years. RSA shares granted under the Plans typically vest 30% after three years and 100% after five years.

On January 3, 2012, the Company approved the granting of 105,300 RSA shares at a grant date fair value of $43.49 per share. On January 15, 2011, and February 9, 2011, the Company approved the granting of 193,900 RSA shares and 3,300 RSA shares, respectively, at a grant date fair value of $48.85 per share and $45.77 per share, respectively. As of September 30, 2012, December 31, 2011 and September 30, 2011, there were 371,500 RSA shares, 275,600 RSA shares and 285,100 RSA shares, respectively, outstanding that were previously issued at an average weighted grant price of $45.15, $45.56 and $45.52, respectively. All grants of the RSA shares were recommended by the Company's Chairman, who did not receive a RSA, and approved by the Compensation Committee. This expense, net of forfeitures, is recognized over the vesting period for these awards which is 30% over three years from the date of grant and 70% over five years from the date of grant. During the vesting period, dividends to RSA holders are held for them until the RSA vesting dates and are forfeited if the grantee is no longer employed by the Company on the vesting dates. Dividends declared on these RSAs, less estimated forfeitures, are charged to retained earnings on the declaration date.

For the three months ended September 30, 2012 and September 30, 2011, we recognized stock-based compensation expense of $0.9 million and $0.7 million, respectively. For the nine months ended September 30, 2012 and September 30, 2011, we recognized stock-based compensation expense of $2.6 million and $1.9 million, respectively. Actual and projected stock-based compensation expense for RSA shares and options for the years ended December 31, 2011 through December 31, 2016 (based on awards currently issued or granted) is as follows ($ in thousands):

	2011	2012	2013	2014	2015	2016
Q1	$ 577	$ 871	$ 870	$ 625	$ 494	$ 175
Q2	686	869	848	588	462	128
Q3	655	875	805	588	399	128
Q4	670	870	805	588	399	128
Full Year	$ 2,588	$ 3,485	$ 3,328	$ 2,389	$ 1,754	$ 559

The total compensation cost related to non-vested RSAs and options not yet recognized is approximately $8.9 million as of September 30, 2012. For the three months ended September 30, 2012, proceeds from the exercise of 24,977 stock options were $723,000 resulting in a tax benefit to GAMCO of $84,000. For the nine months ended September 30, 2012, proceeds from the exercise of 26,977 stock options were $781,000 resulting in a tax benefit to GAMCO of $87,000. There were no options exercised in either the three or nine month periods ended September 30, 2011. The Company recognized $21,000 in tax benefits from 3,900 RSAs that vested during the nine months ended September 30, 2012.

Stock Repurchase Program

In March 1999, GAMCO's Board of Directors established the Stock Repurchase Program to grant management the authority to repurchase shares of our Class A Common Stock. On May 6, 2011, our Board of Directors authorized an incremental 500,000 shares to be added to the current buyback authorization. For the three months ended September 30, 2012 and September 30, 2011, the Company repurchased 47,426 shares and 11,752 shares, respectively, at an average price per share of $47.79 and $42.07, respectively. For the nine months ended September 30, 2012 and September 30, 2011, the Company repurchased 275,528 shares and 441,961 shares, respectively, at an average price per share of $44.94 and $45.26, respectively. From the inception of the program through September 30, 2012, 7,619,580 shares have been repurchased at an average price of $40.78 per share. At September 30, 2012, the total shares available under the program to be repurchased in the future were 297,839.

I. Goodwill and Identifiable Intangible Assets

At September 30, 2012, $3.5 million of goodwill is reflected within other assets on the condensed consolidated statements of financial condition with $3.3 million related to a 93%-owned subsidiary, Gabelli Securities, Inc. and $0.2 million related to G.distributors, LLC. The Company assesses the recoverability of goodwill at least annually, or more often should events warrant, using a qualitative assessment of whether it is more likely than not that an impairment has occurred to determine if a quantitative analysis is required. There were no indicators of impairment for the three and nine months ended September 30, 2012 or the three and nine months ended September 30, 2011, and as such there was no impairment analysis performed or charge recorded.

As a result of becoming the advisor to the Gabelli Enterprise Mergers and Acquisitions Fund and the associated consideration paid, the Company maintains an identifiable intangible asset of $1.9 million within other assets on the condensed consolidated statements of financial condition at September 30, 2012, December 31, 2011 and September 30, 2011. The investment advisory agreement is subject to annual renewal by the fund's Board of Directors, which the Company expects to be renewed, and the Company does not expect to incur additional expense as a result, which is consistent with other investment advisory agreements entered into by the Company. The advisory contract is next up for renewal in February 2013. The Company assesses the recoverability of this intangible asset at least annually, or more often should events warrant. There were no indicators of impairment for the three and nine months ended September 30, 2012 or September 30, 2011, and as such there was no impairment analysis performed or charge recorded.

J. Commitments and Contingencies

From time to time, the Company is named in legal actions and proceedings. These actions may seek substantial or indeterminate compensatory as well as punitive damages or injunctive relief. The Company is also subject to governmental or regulatory examinations or investigations. The examinations or investigations could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief. The Company cannot predict the ultimate outcome of such matters. The consolidated financial statements include the necessary provisions for losses that the Company believes are probable and estimable. Furthermore, the Company evaluates whether there exist losses which may be reasonably possible and, if material, makes the necessary disclosures. Such amounts, both those that are probable and those that are reasonably possible, are not considered material to the Company's financial condition, operations or cash flows.

The Company indemnifies the clearing brokers of Gabelli & Company, our broker-dealer subsidiary, for losses they may sustain from the customer accounts that trade on margin introduced by it. At September 30, 2012, the total amount of customer balances subject to indemnification (i.e. unsecured margin debits) was immaterial. The Company also has entered into arrangements with various other third parties many of which provide for indemnification of the third parties against losses, costs, claims and liabilities arising from the performance of obligations under the agreements. The Company has had no claims or payments pursuant to these or prior agreements and believes the likelihood of a claim being made is remote. The Company's estimate of the value of such agreements is de minimis, and therefore an accrual has not been made on the condensed consolidated financial statements.

K. Subsequent Events

From October 1, 2012 to November 2, 2012, the Company repurchased 1,111 shares at $48.00 per share.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (INCLUDING QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK)

Overview

GAMCO through the Gabelli brand, well known for its Private Market Value (PMV) with a CatalystTM investment approach, is a widely-recognized provider of investment advisory services to mutual funds, institutional and high net worth investors, and investment partnerships, principally in the United States. Through Gabelli & Company, Inc. ("Gabelli & Company"), we provide institutional research and brokerage services to institutional clients and investment partnerships. Through G.distributors, LLC ("G.distributors"), we provide mutual fund distribution. We generally manage assets on a fully discretionary basis and invest in a variety of U.S. and international securities through various investment styles. Our revenues are based primarily on the Company's levels of assets under management and fees associated with our various investment products.

Our revenues are highly correlated to the level of assets under management and fees associated with our various investment products, rather than our own corporate assets. Assets under management, which are directly influenced by the level and changes of the overall equity markets, can also fluctuate through acquisitions, the creation of new products, the addition of new accounts or the loss of existing accounts. Since various equity products have different fees, changes in our business mix may also affect revenues. At times, the performance of our equity products may differ markedly from popular market indices, and this can also impact our revenues. General stock market trends will have the greatest impact on our level of assets under management and hence, on revenues.

We conduct our investment advisory business principally through: GAMCO Asset Management Inc. (Institutional and High Net Worth), Gabelli Funds, LLC (Mutual Funds) and Gabelli Securities, Inc. (Investment Partnerships). We also act as an underwriter and provide institutional research through Gabelli & Company, one of our broker-dealer subsidiaries. The distribution of our open-end funds is conducted through G.distributors.

Assets under management ("AUM") were a record $36.9 billion as of September 30, 2012, an increase of 17.9% from AUM of $31.3 billion at September 30, 2011 and up 3.6% from the June 30, 2012 AUM of $35.7 billion. Fund flows in the third quarter of 2012 were a positive $1.3 billion consisting of market appreciation of $1.8 billion and net cash outflows of $470 million. Average total AUM was $36.2 billion in the 2012 quarter versus $33.9 billion in the prior year period, an increase of 6.8%. Average AUM in our open-end equity funds, a key driver to our investment advisory fees, was $12.6 billion in the third quarter of 2012, rising 2.4% from the 2011 quarter average AUM of $12.3 billion.

In addition to management fees, we earn incentive fees for certain institutional client assets, certain assets attributable to preferred issues for our closed-end funds, our GDL Fund (NYSE: GDL) and investment partnership assets. As of September 30, 2012, assets with incentive based fees were $3.9 billion, 14.7% higher than the $3.4 billion on September 30, 2011 and unchanged from June 30, 2012.

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

Table I: Fund Flows - 3rd Quarter 2012

	June 30, 2012	Market appreciation/ (depreciation)	Net cash flows	Closed-end Fund distributions, net of reinvestments	September 30, 2012
Equities:					
Open-end Funds	$12,496	$ 628	$(366)	$ -	$12,758
Closed-end Funds	5,860	359	260	(114)	6,365
Institutional & PWM - direct	11,655	602	(68)	-	12,189
Institutional & PWM - sub-advisory	2,788	157	(33)	-	2,912
Investment Partnerships	781	6	(2)	-	785
SICAV (a)	126	1	(6)	-	121
Total Equities	33,706	1,753	(215)	(114)	35,130
Fixed Income:					
Money-Market Fund	1,893	-	(141)	-	1,752
Institutional & PWM	63	-	-	-	63
Total Fixed Income	1,956	-	(141)	-	1,815
Total Assets Under Management	$35,662	$ 1,753	$(356)	$ (114)	$36,945

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

Table II: Fund Flows - Nine months ended September 30, 2012

	December 31, 2011	Market appreciation/ (depreciation)	Net cash flows	Closed-end Fund distributions, net of reinvestments	September 30, 2012
Equities:					
Open-end Funds	$12,273	$ 1,180	$(695)	$ -	$12,758
Closed-end Funds	5,799	492	405	(331)	6,365
Institutional & PWM - direct	10,853	1,142	194	-	12,189
Institutional & PWM - sub-advisory	2,600	249	63	-	2,912
Investment Partnerships	605	16	164	-	785
SICAV (a)	105	2	14	-	121
Total Equities	32,235	3,081	145	(331)	35,130
Fixed Income:					
Money-Market Fund	1,824	-	(72)	-	1,752
Institutional & PWM	26	-	37	-	63
Total Fixed Income	1,850	-	(35)	-	1,815

Total Assets Under Management	$34,085	$ 3,081	$110	$ (331)	$36,945

Table III: Assets Under Management			
	September 30, 2011	September 30, 2012	% Inc.(Dec.)
Equities:			
Open-end Funds	$ 11,469	$ 12,758	11.2 %
Closed-end Funds	5,355	6,365	18.9
Institutional & PWM - direct	9,644	12,189	26.4
Institutional & PWM - sub-advisory	2,326	2,912	25.2
Investment Partnerships	627	785	25.2
SICAV (a)	-	121	n/m
Total Equities	29,421	35,130	19.4
Fixed Income:			
Money-Market Fund	1,895		