

GENERAL AMERICAN INVESTORS CO INC

Form N-30B-2

April 24, 2003

GENERAL AMERICAN INVESTORS  
COMPANY, INC.  
FIRST QUARTER REPORT  
MARCH 31, 2003

A Closed-End Investment Company  
listed on the New York Stock Exchange

450 LEXINGTON AVENUE  
NEW YORK, NY 10017  
212-916-8400  
E-mail: [InvestorRelations@gainv.com](mailto:InvestorRelations@gainv.com)  
[www.generalamericaninvestors.com](http://www.generalamericaninvestors.com)

TO THE STOCKHOLDERS

For the three months ended March 31, 2003, our stockholders experienced a decrease of 2.4% on their investment in our Common Shares (assuming reinvestment of all dividends). The net asset value per Common Share decreased 1.9%. By comparison, our benchmark, the Standard & Poor's 500 Stock Index (including income), declined 3.1%. For the twelve months ended March 31, 2003, the results were negative as well. Our stockholders experienced a decrease of 28.5% and the net asset value per Common Share decreased 22.7%; these compare with a decline of 24.8% for the S&P 500. During each period, the discount at which our shares traded increased moderately and at March 31, 2003, it was 10.4%.

As set forth in the accompanying financial statements (unaudited), as of March 31, 2003, the net assets applicable to the Company's Common Stock were \$779,178,178, equal to \$25.94 per Common Share.

The decrease in net assets resulting from operations for the three months ended March 31, 2003 was \$16,554,131. During this period, the net realized loss on securities sold was \$10,130,319 and the decrease in unrealized appreciation was \$4,282,382. Net investment income for the three months was \$558,570 and distributions to preferred stockholders amounted to \$2,700,000.

During the three months, 522,100 shares of the Company's Common Stock were repurchased for \$12,239,687 at an average discount from net asset value of 9.6%.

We have been net sellers of securities for most of the past two years and, while we added modestly to the portfolio in the quarter just ended, the investment climate remains challenging. Despite extraordinary monetary ease, the economy continues to struggle and post-bubble excesses have yet to be purged fully, as reflected in recurring earnings revisions and accounting scandals. More recently, the war in Iraq, the threat of confrontation on the Korean peninsula and the strain of pneumonia referred to as SARS have reduced visibility further and added to uncertainty in the markets. Our core portfolio companies, meanwhile, continue to generate satisfactory sales and earnings, buoyed by their leading industry positions and strong balance sheets. We retain historically high levels of cash and look forward to its employment as profitable opportunities present themselves.

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The information about the Company, including our investment objective, operating policies and procedures, investment results, record of dividend payments, financial reports and press releases, contained at our Web site has been updated through the end of the first quarter. It can be accessed on the Internet at [www.generalamericaninvestors.com](http://www.generalamericaninvestors.com).

By Order of the Board of Directors,

General American Investors Company, Inc.

Spencer Davidson  
President and Chief Executive Officer

April 9, 2003

### 2 STATEMENT OF ASSETS AND LIABILITIES March 31, 2003 (Unaudited)

#### ----- General American Investors

#### ASSETS

##### ----- INVESTMENTS, AT VALUE (NOTE 1a)

Common stocks (cost \$414,811,384)	\$
Convertible corporate notes (cost \$9,668,925)	
Corporate discount notes (cost \$197,604,792)	
U.S. Treasury bills (cost \$95,721,565)	

Total investments (cost \$718,806,666)

##### CASH, RECEIVABLES AND OTHER ASSETS

Cash, including margin account balance of \$3,898	\$90,912
Receivable for securities sold	848,268
Receivable from broker for proceeds on securities sold short	5,710,668
Dividends, interest and other receivables	927,656
Prepaid expenses	6,640,570
Other	422,895

##### TOTAL ASSETS

##### LIABILITIES

Payable for securities purchased	470,357
Preferred dividend accrued but not yet declared	240,000
Securities sold short, at value (proceeds \$5,710,668) (note 1a)	5,422,023
Accrued expenses and other liabilities	5,744,655

##### TOTAL LIABILITIES

7.20% TAX-ADVANTAGED CUMULATIVE PREFERRED STOCK -  
6,000,000 shares at a liquidation value of \$25 per share (note 2)

NET ASSETS APPLICABLE TO COMMON STOCK - 30,039,256 shares (note 2)

NET ASSET VALUE PER COMMON SHARE

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### NET ASSETS APPLICABLE TO COMMON STOCK

Common Stock, 30,039,256 shares at par value (note 2)	\$30,039,256
Additional paid-in capital (note 2)	551,532,612
Accumulated realized loss on investments	(9,956,217)
Undistributed net income	1,606,304
Unallocated distributions on Preferred Stock	(2,940,000)
Unrealized appreciation on investments and securities sold short (including aggregate gross unrealized appreciation of \$294,527,664)	208,896,223
	-----

### NET ASSETS APPLICABLE TO COMMON STOCK

(see notes to financial statements)

### 3 STATEMENT OF OPERATIONS Three Months Ended March 31, 2003 (Unaudited)

#### General American Investors

#### INCOME

Dividends	\$1,541,093
Interest	1,241,760
Other Income	114,891
	-----

#### EXPENSES

Investment research	1,370,602
Administration and operations	636,056
Office space and general	151,194
Transfer agent, custodian and registrar fees and expenses	48,126
Auditing and legal fees	42,000
Directors' fees and expenses	35,874
Stockholders' meeting and reports	34,425
Miscellaneous taxes	20,897
	-----

#### NET INVESTMENT INCOME

#### REALIZED LOSS AND CHANGE IN UNREALIZED APPRECIATION ON INVESTMENTS (NOTES 1d AND 4)

Net realized loss on investments	(10,130,319)
Net decrease in unrealized appreciation	(4,282,382)
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#### NET LOSS ON INVESTMENTS

#### DISTRIBUTIONS TO PREFERRED STOCKHOLDERS

#### DECREASE IN NET ASSETS RESULTING FROM OPERATIONS

(see notes to financial statements)

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#### STATEMENT OF CHANGES IN NET ASSETS

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General American Investors

	Three Months Ended March 31, 2003 (Unaudited)	
	-----	
OPERATIONS		
-----		
Net investment income	\$558,570	
Net realized gain (loss) on investments	(10,130,319)	
Net decrease in unrealized appreciation	(4,282,382)	
	-----	
Distributions to Preferred Stockholders:		
From net income	-	
From long-term capital gain	-	
Unallocated distributions on Preferred Stock	(2,700,000)	
	-----	
Decrease In Net Assets From Preferred Distributions	(2,700,000)	
	-----	
DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	(16,554,131)	
	-----	
DISTRIBUTIONS TO COMMON STOCKHOLDERS		
-----		
From net income, including short-term capital gain in 2002	(305,033)	
From long-term capital gain	(915,098)	
	-----	
DECREASE IN NET ASSETS FROM COMMON DISTRIBUTIONS	(1,220,131)	
	-----	
CAPITAL SHARE TRANSACTIONS		
-----		
Value of Common Shares issued in payment of dividends (note 2)	-	
Cost of Common Shares purchased (note 2)	(12,239,687)	
	-----	
DECREASE IN NET ASSETS - CAPITAL TRANSACTIONS	(12,239,687)	
	-----	
NET DECREASE IN NET ASSETS	(30,013,949)	
	-----	
NET ASSETS APPLICABLE TO COMMON STOCK		
-----		
BEGINNING OF PERIOD	809,192,127	1,
	-----	
END OF PERIOD (including undistributed net income of \$1,606,304 and \$1,352,767, respectively)	\$779,178,178	\$
	=====	==
(see notes to financial statements)		

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FINANCIAL HIGHLIGHTS

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General American Investors

The following table shows per share operating performance data, total investment return, ratios and supplemental data for the three months ended March 31, 2003

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and for each year in the five-year period ended December 31, 2002. This information has been derived from information contained in the financial statements and market price data for the Company's shares.

	Three Months Ended March 31, 2003 (Unaudited)	----- 2002	Year Ended Decemb 2001	----- 2000
<b>PER SHARE OPERATING PERFORMANCE</b>				
Net asset value, beginning of period	\$26.48	\$35.14	\$39.91	\$41.74
Net investment income	.02	.19	.41	.53
Net gain (loss) on securities - realized and unrealized	(.43)	(7.88)	(.66)	6.12
Distributions on Preferred Stock:				
Dividends from investment income	-	(.12)	(.07) (a)	(.11)
Distributions from capital gains	-	(.23)	(.29)	(.29)
Unallocated	(.09)	-	-	-
	(.09)	(.35)	(.36)	(.40)
Total from investment operations	(.50)	(8.04)	(.61)	6.25
Less distributions on Common Stock:				
Dividends from investment income	(.01)	(.21) (d)	(.88) (e)	(2.30)
Distributions from capital gains	(.03)	(.41)	(3.28)	(5.78)
	(.04)	(.62)	(4.16)	(8.08)
Capital Stock transaction - effect of Preferred Stock offering	-	-	-	-
Net asset value, end of period	\$25.94	\$26.48	\$35.14	\$39.91
Per share market value, end of period	\$23.25	\$23.85	\$33.47	\$36.00
TOTAL INVESTMENT RETURN - Stockholder Return, based on market price per share	(2.35)%*	(27.21)%	4.33%	19.10%
<b>RATIOS AND SUPPLEMENTAL DATA</b>				
Net assets applicable to Common Stock, end of period (000's omitted)	\$779,178	\$809,192	\$1,097,530	\$1,155,039
Ratio of expenses to average net assets applicable to Common Stock	0.30%*	0.97%	1.02%	1.09%
Ratio of net income to average net assets applicable to Common Stock	0.07%*	0.61%	1.15%	1.24%
Portfolio turnover rate	1.38%*	22.67%	23.81%	40.61%
<b>PREFERRED STOCK</b>				
Liquidation value, end of period (000's omitted)	\$150,000	\$150,000	\$150,000	\$150,000
Asset coverage	619%	639%	832%	870%
Liquidation preference per share	\$25.00	\$25.00	\$25.00	\$25.00
Market value per share	\$25.30	\$25.85	\$25.90	\$24.25

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6 STATEMENT OF INVESTMENTS March 31, 2003 (Unaudited)

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 General American Investors

Shares or  
 Principal Amount COMMON STOCKS

-----  
 AEROSPACE/DEFENSE (1.6%)

500,000 The Boeing Company (COST \$15,978,443)

-----  
 COMMUNICATIONS AND INFORMATION SERVICES (4.9%)

550,000 CIENA Corporation (a)  
 900,000 Cisco Systems, Inc. (a)  
 620,000 Cox Communications, Inc. Class A (a)  
 450,000 Juniper Networks, Inc. (a)  
 712,500 Lucent Technologies Inc. (a)  
 (COST \$36,132,077)

-----  
 COMPUTER SOFTWARE AND SYSTEMS (0.2%)

175,000 Oberthur Card Systems S.A. (a)  
 339,500 Wind River Systems, Inc. (a)  
 (COST \$8,061,069)

-----  
 CONSUMER PRODUCTS AND SERVICES (2.2%)

275,000 Ethan Allen Interiors Inc.  
 125,000 Newell Rubbermaid Inc.  
 150,000 PepsiCo, Inc.  
 (COST \$12,312,784)

-----  
 ELECTRONICS (1.6%)

692,500 Molex Incorporated Class A (COST \$14,877,393)

-----  
 ENVIRONMENTAL CONTROL (INCLUDING SERVICES) (1.6%)

609,000 Waste Management, Inc. (COST \$12,051,419)

-----  
 FINANCE AND INSURANCE (30.3%)

415,000 American International Group, Inc.  
 500,000 Annaly Mortgage Management, Inc.  
 1,000,000 Annuity and Life Re (Holdings), Ltd. (a)  
 300 Berkshire Hathaway Inc. Class A (a)  
 84,548 Central Securities Corporation

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700,000	Everest Re Group, Ltd.
425,000	Golden West Financial Corporation
435,000	John Hancock Financial Services, Inc.
320,000	M&T Bank Corporation
440,000	MetLife, Inc.
525,000	PartnerRe Ltd.
475,000	Reinsurance Group of America, Incorporated
230,000	SunTrust Banks, Inc.
230,000	Transatlantic Holdings, Inc.

(COST \$123,416,755)

7 STATEMENT OF INVESTMENTS March 31, 2003 (Unaudited) - continued

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General American Investors

Shares or  
Principal Amount COMMON STOCKS (continued)

-----  
HEALTH CARE (14.9%)

-----  
PHARMACEUTICALS (11.1%)

340,000	Alkermes, Inc. (a)
300,000	Bristol-Myers Squibb Company
270,000	Genaera Corporation (a)
650,000	Genentech, Inc. (a)
400,000	Genta Incorporated (a)
250,000	IDEC Pharmaceuticals Corporation (a)
239,000	MedImmune, Inc. (a)
120,000	Millennium Pharmaceuticals, Inc. (a)
125,000	OSI Pharmaceuticals, Inc. (a)
1,025,000	Pfizer Inc

(COST \$74,728,653)

-----  
MEDICAL INSTRUMENTS AND DEVICES (1.7%)

290,000	Medtronic, Inc.	(COST \$862,614)
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-----  
HEALTH CARE SERVICES (2.1%)

600,000	Health Net, Inc. (a)	(COST \$12,334,246)
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(COST \$87,925,513)

-----  
MISCELLANEOUS (1.3%)

Other	(COST \$9,487,132)
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OIL & NATURAL GAS (INCLUDING SERVICES) (2.2%)

475,000	El Paso Corporation
700,000	Halliburton Company

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(COST \$18,639,384)

RETAIL TRADE (18.1%)

700,000 Costco Wholesale Corporation (a)  
 1,945,000 The Home Depot, Inc. (b)  
 2,425,000 The TJX Companies, Inc.  
 570,000 Wal-Mart Stores, Inc.

(COST \$48,567,239)

SEMICONDUCTORS (0.7%)

250,000 ASM International N.V. (a)  
 168,500 Brooks Automation, Inc. (a)  
 197,000 EMCORE Corporation (a)  
 1,644,900 IQE plc (a)  
 250,000 Zarlink Semiconductor Inc. (a)

(COST \$18,466,049)

SPECIAL HOLDINGS (a) (c) (NOTE 5) (0.3%)

400,000 Cytokinetics, Incorporated Series E Preferred  
 (d) Sequoia Capital IV  
 432,000 Silicon Genesis Corporation Series C Preferred  
 546,000 Standard MEMS, Inc. Series A Convertible Preferred

(COST \$8,896,127)

TOTAL COMMON STOCKS (79.9%)

(COST \$414,811,384)

CONVERTIBLE CORPORATE NOTE

HEALTH CARE (1.3%)

\$10,000,000 MedImmune Vaccines, Inc. 5 1/4% due 2/1/08

(COST \$9,668,925)

8 STATEMENT OF INVESTMENTS March 31, 2003 (Unaudited) - continued

General American Investors

Principal  
 Amount

SHORT-TERM SECURITIES AND OTHER ASSETS

\$33,300,000 AIG Funding, Inc. notes due 4/1-4/14/03; 1.19%-1.24%  
 36,700,000 American Express Credit Corporation notes due 4/8-5/6/03; 1.23%  
 13,100,000 Ford Motor Credit Company notes due 5/5/03; 1.51%-1.53%  
 52,700,000 General Electric Capital Corp. notes due 4/3-5/1/03; 1.22%-1.25%  
 43,800,000 General Motors Acceptance Corp. notes due 4/7-5/8/03; 1.51%-1.54%  
 18,300,000 Sears Roebuck Acceptance Corp. notes due 4/30-5/12/03; 1.60%  
 96,000,000 U.S. Treasury bills due 4/24-5/15/03; 1.15%



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Total Short-Term Securities (37.6%) (COST \$293,326,357)  
Cash, receivables and other assets less liabilities  
TOTAL SHORT-TERM SECURITIES AND OTHER ASSETS, NET (38.1%)  
PREFERRED STOCK (-19.3%)  
NET ASSETS APPLICABLE TO COMMON STOCK (100%)

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## STATEMENT OF SECURITIES SOLD SHORT March 31, 2003 (Unaudited)

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### General American Investors

Shares	COMMON STOCKS
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75,000	Electronic Arts Inc.
34,100	Southwest Bancorporation of Texas Inc.

TOTAL SECURITIES SOLD SHORT (PROCEEDS \$5,710,668)

(see notes to financial statements)

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## NOTES TO FINANCIAL STATEMENTS (Unaudited)

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### General American Investors

#### 1. SIGNIFICANT ACCOUNTING POLICIES

General American Investors Company, Inc. (the "Company"), established in 1927, is registered under the Investment Company Act of 1940 as a closed-end, diversified management investment company. It is internally managed by its officers under the direction of the Board of Directors.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

a. SECURITY VALUATION Securities traded on securities exchanges or on the NASDAQ National Market System are valued at the last reported sales price on the last business day of the period. Listed and NASDAQ securities for which no sales are reported on that day and other securities traded in the over-the-counter market are valued at the last bid price (asked price for open short positions) on the valuation date. Corporate discount notes and U.S. Treasury bills are valued at amortized cost, which approximates market value. Special holdings are valued at fair value in the opinion of the Directors. In determining fair value, in the case of restricted shares, consideration is given to cost, operating and other financial data and, where applicable, subsequent private offerings or market price of the issuer's unrestricted shares (to which a 30 percent discount is applied); for limited partnership interests, fair value is based upon an evaluation of the partnership's net assets.

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b. **SHORT SALES** The Company may make short sales of securities for either speculative or hedging purposes. When the Company makes a short sale, it borrows the securities sold short from a broker; in addition, the Company places cash with that broker and securities in a segregated account with the custodian, both as collateral for the short position. The Company may be required to pay a fee to borrow the securities and may also be obligated to pay any dividends declared on the borrowed securities. The Company will realize a gain if the security price decreases and a loss if the security price increases between the date of the short sale and the date on which the Company replaces the borrowed securities.

c. **FEDERAL INCOME TAXES** The Company's policy is to fulfill the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all taxable income to its stockholders. Accordingly, no provision for Federal income taxes is required.

d. **OTHER** As customary in the investment company industry, securities transactions are recorded as of the trade date. Dividend income and distributions to stockholders are recorded as of the ex-dividend dates. Interest income, adjusted for amortization of discount and premium on investments, is earned from settlement date and is recognized on the accrual basis. Cost of investments represents amortized cost.

### 2. CAPITAL STOCK AND DIVIDEND DISTRIBUTIONS

The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, \$1.00 par value, and 10,000,000 shares of Preferred Stock, \$1.00 par value, of which 30,039,256 shares and 6,000,000 shares, respectively, were outstanding at March 31, 2003.

On June 19, 1998, the Company issued and sold 6,000,000 shares of its 7.20% Tax-Advantaged Cumulative Preferred Stock. The Preferred Shares are noncallable for 5 years and have a liquidation preference of \$25.00 per share plus an amount equal to accumulated and unpaid dividends to the date of redemption.

The Company is required to allocate distributions from long-term capital gains and other types of income proportionately among holders of shares of Common Stock and Preferred Stock. To the extent that dividends on the shares of Preferred Stock are not paid from long-term capital gains, they will be paid from ordinary income or net short-term capital gains or will represent a return of capital.

Under the Investment Company Act of 1940, the Company is required to maintain an asset coverage of at least 200% for the Preferred Stock. In addition, pursuant to the Rating Agency Guidelines, the Company is required to maintain a certain discounted asset coverage for its portfolio that equals or exceeds the Basic Maintenance Amount under the guidelines established by Moody's Investors Service, Inc. The Company has met these requirements since the issuance of the Preferred Stock.

The holders of Preferred Stock have voting rights equivalent to those of the holders of Common Stock (one vote per share) and, generally, vote together with the holders of Common Stock as a single class.

At all times, holders of Preferred Stock will elect two members of the Company's Board of Directors and the holders of Preferred and Common Stock, voting as a single class, will elect the remaining directors. If the Company fails to pay dividends on the Preferred Stock in an amount equal to two full years' dividends, the holders of Preferred Stock will have the right to elect a majority of the directors. In addition, the Investment Company Act of 1940 requires that approval of the holders of a majority of any outstanding Preferred



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and liabilities of the plans are not material. Costs of the plans are funded currently.

### 4. PURCHASES AND SALES OF SECURITIES

Purchases and sales of securities (other than short-term securities) for the three months ended March 31, 2003 amounted to \$14,266,847 and \$8,730,763, respectively.

At March 31, 2003, the cost of investments for Federal income tax purposes was the same as the cost for financial reporting purposes.

### 5. RESTRICTED SECURITIES

	DATE ACQUIRED	COST	VALUE (NOTE 1a)
	-----	-----	-----
Cytokinetics, Incorporated Series E Preferred	3/21/03	\$2,000,000	\$2,000,000
Sequoia Capital IV*	1/31/84	886,407	42,000
Silicon Genesis Corporation Series C Preferred	2/16/01	3,006,720	72,000
Standard MEMS, Inc. Series A Convertible Preferred	12/17/99	3,003,000	-
		-----	-----
Total		\$8,896,127	\$2,114,000
		=====	=====

\* The amounts shown are net of distributions from this limited partnership interest which, in the aggregate, amounted to \$4,806,404. The initial investment in the limited partnership was \$2,000,000.

### 6. OPERATING LEASE COMMITMENT

In July 1992, the Company entered into an operating lease agreement for office space which expires in 2007 and provides for future rental payments in the aggregate amount of approximately \$5.6 million. The lease agreement contains a clause whereby the Company received twenty months of free rent beginning in December 1992 and escalation clauses relating to operating costs and real property taxes.

Rental expense approximated \$114,000 for the three months ended March 31, 2003. Minimum rental commitments under the operating lease are approximately \$505,000 per annum in 2003 through 2007.

In January 2003, the Company extended a sublease agreement (originally entered into in March 1996) which expires in 2007 and provides for future rental receipts. Minimum rental receipts under the sublease are approximately \$254,000 per annum in 2003 through 2007. The Company will also receive its proportionate share of operating expenses and real property taxes under the sublease.

Unaudited

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 In addition to purchases of the Company's Common Stock as set forth in Note 2 above, purchases of Common Stock may be made at such times, at such prices, in such amounts and in such manner as the Board of Directors may deem advisable.



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Spencer Davidson, President & Chief Executive Officer  
Andrew V. Vindigni, Vice-President  
Eugene L. DeStaebler, Jr., Vice-President, Administration  
Peter P. Donnelly, Vice-President & Trader  
Diane G. Radosti, Treasurer  
Carole Anne Clementi, Secretary

### SERVICE COMPANIES

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#### COUNSEL

Sullivan & Cromwell LLP

#### INDEPENDENT AUDITORS

Ernst & Young LLP

#### CUSTODIAN

Deutsche Bank Trust  
Company Americas

#### TRANSFER AGENT AND REGISTRAR

Mellon Investor Services LLC  
P.O. BOX 3315  
South Hackensack, NJ 07606-1915  
1-800-413-5499  
www.mellon-investor.com

### RESULTS OF THE ANNUAL MEETING OF STOCKHOLDERS

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The votes cast by stockholders at the Company's annual meeting held on April 9, 2003 were as follows:

#### Election of Directors:

	FOR	WITHHELD
Lawrence B. Bittenwieser	31,447,709	627,469
Lewis B. Cullman	31,461,342	613,836
Spencer Davidson	31,564,613	510,565
Gerald M. Edelman	31,468,446	606,732
John D. Gordan, III	31,587,430	487,748
Richard R. Pivirotto	31,467,291	607,887
Joseph T. Stewart, Jr.	31,527,863	547,315
Raymond S. Troubh	31,427,665	647,513

#### Elected by holders of Preferred Stock:

Arthur G. Altschul, Jr.	5,442,676	38,403
Sidney R. Knafel	5,437,633	43,446

Ratification of the selection of Ernst & Young LLP as auditors of the Company for the year 2003:

For - 31,638,265; Against - 177,519; Abstain - 259,394