

GAMCO INVESTORS, INC. ET AL
Form 10-Q
May 09, 2011

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

(Mark One)

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

For the quarterly period ended March 31, 2011
or

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

For the transition period from ____ to ____

Commission File No. 1-106

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

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

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

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

10580-1422
(Zip Code)

(914) 921-3700

Registrant's telephone number, including area code

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

Yesx Noo

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

Yeso Noo

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

| Class | Outstanding at April 30, 2011 |
|--------------------------------------|-------------------------------|
| Class A Common Stock, .001 par value | 6,860,757 |
| Class B Common Stock, .001 par value | 20,190,140 |

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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 March 31, | |
|---|---------------------------------|-----------|
| | 2011 | 2010 |
| Revenues | | |
| Investment advisory and incentive fees | \$ 62,911 | \$ 49,342 |
| Institutional research services | 3,649 | 3,424 |
| Distribution fees and other income | 10,345 | 7,232 |
| Total revenues | 76,905 | 59,998 |
| Expenses | | |
| Compensation | 33,417 | 26,213 |
| Management fee | 3,113 | 2,448 |
| Distribution costs | 13,429 | 7,031 |
| Other operating expenses | 6,186 | 4,936 |
| Total expenses (a) | 56,145 | 40,628 |
| Operating income | 20,760 | 19,370 |
| Other income (expense) | | |
| Net gain from investments | 8,740 | 5,232 |
| Interest and dividend income | 1,936 | 815 |
| Interest and other expense | (2,867) | (3,292) |
| Total other income (expense), net | 7,809 | 2,755 |
| Income before income taxes | 28,569 | 22,125 |
| Income tax provision | 10,288 | 8,294 |
| Net income | 18,281 | 13,831 |
| Net income attributable to noncontrolling interests | 638 | 105 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 17,643 | \$ 13,726 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders per share: | | |
| Basic | \$ 0.66 | \$ 0.50 |
| Diluted | \$ 0.65 | \$ 0.50 |
| Weighted average shares outstanding: | | |
| Basic | 26,901 | 27,184 |
| Diluted | 27,008 | 28,148 |

| | | | | |
|---------------------|----|------|----|------|
| Dividends declared: | \$ | 0.03 | \$ | 0.03 |
|---------------------|----|------|----|------|

(a) First quarter 2011 includes \$5.6 million in costs directly related to the launch of a new closed-end fund.

See accompanying notes.

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

(Dollars in thousands, except per share data)

| | March 31, 2011 | December 31, 2010 | March 31, 2010 |
|---|-------------------|----------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents, including restricted cash of \$0, \$0 and \$62,265, respectively | \$ 164,671 | \$ 169,601 | \$ 411,365 |
| Investments in securities | 345,616 | 305,486 | 177,001 |
| Investments in partnerships | 94,584 | 82,871 | 70,744 |
| Receivable from brokers | 43,308 | 46,621 | 25,368 |
| Investment advisory fees receivable | 24,992 | 44,660 | 18,858 |
| Income tax receivable and deferred tax assets | 302 | 325 | - |
| Other assets | 24,030 | 23,172 | 21,289 |
| Total assets | \$ 697,503 | \$ 672,736 | \$ 724,625 |
| LIABILITIES AND EQUITY | | | |
| Payable to brokers | \$ 7,998 | \$ 1,554 | \$ 4,394 |
| Income taxes payable and deferred tax liabilities | 25,035 | 23,225 | 7,548 |
| Capital lease obligation | 5,151 | 5,182 | 5,239 |
| Compensation payable | 22,883 | 23,771 | 21,335 |
| Securities sold, not yet purchased | 15,550 | 19,299 | 9,063 |
| Mandatorily redeemable noncontrolling interests | 1,466 | 1,444 | 1,636 |
| Accrued expenses and other liabilities | 28,351 | 23,089 | 23,333 |
| Sub-total | 106,434 | 97,564 | 72,548 |
| 5.5% Senior notes (due May 15, 2013) | 99,000 | 99,000 | 99,000 |
| 6% Convertible note (due August 14, 2011; repaid September 30, 2010) | - | - | 39,873 |
| 6.5% Convertible note (due October 2, 2018; repaid October 13, 2010) | - | - | 60,000 |
| Zero coupon subordinated debentures, Face value: \$86.4 million (due December 31, 2015) | 60,697 | 59,580 | - |
| Total liabilities | 266,131 | 256,144 | 271,421 |
| Redeemable noncontrolling interests | 28,884 | 26,984 | 1,464 |
| Commitments and contingencies (Note J) | | | |
| Equity | | | |
| GAMCO Investors, Inc. stockholders' equity | | | |

| | | | |
|--|------------|------------|------------|
| Class A Common Stock, \$0.001 par value; 100,000,000 shares authorized; 13,526,203, 13,255,503 and 13,119,776 issued, respectively; 6,872,333, 6,763,221 and 7,131,297 outstanding, respectively | 13 | 13 | 13 |
| Class B Common Stock, \$0.001 par value; 100,000,000 shares authorized; 24,000,000 shares issued; 20,190,140, 20,290,140 and 20,292,917 shares outstanding, respectively | 20 | 20 | 20 |
| Additional paid-in capital | 262,686 | 262,108 | 252,987 |
| Retained earnings | 387,101 | 370,272 | 423,374 |
| Accumulated comprehensive income | 27,900 | 25,389 | 20,871 |
| Treasury stock, at cost (6,653,870, 6,492,282 and 5,988,479 shares, respectively) | (278,870) | (271,773) | (249,604) |
| Total GAMCO Investors, Inc. stockholders' equity | 398,850 | 386,029 | 447,661 |
| Noncontrolling interests | 3,638 | 3,579 | 4,079 |
| Total equity | 402,488 | 389,608 | 451,740 |
| Total liabilities and equity | \$ 697,503 | \$ 672,736 | \$ 724,625 |

See accompanying notes.

| GAMCO INVESTORS, INC. AND SUBSIDIARIES | | | | | | | | | |
|--|----------------|--------|------------|------------|-------------|-------------|------------|------------|---------------|
| CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME | | | | | | | | | |
| UNAUDITED | | | | | | | | | |
| (In thousands) | | | | | | | | | |
| For the three months ended March 31, 2011 | | | | | | | | | |
| GAMCO Investors, Inc. shareholders | | | | | | | | | |
| | Noncontrolling | Common | Additional | Retained | Accumulated | Treasury | | Redeemable | Comprehensive |
| | Interests | Stock | Paid-in | Earnings | Income | Stock | Total | Interests | Income |
| | | | Capital | | | | | | |
| Balance at December 31, 2010 | \$ 3,579 | \$ 33 | \$ 262,108 | \$ 370,272 | \$ 25,389 | \$(271,773) | \$ 389,608 | \$ 26,984 | \$ - |
| Redemptions of redeemable noncontrolling interests | - | - | - | - | - | - | - | (839) | - |
| Contributions from redeemable noncontrolling interests | - | - | - | - | - | - | - | 6,263 | - |
| Deconsolidation of Partnership | - | - | - | - | - | - | - | (4,103) | - |
| Net income | 59 | - | - | 17,643 | - | - | 17,702 | 579 | 18,281 |
| Net unrealized gains on securities available for sale, net of income tax (\$1,460) | - | - | - | - | 2,487 | - | 2,487 | - | 2,487 |
| Foreign currency translation | - | - | - | - | 24 | - | 24 | - | 24 |
| Dividends declared (\$0.03 per share) | - | - | - | (814) | - | - | (814) | - | - |
| Stock based compensation expense | - | - | 578 | - | - | - | 578 | - | - |
| Purchase of treasury stock | - | - | - | - | - | (7,097) | (7,097) | - | - |
| Balance at March 31, 2011 | \$ 3,638 | \$ 33 | \$ 262,686 | \$ 387,101 | \$ 27,900 | \$(278,870) | \$ 402,488 | \$ 28,884 | \$ 20,792 |
| Comprehensive income attributable | | | | | | | | | |

| | |
|--|-----------|
| to noncontrolling interest | (638) |
| Total comprehensive income attributable to GAMCO Investors, Inc. | \$ 20,154 |
| See accompanying notes. | |

| GAMCO INVESTORS, INC. AND SUBSIDIARIES | | | | | | | | | |
|--|----------------|--------|------------|------------|-------------|--------------|------------|------------|---------------|
| CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME | | | | | | | | | |
| UNAUDITED | | | | | | | | | |
| (In thousands) | | | | | | | | | |
| For the three months ended March 31, 2010 | | | | | | | | | |
| GAMCO Investors, Inc. shareholders | | | | | | | | | |
| | Noncontrolling | Common | Additional | Retained | Accumulated | Treasury | | Redeemable | Comprehensive |
| | Interests | Stock | Paid-in | Earnings | Income | Stock | Total | Interests | Income |
| | | | Capital | | | | | | |
| Balance at December 31, 2009 | \$ 4,043 | \$ 33 | \$ 251,591 | \$ 410,473 | \$ 19,088 | \$ (241,567) | \$ 443,661 | \$ 1,464 | \$ - |
| Redemptions of redeemable noncontrolling interests | - | - | - | - | - | - | - | (475) | - |
| Contributions from redeemable noncontrolling interests | - | - | - | - | - | - | - | 406 | - |
| Net income | 36 | - | - | 13,726 | - | - | 13,762 | 69 | 13,831 |
| Net unrealized gains on securities available for sale, net of income tax (\$1,067) | - | - | - | - | 1,816 | - | 1,816 | - | 1,816 |
| Foreign currency translation | - | - | - | - | (33) | - | (33) | - | (33) |
| Dividends declared (\$0.03 per share) | - | - | - | (825) | - | - | (825) | - | - |
| Stock based compensation expense | - | - | 1,383 | - | - | - | 1,383 | - | - |
| Exercise of stock options including tax benefit | - | - | 13 | - | - | - | 13 | - | - |
| Purchase of treasury stock | - | - | - | - | - | (8,037) | (8,037) | - | - |
| Balance at March 31, 2010 | \$ 4,079 | \$ 33 | \$ 252,987 | \$ 423,374 | \$ 20,871 | \$ (249,604) | \$ 451,740 | \$ 1,464 | \$ 15,614 |

| | |
|--|-----------|
| Comprehensive income attributable to noncontrolling interest | (105) |
| Total comprehensive income attributable to GAMCO Investors, Inc. | \$ 15,509 |

See accompanying notes.

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

| | Three Months Ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2011 | 2010 |
| Operating activities | | |
| Net income | \$ 18,281 | \$ 13,831 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Equity in net gains from partnerships and affiliates | (2,977) | (2,352) |
| Depreciation and amortization | 274 | 171 |
| Stock based compensation expense | 578 | 1,383 |
| Deferred income taxes | 1,649 | 277 |
| Tax benefit from exercise of stock options | - | 5 |
| Foreign currency translation gain/(loss) | 24 | (33) |
| Fair value of donated securities | - | 77 |
| (Gains) on sales of available for sale securities | (101) | - |
| Amortization of discount on convertible debt | - | 22 |
| Accretion of zero coupon debentures | 1,117 | - |
| (Increase) decrease in assets: | | |
| Investments in trading securities | (44,589) | (17,980) |
| Investments in partnerships: | | |
| Contributions to partnerships | (6,583) | (11,129) |
| Distributions from partnerships | 3,026 | 5,391 |
| Receivable from brokers | (2,373) | 4,704 |
| Investment advisory fees receivable | 19,798 | 16,827 |
| Income tax receivable and deferred tax assets | 23 | - |
| Other assets | (1,129) | (6) |
| Increase (decrease) in liabilities: | | |
| Payable to brokers | 6,444 | 3,999 |
| Income taxes payable and deferred tax liabilities | (1,035) | (2,320) |
| Compensation payable | (891) | 8,035 |
| Mandatorily redeemable noncontrolling interests | 23 | 14 |
| Accrued expenses and other liabilities | 6,531 | (1,791) |
| Total adjustments | (20,191) | 5,294 |
| Net cash (used in) provided by operating activities | \$ (1,910) | \$ 19,125 |

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

Three Months Ended

March 31,

2011

2010

| Investing activities | 2011 | 2010 |
|---|------------|------------|
| Purchases of available for sale securities | \$ (4) | \$ (4) |
| Proceeds from sales of available for sale securities | 101 | - |
| Return of capital on available for sale securities | 631 | 686 |
| Increase in restricted cash | - | (7) |
| Net cash provided by investing activities | 728 | 675 |
| Financing activities | | |
| Contributions from redeemable noncontrolling interests | 6,263 | - |
| Redemptions of redeemable noncontrolling interests | (839) | (69) |
| Proceeds from exercise of stock options | - | 8 |
| Dividends paid | (814) | (825) |
| Purchase of treasury stock | (7,097) | (8,037) |
| Net cash used in financing activities | (2,487) | (8,923) |
| Effect of exchange rates on cash and cash equivalents | (10) | (48) |
| Net (decrease) increase in cash and cash equivalents | (3,679) | 10,829 |
| Cash and cash equivalents at beginning of period | 169,601 | 338,270 |
| Decrease in cash from deconsolidation of partnership | (1,251) | - |
| Cash and cash equivalents at end of period | \$ 164,671 | \$ 349,099 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 271 | \$ 3,447 |
| Cash paid for taxes | \$ 9,167 | \$ 9,969 |

Non-cash activity:

- On January 1, 2011, GAMCO Investors, Inc. was no longer determined to have control over one 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 three months ended March 31, 2011 and March 31, 2010, the Company accrued RSA dividends of \$7 and \$10, respectively.

See accompanying notes.

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

March 31, 2011

(Unaudited)

A. Significant Accounting Policies

Basis of Presentation

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

The unaudited interim condensed consolidated financial statements of GAMCO included herein have been prepared in conformity with generally accepted accounting principles 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 generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position, results of operations and cash flows of GAMCO for the interim periods presented and are not necessarily indicative of a full year’s results.

The condensed consolidated financial statements include the accounts of GAMCO and its subsidiaries. Intercompany accounts and transactions are eliminated.

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

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

Subsequent to the issuance of the Company’s second quarter 2010 Form 10-Q, filed with the SEC on August 5, 2010, the Company determined that pursuant to ASC 810, Consolidation, it should have presented the amount of comprehensive income attributable to noncontrolling interests and comprehensive income attributable to GAMCO in its consolidated statement of equity and comprehensive income. The affected period includes the period ended March 31, 2010. The accompanying consolidated statement of equity and comprehensive income for the period ended March 31, 2010 has been corrected to also include such information. The Company believes this correction was not material to the consolidated financial statements taken as a whole.

Use of Estimates

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

Recent Accounting Developments

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

B. Investment in Securities

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

| | March 31, 2011 | | December 31, 2010 | | March 31, 2010 | |
|--|------------------|------------------|-------------------|------------------|------------------|------------------|
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| (In thousands) | | | | | | |
| Trading securities: | | | | | | |
| Government obligations | \$12,069 | \$12,076 | \$27,327 | \$27,288 | \$1,388 | \$1,348 |
| Common stocks | 210,956 | 225,589 | 158,455 | 170,374 | 68,071 | 74,573 |
| Mutual funds | 1,205 | 1,654 | 1,205 | 1,554 | 1,194 | 1,379 |
| Convertible bonds | 163 | 175 | 574 | 620 | 637 | 749 |
| Preferred stocks | - | - | 1,783 | 1,973 | - | 11 |
| Other investments | 465 | 476 | 1,559 | 1,350 | 367 | 142 |
| Total trading securities | 224,858 | 239,970 | 190,903 | 203,159 | 71,657 | 78,202 |
| Available for sale securities: | | | | | | |
| Common stocks | 16,835 | 37,408 | 16,835 | 37,139 | 17,063 | 34,655 |
| Mutual funds | 43,080 | 68,238 | 43,707 | 65,188 | 48,773 | 64,144 |
| Total available for sale securities | 59,915 | 105,646 | 60,542 | 102,327 | 65,836 | 98,799 |
| Total investments in securities | \$284,773 | \$345,616 | \$251,445 | \$305,486 | \$137,493 | \$177,001 |

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

| | March 31, 2011 | | December 31, 2010 | | March 31, 2010 | |
|---|-----------------|-----------------|-------------------|-----------------|----------------|----------------|
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| (In thousands) | | | | | | |
| Trading securities: | | | | | | |
| Common stocks | \$14,044 | \$15,550 | \$19,071 | \$19,299 | \$9,268 | \$9,052 |
| Other | - | - | - | - | 10 | 11 |
| Total securities sold, not yet purchased | \$14,044 | \$15,550 | \$19,071 | \$19,299 | \$9,278 | \$9,063 |

Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Investments in United States Treasury Bills and Notes with maturities of greater than three months at the time of purchase are classified as investments in securities, and those with maturities of three months or less at time of purchase are classified as cash equivalents. A substantial portion of investments in securities are held for resale in anticipation of short-term market movements and therefore are classified as trading securities. Trading securities are stated at fair value, with any unrealized gains or losses, reported in current period earnings. Available for sale ("AFS") investments are stated at fair value, with any unrealized gains or losses, net of taxes, reported as a component of equity except for losses deemed to be other than temporary which are recorded as unrealized losses in the condensed consolidated statements of income. There was no impairment of AFS securities for the three month periods ended March 31, 2011 and 2010.

The Company recognizes all derivatives as either assets or liabilities measured at fair value and includes them in either investments in securities or securities sold, not yet purchased on the condensed consolidated statements of

financial condition. From time to time, the Company and/or the partnerships and offshore funds that the Company consolidates will enter into hedging transactions to manage their exposure to foreign currencies and equity prices related to their proprietary investments. For the three months ended March 31, 2011 and 2010, the Company had derivative transactions in equity derivatives which resulted in net losses of \$0 and \$61,000, respectively. At December 31, 2010 and March 31, 2010, we held derivative contracts on 403,000 equity shares and 6,000 equity shares, respectively, and the fair value was \$1.0 million and \$29,000, respectively; these are included in investments in securities in the condensed consolidated statements of financial condition. At March 31, 2011, the Company did not hold any derivatives. These transactions are not designated as hedges for accounting purposes, and therefore changes in fair values of these derivatives are included in net gain from investments in the condensed consolidated statements of income.

At March 31, 2011, December 31, 2010 and March 31, 2010, the fair value of common stock investments available for sale was \$37.4 million, \$37.1 million and \$34.7 million, respectively. The total unrealized gains for common stock investments available for sale securities with unrealized gains was \$20.6 million, \$20.3 million and \$17.6 million at March 31, 2011, December 31, 2010 and March 31, 2010, respectively. There were no unrealized losses for common stock investments available for sale at March 31, 2011, December 31, 2010 or March 31, 2010. At March 31, 2011, December 31, 2010 and March 31, 2010, the fair value of mutual fund investments available for sale with unrealized gains was \$68.2 million, \$65.2 million and \$62.2 million, respectively. At March 31, 2011 and December 31, 2010, there were no unrealized losses for mutual fund investments available for sale. At March 31, 2010, the fair value of mutual fund investments available for sale with unrealized losses was \$1.9 million. The total unrealized gains for mutual fund investments available for sale securities with unrealized gains at March 31, 2011, December 31, 2010 and March 31, 2010 was \$25.0 million, \$21.5 million and \$15.4 million, respectively. The total unrealized losses for available for sale securities with unrealized losses was \$0.1 million at March 31, 2010.

Unrealized changes to fair value, net of taxes, for the three months ended March 31, 2011 and 2010 of \$2.5 million in gains and \$1.8 million in gains, respectively, have been included in other comprehensive income, a component of equity, at March 31, 2011 and March 31, 2010. Return of capital on available for sale securities for the three months ended March 31, 2011 and 2010 was \$0.6 million and \$0.7 million, respectively. Proceeds from sales of investments available for sale were approximately \$101,000 for the three month period ended March 31, 2011. For the three months ended March 31, 2011, gross gains on the sale of investments available for sale amounted to \$101,000; there were no gross losses on the sale of investments available for sale. There were no sales of investments available for sale for the three months ended March 31, 2010.

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:

| | March 31, 2011 | | | December 31, 2010 | | | March 31, 2010 | | |
|----------------|----------------|------|------------|-------------------|------|------------|----------------|----------|------------|
| | Unrealized | | Fair Value | Unrealized | | Fair Value | Unrealized | | Fair Value |
| Cost | Losses | Cost | | Losses | Cost | | Losses | | |
| (in thousands) | | | | | | | | | |
| Mutual Funds | \$- | \$ - | \$- | \$- | \$ - | \$- | \$2,002 | \$ (55) | \$1,947 |

At March 31, 2010, there were two holdings in loss positions which were not deemed to be other-than-temporarily impaired because they passed scrutiny in our evaluation of the length of time that they had been in a loss position and our evaluation of issuer-specific and industry-specific considerations. In these specific instances, the investments at March 31, 2010 were mutual funds with diversified holdings across multiple companies and in most cases across multiple industries. One holding was impaired for four consecutive months, and one holding was impaired for twelve consecutive months. The fair value of these holdings at March 31, 2010 was \$1.9 million.

C. Investments in Partnerships

The Company is general partner or co-general partner of various sponsored limited partnerships and the investment manager of various sponsored offshore funds whose underlying assets consist primarily of marketable securities (the “affiliated entities”). We also have investments in unaffiliated partnerships, offshore funds and other entities. Certain of the affiliated entities are consolidated, generally because a majority of the equity is owned by the Company. Other investment partnerships for which we serve as the general partner but have only a minority ownership interest are not

consolidated because the limited partners have substantive rights to replace the Company as general partner. Our balance sheet caption "investments in partnerships" includes those investments, in both affiliated and unaffiliated entities, which the Company accounts for under the equity method of accounting and certain investments in consolidated feeder funds that the Company accounts for at fair value, as described below. The Company reflects the equity in earnings of these equity method investees and the change in fair value of the consolidated feeder funds under the caption net gain from investments on the condensed consolidated statements of income.

We also have sponsored a number of investment vehicles where we are the investment manager in which we do not have an equity investment. These vehicles are considered 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 March 31, 2011, December 31, 2010 and March 31, 2010 were \$9.8 million, \$13.3 million and \$10.5 million, respectively. Our maximum exposure to loss as a result of our involvement with the VIEs is limited to the deferred carried interest that we have in one of the VIEs. On March 31, 2011, December 31, 2010 and March 31, 2010, we had a deferred carried interest in one of the VIE offshore funds of approximately \$48,000, \$325,000 and \$287,000, respectively, and it was included in investments in partnerships on the condensed consolidated statements of financial condition. Additionally, as the general partner or investment manager to these VIEs, the Company earns fees for performing these roles. These revenues are dependent upon the AUM levels in the VIEs and would vary depending on these AUMs and which would be reflected in the condensed consolidated statements of income, condensed consolidated statements of financial condition and condensed consolidated statements of cash flows.

In the case of two VIEs, we are determined to be the primary beneficiary of each because we absorb a majority of each entity's expected losses and therefore they are consolidated in the financial statements. The Company has an investment in these VIEs of \$54.6 million. The Company has not provided any financial or other support to these VIEs but does earn fees as the investment manager. These VIEs have total assets of \$96.9 million at March 31, 2011; \$2.0 million is included in cash and cash equivalents, \$77.0 million is included in investments in securities, \$1.6 million is included in investments in partnerships and \$16.3 million is included in receivable from brokers on the condensed consolidated statements of financial condition. These assets may only be used to satisfy the obligations of the VIEs which include \$12.3 million included in securities sold, not yet purchased, \$2.2 million included in accrued expenses and other liabilities and \$28.0 million included in redeemable noncontrolling interest.

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

At March 31, 2011, December 31, 2010 and March 31, 2010, and for the three months ended March 31, 2011 and March 31, 2010, the Company consolidated two limited partnerships and one offshore fund (the "consolidated feeder funds"), that owned 100% of their offshore master funds. The Company retained the specialized investment company accounting of the consolidated feeder funds in the Company's consolidated financial statements. Included in the investment in partnerships on the Company's consolidated statement of financial condition as of March 31, 2011, December 31, 2010 and March 31, 2010, are \$28.5 million, \$27.7 million, and \$26.2 million, respectively, which represent the consolidated feeder fund's proportionate investment in the master funds carried at fair value, at those dates.

D. Fair Value

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

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

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

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

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

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

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

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

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

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

The following table presents information about the Company's assets and liabilities by major categories measured at fair value on a recurring basis as of March 31, 2011, December 31, 2010 and March 31, 2010 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

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

| | Quoted Prices in Active Markets for Identical | Significant Other Observable | Significant Unobservable Inputs (Level 3) | Balance as of March 31, 2011 |
|-----------------------------|--|------------------------------------|--|------------------------------------|
| Assets | Assets (Level 1) | Inputs (Level 2) | | |
| Cash equivalents | \$ 161,946 | \$ - | \$ - | \$ 161,946 |
| Investments in partnerships | - | 28,473 | - | 28,473 |
| Investments in securities: | | | | |
| AFS - Common stocks | 37,408 | - | - | 37,408 |
| AFS - Mutual funds | 68,238 | - | - | 68,238 |
| Trading - Gov't obligations | 12,076 | - | - | 12,076 |

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| | | | | |
|---------------------------------------|------------|-----------|--------|------------|
| Trading - Common stocks | 225,008 | 13 | 568 | 225,589 |
| Trading - Mutual funds | 1,654 | - | - | 1,654 |
| Trading - Convertible bonds | 175 | - | - | 175 |
| Trading - Other | 120 | - | 356 | 476 |
| Total investments in securities | 344,679 | 13 | 924 | 345,616 |
| Total investments | 344,679 | 28,486 | 924 | 374,089 |
| Total assets at fair value | \$ 506,625 | \$ 28,486 | \$ 924 | \$ 536,035 |
| Liabilities | | | | |
| Trading - Common stocks | \$ 15,550 | \$ - | \$ - | \$ 15,550 |
| Securities sold, not yet purchased | \$ 15,550 | \$ - | \$ - | \$ 15,550 |

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

| | Quoted Prices in Active Markets for Identical | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2010 |
|---------------------------------------|--|--|--|---------------------------------------|
| Assets | Assets (Level 1) | Inputs (Level 2) | 3) | 2010 |
| Cash equivalents | \$ 167,548 | \$ - | \$ - | \$ 167,548 |
| Investments in partnerships | - | 27,690 | - | 27,690 |
| Investments in securities: | | | | |
| AFS - Common stocks | 37,139 | - | - | 37,139 |
| AFS - Mutual funds | 65,188 | - | - | 65,188 |
| Trading - Gov't obligations | 27,288 | - | - | 27,288 |
| Trading - Common stocks | 170,204 | 23 | 147 | 170,374 |
| Trading - Mutual funds | 1,554 | - | - | 1,554 |
| Trading - Convertible bonds | 620 | - | - | 620 |
| Trading - Preferred stocks | 1,973 | - | - | 1,973 |
| Trading - Other | 72 | 1,000 | 278 | 1,350 |
| Total investments in securities | 304,038 | 1,023 | 425 | 305,486 |
| Total investments | 304,038 | 28,713 | 425 | 333,176 |
| Total assets at fair value | \$ 471,586 | \$ 28,713 | \$ 425 | \$ 500,724 |
| Liabilities | | | | |
| Trading - Common stocks | \$ 19,299 | \$ - | \$ - | \$ 19,299 |
| Securities sold, not yet purchased | \$ 19,299 | \$ - | \$ - | \$ 19,299 |

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

| | Quoted Prices in Active Markets for Identical | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of March 31, 2010 |
|--------------------------------|--|--|--|------------------------------------|
| Assets | Assets (Level 1) | Inputs (Level 2) | 3) | 2010 |
| Cash equivalents | \$ 410,798 | \$ - | \$ - | \$ 410,798 |
| Investments in partnerships | - | 26,202 | - | 26,202 |
| Investments in securities: | | | | |
| AFS - Common stocks | 34,655 | - | - | 34,655 |
| AFS - Mutual funds | 64,144 | - | - | 64,144 |
| Trading - Gov't obligations | 1,348 | - | - | 1,348 |
| Trading - Common stocks | 74,227 | 113 | 233 | 74,573 |
| Trading - Mutual funds | 1,379 | - | - | 1,379 |
| Trading - Convertible bonds | 749 | - | - | 749 |
| Trading - Preferred stocks | - | - | 11 | 11 |

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| | | | | |
|------------------------------------|------------|-----------|--------|------------|
| Trading - Other | 12 | 40 | 90 | 142 |
| Total investments in securities | 176,514 | 153 | 334 | 177,001 |
| Total investments | 176,514 | 26,355 | 334 | 203,203 |
| Total assets at fair value | \$ 587,312 | \$ 26,355 | \$ 334 | \$ 614,001 |
| Liabilities | | | | |
| Trading - Common stocks | \$ 9,052 | \$ - | \$ - | \$ 9,052 |
| Trading - Other | - | 11 | - | 11 |
| Securities sold, not yet purchased | \$ 9,052 | \$ 11 | \$ - | \$ 9,063 |

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

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2011 (in thousands)

| Asset | December 31, 2010 | Unrealized Gains or (Losses) in Income | Total Realized and Included | AFS | Comprehensive Income | Gains or (Losses) | Purchases | Sales | Transfers In and/or (Out) of Level 3 | Ending Balance |
|-------------------------------------|-------------------|--|-----------------------------|-------------|----------------------|-------------------|---------------|-----------------|--------------------------------------|----------------|
| | | | | | | | | | | |
| Financial instruments owned: | | | | | | | | | | |
| Trading - Common | | | | | | | | | | |
| stocks | \$ 147 | \$ 21 | \$ - | \$ - | \$ - | \$ 21 | \$ 400 | \$ - | \$ - | \$ 568 |
| Trading - Other | | | | | | | | | | |
| | 278 | 126 | - | - | - | 126 | - | (48) | - | 356 |
| Total | \$ 425 | \$ 147 | \$ - | \$ - | \$ - | \$ 147 | \$ 400 | \$ (48) | \$ - | \$ 924 |

There were no transfers between any levels during the three months ended March 31, 2011.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2010 (in thousands)

| Asset | December 31, 2009 | Unrealized Gains or (Losses) in Income | Total Realized and Included | AFS | Comprehensive Income | Gains or (Losses) | Purchases and Sales, net | Transfers In and/or (Out) of Level 3 | Ending Balance |
|-------------------------------------|-------------------|--|-----------------------------|-----|----------------------|-------------------|--------------------------|--------------------------------------|----------------|
| | | | | | | | | | |
| Financial instruments owned: | | | | | | | | | |
| Trading - Common | | | | | | | | | |

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| | | | | | | | | |
|---------------------|--------|-------|------|------|-------|----------|-------|--------|
| stocks | \$ 205 | \$ 37 | \$ - | \$ - | \$ 37 | \$ (32) | \$ 23 | \$ 233 |
| Trading - Preferred | | | | | | | | |
| stocks | 15 | (4) | - | - | (4) | - | - | 11 |
| Trading - Other | 90 | - | - | - | - | - | - | 90 |
| Total | \$ 310 | \$ 33 | \$ - | \$ - | \$ 33 | \$ (32) | \$ 23 | \$ 334 |

There were no transfers between any levels during the three months ended March 31, 2010.

Unrealized Level 3 gains and/or losses included within net gain from investments in the condensed consolidated statements of income for the three months ended March 31, 2011 and 2010 were approximately \$147,000 of gains and \$33,000 of gains, respectively, for those Level 3 securities held at March 31, 2011 and 2010, respectively.

E. Debt

The fair value of the Company's debt is estimated based on either quoted market prices for the same or similar issues or using market standard models depending on the characteristics of the debt issuance. Inputs in these standard models include credit rating, maturity and interest rate. A standard option pricing model is used to calculate the fair value of the conversion option embedded in the convertible debt with significant inputs including volatility of GBL stock, interest rates, dividend yield and maturity. At March 31, 2011, December 31, 2010 and March 31, 2010, the fair value of the Company's debt is estimated to be \$159.6 million, \$163.0 million and \$208.5 million, respectively. The carrying value of the Company debt at March 31, 2011, December 31, 2010 and March 31, 2010 is \$159.7 million, \$158.6 million and \$198.9 million, respectively.

For the zero coupon subordinated debentures due December 31, 2015 the effective interest rate is 7.45%.

F. Income Taxes

The effective tax rate for the three months ended March 31, 2011 was 36.0% compared to the prior year quarter's effective rate of 37.5%. The effective tax rate reduction is primarily due to a larger tax deduction for interest expense related to the debentures issued in December 2010 and from a mix of other offsetting permanent items.

G. Earnings Per Share

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

| | Three Months Ended March 31, | Three Months Ended March 31, |
|---|---------------------------------------|---------------------------------------|
| (in thousands, except per share amounts) | 2011 | 2010 |
| Basic: | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 17,643 | \$ 13,726 |
| Weighted average shares outstanding | 26,901 | 27,184 |
| Basic net income attributable to GAMCO Investors, Inc.'s shareholders per share | \$ 0.66 | \$ 0.50 |
| Diluted: | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 17,643 | \$ 13,726 |
| Add interest expense on convertible notes, net of management fee and taxes | - | 339 |
| Total | 17,643 | 14,065 |
| Weighted average share outstanding | 26,901 | 27,184 |
| | 107 | 209 |

| | | |
|--|---------|---------|
| Dilutive stock options and restricted stock awards | | |
| Assumed conversion of convertible notes | - | 755 |
| Total | 27,008 | 28,148 |
| Diluted net income attributable to GAMCO Investors, Inc.'s | | |
| shareholders per share | \$ 0.65 | \$ 0.50 |

H. Stockholders' Equity

Shares outstanding were 27.1 million on both March 31, 2011 and December 31, 2010 and 27.4 million on March 31, 2010.

On February 8, 2011, our Board of Directors declared a quarterly dividend of \$0.03 per share on its Class A Common stock ("Class A Shares") and Class B Common stock ("Class B Shares"), payable on March 29, 2011 to shareholders of record on March 15, 2011.

On February 9, 2010, our Board of Directors declared a quarterly dividend of \$0.03 per share on its Class A Common stock ("Class A Shares") and Class B Common stock ("Class B Shares"), payable on March 30, 2010 to shareholders of record on March 16, 2010.

Voting Rights

The holders of Class A Shares and Class B Shares have identical rights except that (i) holders of Class A Shares are entitled to one vote per share, while holders of Class B Shares are entitled to ten votes per share on all matters to be voted on by shareholders in general, and (ii) holders of Class A Shares are not eligible to vote on matters relating exclusively to Class B Shares 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 Shares have been reserved for issuance under each of the plans. With respect to stock options, the Compensation Committee may grant 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 vest 75% after three years and 100% after four years from the date of grant and expire after ten years.

On January 15, 2011, and February 9, 2011, the Company approved the granting of 193,900 restricted stock award (“RSA”) shares and 3,300 RSAs, respectively, at a grant date fair value of \$48.85 per share and \$45.77 per share, respectively. On February 9, 2010, the Company approved the granting of 88,800 RSA shares at a grant date fair value of \$40.64 per share to be issued on June 1, 2010. As of March 31, 2011 and 2010, there were 293,800 RSA shares and 359,100 RSA shares, respectively, outstanding that were previously issued at an average weighted grant price of \$45.54 and \$60.78, respectively. All grants of the RSAs were recommended by the Company's Chairman, who did not receive an RSA, and approved by the Compensation Committee. This expense will be 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 are charged to retained earnings on the declaration date.

In the fourth quarter of 2010, the Board of Directors of the Company approved the acceleration of the vesting of certain RSAs resulting in the recognition of \$5.5 million in stock compensation expense which would have been recorded in 2011 and 2012.

For the three months ended March 31, 2011 and 2010, we recognized stock-based compensation expense of \$0.6 million and \$1.4 million, respectively. Stock-based compensation expense for RSAs and options for the years ended December 31, 2010 through December 31, 2016 (based on awards currently issued or granted) is as follows (\$ in thousands):

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------|-----------|----------|----------|----------|----------|----------|-------|
| Q1 | \$ 1,383 | \$ 577 | \$ 647 | \$ 646 | \$ 403 | \$ 366 | \$ 46 |
| Q2 | 1,422 | 658 | 647 | 625 | 367 | 334 | - |
| Q3 | 1,416 | 652 | 646 | 581 | 367 | 271 | - |
| Q4 | 6,364 | 656 | 646 | 581 | 367 | 271 | - |
| Full Year | \$ 10,585 | \$ 2,543 | \$ 2,586 | \$ 2,433 | \$ 1,504 | \$ 1,242 | \$ 46 |

The total compensation costs related to non-vested restricted stock awards and options not yet recognized is approximately \$9.8 million. For the three months ended March 31, 2011, there were no options exercised. For the three months ended March 31, 2010, proceeds from the exercise of 500 stock options were \$8,000 resulting in a tax benefit to GAMCO of \$5,000.

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 4, 2010, our Board of Directors authorized an incremental 500,000 shares to be added to the current buyback authorization. For the three months ended March 31, 2011 and 2010, the Company repurchased 161,588 shares and 180,200 shares, respectively, at an average price per share of \$43.91 and \$44.58, respectively. From the inception of the program through March 31, 2011, 7,054,674 shares have been repurchased at an average price of \$40.41 per share. At March 31, 2011, the total shares available under the program to be repurchased in the future were 362,745.

I. Goodwill and Identifiable Intangible Assets

The Company assesses the recoverability of goodwill and other intangible assets at least annually, or more often should events warrant, using a discounted cash flow method and a market approach. There were no indicators of impairment for the three months ended March 31, 2011 or 2010, and as such there was no impairment analysis performed or charge recorded. At March 31, 2011, \$3.5 million of goodwill is reflected on the condensed consolidated statements of financial condition related to a 93%-owned subsidiary, Gabelli Securities, Inc.

On March 10, 2008, the Enterprise Mergers and Acquisitions Fund's (the "Fund") Board of Directors, subsequent to obtaining shareholder approval, approved the assignment of the advisory contract to Gabelli Funds, LLC as the investment adviser to the Fund. GAMCO Asset Management Inc. had been the sub-adviser to the Fund. On July 8, 2008, the Fund was renamed the Gabelli Enterprise Merger and Acquisitions Fund. The amount paid for the assignment of the advisory contract was calculated based upon AUM on the six-month anniversary date subject to certain minimums. As a result of becoming the adviser to the rebranded Gabelli Enterprise Mergers and Acquisitions Fund and the associated consideration paid, the Company maintains an identifiable, indefinite-lived intangible asset within other assets on the condensed consolidated statements of financial condition at both March 31, 2011 and 2010. 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 2012. 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 months ended March 31, 2011 or 2010, 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 or other relief. The Company cannot predict the ultimate outcome of such matters.

We indemnify the clearing brokers of our affiliated broker-dealer for losses they may sustain from the customer accounts that trade on margin introduced by our broker-dealer subsidiary. At March 31, 2011, 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 our obligations under the agreements. The Company has had no claims or payments pursuant to these or prior agreements, and we believe the likelihood of a claim being made is remote. Management cannot estimate any potential maximum exposure due both to the remoteness of any potential claims and the fact that items that would be included within any such calculated claim would be beyond the control of management. Consequently, no accrual has been made in the condensed consolidated financial statements.

K. Subsequent Events

From April 1, 2011 to May 6, 2011, the Company repurchased 15,604 shares at \$44.96 per share.

On April 29, 2011, the Financial Industry Regulatory Authority ("FINRA") approved the membership of a new broker-dealer, named G.distributors, LLC, which is anticipated to become the distributor for the Gabelli/GAMCO

family of mutual funds. In connection with this application for FINRA membership, the Company provided an initial capital contribution of approximately \$3.1 million.

On May 6, 2011, our Board of Directors declared a quarterly dividend of \$0.04 per share to all of its Class A and Class B shareholders, payable on June 28, 2011 to shareholders of record on June 14, 2011.

On May 6, 2011 our Board of Directors authorized that an additional 500,000 shares be added to our current buyback authorization. This brings the remaining authorization under the stock repurchase program to 847,141 shares at May 6, 2011.

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 Catalyst™ 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., we provide institutional research and brokerage services to institutional clients and investment partnerships and mutual fund distribution. We generally manage assets on a discretionary basis and invest in a variety of U.S. and international securities through various investment styles. Our revenues are based primarily on the firm's levels of assets under management and fees associated with our various investment products.

Since 1977, we have been identified with and have enhanced the "value" style approach to investing. Our investment objective is to earn a superior risk-adjusted return for our clients over the long-term through our proprietary fundamental research. In addition to our value portfolios, we offer our clients a broad array of investment strategies that include global, growth, international and convertible products. We also offer a series of investment partnership (performance fee-based) vehicles that provide a series of long-short investment opportunities in market and sector specific opportunities, including offerings of non-market correlated investments in merger arbitrage, as well as fixed income strategies.

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, revenues.

We conduct our investment advisory business principally through: GAMCO Asset Management Inc. (Separate Accounts), Gabelli Funds, LLC (Mutual Funds) and Gabelli Securities, Inc. (Investment Partnerships). We also act as an underwriter, are a distributor of our open-end funds and provide institutional research through Gabelli & Company, Inc. ("Gabelli & Company"), our broker-dealer subsidiary.

Assets under management ("AUM") were \$35.4 billion as of March 31, 2011, 26.5% greater than March 31, 2010 AUM of \$28.0 billion and 8.8% above the December 31, 2010 AUM of \$32.5 billion. Highlights are as follows:

- Our open-end equity funds AUM were \$12.3 billion on March 31, 2011, 34.9% higher than the \$9.2 billion on March 31, 2010 and 9.7% above the \$11.3 billion on December 31, 2010.
- Our closed-end funds had AUM of \$6.2 billion on March 31, 2011, climbing 29.5% from the \$4.8 billion on March 31, 2010 and increasing 12.8% from the \$5.5 billion on December 31, 2010, primarily the result of the successful launch of Gabelli Natural Resources, Gold & Income Trust (NYSE: GNT).
- Our institutional and private wealth management business ended the quarter with \$14.7 billion, up 23.0% from the \$12.0 billion on March 31, 2010 and 7.9% higher than the December 31, 2010 level of \$13.6 billion.

- Our investment partnerships AUM were \$547 million on March 31, 2011 versus \$341 million on March 31, 2010 and \$515 million on December 31, 2010.
- AUM in The Gabelli U.S. Treasury Money Market Fund, our 100% U.S. Treasury money market fund, was flat at \$1.6 billion at March 31, 2011 compared with \$1.6 billion at December 31, 2010 and down slightly from the \$1.7 billion at March 31, 2010.
- In addition to management fees, we earn incentive fees for certain institutional client assets, assets attributable to preferred issues for our closed-end funds, our Gabelli Global Deal Fund (NYSE: GDL) and investment partnership assets. As of March 31, 2011, assets with incentive based fees were \$3.7 billion, 27.6% higher than the \$2.9 billion on March 31, 2010 and unchanged from the \$3.7 billion on December 31, 2010.

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

Table I: Fund Flows - 1st Quarter 2011

| | December 31, 2010 | Market appreciation/ (depreciation) | Net cash flows | Closed-end Fund distributions, net of reinvestments | March 31, 2011 |
|---------------------------------------|----------------------|---|-------------------|---|-------------------|
| Equities: | | | | | |
| Open-end Funds | \$ 11,252 | \$ 557 | \$ 539 | \$ - | \$ 12,348 |
| Closed-end Funds | 5,471 | 334 | 449 | (a) (84) | 6,170 |
| Institutional & PWM - direct | 11,005 | 765 | 10 | - | 11,780 |
| Institutional & PWM - sub-advisory | 2,637 | 194 | 106 | - | 2,937 |
| Investment Partnerships | 515 | 9 | 23 | - | 547 |
| Total Equities | 30,880 | 1,859 | 1,127 | (84) | 33,782 |
| Fixed Income: | | | | | |
| Money-Market Fund | 1,616 | - | (33) | - | 1,583 |
| Institutional & PWM | 26 | - | - | - | 26 |
| Total Fixed Income | 1,642 | - | (33) | - | 1,609 |
| Total Assets Under Management | \$ 32,522 | \$ 1,859 | \$ 1,094 | \$ (84) | \$ 35,391 |

Table II: Assets Under Management

| | March 31, 2010 | March 31, 2011 | % Inc.(Dec.) |
|---------------------------------------|-------------------|-------------------|-----------------|
| Equities: | | | |
| Open-end Funds | \$ 9,153 | \$ 12,348 | 34.9 % |
| Closed-end Funds | 4,766 | 6,170 | 29.5 |
| Institutional & PWM - direct | 9,904 | 11,780 | 18.9 |
| Institutional & PWM - sub-advisory | 2,059 | 2,937 | 42.6 |
| Investment Partnerships | 341 | 547 | 60.4 |
| Total Equities | 26,223 | 33,782 | 28.8 |
| Fixed Income: | | | |
| Money-Market Fund | 1,727 | 1,583 | (8.3) |
| Institutional & PWM | 26 | 26 | - |
| Total Fixed Income | 1,753 | 1,609 | (8.2) |
| Total Assets Under Management | \$ 27,976 | \$ 35,391 | 26.5 % |

Table III: Assets Under Management by Quarter

| | 3/10 | 6/10 | 9/10 | 12/10 | 3/11 | % Increase/ (decrease) from | |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|--------------------------------|---------------|
| | | | | | | 3/10 | 12/10 |
| Equities: | | | | | | | |
| Open-end Funds | \$ 9,153 | \$ 8,684 | \$ 9,962 | \$ 11,252 | \$ 12,348 | 34.9 % | 9.7 % |
| Closed-end Funds | 4,766 | 4,470 | 5,033 | 5,471 | 6,170 | 29.5 | 12.8 |
| Institutional & PWM - direct | 9,904 | 8,988 | 10,172 | 11,005 | 11,780 | 18.9 | 7.0 |
| Institutional & PWM - sub-advisory | 2,059 | 1,935 | 2,218 | 2,637 | 2,937 | 42.6 | 11.4 |
| Investment Partnerships | 341 | 406 | 466 | 515 | 547 | 60.4 | 6.2 |
| Total Equities | 26,223 | 24,483 | 27,851 | 30,880 | 33,782 | 28.8 | 9.4 |
| Fixed Income: | | | | | | | |
| Money-Market Fund | 1,727 | 1,579 | 1,644 | 1,616 | 1,583 | (8.3) | (2.0) |
| Institutional & PWM | 26 | 26 | 26 | 26 | 26 | - | - |
| Total Fixed Income | 1,753 | 1,605 | 1,670 | 1,642 | 1,609 | (8.2) | (2.0) |
| Total Assets Under Management | \$ 27,976 | \$ 26,088 | \$ 29,521 | \$ 32,522 | \$ 35,391 | 26.5 % | 8.8 % |

Relative long-term investment performance remains strong. 60% of all firm mutual funds performed in the top half of their Lipper categories on a one-, three-, five-, and ten-year total return basis, respectively as of March 31, 2011. Also, 50% of the firm's mutual funds that are rated have a 4- or 5-star 3 year Morningstar Rating™.

Gabelli/GAMCO Funds Morningstar Ratings Based on Risk Adjusted returns as of March 31, 2011 for funds that we manage

| FUND | Morningstar Category | Overall Rating | | 3 Year Rating | | 5 Year Rating | | 10 Year Rating | |
|---|---------------------------|----------------|------------|---------------|------------|---------------|------------|----------------|------------|
| | | Stars | # of Funds | Stars | # of Funds | Stars | # of Funds | Stars | # of Funds |
| Gabelli ABC AAA | Mid-Cap Growth | ☆☆☆ | 682 | ☆☆☆ | 682 | ☆☆☆☆ | 603 | ☆☆☆☆ | 401 |
| Gabelli Asset AAA | Large Blend | ☆☆☆☆ | 1757 | ☆☆☆☆ | 1757 | ☆☆☆☆ | 1471 | ☆☆☆☆ | 816 |
| Gabelli Blue Chip Value AAA | Large Blend | ☆☆ | 1757 | ☆☆ | 1757 | ☆☆ | 1471 | ☆ | 816 |
| Gabelli Equity Income AAA | Large Value | ☆☆☆☆ | 1120 | ☆☆ | 1120 | ☆☆☆☆ | 945 | ☆☆☆☆ | 522 |
| Gabelli Small Cap Growth AAA | Small Blend | ☆☆☆☆ | 577 | ☆☆ | 577 | ☆☆☆☆ | 487 | ☆☆☆☆ | 285 |
| Gabelli SRI Green AAA | Mid-Cap Growth | ☆☆☆☆ | 682 | ☆☆☆☆ | 682 | n/a | n/a | n/a | n/a |
| Gabelli Utilities AAA | Specialty-Utilities | ☆☆☆☆ | 84 | ☆☆☆☆ | 84 | ☆☆ | 78 | ☆☆ | 52 |
| Gabelli Value A | Mid-Cap Blend | ☆☆ | 380 | ☆☆ | 380 | ☆☆ | 304 | ☆☆ | 185 |
| Gabelli Woodland Small Cap Value AAA | Small Blend | ☆☆ | 577 | ☆☆ | 577 | ☆☆ | 487 | n/a | n/a |
| GAMCO Vertumnus AAA | Convertibles | ☆ | 63 | ☆ | 63 | ☆ | 53 | ☆ | 42 |
| GAMCO Global Growth AAA | World Stock | ☆☆ | 660 | ☆☆ | 660 | ☆☆ | 502 | ☆☆ | 279 |
| GAMCO Global Opportunity AAA | World Stock | ☆☆ | 660 | ☆☆ | 660 | ☆☆ | 502 | ☆☆ | 279 |
| GAMCO Global Telecommunications AAA | Specialty-Communications | ☆☆ | 40 | ☆☆ | 40 | ☆☆ | 33 | ☆☆ | 29 |
| GAMCO Gold AAA | Specialty-Precious Metals | ☆☆ | 74 | ☆☆ | 74 | ☆☆ | 61 | ☆☆ | 40 |
| GAMCO Growth AAA | Large Growth | ☆☆ | 1505 | ☆☆ | 1505 | ☆☆ | 1312 | ☆ | 818 |
| GAMCO International Growth AAA | Foreign Large Growth | ☆☆ | 207 | ☆☆ | 207 | ☆☆ | 164 | ☆☆ | 91 |
| GAMCO Mathers | Conservative Allocation | ☆ | 592 | ☆☆ | 592 | ☆ | 442 | ☆ | 160 |
| Gabelli Enterprise Mergers & Acquisitions A | Mid-cap Blend | ☆☆ | 380 | ☆☆ | 380 | ☆☆ | 304 | ☆☆ | 185 |
| Comstock Capital Value AAA | Bear Market | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Percent of Rated funds rated 4 or 5 stars | | | 38.89% | | 50.00% | | 41.18% | | 37.50% |

The Overall Morningstar Rating™ is derived from a weighted average of the performance figures associated with its three, five and ten year (if applicable) Morningstar Rating

metrics. Data presented reflects past performance, which is no guarantee of future results. Ratings are for Class AAA or A shares only, other classes may have different performance characteristics. Unrated funds and closed-end funds are not listed. For each fund with at least a three year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure (including the effects of sales charges, loads, and redemption fees) that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of the funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Strong relative performance is not indicative of positive fund returns. © 2011 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. Each Fund's prospectus contains this and other information about the Funds and is available, along with information on other Gabelli Funds, by calling 800-GABELLI (422-3554), online at www.gabelli.com/funds or from your financial advisor. The prospectus should be read carefully before investing. Distributed by Gabelli & Company, One Corporate Center, Rye, NY 10580 Call 1-800-GABELLI (422-3554) for a prospectus. The inception date for the Gabelli SRI Green Fund was June 1, 2007. The inception date for the Gabelli Woodland Small Cap Value Fund was December 31, 2002. The inception date for the Gabelli Enterprise Mergers & Acquisitions Fund was February 28, 2001. The inception date for the Comstock Capital Value Fund was October 10, 1985.

GABELLI/GAMCO
FUNDS

Gabelli Funds Lipper Rankings as of March 31, 2011

| Fund Name | Lipper Category | 1 Yr - 3/31/10-3/31/11 | | 3 Yrs - 3/31/08-3/31/11 | | 5 Yrs - 3/31/06-3/31/11 | | 10 Yrs - 3/31/01-3/31/11 | |
|-------------------------------|--|---------------------------|--------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-----------------------------|--------------------------|
| | | Percentile Rank | Rank / Total Funds | Percentile Rank | Rank / Total Funds | Percentile Rank | Rank / Total Funds | Percentile Rank | Rank / Total Funds |
| Gabelli Asset; AAA | Multi-Cap Core Funds | 7 | 50/814 | 16 | 109/704 | 5 | 28/584 | 11 | 29/277 |
| Gabelli Value Fund; A | Multi-Cap Growth Funds | 11 | 50/455 | 24 | 90/385 | 25 | 78/320 | 17 | 36/221 |
| Gabelli SRI; AAA | Mid-Cap Growth Funds | 20 | 80/415 | 2 | 5/376 | - | - | - | - |
| Gabelli Eq:Eq Inc; AAA | Equity Income Funds | 32 | 87/272 | 22 | 52/242 | 23 | 43/193 | 11 | 11/100 |
| GAMCO Growth; AAA | Large-Cap Growth Funds | 77 | 626/818 | 80 | 576/724 | 72 | 450/627 | 87 | 333/385 |
| Gabelli Eq:SC Gro; AAA | Small-Cap Core Funds | 42 | 329/798 | 28 | 198/714 | 9 | 50/560 | 17 | 54/328 |
| Gabelli Eq:Wd SCV; AAA | Small-Cap Core Funds | 34 | 268/798 | 31 | 219/714 | 31 | 170/560 | - | - |
| GAMCO Gl:Oppty; AAA | Global Large-Cap Growth | 11 | 10/96 | 10 | 7/75 | 23 | 13/58 | 8 | 3/40 |
| GAMCO Gl:Growth; AAA | Global Large-Cap Growth | 30 | 29/96 | 28 | 21/75 | 19 | 11/58 | 57 | 23/40 |
| GAMCO Gold; AAA | Precious Metal Funds | 81 | 72/88 | 74 | 52/70 | 57 | 30/52 | 39 | 13/33 |
| GAMCO Intl Gro; AAA | International Large-Cap Growth | 26 | 61/242 | 30 | 58/197 | 42 | 65/155 | 49 | 46/94 |
| Gabelli Bl Chp Val; AAA | Large-Cap Core Funds | 43 | 461/1,078 | 20 | 179/936 | 37 | 295/800 | 75 | 367/492 |
| Gabelli Inv:ABC; AAA | Specialty Diversified Equity Funds | 69 | 31/44 | 48 | 17/35 | 28 | 7/24 | 10 | 1/9 |
| GAMCO Mathers; AAA | Specialty Diversified Equity Funds | 80 | 36/44 | 78 | 28/35 | 68 | 17/24 | 50 | 5/9 |
| Comstock Cap Val; A | Specialty Diversified Equity Funds | 92 | 41/44 | 92 | 33/35 | 88 | 22/24 | 70 | 7/9 |
| GAMCO Gl:Telecom; AAA | Telecommunications Funds | 77 | 33/42 | 59 | 21/35 | 18 | 5/28 | 18 | 4/22 |
| GAMCO Gl:Vertumnus; AAA | Convertible Securities Funds | 81 | 51/62 | 95 | 51/53 | 94 | 42/44 | 93 | 35/37 |
| Gabelli Utilities; AAA | Utility Funds | 35 | 28/80 | 4 | 3/75 | 15 | 10/66 | 25 | 12/48 |
| | | 99 | 372/376 | 83 | 265/321 | 73 | 188/260 | 88 | 131/149 |

| | | | | | | | | | |
|---|---|-------|--------|-------|--------|-------|--------|-------|--------|
| 787:Gabelli Merg&Acq; A Gabelli Capital Asset Fund | Mid-Cap Core Funds Distributed through Insurance Channel | 4 | 14/314 | 8 | 23/294 | 7 | 15/225 | 15 | 21/139 |
| % of funds in top half | | 60.0% | | 65.0% | | 68.4% | | 66.7% | |

Data presented reflects past performance, which is no guarantee of future results. Strong rankings are not indicative of positive fund performance. Absolute performance for some funds was negative for certain periods. Other share classes are available which may have different performance characteristics.

Lipper, a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments including mutual funds, retirement funds, hedge funds, fund fees and expenses to the asset management and media communities. Lipper ranks the performance of mutual funds within a classification of funds that have similar investment objectives.

Rankings are historical with capital gains and dividends reinvested and do not include the effect of loads. If an expense waiver was in effect, it may have had a material effect on the total return or yield for the period.

Relative long-term investment performance remained strong with approximately 60%, 65%, 68% and 67% of firmwide mutual funds in the top half of their Lipper categories on a one-, three-, five-, and ten-year total-return basis, respectively, as of March 31, 2011.

Investors should consider carefully the investment objective, risks, charges and expenses of a fund before investing. The Prospectus which contains more information about this and other matters, should be read carefully before investing. You can obtain a prospectus by calling 1-800 GABELLI. Distributed by Gabelli & Company. Other share classes are available that have different performance characteristics.

The inception date for the Gabelli SRI Green Fund was June 1, 2007. The inception date for the Gabelli Woodland Small Cap Value Fund was December 31, 2002.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the notes thereto included in Item 1 to this report.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2011 Compared To Three Months Ended March 31, 2010

| (Unaudited; in thousands, except per share data) | | |
|--|------------------|------------------|
| | 2011 | 2010 |
| Revenues | | |
| Investment advisory and incentive fees | \$ 62,911 | \$ 49,342 |
| Institutional research services | 3,649 | 3,424 |
| Distribution fees and other income | 10,345 | 7,232 |
| Total revenues | 76,905 | 59,998 |
| Expenses | | |
| Compensation | 33,417 | 26,213 |
| Management fee | 3,113 | 2,448 |
| Distribution costs | 13,429 | 7,031 |
| Other operating expenses | 6,186 | 4,936 |
| Total expenses (a) | 56,145 | 40,628 |
| Operating income | 20,760 | 19,370 |
| Other income (expense) | | |
| Net gain from investments | 8,740 | 5,232 |
| Interest and dividend income | 1,936 | 815 |
| Interest expense | (2,867) | (3,292) |
| Total other income, net | 7,809 | 2,755 |
| Income before income taxes | 28,569 | 22,125 |
| Income tax provision | 10,288 | 8,294 |
| Net income | 18,281 | 13,831 |
| Net income attributable to noncontrolling interests | 638 | 105 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 17,643 | \$ 13,726 |
| Net income attributable to GAMCO Investors, Inc.'s shareholders per share | | |
| Basic | \$ 0.66 | \$ 0.50 |
| Diluted | \$ 0.65 | \$ 0.50 |
| Reconciliation of net income attributable to GAMCO Investors, Inc.'s shareholders to Adjusted EBITDA: | | |
| Net income attributable to GAMCO Investors, Inc.'s shareholders | \$ 17,643 | \$ 13,726 |
| Interest expense | 2,867 | 3,292 |
| Income tax provision and net income attributable to noncontrolling interests | 10,926 | 8,399 |
| Depreciation and amortization | 274 | 171 |

| | | | | |
|---------------------|----|--------|----|--------|
| Adjusted EBITDA (b) | \$ | 31,710 | \$ | 25,588 |
|---------------------|----|--------|----|--------|

(a) First quarter 2011 includes \$5.6 million in costs directly related to the launch of a new closed-end fund.

(b) Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and noncontrolling interests. Adjusted EBITDA is a non-GAAP measure and should not be considered as an alternative to any measure of performance as promulgated under accounting principles generally accepted in the United States nor should it be considered as an indicator of our overall financial performance. We use Adjusted EBITDA as a supplemental measure of performance as we believe it gives investors a more complete understanding of our operating results before the impact of financing activities as a tool for determining the private market value of an enterprise.

Overview

Total revenues were \$76.9 million in the first quarter of 2011, 28.2% above the \$60.0 million reported in the first quarter of 2010. Operating income was \$20.8 million, an increase of \$1.4 million or 7.2% from \$19.4 million in the first quarter of 2010. Total other income, net of interest expense, was \$7.8 million for the first quarter 2011 versus \$2.8 million in the prior year's quarter. In the short-run, our results remain sensitive to changes in the equity markets. Net income attributable to GAMCO Investors, Inc.'s shareholders for the quarter was \$17.6 million or \$0.65 per fully diluted share versus \$13.7 million or \$0.50 per fully diluted share in the prior year's quarter.

Revenues

Investment advisory and incentive fees for the first quarter 2011 were \$62.9 million, 27.6% above the 2010 comparative figure of \$49.3 million. Open-end mutual fund revenues increased by 29.1% to \$28.4 million from \$22.0 million in first quarter 2010 driven by higher average AUM resulting from both net inflows and market performance. Our closed-end fund revenues rose 34.5% to \$11.7 million in the first quarter 2011 from \$8.7 million in 2010 due to higher average AUM as well as revenues from a new closed-end fund launched in the 2011 quarter. Institutional and private wealth management account revenues, which are generally based on beginning of quarter AUM, increased 22.3% to \$21.9 million from \$17.9 million in first quarter 2010, primarily due to higher AUM resulting from new inflows and market appreciation, and an increase in earned performance fees. Investment partnership revenues were \$874,000 an increase of 11.8% from the \$782,000 in 2010.

Our institutional research subsidiary had revenues of \$3.6 million in the first quarter 2010, increasing 5.9% from the \$3.4 million in the prior year.

Open-end fund distribution fees and other income were \$10.3 million for the first quarter 2011, an increase of 43.1% or \$3.1 million from the prior period's \$7.2 million, primarily due to higher quarterly average AUM in open-end equity mutual funds that generate such fees and an increased level of sales of load shares of mutual funds.

Expenses

Compensation costs, which are largely variable, were \$33.4 million or 27.5% higher than the \$26.2 million recorded in the prior year period. This increase was driven by higher revenues across most business lines as AUM increased substantially quarter over quarter and included \$0.4 million of one-time charges directly related to the launch of a new closed-end fund.

Management fee expense, which is completely variable and based on pretax income, increased to \$3.1 million in the first quarter of 2011 from \$2.4 million in the 2010 period.

Distribution costs were \$13.4 million, an increase of 91.4% from \$7.0 million in the prior year's period. The increase was primarily attributable to \$4.7 million in one-time pre-tax charges related to the launch of GNT. Excluding these one-time pre-tax charges, distribution costs would have been \$8.7 million for the first quarter of 2011, an increase of 24.3% from the 2010 first quarter amount of \$7.0 million.

Other operating expenses increased by \$1.3 million to \$6.2 million in the first quarter of 2011 from the prior year's first quarter of \$4.9 million partially due to the \$0.5 million in one-time pre-tax charges related to the launch of GNT.

Total expenses, excluding the management fee, were \$53.0 million in the first quarter of 2011, a 38.7% increase from \$38.2 million in the first quarter of 2010. Excluding the one-time pre-tax charges related to the launch of GNT in the

first quarter of 2011, the total expenses, excluding the management fee, were \$47.4 million, a 24.1% increase from the 2010 level.

Operating income for the first quarter of 2011 was \$20.8 million, an increase of \$1.4 million from the first quarter 2010's \$19.4 million. This increase was largely due to the increase in revenues partially offset by the one-time pre-tax launch costs for GNT of \$5.6 million. Excluding the one-time pre-tax charges for the launch of GNT, operating income was \$26.4 million, an increase of \$7.0 million or 36.1% from the first quarter of 2010.

Other

Total other income (net of interest expense) was \$7.8 million for the first quarter 2011 versus \$2.8 million in the prior year's quarter. Realized and unrealized gains in our trading portfolio rose by \$3.5 million on the relative strength in the equity markets. Interest and dividend income was higher by \$1.1 million. Interest expense was \$2.9 million in the first quarter of 2011, lower by \$0.4 million, as compared to the \$3.3 million in the first quarter of 2010.

The effective tax rate for the three months ended March 31, 2011 was 36.0% as compared to the prior year period's effective rate of 37.5%. The effective tax rate was lower in the 2011 quarter largely due to the original issue discount related to the zero coupon debentures issued at December 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

Our principal assets consist of cash and cash equivalents, short-term investments, securities held for investment purposes, investments in mutual funds, and investment partnerships and offshore funds, both proprietary and external. Cash and cash equivalents are comprised primarily of money market funds managed by GAMCO. Although the investment partnerships and offshore funds are for the most part illiquid, the underlying investments of such partnerships or funds are for the most part liquid, and the valuations of these products reflect that underlying liquidity.

Summary cash flow data is as follows:

| | Three months ended | |
|---|--------------------|------------|
| | March 31, | |
| | 2011 | 2010 |
| Cash flows provided by (used in): | (in thousands) | |
| Operating activities | \$ (1,910) | \$ 19,125 |
| Investing activities | 728 | 675 |
| Financing activities | (2,487) | (8,923) |
| Effect of exchange rates on cash and cash equivalents | (10) | (48) |
| Net (decrease) increase | (3,679) | 10,829 |
| Cash and cash equivalents at beginning of period | 169,601 | 338,270 |
| Decrease in cash from deconsolidation | (1,251) | - |
| Cash and cash equivalents at end of period | \$ 164,671 | \$ 349,099 |

Cash requirements and liquidity needs have historically been met through cash generated by operating activities and our borrowing capacity. Our shelf registration provides us opportunistic flexibility to sell any combination of senior and subordinate debt securities, convertible debt securities, equity securities (including common and preferred stock), and other securities up to a total amount of \$400 million. We maintain an investment grade rating at both Moody's Investors Services (Baa3/stable) and Standard & Poor's (BBB/stable).

At March 31, 2011, we had total cash and cash equivalents of \$164.7 million, a decrease of \$4.9 million from December 31, 2010. Cash and cash equivalents of \$2.0 million and investments in securities of \$83.6 million held by consolidated investment partnerships and offshore funds are restricted from use for general operating purposes. Total debt outstanding at March 31, 2011 was \$159.7 million, consisting of \$60.7 million in five year zero coupon

subordinated debentures due December 31, 2015 (“Debentures”), with a face value of \$86.4 million and \$99 million of 5.5% senior notes.

For the three months ended March 31, 2011, cash used in operating activities was \$1.9 million, a decrease of \$21.0 million from the prior year’s quarter of \$19.1 million. The most significant contributor to the additional use of cash from operating activities in the first three months of 2011 versus the first three months of 2010 was an increase of \$26.6 million in net purchases in trading securities. Cash provided by investing activities, related to purchases and proceeds from sales of available for sale securities, was \$728,000 in the first three months of 2011. Cash used in financing activities in the first three months of 2011 was \$2.5 million, including \$814,000 paid in dividends and \$7.1 million paid for the purchase of treasury stock.

For the three months ended March 31, 2010, cash provided by operating activities was \$19.1 million. Cash provided by investing activities, related to purchases and proceeds from sales of available for sale securities, was \$675,000 in the first three months of 2010. Cash used in financing activities in the first three months of 2010 was \$8.9 million.

Based upon our current level of operations and anticipated growth, we expect that our current cash balances plus cash flows from operating activities and our borrowing capacity will be sufficient to finance our working capital needs for the foreseeable future. We have no material commitments for capital expenditures.

As a registered broker-dealer, Gabelli & Company is subject to certain net capital requirements. Gabelli & Company's net capital has historically exceeded these minimum net capital requirements. Gabelli & Company computes its net capital under the alternative method permitted, which requires minimum net capital of the greater of \$250,000 or 2% of the aggregate debit items in the reserve formula for those broker-dealers subject to Rule 15c3-3 promulgated under the Securities Exchange Act of 1934. The requirement was \$250,000 at March 31, 2011. At March 31, 2011, Gabelli & Company had net capital, as defined, of approximately \$9.1 million, exceeding the regulatory requirement by approximately \$8.9 million. Regulatory net capital requirements increase when Gabelli & Company is involved in underwriting activities.

Market Risk

Our primary market risk exposure is to changes in equity prices and interest rates. Since over 90% of our AUM are equities, our financial results are subject to equity-market risk as revenues from our investment management services are sensitive to stock market dynamics. In addition, returns from our proprietary investment portfolio are exposed to interest rate and equity market risk.

The Company earns substantially all of its revenue as advisory and distribution fees from our Mutual Fund, Institutional and Private Wealth Management, and Investment Partnership assets. Such fees represent a percentage of AUM and the majority of these assets are in equity investments. Accordingly, since revenues are proportionate to the value of those investments, a substantial increase or decrease in equity markets overall will have a corresponding effect on the Company's revenues.

With respect to our proprietary investment activities, included in investments in securities of \$345.6 million at March 31, 2011 were investments in United States Treasury Bills and Notes of \$12.1 million, in mutual funds, largely invested in equity products, of \$69.9 million, a selection of common and preferred stocks totaling \$263.0 million, and other investments of approximately \$0.6 million. Investments in mutual funds generally lower market risk through the diversification of financial instruments within their portfolio. In addition, we may alter our investment holdings from time to time in response to changes in market risks and other factors considered appropriate by management. Of the approximately \$263.0 million invested in common and preferred stocks at March 31, 2011, \$37.4 million represented our investment in Westwood Holdings Group Inc., and \$33.6 million was invested in risk arbitrage opportunities in connection with mergers, consolidations, acquisitions, tender offers or other similar transactions. Securities sold, not yet purchased are stated at fair value and are subject to market risks resulting from changes in price and volatility. At March 31, 2011, the fair value of securities sold, not yet purchased was \$15.5 million. Investments in partnerships totaled \$94.6 million at March 31, 2011, the majority of which consisted of investment partnerships and offshore funds which invest in risk arbitrage opportunities. These transactions generally involve announced deals with agreed upon terms and conditions, including pricing, which typically involve less market risk than common stocks held in a trading portfolio. The principal risk associated with risk arbitrage transactions is the inability of the companies involved to complete the transaction.

The following table provides a sensitivity analysis for our investments in equity securities and partnerships and affiliates which invest primarily in equity securities, excluding arbitrage products for which the principal exposure is to deal closure and not overall market conditions, as of March 31, 2011. The sensitivity analysis assumes a 10% increase or decrease in the value of these investments (in thousands):

| | | Fair Value assuming 10% decrease in equity prices | Fair Value assuming 10% increase in equity prices |
|--|------------|--|--|
| (unaudited) | Fair Value | | |
| At March 31, 2011: | | | |
| Equity price sensitive investments, at fair value | \$ 373,995 | \$ 336,596 | \$ 411,395 |
| At December 31, 2010: | | | |
| Equity price sensitive investments, at fair value | \$ 359,699 | \$ 323,729 | \$ 395,669 |

From March 31, 2010, to March 31, 2011, the Company reallocated approximately \$100 million of capital from cash equivalents to investments in securities, including Gabelli Associates Limited II E and GAMCO Strategic Value Fund, a Luxembourg SICAV. Additionally, the consolidation of Gabelli Associates Limited II E added approximately \$27 million to investments in securities.

GAMCO's exposure to interest rate risk results, principally, from its investment of excess cash in U.S. Government securities. These investments are primarily short term in nature, and the carrying value of these investments generally approximates fair value.

Critical Accounting Policies and Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. See Note A and the Company's Critical Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations in GAMCO's 2010 Annual Report on Form 10-K filed with the SEC on February 23, 2011 for details on Significant Accounting Policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of its business, GAMCO is exposed to risk of loss due to fluctuations in the securities market and general economy. Management is responsible for identifying, assessing and managing market and other risks.

Our exposure to pricing risk in equity securities is directly related to our role as financial intermediary and advisor for AUM in our Mutual Funds, Separate Accounts, and Investment Partnerships as well as our proprietary investment and trading activities. At March 31, 2011, we had equity investments, including mutual funds largely invested in equity products, of \$345.6 million. Investments in mutual funds, \$69.9 million, usually generate lower market risk through the diversification of financial instruments within their portfolios. In addition, we may alter our investment holdings from time to time in response to changes in market risks and other factors considered appropriate by management. We also hold investments in partnerships which invest primarily in equity securities and which are subject to changes in equity prices. Investments in partnerships totaled \$94.6 million, of which \$32.6 million were invested in partnerships which invest in event-driven merger arbitrage strategies. These strategies are primarily dependent upon deal closure rather than the overall market environment. The equity investment portfolio is at fair value and will move in line with the equity markets. The trading portfolio changes will be recorded as net gain from investments in the condensed consolidated statements of income while the available for sale portfolio changes will be recorded in other comprehensive income in the condensed consolidated statements of financial condition.

Item 4. Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2011. Disclosure controls and procedures as defined under the Securities Exchange Act Rule 13a-15(e), are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures accumulated and communicated to our management, including our Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and Co-Principal Accounting Officers ("PAOs"), to allow timely decisions regarding required disclosure. Our CEO, CFO, and PAOs participated in this evaluation and concluded that, as of the date of March 31, 2011, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting as defined by Rule 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Forward-Looking Information

Our disclosure and analysis in this report contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements because they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words and terms of similar meaning. They also appear in any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance of our products, expenses, the outcome of any legal proceedings, and financial results. Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ from our expectations or beliefs include, without limitation: the adverse effect from a decline in the securities markets; a decline in the performance of our products; a general downturn in the economy; changes in government policy or regulation; changes in our ability to attract or retain key employees; and unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations. We also direct your attention to any more specific discussions of risk contained in our Form 10-Q and other public filings. We are providing these statements as permitted by the Private Litigation Reform Act of 1995. We do not undertake to update publicly any forward-looking statements if we subsequently learn that we are unlikely to achieve our expectations or if we receive any additional information relating to the subject matters of our forward-looking statements.

Part II: Other Information

Item 1. Legal Proceedings

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 or other relief. The Company cannot predict the ultimate outcome of such matters.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to the repurchase of Class A Common Stock of GAMCO during the three months ended March 31, 2011:

| Period | (a) Total | (b) Average | (c) Total Number of | (d) Maximum |
|----------------------|-------------|---------------|---------------------|------------------|
| | Number of | Price Paid | Shares Repurchased | Number of Shares |
| | Shares | Per | as | |
| | Repurchased | Share, net of | Part of Publicly | That May Yet Be |
| | | Commissions | Announced Plans | Purchased Under |
| | | | or Programs | the Plans or |
| | | | | Programs |
| 1/01/11 - 1/31/11 | 5,400 | \$ 45.67 | 5,400 | 518,933 |
| 2/01/11 - 2/28/11 | 22,586 | 46.24 | 22,586 | 496,347 |
| | 133,602 | 43.44 | 133,602 | 362,745 |

3/01/11 -
3/31/11

| | | | | |
|--------|---------|----|-------|---------|
| Totals | 161,588 | \$ | 43.91 | 161,588 |
|--------|---------|----|-------|---------|

Item 6. (a) Exhibits

31.1 Certification of CEO pursuant to Rule 13a-14(a).

31.2 Certification of CFO pursuant to Rule 13a-14(a).

32.1 Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GAMCO INVESTORS, INC.
(Registrant)

| | |
|--|--|
| By:/s/ Kieran Caterina | By:/s/ Diane M. LaPointe |
| Name: Kieran Caterina | Name: Diane M. LaPointe |
| Title: Co-Principal Accounting Officer | Title: Co-Principal Accounting Officer |
| Date: May 6, 2011 | Date: May 6, 2011 |

