

GAMCO INVESTORS, INC. ET AL  
Form 10-K  
March 07, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 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 number 001-14761

GAMCO Investors, Inc.

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	13-4007862 (I.R.S. Employer Identification No.)
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One Corporate Center, Rye, NY (Address of principal executive offices)	10580-1422 (Zip Code)
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Registrant's telephone number, including area code (914) 921-3700  
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

Act Yes  No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes  No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

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

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

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

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

The aggregate market value of the class A common stock held by non-affiliates of the registrant as of June 30, 2011 (the last business day of the registrant’s most recently completed second fiscal quarter) was \$302,688,458.

As of March 1, 2012, 6,773,492 shares of class A common stock and 20,070,746 shares of class B common stock were outstanding. 19,626,500 shares of class B common stock were held by a subsidiary of GGCP, Inc.

**DOCUMENTS INCORPORATED BY REFERENCE:** Portions of the registrant’s definitive proxy statement relating to the 2012 Annual Meeting of Shareholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

## GAMCO Investors, Inc.

## Annual Report on Form 10-K For the Fiscal Year Ended December 31, 2011

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## PART I

### Forward-Looking Statements

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

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

We are providing these statements as permitted by the Private Litigation Reform Act of 1995. We do not undertake to update publicly any forward-looking statements if we subsequently learn that we are unlikely to achieve our expectations or if we receive any additional information relating to the subject matters of our forward-looking statements.

### ITEM 1: BUSINESS

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

#### Overview

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

Since 1977, we have been identified with and enhanced the “value” style approach to investing. Over the 34 years since the inception of the firm, consistent with our fundamental objective of providing an absolute rate of return for our clients, we have generated over \$15.8 billion in investment returns for our institutional and private wealth

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

As of December 31, 2011, we had \$34.1 billion of AUM. We conduct our investment advisory business principally through our subsidiaries: GAMCO Asset Management Inc. (Institutional and Private Wealth Management), Gabelli Funds, LLC (Mutual Funds) and Gabelli Securities, Inc. (Investment Partnerships). We also act as an underwriter and provide institutional research services through Gabelli & Company, Inc. (“Gabelli & Company”). G.distributors, LLC (“G.distributors”) acts as an underwriter and distributor of our open-end funds.

Our AUM are organized into four groups:

- **Investment Partnerships:** We provide advisory services to limited partnerships and offshore funds (“Investment Partnerships”). We managed a total of \$605 million in Investment Partnership assets on December 31, 2011.
- **Institutional and Private Wealth Management:** We provide advisory services to a broad range of investors, including private wealth management, corporate pension and profit-sharing plans, foundations, endowments, jointly-trusted plans and municipalities, and also serve as sub-advisor to certain other third party investment funds including registered investment companies (“Institutional and Private Wealth Management”). Each Institutional and Private Wealth Management (“PWM”) portfolio is managed to meet the needs and objectives of the particular client by utilizing investment strategies and techniques within our areas of expertise. On December 31, 2011, we had \$13.5 billion of Institutional and Private Wealth Management AUM.
- **Open and Closed-End Funds:** We provide advisory services to twenty-one open-end funds and ten closed-end funds under Gabelli, GAMCO and Comstock brands (collectively, the “Funds”). The Funds had \$19.9 billion of AUM on December 31, 2011. Additionally, we provide administrative services to six open-end funds, with AUM of \$0.8 billion on December 31, 2011, under the GAMCO Westwood brand.
- **SICAV:** We provide advisory services to one fund under the GAMCO brand, the GAMCO International SICAV. This fund has two sub-fund strategies within it, the GAMCO Merger Arbitrage Fund and the GAMCO Strategic Value Fund. The SICAV had \$105 million of AUM, including \$100 million of seed capital provided by the Company, on December 31, 2011.

GBL is a holding company incorporated in April 1998 in connection with our initial public offering (“Offering”) in February 1999. GGCP Holdings, LLC, a subsidiary of GGCP, Inc. owns a majority of the outstanding shares of Class B Common Stock (“Class B Stock”) of GBL. Such ownership represented approximately 95% of the combined voting power of the outstanding common stock and approximately 73% of the equity interest on December 31, 2011. GGCP, Inc. is majority-owned by Mr. Mario J. Gabelli (“Mr. Gabelli”). Accordingly, Mr. Gabelli is deemed to control GBL.

Our principal executive offices are located at One Corporate Center, Rye, New York 10580. Our telephone number is (914) 921-3700. We post or provide a link on our website, [www.gabelli.com](http://www.gabelli.com), to the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (“Commission” or “SEC”): our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings on our website are available free of charge.

During 2011, we returned \$51.2 million of our earnings to shareholders through dividends and our stock buyback program. We paid \$30.8 million, or \$1.15 per share, in cash dividends to our common shareholders and repurchased 450,966 shares at an average investment of \$45.24 per share or \$20.4 million.

Since the Offering, we have returned \$642.4 million in total of which \$344.0 million was in the form of dividends and \$298.4 million was through stock buybacks.

As of December 31, 2011, seven open-end funds that we manage have a 4 or 5-star three year Morningstar Rating™ representing 62% of open-end fund equity AUM for funds with a Morningstar Rating™.



Our balance sheet provides access to financial markets and the flexibility to opportunistically add operating resources to our firm, repurchase our stock and consider strategic initiatives. As a result of GBL's shelf registration in the third quarter of 2009, we have the ability to issue any combination of senior and subordinate debt securities, convertible debt securities and equity securities (including common and preferred securities) up to a total amount of \$400 million. On May 31, 2011, the Company issued \$100 million of senior unsecured notes at par. The net proceeds of \$99.1 million were used for working capital and general corporate purposes. The notes mature June 1, 2021 and bear interest, payable semi-annually, at 5.875% per annum. The notes were issued pursuant to the Company's shelf registration reducing the amount for future issuances to \$300 million. The shelf is available through July 27, 2012.

## Business Strategy

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

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

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

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

- Establishing Research Centers. To enhance our research in our core research competency, we have nine offices including New York, London, Hong Kong, Chicago, Greenwich, Connecticut, Shanghai, Tokyo, Minneapolis and St. Louis, Missouri. We will continue to evaluate adding additional research offices throughout the world. In addition to research, these centers along with Reno, Nevada and Palm Beach, Florida serve as relationships centers.
- Incentive Fees. Since a growing percentage of the firm's revenues may be directly linked to performance-based fees, this may increase the variability of our revenues and profits, largely recognized in the fourth quarter. As of December 31, 2011, approximately \$1.7 billion of Institutional and Private Wealth Management assets are managed on a performance fee basis along with \$875 million of preferred issues of closed-end funds, \$438 million in The GDL Fund and \$605 million of investment partnership assets, a total of \$3.6 billion. Unlike most money management firms, we have elected not to receive a management fee on a majority of the preferred offerings in our closed-end funds until the fund’s overall performance exceeds each preferred’s nominal cost of capital. In addition, the incubation of new product strategies using proprietary capital will compensate the investment team with a performance fee model to reinforce our pay-for-performance approach.
- Expanding Mutual Fund Distribution. We continue to expand our distribution network primarily through national and regional brokerage firms and have developed additional classes of shares for most

of our mutual funds for sale through these firms and other third party distribution channels on a commission basis. We have increased our wholesaling efforts to market the multi-class shares, which have been designed to meet the needs of investors who seek advice through financial consultants.

- **Increasing Presence in Private Wealth Management Market.** Our private wealth management business focuses, in general, on serving clients who have established an account relationship of \$1 million or more with us. According to industry estimates, the number of households with over \$1 million in investable assets will continue to grow in the future, subject to ups and downs in the equity and fixed income markets. With our 34-year history of serving this segment, long-term performance record, customized portfolio approach, dominant, tax-sensitive, investment strategy, brand name recognition and broad array of product offerings, we believe that we are well-positioned to capitalize on the growth opportunities in this market.
- **Increasing Marketing for Institutional and Private Wealth Management.** The Institutional and Private Wealth Management business was principally developed through direct marketing channels. Historically, pension and financial consultants have not been a major source of new institutional and private wealth management business for us. We plan to augment our institutional sales force through the addition of staff to market directly to the consultant community as well as through our traditional marketing channels.

- Attracting and Retaining Experienced Professionals. We offer significant variable compensation that provides opportunities to our staff. We have increased the scope of our investment management capabilities by adding portfolio managers and other investment personnel in order to expand our broad array of products. The ability to attract and retain highly-experienced investment and other professionals with a long-term commitment to us and our clients has been, and will continue to be, a significant factor in our long-term growth. At December 31, 2011, we had 275,600 restricted stock awards (“RSAs”) outstanding to our professional staff recommended by and excluding Mr. Gabelli, who has not received options or RSAs, which originally had three and five year vesting, which will align our professional team with our commitment to our long term goals.
- Sponsorship of Industry Conferences. Gabelli & Company, our institutional research services firm, sponsors industry conferences and management events throughout the year. At these conferences and events, senior management from leading industry companies share their thoughts on the industry, competition, regulatory issues and the challenges and opportunities in their businesses with portfolio managers and securities analysts. These meetings are an important component of the research services the firm provides its institutional clients. Specifically, in 2011, we hosted 6 such meetings, including our 35th annual Automotive Aftermarket Symposium, 21st annual Pump Valve & Motor Symposium, 17th annual Aircraft Supplier Conference, 4th annual Best Ideas Conference, 3rd annual Specialty Chemicals Conference and our 3rd annual Movie Industry Conference.
- Hosting of Institutional Investor Symposiums. We have a tradition of sponsoring institutional investor symposiums that bring together prominent portfolio managers, members of academia and other leading business professionals to present, discuss and debate current issues and topics in the investment industry. These symposiums have included:
  - 1997 “Active vs. Passive Stock Selection”
  - 1998 “The Role of Hedge Funds as a Way of Generating Absolute Returns”
  - 2001 “Virtues of Value Investing”
  - 2003 “Dividends, Taxable versus Non-Taxable Issues”
  - 2006 “Closed-End Funds: Premiums vs. Discounts, Dividends and Distributions”

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

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

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

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

- **Strong Industry Fundamentals:** According to data compiled by the U.S. Federal Reserve, the investment management industry has grown faster than more traditional segments of the financial services industry, including the banking and insurance industries. Since GBL began managing assets for institutional and private wealth management clients in 1977, world equity markets have grown at a 10.4% compounded annual growth rate through December 31, 2011 to nearly \$46 trillion(a). The U.S. equity market comprises about \$15.0 trillion(a) or roughly 33% of world markets. We believe that demographic trends and the growing role of money managers in the placement of capital compared to the traditional role played by banks and life insurance companies will result in continued growth of the investment management industry.
- **Long-Term Performance:** We have a superior long-term record of achieving relatively high returns for our Institutional and Private Wealth Management clients. We believe that our performance record represents a competitive advantage and a recognized component of our franchise.

- **Stock Market Gains:** Since we began managing for institutional and private wealth management clients in 1977, our traditional value-oriented Institutional and Private Wealth Management composite has earned a compound annual return of 15.8% net of fees versus a compound annual return of 11.1% for the S&P 500 through December 31, 2011.
- **Widely-Recognized “Gabelli” and “GAMCO” Brand Names:** For much of our history, our portfolio managers and investment products have been featured in a variety of financial print media, including both U.S. and international publications such as The Wall Street Journal, Financial Times, Money Magazine, Barron's, Fortune, Business Week, Nikkei Financial News, Forbes Magazine, Consumer Reports and Investor's Business Daily. We also underwrite publications written by our investment professionals, including Deals...Deals...and More Deals, which examines the history of merger arbitrage and Global Convertible Investing: The Gabelli Way, a comprehensive guide to effective investing in convertible securities.
- **Diversified Product Offerings:** Since the inception of our investment management activities, we have sought to expand the breadth of our product offerings. We currently offer a wide spectrum of investment products and strategies, including product offerings in U.S. equities, U.S. fixed income, global and international equities, convertible securities, U.S. balanced and investment partnerships.

(a) Source: Birinyi Associates, LLC

#### Business Description

GBL started operations in 1977 as an institutional services firm. We entered the institutional and private wealth management business in 1977, management of investment partnerships in 1985 and the mutual fund business in 1986. Our initial product offerings centered on our tax sensitive, buy-hold, value-oriented investment philosophy. Starting in the mid-1980s, we began building on our core value-oriented equity investment products by adding new investment strategies designed for a broad array of clients seeking to invest in growth-oriented equities, convertible securities and fixed income products. Since then, we have continued to build our franchise by expanding our investment management capabilities through the addition of industry specific, international, global, non-market correlated, venture capital, leveraged buy-out and merchant banking product offerings. Throughout our 34 year history, we have marketed most of our products under the “Gabelli” and “GAMCO” brand names. Specialty brands offered to investors have included Mathers, Comstock and Westwood.

Our AUM are clustered mostly in three groups: Institutional and Private Wealth Management, Mutual Funds and Investment Partnerships.

**Institutional and Private Wealth Management:** Since 1977, we have provided investment management services through our subsidiary GAMCO to a broad spectrum of institutional and private wealth investors. At December 31, 2011, we had \$13.5 billion of AUM in approximately 1,700 Institutional and Private Wealth Management accounts, representing approximately 39.5% of our total AUM. We currently provide advisory services to a broad range of investors, the majority of which (in total number of accounts) are private wealth management client accounts – defined as individuals generally having minimum account balances of \$1 million. As of December 31, 2011, Institutional client accounts, which include corporate pension and profit sharing plans, jointly-trusted plans and public funds, represented approximately \$6.2 billion, or 46%, of the Institutional and Private Wealth Management assets and 8% of the accounts. Private Wealth Management accounts comprised approximately 81% of the total number of Institutional and Private Wealth Management accounts and approximately \$3.4 billion, or 25%, of the Institutional and Private Wealth Management assets as of December 31, 2011. We believe that private wealth management clients are

attracted to us by our returns and the tax efficient nature of the underlying investment process in these traditional products.

Foundation and endowment fund assets represented 10% of the number of Institutional and Private Wealth Management accounts and approximately \$1.3 billion, or 9%, of the Institutional and Private Wealth Management AUM. The sub-advisory portion of the Institutional and Private Wealth Management (where we act as sub-advisor to certain other third party investment funds) held approximately \$2.6 billion, or 19%, of total Institutional and Private Wealth Management assets with less than 1% of total the number of accounts.

The ten largest relationships comprised approximately 17% of our total AUM and approximately 7% of our total revenues as of and for the year ended December 31, 2011.

In general, our Institutional and Private Wealth Management AUM are managed to meet the specific needs and objectives of each client by utilizing investment strategies – “all cap value”, “large cap value”, “small cap value”, “large cap growth”, “international growth”, “high yield” and “convertible bond” – and techniques that are within our areas of expertise. We distinguish between taxable and tax-free assets and manage client portfolios with tax sensitivity within given investment strategies.

Sales efforts are conducted on a regional and product specialist basis. Members of the sales and marketing staff for the Institutional and Private Wealth Management business have an average of more than ten years of experience with us and focus on developing and maintaining direct, long-term relationships with their Institutional and Private Wealth Management clients. The firm will host its 27th Annual Client Conference in May 2012. This conference will be held at the Pierre Hotel in New York and will include presentations by our portfolio managers and analysts.

We act as a sub-advisor on certain funds for several large and well-known fund distributors. Sub-advisory clients are subject to business combinations, much the same as corporate clients, and this may result in the curtailment of product distribution or the termination of the relationship.

Investment advisory agreements for our Institutional and Private Wealth Management clients are typically subject to termination by the client without penalty on 30 days notice or less.

Open and Closed-End Funds: Funds Advisor provides advisory services to twenty-one open-end funds and ten closed-end funds. At December 31, 2011, we had \$19.9 billion of AUM in open-end and closed-end funds, representing approximately 58.4% of our total AUM. Our equity funds and closed-end funds were \$18.1 billion in AUM on December 31, 2011, 8.4% above the \$16.7 billion on December 31, 2010.

GAMCO is the brand for our “Growth” business, which is primarily represented by The GAMCO Growth Fund, The GAMCO Global Growth Fund, and The GAMCO International Growth Fund. GAMCO also includes other distinct investment strategies and styles including our convertible securities, contrarian funds and covered call writing strategies.

The seven GAMCO branded open-end funds are:

GAMCO Growth

- “ International Growth
- “ Global Telecommunications
- “ Global Growth
- “ Global Opportunity
- “ Vertumnus Fund
- “ Mathers

The Gabelli brand represents our “Value” business, primarily representing our absolute return, research-driven Private Market Value (PMV) with a Catalyst™ funds. The GAMCO Global Telecommunications Fund is a value portfolio but retains the GAMCO name. The Gabelli brand also includes The Gabelli Dividend Growth Fund and The Gabelli Focus Five Fund as well as most of the closed-end funds.

Open-end Funds

On December 31, 2011, we had \$14.1 billion of AUM in twenty-one open-end funds. At year-end, of the open-end funds AUM having an overall rating from Morningstar, Inc. (“Morningstar”), 96% were ranked “three stars” or better, with approximately 62% ranked “five stars” or “four stars” on an overall basis (i.e., derived from a weighted average of the performance figures associated with their three, five, and ten year Morningstar Rating metrics). There can be no assurance, however, that these funds will be able to maintain such ratings or that past performance will be indicative of future results.



We market our open-end funds through third party distribution programs, particularly no-transaction fee (“NTF”) programs, and have developed additional share classes for many of our funds for distribution through additional third party distribution channels. At December 31, 2011, third party distribution programs accounted for approximately 82% of all assets in open-end equity funds. At December 31, 2011, approximately 18% of our AUM in open-end, equity funds was sourced through direct sales relationships.

## Closed-end Funds

We act as investment advisor to ten closed-end funds, all of which trade on the NYSE or its affiliated exchange: Gabelli Equity Trust (GAB), GDL Fund (GDL), Gabelli Multimedia Trust (GGT), Gabelli Healthcare & Wellness Rx Trust (GRX), Gabelli Convertible and Income Securities Fund (GCV), Gabelli Utility Trust (GUT), Gabelli Dividend & Income Trust (GDV), Gabelli Global Utility & Income Trust (GLU), GAMCO Global Gold, Natural Resources & Income Trust by Gabelli (GGN) and GAMCO Natural Resources, Gold & Income Trust by Gabelli (GNT). As of December 31, 2011, the ten Gabelli closed-end funds had total assets of \$5.8 billion, representing 29.1% of the total assets in our Mutual Funds business.

The Gabelli Equity Trust, which raised \$400 million through its initial public offering in August 1986, finished its 25th year with net assets of \$1.3 billion. Since inception, the Gabelli Equity Trust has distributed \$2.6 billion in cash to common shareholders through its 10% distribution policy and spawned three other closed-end funds, the Gabelli Multimedia Trust, the Gabelli Utility Trust and the Gabelli Healthcare & Wellness Rx Trust.

The Gabelli Dividend & Income Trust, launched in November 2003 had net assets of \$1.9 billion as of December 31, 2011.

The GAMCO Global Gold, Natural Resources & Income Trust by Gabelli (“GGN”) was launched in March 2005. During the years ended December 31, 2011 and 2010, GGN issued 18.7 million and 22.6 million common shares, respectively, through various “at the market offerings”. The net proceeds received from these various at the market offerings was approximately \$317.5 million and \$375.4 million, respectively. GGN filed a \$750 million shelf registration statement with the SEC that became effective on February 4, 2011, enabling GGN to offer additional common and preferred shares. As of December 31, 2011, after taking into account the issuance of the preferred and common shares, GGN had approximately \$440 million available for issuance under the shelf registration statement. GGN utilizes a covered call option writing program and had net assets of \$1.2 billion as of December 31, 2011.

In January 2007, we launched The GDL Fund, a closed-end fund which seeks to achieve its investment objective by investing primarily in announced merger and acquisition transactions and, to a lesser extent, in corporate reorganizations involving stubs, spin-offs and liquidations. During 2009, The GDL Fund raised \$96 million through a rights offering of Series A preferred shares. During 2011, The GDL Fund redeemed the Series A preferred shares and also raised \$144 million through a rights offering of Series B preferred shares.

In January 2011, we started the GAMCO Natural Resources, Gold & Income Trust by Gabelli (“GNT”), a closed-end fund that seeks to achieve its investment objective by providing a high level of current income from interest, dividends and option premiums. This launch raised approximately \$370 million in AUM.

In April 2011, the Gabelli Healthcare & WellnessRx Trust (“GRX”), a closed-end fund that seeks long-term growth of capital within the healthcare and wellness industries, raised \$18 million through a rights offering of common shares.

In May 2011, the Gabelli Multimedia Trust (“GGT”), a closed-end fund that seeks long-term capital appreciation from equity investments in global telecommunications, media, publishing and entertainment industries, raised \$31 million through a rights offering of common shares.

**Investment Partnerships:** We manage Investment Partnerships through our 93% majority-owned subsidiary, Gabelli Securities, Inc. (“GSI”). The Investment Partnerships consist primarily of limited partnerships and offshore funds. As of December 31, 2011, we had \$605 million of Investment Partnership AUM.

We introduced our first investment partnership, a merger arbitrage partnership, in 1985. An offshore version of this strategy was added in 1989. Building on our strengths in global event-driven value investing, several new Investment Partnerships have been added to balance investors' geographic, strategy and sector needs. Today we offer a broad range of absolute return products. Within our merger arbitrage strategy, we manage approximately \$483 million of assets for investors who seek positive returns not correlated to fluctuations of the general market. These funds seek to drive returns by investing in announced merger and acquisition transactions that are primarily dependent on deal closure and less on the overall market environment. In event-driven strategies, we manage \$46 million of assets focused on the U.S. and Japanese markets. We also manage a series of sector-focused absolute return funds designed to offer investors a mechanism to diversify their portfolios by global economic sector rather than by geographic region. We currently offer three sector-focused portfolios: the Gabelli International Gold Fund Ltd., GAMA Select Energy Plus, L.P. and GAMCO Medical Opportunities, L.P. Venture capital activities are carried out through ALCE Partners, L.P. and Gabelli Multimedia Partners, L.P., both of which are currently closed to new investors.

## Assets Under Management

The following table sets forth total AUM by product type as of the dates shown:

Assets Under Management  
By Product Type  
(Dollars in millions)

	At December 31,					%
	2007	2008	2009	2010	2011	Change 2011/2010
Equity:						
Open-end Funds	\$ 9,345	\$ 6,139	\$ 8,476	\$ 11,252	\$ 12,273	9.1 %
Closed-end Funds	6,341	3,792	4,609	5,471	5,799	6.0
Institutional & Private Wealth Management						
Direct	10,708	6,861	9,312	11,005	10,853	(1.4 )
Sub-advisory	2,584	1,585	1,897	2,637	2,600	(1.4 )
Investment Partnerships						
SICAV (a)	-	-	-	-	105	n/m
Total Equity	29,438	18,672	24,599	30,880	32,235	4.4
Fixed Income:						
Money Market Mutual Funds						
Institutional & Private Wealth Management	1,111	1,507	1,721	1,616	1,824	12.9
Total Fixed Income	24	22	26	26	26	-
Total AUM	\$ 30,573	\$ 20,201	\$ 26,346	\$ 32,522	\$ 34,085	4.8
Breakdown of Total AUM:						
Funds	\$ 16,797	\$ 11,438	\$ 14,806	\$ 18,339	\$ 19,896	8.5
Institutional & Private Wealth Management						
Direct	10,732	6,883	9,338	11,031	10,879	(1.4 )
Sub-advisory	2,584	1,585	1,897	2,637	2,600	(1.4 )
Investment Partnerships						
SICAV (a)	-	-	-	-	105	n/m
Total AUM	\$ 30,573	\$ 20,201	\$ 26,346	\$ 32,522	\$ 34,085	4.8 %

(a) Includes \$100 million of proprietary capital.



## Summary of Investment Products

We manage assets in the following wide spectrum of investment products and strategies, many of which are focused on fast-growing areas:

U.S. Equities:	Global and International Equities:	Investment Partnerships:
All Cap Value	International Growth	Merger Arbitrage
Large Cap Value	Global Growth	U.S. Long/Short
Large Cap Growth	Global Value	Global Long/Short
Mid Cap Value	Global Telecommunications	Japanese Long/Short
Small Cap Value	Multimedia	Sector-Focused
Small Cap Growth	Gold	- Energy
Micro Cap		- Gold
Natural Resources	U.S. Fixed Income:	- Medical Opportunities
Income	Corporate	Merchant Banking
Utilities	Government	
Non-Market Correlated	Asset-backed	
Options Income	Intermediate	
	Short-term	
Convertible Securities:		U.S. Balanced:
U.S. Convertible Securities		Balanced Growth
Global Convertible Securities		Balanced Value

During 2011, we continued to develop the skills of our investment team by allocating firm capital to incubate investment strategies. Historically, this began with a capital structure arbitrage strategy (2004) and now includes a merger-arbitrage and a global trading strategy.

## Additional Information on Mutual Funds

Through Funds Advisor, we act as advisor to all of the Funds, except with respect to the Gabelli Capital Asset Fund for which we act as a sub-advisor. Guardian Investment Services Corporation, an unaffiliated company, acts as manager.

Shareholders of the open-end funds are allowed to exchange shares among the same class of shares of the other open-end funds as economic and market conditions and investor needs change at no additional cost. However, as noted below, certain open-end funds impose a 2% redemption fee on shares redeemed in seven days or less after a purchase. We periodically introduce new funds designed to complement and expand our investment product offerings, respond to competitive developments in the financial marketplace and meet the changing needs of investors.

Our marketing efforts for the open-end funds are currently focused on increasing the distribution and sales of our existing funds as well as creating new products for sale through our distribution channels. We believe that our marketing efforts for the funds will continue to generate additional revenues from investment advisory fees. We have traditionally distributed most of our open-end funds by using a variety of direct response marketing techniques, including telemarketing and advertising, and as a result we maintain direct relationships with many of our no-load

open-end fund customers. Beginning in late 1995, we expanded our product distribution by offering several of our open-end funds through third party distribution programs, including NTF programs. In 1998 and 1999, we further expanded these efforts to include substantially all of our open-end funds in third party distribution programs. More than 18% of the AUM in the open-end funds are still attributable to our direct response marketing efforts. Third party distribution programs have become an increasingly important source of asset growth for us. Of the \$12.3 billion of AUM in the open-end equity funds as of December 31, 2011, approximately 82% were generated through third party distribution programs. We are responsible for paying the service and distribution fees charged by many of the third party distribution programs, although a portion of such service fees under certain circumstances are payable by the funds. During 2000, we completed development of additional classes of shares for many of our funds for sale through national brokerage and investment firms and other third party distribution channels on a commission basis. The multi-class shares are available in all of the Gabelli Funds, except for the Gabelli Capital Asset Fund and the GAMCO Mathers Fund. We believe that the use of multi-class share products will expand the distribution of Gabelli Fund products into the advised sector of the mutual fund investment community. During 2003, we introduced Class I shares, which are no-load shares with higher minimum initial investment and without distribution fees available directly through Funds Distributor or brokers that have entered into selling agreements specifically with respect to Class I shares. The no-load shares are designated as Class AAA shares and are available for new and current investors. In general, distribution through third party distribution programs has greater variable cost components and lower fixed cost components than distribution through our traditional direct sales methods.

We provide investment advisory and management services pursuant to an investment management agreement with each fund. The investment management agreements with the funds generally provide that we are responsible for the overall investment and administrative services, subject to the oversight of each fund's Board of Directors or Trustees and in accordance with each fund's fundamental investment objectives and policies. The investment management agreements permit us to enter into separate agreements for administrative and accounting services on behalf of the respective funds.

Our affiliated advisors provide the funds with administrative services pursuant to the management contracts. Such services include, without limitation, supervision of the calculation of net asset value, preparation of financial reports for shareholders of the funds, internal accounting, tax accounting and reporting, regulatory filings and other services. Most of these administrative services are provided through sub-contracts with unaffiliated third parties. Transfer agency and custodial services are provided directly to the funds by unaffiliated third parties.

Our funds' investment management agreements may continue in effect from year to year only if specifically approved at least annually by (i) the fund's Board of Directors or Trustees or (ii) the fund's shareholders and, in either case, the vote of a majority of the fund's directors or trustees who are not parties to the agreement or "interested persons" of any such party, within the meaning of the Investment Company Act of 1940 as amended (the "Company Act"). Each fund may terminate its investment management agreement at any time upon 60 days' written notice by (i) a vote of the majority of the Board of Directors or Trustees cast in person at a meeting called for the purpose of voting on such termination or (ii) a vote at a meeting of shareholders of the lesser of either 67% of the voting shares represented in person or by proxy or 50% of the outstanding voting shares of such Fund. Each investment management agreement automatically terminates in the event of its assignment, as defined in the Company Act. We may terminate an investment management agreement without penalty on 60 days' written notice.

#### Mutual Fund Distribution, Institutional Research, Brokerage and Underwriting

Gabelli & Company, the wholly-owned subsidiary of our 93% majority-owned subsidiary GSI, is a broker-dealer registered under the Securities Exchange Act of 1934 and is regulated by the Financial Industry Regulatory Authority ("FINRA"). Gabelli & Company's revenues are derived primarily from institutional research services and through July 31, 2011, distribution fees, underwriting fees and selling concessions. G.distributors, a wholly-owned subsidiary, is a broker-dealer registered under the Securities Exchange Act of 1934 and is regulated by FINRA. G.distributors' revenues, effective August 1, 2011, are derived primarily from the distribution of our open-end funds.

#### Mutual Fund Distribution

Until July 31, 2011, Gabelli & Company and effective August 1, 2011, G.distributors, distributes our open-end funds pursuant to distribution agreements with each fund. Under each distribution agreement with an open-end fund, G.distributors offers and sells such open-end fund's shares on a continuous basis and pays the majority of the costs of marketing and selling the shares, including printing and mailing prospectuses and sales literature, advertising and maintaining sales and customer service personnel and sales and services fulfillment systems, and payments to the sponsors of third party distribution programs, financial intermediaries and G.distributors sales personnel. G.distributors receives fees for such services pursuant to distribution plans adopted under provisions of Rule 12b-1 ("12b-1") of the Company Act. Distribution fees from the open-end funds are computed daily based on average net assets. Distribution fees from the open-end funds amounted to \$39.7 million, \$29.0 million and \$20.8 million for the years ended December 31, 2011, 2010 and 2009, respectively. G.distributors is the principal underwriter for funds distributed in multiple classes of shares which carry either a front-end or back-end sales charge. Underwriting fees and sales charges retained amounted to \$3.3 million, \$1.9 million and \$946,000 for the years ended December 31, 2011, 2010 and 2009, respectively.



Under the distribution plans, the open-end Class AAA shares of the funds (except The Gabelli U.S. Treasury Money Market Fund, Gabelli Capital Asset Fund and The Gabelli ABC Fund) and the Class A and ADV shares of various funds pay G.distributors a distribution or service fee of .25% per year (except the Class A shares of the GAMCO Westwood Funds and Gabelli Enterprise Mergers & Acquisition Fund which pay .50% and 0.45% per year, respectively, and the GAMCO Westwood Intermediate Bond Fund which pays .35%) on the average daily net assets of the fund. Class B and Class C shares have a 12b-1 distribution plan with a service and distribution fee totaling 1%. G.distributors' distribution agreements with the funds may continue in effect from year to year only if specifically approved at least annually by (i) the fund's Board of Directors or Trustees or (ii) the fund's shareholders and, in either case, the vote of a majority of the fund's directors or trustees who are not parties to the agreement or "interested persons" of any such party, within the meaning of the Company Act. Each fund may terminate its distribution agreement, or any agreement thereunder, at any time upon 60 days' written notice by (i) a vote of the majority of its directors or trustees cast in person at a meeting called for the purpose of voting on such termination or (ii) a vote at a meeting of shareholders of the lesser of either 67% of the voting shares represented in person or by proxy or 50% of the outstanding voting shares of such fund. Each distribution agreement automatically terminates in the event of its assignment, as defined in the Company Act. G.distributors may terminate a distribution agreement without penalty upon 60 days' written notice.

G.distributors also offers our open-end Fund products through our website, [www.gabelli.com](http://www.gabelli.com), where directly registered mutual fund investors can access their personal account information and buy, sell and exchange Fund shares. Fund prospectuses, quarterly reports, fund applications, daily net asset values and performance charts are all available online.

### Institutional Research Services

Gabelli & Company provides institutional investors with investment ideas on numerous industries and special situations, with a particular focus on small-cap and mid-cap companies. Our research analysts are industry-focused, following sectors that stem from our core competencies. They are experts on their industries, and look at companies of all market capitalizations on a global basis. Their financial models look five years into the past, and project five years forward, to understand earnings power and free cash flow. They look for growing companies, with improving balance sheets and shareholder-sensitive management. The primary function of the research team is to gather data, array the data, and then project and interpret data from which investment decisions can be made. The objective of the institutional research services is to provide superior investment ideas to investment decision makers.

Analysts are generally assigned to research teams, coordinated by a senior analyst, in order to enhance idea cross-fertilization and more efficiently share knowledge acquired in related industry subsectors. Our teams are broken down into Media and Telecom, which includes cable, telecommunications, broadcasting, publishing, advertising, and entertainment, Gabelli Green, which researches investment opportunities in clean and renewable energy, Consumer, Health and Wellness, Aerospace and Capital Goods, Natural Resources and Financial Services.

Gabelli & Company generates institutional research services revenues through brokerage activities from securities transactions executed on an agency basis on behalf of institutional and private wealth management clients as well as from retail customers and mutual funds. Institutional research services revenues totaled \$14.3 million, \$16.6 million, and \$16.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. Gabelli & Company continues to pursue expansion of such activities.

### Underwriting

During 2011, Gabelli & Company participated as agent in the secondary offerings of The GAMCO Global Gold, Natural Resources & Income Trust by Gabelli and acted as Dealer Manager for The GDL Fund's Series B Cumulative Puttable and Callable Preferred Share Rights Offering. During 2010, Gabelli & Company acted as underwriter in the Gabelli Healthcare & WellnessRx Trust offering of 5.76% Series A Cumulative Preferred shares and as agent in the secondary offerings of The GAMCO Global Gold, Natural Resources & Income Trust by Gabelli. In 2009, Gabelli & Company acted as the Dealer Manager for The GDL Fund's Series A Cumulative Callable Preferred Share Rights Offering and as agent in the secondary offerings of The GAMCO Global Gold, Natural Resources & Income Trust by Gabelli.

### Competition

We compete with other investment management firms and mutual fund companies, insurance companies, banks, brokerage firms and other financial institutions that offer products that have similar features and investment objectives to those offered by us. Many of the investment management firms with which we compete are subsidiaries of large diversified financial companies. Many others are much larger in terms of AUM and revenues and, accordingly, have much larger sales organizations and marketing budgets. Historically, we have competed primarily on the basis of the long-term investment performance of many of our investment products. However, we have taken steps to increase our distribution channels, brand name awareness and marketing efforts.

The market for providing investment management services to Institutional and Private Wealth Management clients is also highly competitive. Approximately 33% of our investment advisory fee revenue for the year ended December 31, 2011 was derived from our Institutional and Private Wealth Management. Selection of investment advisors by U.S. institutional investors is often subject to a screening process and to favorable recommendations by investment industry

consultants. Many of these investors require their investment advisors to have a successful and sustained performance record, often five years or longer and also focus on one-year and three-year performance records. We have significantly increased our AUM on behalf of U.S. institutional investors since our entry into the institutional asset management business in 1977. At the current time, we believe that our investment performance record would be attractive to potential new Institutional and Private Wealth Management clients. However, no assurance can be given that our efforts to obtain new business will be successful.

## Intellectual Property

Service marks and brand name recognition are important to our business. We have rights to the service marks under which our products are offered. We have registered certain service marks in the United States and will continue to do so as new trademarks and service marks are developed or acquired. We have rights to use the “Gabelli” name, the “GAMCO” name, and other names. Pursuant to an assignment agreement, Mr. Gabelli has assigned to us all of his rights, title and interests in and to the “Gabelli” name for use in connection with investment management services, mutual funds and securities brokerage services. However, under the agreement, Mr. Gabelli will retain any and all rights, title and interests he has or may have in the “Gabelli” name for use in connection with (i) charitable foundations controlled by Mr. Gabelli or members of his family and (ii) entities engaged in private investment activities for Mr. Gabelli or members of his family. In addition, the funds managed by Mr. Gabelli outside GBL have entered into a license agreement with us permitting them to continue limited use of the “Gabelli” name under specified circumstances. We have taken, and will continue to take, action to protect our interests in these service marks.

## Regulation

Virtually all aspects of our businesses are subject to various federal, state and foreign laws and regulations. These laws and regulations are primarily intended to protect investment advisory clients and shareholders of investment funds, the markets and customers of broker-dealers. Under such laws and regulations, agencies that regulate investment advisors and broker-dealers have broad powers, including the power to limit, restrict or prohibit such an advisor or broker-dealer from carrying on its business in the event that it fails to comply with such laws and regulations. In such an event, the possible sanctions that may be imposed include civil and criminal liability, the suspension of individual employees, injunctions, limitations on engaging in certain lines of business for specified periods of time, revocation of the investment advisor and other registrations, censures, and fines.

Our business is subject to extensive regulation at the federal, state and foreign level by the SEC and other regulatory bodies. Certain of our subsidiaries are registered with the SEC under the Investment Advisers Act of 1940 (“Advisers Act”), and the funds are registered with the SEC under the Company Act. We also have subsidiaries that are registered as broker-dealers with the SEC and are subject to regulation by FINRA and various states.

The subsidiaries of GBL that are registered with the Commission under the Advisers Act (Funds Advisor, Gabelli Fixed Income LLC, GAMCO and GSI) are regulated by and subject to examination by the SEC. The Advisers Act imposes numerous obligations on registered investment advisors including fiduciary duties, disclosure obligations and record keeping, operational and marketing requirements. The Commission is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from censure to termination of an investment advisor's registration. The failure of an advisory subsidiary to comply with the requirements of the SEC could have a material adverse effect on us.

We derive a substantial majority of our revenues from investment advisory services through our various investment management agreements. Under the Advisers Act, our investment management agreements may not be assigned without the client's consent. Under the Company Act, advisory agreements with registered investment companies such as our Funds terminate automatically upon assignment. The term “assignment” is broadly defined and includes direct as well as assignments that may be deemed to occur, under certain circumstances, upon the transfer, directly or indirectly, of a controlling interest in GBL.

In their capacities as broker-dealers, Gabelli & Company and G.distributors are required to maintain certain minimum net capital and cash reserves for the benefit of their customers. Gabelli & Company's and G.distributors' net capital, as defined, met or exceeded all minimum requirements as of December 31, 2011. Gabelli & Company and G.distributors

are also subject to periodic examination by FINRA, the SEC and the states.

Subsidiaries of GBL are subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and to regulations promulgated thereunder, insofar as they are “fiduciaries” under ERISA with respect to certain of their clients. ERISA and applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), impose certain duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving ERISA plan clients. Our failure to comply with these requirements could have a material adverse effect on us.

Investments by GBL and on behalf of our advisory clients and investment funds often represent a significant equity ownership position in an issuer's class of stock. As of December 31, 2011, we had five percent or more beneficial ownership with respect to 112 equity securities. This activity raises frequent regulatory, legal, and disclosure issues regarding our aggregate beneficial ownership level with respect to portfolio securities, including issues relating to issuers' shareholder rights plans or “poison pills,” and various federal and state regulatory limitations, including state gaming laws and regulations, federal communications laws and regulations and federal and state public utility laws and regulations, as well as federal proxy rules governing shareholder communications and federal laws and regulations regarding the reporting of beneficial ownership positions. Our failure to comply with these requirements could have a material adverse effect on us.

The USA Patriot Act of 2001 contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers, mutual funds and other financial services companies, including standards for verifying client identification at account opening, and obligations to monitor client transactions and report suspicious activities. Anti-money laundering laws outside of the U.S. contain some similar provisions. Our failure to comply with these requirements could have a material adverse effect on us.

We and certain of our affiliates are subject to the laws of non-U.S. jurisdictions and non-U.S. regulatory agencies or bodies. In connection with our opening of an office in London and our plans to market certain products in Europe, we are required to comply with the laws of the United Kingdom and other European countries regarding these activities. Our subsidiary, GAMCO Asset Management (UK) Limited, is regulated by the Financial Services Authority (“FSA”). In connection with our registration in the United Kingdom, we have minimum capital requirements that have been consistently met or exceeded. Several of our investment funds are organized under the laws of foreign jurisdictions and subject to regulation. We opened research offices in Shanghai, Hong Kong and Tokyo and therefore are subject to national and local laws in those jurisdictions. We are subject to requirements in numerous jurisdictions regarding reporting of beneficial ownership positions in securities issued by companies whose securities are publicly-traded in those countries.

#### Regulatory matters

The investment management industry is likely to continue facing a high level of regulatory scrutiny and become subject to additional rules designed to increase disclosure, tighten controls and reduce potential conflicts of interest. In addition, the Commission has substantially increased its use of focused inquiries which request information from investment advisors and a number of fund complexes regarding particular practices or provisions of the securities laws. We participate in some of these inquiries in the normal course of our business. Changes in laws, regulations and administrative practices by regulatory authorities, and the associated compliance costs, have increased our cost structure and could in the future have a material adverse impact. Although we have installed procedures and utilize the services of experienced administrators, accountants and lawyers to assist us in adhering to regulatory guidelines and satisfying these requirements, and maintain insurance to protect ourselves in the case of client losses, there can be no assurance that the precautions and procedures that we have instituted and installed, or the insurance that we maintain to protect ourselves in case of client losses, will protect us from potential liabilities.

See item 3 below.

#### Personnel

On February 29, 2012, we had a full-time staff of 218 individuals, of whom 69 served in the portfolio management, research and trading areas (including 20 portfolio managers for the Mutual Funds, Institutional and Private Wealth Management and Investment Partnerships), 77 served in the marketing and shareholder servicing areas and 72 served in the administrative area.

#### ITEM 1A: RISK FACTORS

We caution the reader that the following risks and those risks described elsewhere in this report and in our other SEC filings, as well as other potential risks which we cannot currently identify or describe, could have a material adverse effect on our business, prospects, financial condition, results of operations or cash flow.

#### Risks Related to Our Industry

Changes in laws or regulations or in governmental policies and compliance with existing laws or regulations could limit the sources and amounts of our revenues, increase our costs of doing business, decrease our profitability and materially and adversely affect our business.

Our business is subject to extensive regulation in the United States, primarily at the federal level, including regulation by the SEC under the Company Act and the Advisers Act as well as other securities laws, by the Department of Labor under ERISA, and regulation by FINRA and state regulators. The Funds managed by Funds Advisor are registered with the SEC as investment companies under the Company Act. The Advisers Act imposes numerous obligations on investment advisors, including record-keeping, advertising and operating requirements, fiduciary and disclosure obligations, custodial requirements and prohibitions on fraudulent activities. The Company Act imposes similar obligations, as well as additional detailed operational requirements, on registered investment companies and investment advisors. In addition, our businesses are also subject to regulation by the Financial Services Authority in the United Kingdom, and we are also subject to the laws of other non-U.S. jurisdictions and non-U.S. regulatory agencies or bodies.

Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our subsidiaries' registrations as an investment advisor or broker-dealer. Industry regulations are designed to protect our clients and investors in our funds and other third parties who deal with us and to ensure the integrity of the financial markets. Our industry is frequently altered by new laws or regulations and by revisions to, and evolving interpretations of, existing laws and regulations, both in the U.S. and in other nations. Changes in laws or regulations or in governmental policies could limit the sources and amounts of our revenues including but not limited to distribution revenue under the Company Act, increase our costs of doing business, decrease our profitability and materially and adversely affect our business.

To the extent we are forced to compete on the basis of price, we may not be able to maintain our current fee structure.

The investment management business is highly competitive and has relatively low barriers to entry. To the extent we are forced to compete on the basis of price, we may not be able to maintain our current fee structure. Although our investment management fees vary from product to product, historically we have competed primarily on the performance of our products and not on the level of our investment management fees relative to those of our competitors. In recent years, however, there has been a trend toward lower fees in the investment management industry. In order to maintain our fee structure in a competitive environment, we must be able to continue to provide clients with investment returns and service that make investors willing to pay our fees. In addition, the board of directors or trustees of each fund managed by Funds Advisor must make certain findings as to the reasonableness of its fees. We cannot be assured that we will succeed in providing investment returns and service that will allow us to maintain our current fee structure. Fee reductions on existing or new business could have an adverse effect on our profit margins and results of operations.

We derive a substantial portion of our revenues from contracts that may be terminated on short notice.

A substantial majority of our revenues are derived from investment management agreements and distribution arrangements. Investment management agreements and distribution arrangements with the Funds are terminable without penalty on 60 days' notice (subject to certain additional procedural requirements in the case of termination by a Fund) and must be specifically approved at least annually, as required by law. Such annual renewal requires, among other things, approval by the disinterested members of each Fund's board of directors or trustees. Investment advisory agreements with our Institutional and Private Wealth Management clients are typically terminable by the client without penalty on 30 days' notice or less. Any failure to renew or termination of a significant number of these agreements or arrangements would have a material adverse effect on us.

Investors in the open-end funds can redeem their investments in these funds at any time without prior notice, which could adversely affect our earnings.

Open-end fund investors may redeem their investments in those funds at any time without prior notice. Investors may reduce the aggregate amount of AUM for any number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. In a declining stock market, the pace of mutual fund redemptions could accelerate. Poor performance relative to other asset management firms tends to result in decreased purchases of mutual fund shares and increased redemptions of mutual fund shares. The redemption of investments in mutual funds managed by Funds Advisor would adversely affect our revenues, which are substantially dependent upon the AUM in our funds. If redemptions of investments in mutual funds caused our revenues to decline, it could have a material adverse effect on our earnings.

Certain changes in control of our company would automatically terminate our investment management agreements with our clients, unless our Institutional and Private Wealth Management clients consent and, in the case of fund



clients, the funds' boards of directors and shareholders vote to continue the agreements, and could prevent us for a two-year period from increasing the investment advisory fees we are able to charge our mutual fund clients.

Under the Company Act, an investment management agreement with a fund must provide for its automatic termination in the event of its assignment. The fund's board and shareholders must vote to continue the agreement following its assignment, the cost of which ordinarily would be borne by us. Under the Advisers Act, a client's investment management agreement may not be "assigned" by the investment advisor without the client's consent. An investment management agreement is considered to be assigned to another party when a controlling block of the advisor's securities is transferred. In our case, an assignment of our investment management agreements may occur if, among other things, we sell or issue a certain number of additional common shares in the future. We cannot be certain that our clients will consent to assignments of our investment management agreements or approve new agreements with us if an assignment occurs. Under the Company Act, if a fund's investment advisor engages in a transaction that results in the assignment of its investment management agreement with the fund, the advisor may not impose an "unfair burden" on that fund as a result of the transaction for a two-year period after the transaction is completed. The term "unfair burden" has been interpreted to include certain increases in investment advisory fees. This restriction may discourage potential purchasers from acquiring a controlling interest in our company.

Regulatory developments designed to increase oversight of private funds may adversely affect our business.

The SEC has adopted a rule that increased from \$1.0 million to \$1.5 million the net worth requirement for individuals to be treated as accredited investors for the purpose of investing in private funds. The SEC may also propose or enact other rules designed to increase oversight by the SEC of private funds or restrict investment in them. Any regulations applicable to private funds that may be adopted could have an impact on our operations, and may adversely affect our private fund business and decrease our future income.

A decline in the prices of securities would lead to a decline in our AUM, revenues and earnings.

Substantially all of our revenues are directly related to the amount of our AUM. Under our investment advisory contracts with our clients, the investment advisory fees we receive are typically based on the market value of AUM. In addition, we receive asset-based distribution and/or service fees with respect to the open-end funds managed by Funds Advisor or Teton Advisors, Inc. ("Teton") over time pursuant to distribution plans adopted under provisions of Rule 12b-1 under the Company Act. Rule 12b-1 fees typically are based on the average AUM and represented approximately 12.1%, 10.3% and 9.5% of our total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. Accordingly, a decline in the prices of securities generally may cause our revenues and net income to decline by either causing the value of our AUM to decrease, which would result in lower investment advisory and Rule 12b-1 fees, or causing our clients to withdraw funds in favor of investments they perceive to offer greater opportunity or lower risk, which would also result in lower fees. The securities markets are highly volatile, and securities prices may increase or decrease for many reasons beyond our control, including but not limited to economic and political events, war (whether or not directly involving the U.S.), acts of terrorism, unanticipated changes in currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties, bond default risks, the sovereign debt crisis in Europe and other factors that are difficult or impossible to predict. If a decline in securities prices caused our revenues to decline, it could have a material adverse effect on our earnings.

Catastrophic and unpredictable events could have a material adverse effect on our business.

A terrorist attack, political unrest, war (whether or not directly involving the U.S.), power failure, cyber-attack, technology failure, natural disaster or many other possible catastrophic or unpredictable events could adversely affect our future revenues, expenses and earnings by, among other things: causing disruptions in U.S., regional or global economic conditions; interrupting our normal business operations; inflicting employee casualties, including loss of our key executives; requiring substantial expenditures and expenses to repair, replace and restore normal business operations; and reducing investor confidence.

We have a disaster recovery plan to address certain contingencies, but it cannot be assured that this plan will be effective or sufficient in responding to, eliminating or ameliorating the effects of all disaster scenarios. If our employees or vendors we rely upon for support in a catastrophic event are unable to respond adequately or in a timely manner, we may lose clients resulting in a decrease in AUM which may have a material adverse effect on revenues and net income.

#### Risks Related to Our Business

Control by Mr. Gabelli of a majority of the combined voting power of our common stock may give rise to conflicts of interests.

Since our Offering in 1999, Mr. Gabelli, through his control and majority ownership of GGCP, has beneficially owned a majority of our outstanding Class B Stock, representing 95% of voting control. As long as Mr. Gabelli indirectly

beneficially owns a majority of the combined voting power of our common stock, he will have the ability to elect all of the members of our Board of Directors and thereby control our management and affairs, including determinations with respect to acquisitions, dispositions, borrowings, issuances of common stock or other securities, and the declaration and payment of dividends on the common stock. In addition, Mr. Gabelli will be able to determine the outcome of matters submitted to a vote of our shareholders for approval and will be able to cause or prevent a change in control of our company. As a result of Mr. Gabelli's control, none of our agreements with Mr. Gabelli and other companies controlled by him can be assumed to have been arrived at through "arm's-length" negotiations, although we believe that the parties endeavor to implement market-based terms. There can be no assurance that we would not have received more favorable terms from an unaffiliated party.

On February 6, 2008, Mr. Gabelli entered into an amended and restated employment agreement (the “2008 Employment Agreement”) with the Company, which was initially approved by the Company’s shareholders on November 30, 2007 and approved again on May 6, 2011, and which limits his activities outside of the Company. Under the 2008 Employment Agreement, the manner of computing Mr. Gabelli’s remuneration from GAMCO is unchanged.

Mr. Gabelli has agreed that while he is employed by us he will not provide investment management services outside of GAMCO, except for certain permitted accounts. These permitted accounts held assets at December 31, 2011 and 2010 of approximately \$109.6 million and \$91.8 million, respectively. Mr. Gabelli continues to be a member of the team that manages the GAMCO Westwood Mighty Mites<sup>SM</sup> Fund, whose advisor, Teton, was spun-off from GBL in March 2009. The assets in the GAMCO Mighty Mites<sup>SM</sup> Fund at December 31, 2011 were \$565.1 million. The 2008 Employment Agreement may not be amended without the approval of the Compensation Committee and Mr. Gabelli.

We depend on Mr. Gabelli and other key personnel.

We are dependent on the efforts of Mr. Gabelli, our Chairman of the Board, Chief Executive Officer and the primary portfolio manager for a significant majority of our AUM. The loss of Mr. Gabelli’s services would have a material adverse effect on us.

In addition to Mr. Gabelli, our future success depends to a substantial degree on our ability to retain and attract other qualified personnel to conduct our investment management business. The market for qualified portfolio managers is extremely competitive and has grown more so in recent periods as the investment management industry has experienced growth. We anticipate that it will be necessary for us to add portfolio managers and investment analysts as we further diversify our investment products and strategies. There can be no assurance, however, that we will be successful in our efforts to recruit and retain the required personnel. In addition, our investment professionals and senior marketing personnel have direct contact with our Institutional and Private Wealth Management clients, which can lead to strong client relationships. The loss of these personnel could jeopardize our relationships with certain Institutional and Private Wealth Management clients, and result in the loss of such accounts. The loss of key management professionals or the inability to recruit and retain sufficient portfolio managers and marketing personnel could have a material adverse effect on our business.

There may be adverse effects on our business from a decline in the performance of the securities markets.

Our results of operations are affected by many economic factors, including the performance of the securities markets. During the 1990s, unusually favorable and sustained performance of the U.S. securities markets, and the U.S. equity market in particular, attracted substantial inflows of new investments in these markets and has contributed to significant market appreciation which has, in turn, led to an increase in our AUM and revenues. More recently, the securities markets in general have experienced significant volatility, and such volatility may continue or increase in the future. At December 31, 2011, approximately 95% of our AUM were invested in portfolios consisting primarily of equity securities. Any decline in the securities markets, in general, and the equity markets, in particular, could reduce our AUM and consequently reduce our revenues. In addition, any such decline in the equity markets, failure of these markets to sustain their prior levels of growth, or continued short-term volatility in these markets could result in investors withdrawing from the equity markets or decreasing their rate of investment, either of which would be likely to adversely affect us. Also, from time to time, a relatively high proportion of the assets we manage may be concentrated in particular economic or industry sectors. A general decline in the performance of securities in those industry sectors could have an adverse effect on our AUM and revenues.

Possibility of losses associated with proprietary investment activities.

Currently, we maintain large proprietary investment positions in securities. Market fluctuations and other factors may result in substantial losses in our proprietary accounts, which could have an adverse effect on our balance sheet, reduce our ability or willingness to make new investments or impair our credit ratings.

Future investment performance could reduce revenues and other income.

Success in the investment management and mutual fund businesses is dependent on investment performance as well as distribution and client servicing. Good performance generally stimulates sales of our investment products and tends to keep withdrawals and redemptions low, which generates higher management fees (which are based on the amount of AUM). Conversely, poor performance, both in absolute terms and/or relative to peers and industry benchmarks, tends to result in decreased sales, increased withdrawals and redemptions in the case of the open-end Funds, and in the loss of Institutional and Private Wealth Management clients, with corresponding decreases in revenues to us. Many analysts of the mutual fund industry believe that investment performance is the most important factor for the growth of open and closed-end funds, such as those we offer. Failure of our investment products to perform well or failure of the Funds to maintain ratings or rankings could, therefore, have a material adverse effect on us.

In addition, when our investment products experience strong results relative to the market or other asset classes, clients' investments in our products may increase beyond their target levels, and we could, therefore, suffer withdrawals as our clients rebalance their investments to fit their asset allocation preferences.

Loss of significant Institutional and Private Wealth Management accounts could affect our revenues.

We had approximately 1,700 Institutional and Private Wealth Management accounts as of December 31, 2011, of which the ten largest accounts generated approximately 7% of our total revenues during the year ended December 31, 2011. Account turnover for any reason would have an adverse effect on our revenues. Notwithstanding performance, we have from time to time experienced account turnover of large Institutional and Private Wealth Management accounts as a result of corporate mergers and restructurings, and we could continue to lose accounts under these or other circumstances.

A decline in the market for closed-end funds could reduce our ability to raise future assets to manage.

Market conditions may preclude us from increasing the assets we manage in closed-end funds. A significant portion of our recent growth in the assets we manage has resulted from public offerings of the common and preferred shares of closed-end funds. We have raised approximately \$3.4 billion in gross assets through closed-end fund offerings since January 2004. The market conditions for these offerings may not be as favorable in the future, which could adversely impact our ability to grow our AUM and our revenue.

We rely on third party distribution programs.

Since 1996, we have experienced significant growth in sales of our open-end funds through third party distribution programs, which are programs sponsored by third party intermediaries that offer their mutual fund customers a variety of competing products and administrative services. Most of the sales growth from our third party distribution programs is from programs with no transaction fees payable by the customer, which we refer to as NTF programs. Approximately \$3.8 billion of our AUM in the open-end funds as of December 31, 2011 were obtained through NTF programs. The cost of participating in third party distribution programs is higher than our direct distribution costs, and it is anticipated that the cost of third party distribution programs will increase in the future. Any increase would be likely to have an adverse effect on our profit margins and results of operations. In addition, there can be no assurance that the third party distribution programs will continue to distribute the Funds. At December 31, 2011, approximately 94% of the NTF program net assets in the Gabelli/GAMCO families of funds are attributable to two NTF programs. The decision by these third party distribution programs to discontinue distribution of the funds, or a decision by us to withdraw one or more of the funds from the programs, could have an adverse effect on our growth of AUM.

There is a possibility of losses associated with underwriting, trading and market-making activities.

Our underwriting and trading activities are primarily conducted through our subsidiary, Gabelli & Company, primarily as agent. Such activities subject our capital to significant risks of loss. The risks of loss include those resulting from ownership of securities, extension of credit, leverage, liquidity, counterparty failure to meet commitments, client fraud, employee errors, misconduct and fraud (including unauthorized transactions by traders), failures in connection with the processing of securities transactions and litigation. We have procedures and internal controls to address such risks, but there can be no assurance that these procedures and controls will prevent losses from occurring.

We may have liability as a general partner or otherwise with respect to our alternative investment products.

Certain of our subsidiaries act as general partner for investment partnerships, including arbitrage, event-driven long/short, sector focused and merchant banking limited partnerships. As a general partner of these partnerships, we may be held liable for the partnerships' liabilities in excess of their ability to pay such liabilities. In addition, in certain circumstances, we may be liable as a control person for the acts of our investment partnerships. As of December 31, 2011, our AUM included approximately \$605 million in investment partnerships. A substantial adverse judgment or other liability with respect to our investment partnerships could have a material adverse effect on us.

Operational risks may disrupt our businesses, result in regulatory action against us or limit our growth.

We face operational risk arising from errors made in the execution, confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted for. Our business is highly dependent on our ability to process, on a daily basis, transactions across markets in an efficient and accurate manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. Despite the reliability of these systems, and the training and skill of our employees and third parties we rely on, it remains likely that errors may occasionally occur due to the extremely large number of transactions we process. In addition, if systems we use are unable to accommodate an increasing volume of transactions our ability to expand our businesses could be constrained. If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

We depend heavily on information systems.

We operate in an industry that is highly dependent on its information systems and technology. We outsource a significant portion of our information systems operations to third parties who are responsible for providing the management, maintenance and updating of such systems. Technology is subject to rapid change and we cannot guarantee that our competitors may not implement more advanced technology platforms for their products than we do for ours. In addition, there can be no assurance that the cost of maintaining such outsourcing arrangements will not increase from its current level, which could have a material adverse effect on us.

In addition, any inaccuracies, delays, system failures or security breaches in these and other systems could subject us to client dissatisfaction and losses. Breach of our technology systems could result in the loss of valuable information, liability for stolen assets or information, remediation costs to repair damage caused by the breach, additional security costs to mitigate against future incidents and litigation costs resulting from the incident. Moreover, loss of confidential customer identification information could harm our reputation and subject us to liability under laws that protect confidential personal data, resulting in increased costs or loss of revenues. Further, although we take precautions to password protect and encrypt our laptops and other mobile electronic hardware, if such hardware is stolen, misplaced or left unattended, it may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly actions by us.

Our ability to meet cash needs may be adversely affected by a number of factors.

Our ability to meet anticipated cash needs is affected by factors such as the market value of our assets, our operating cash flows and our creditworthiness as perceived by lenders. Adverse developments in any of these areas could have significantly adverse effects on our business. If we are unable to obtain funds and financing in a timely manner or on acceptable terms, we may be forced to incur unanticipated costs or revise our business plans. Further, our access to the capital markets depends significantly on our credit ratings. A reduction in our credit ratings could increase our borrowing costs and limit our access to the capital markets. Volatility in the U.S., regional or global financing markets may also impact our ability to access the capital markets should we seek to do so, and we may be forced to incur unanticipated costs or experience other adverse effects on our business. We believe that a one notch downgrade in our credit rating would result in a debt rating below investment grade and increase our long-term borrowing costs, on future borrowings, by 50 basis points, while a two notch downgrade would increase our long-term borrowing costs, on future borrowings, by approximately 150 basis points. Our current outstanding debt issuances would not be impacted by any changes in our ratings

We face exposure to legal actions, including litigation and arbitration claims and regulatory and governmental examinations and/or investigations.



The volume of litigation and arbitration claims against financial services firms and the amount of damages claimed has increased over the past several years. The types of claims that we may face are varied. For example, we may face claims against us for purchasing securities that are inconsistent with a client's investment objectives or guidelines, in connection with the operation of the Funds or arising from an employment dispute. The risk of litigation is difficult to predict, assess or quantify, and may occur years after the activities or events at issue. In addition, from time to time we may become the subject of governmental or regulatory investigations and/or examinations. Even if we prevail in a legal or regulatory action, the costs alone of defending against the action or the harm to our reputation could have a material adverse effect on us.

Compliance failures could adversely affect us.

Our investment management activities are subject to client guidelines, and our Mutual Fund business involves compliance with numerous investment, asset valuation, distribution and tax requirements. A failure to adhere to these guidelines or satisfy these requirements could result in losses which could be recovered by the client from us in certain circumstances. There can be no assurance that the precautions and procedures that we have instituted and installed or the insurance we maintain to protect ourselves in case of client losses will protect us from potential liabilities.

Our reputation is critical to our success.

Our reputation is critical to maintaining and developing relationships with our clients, Mutual Fund shareholders and third party intermediaries. In recent years, there have been a number of well-publicized cases involving fraud, conflicts of interest or other misconduct by individuals in the financial services industry. Misconduct by our staff, or even unsubstantiated allegations, could result not only in direct financial harm but also harm to our reputation, causing injury to the value of our brands and our ability to retain or attract AUM. In addition, in certain circumstances, misconduct on the part of our clients or other parties could damage our reputation. Moreover, reputational harm may cause us to lose current employees and we may be unable to continue to attract new ones with similar qualification or skills. Damage to our reputation could substantially reduce our AUM and impair our ability to maintain or grow our business, which could have a material adverse effect on us.

We face strong competition from numerous and sometimes larger companies.

We compete with numerous investment management companies, stock brokerage and investment banking firms, insurance companies, banks, savings and loan associations and other financial institutions. The periodic establishment of new investment management companies and other competitors increases the competition that we face. At the same time, consolidation in the financial services industry has created stronger competitors with greater financial resources and broader distribution channels than our own. Competition is based on various factors, including, among others, business reputation, investment performance, product mix and offerings, service quality and innovation, distribution relationships and fees charged, and our competitive success in all of these areas cannot be assured. Additionally, competing securities dealers whom we rely upon to distribute our mutual funds also sell their own proprietary funds and investment products, which could limit the distribution of our investment products. To the extent that existing or potential customers, including securities dealers, decide to invest in or distribute the products of our competitors, the sales of our products as well as our market share, revenues and net income could decline.

Fee pressures could reduce our profit margins.

There has been a trend toward lower fees in some segments of the investment management industry. In order for us to maintain our fee structure in a competitive environment, we must be able to provide clients with investment returns and service that will encourage them to be willing to pay such fees. Accordingly, there can be no assurance that we will be able to maintain our current fee structure. Fee reductions on existing or future new business could have an adverse effect on our profit margins and results of operations.

#### Risks Related to the Company

The disparity in the voting rights among the classes of shares may have a potential adverse effect on the price of our Class A Stock.

The holders of Class A Common Stock (“Class A Stock”) and Class B Stock have identical rights except that (i) holders of Class A Stock are entitled to one vote per share, while holders of Class B Stock are entitled to ten votes per share on all matters to be voted on by shareholders in general, and (ii) holders of Class A Stock are not eligible to vote on matters relating exclusively to Class B Stock and vice versa. Since our Offering in 1999, Mr. Gabelli, through his control and majority ownership of GGCP, has beneficially owned a majority of our outstanding Class B Stock, representing approximately 95% of voting control. As long as Mr. Gabelli indirectly beneficially owns a majority of the combined voting power of our common stock, he will have the ability to elect all of the members of our Board of Directors and thereby control our management and affairs, including determinations with respect to acquisitions, dispositions, borrowings, issuances of common stock or other securities, and the declaration and payment of dividends

on the common stock. The differential in voting rights and the ability of our company to issue additional Class B Stock could adversely affect the value of the Class A Stock to the extent the investors, or any potential future purchaser of our company, view the superior voting rights of the Class B Stock to have value. On May 6, 2011, Class A Stock shareholders approved a proposal for the Board of Directors to consider the conversion and reclassification of our shares of Class B Stock into Class A Stock at a ratio in the range of 1.10 to 1.20 shares of Class A Stock for each share of Class B Stock.

Future sales of our Class A Stock in the public market or sales or distributions of our Class B Stock could lower our stock price, and any additional capital raised by us through the sale of equity or convertible securities may dilute our stockholders' ownership in us.

We may sell additional shares of Class A Stock in subsequent public offerings. We also may issue additional shares of Class A Stock or convertible debt securities. In addition, sales by our current shareholders could be perceived negatively.

No prediction can be made as to the effect, if any, that future sales or distributions of Class B Stock owned by GGCP Holdings LLC will have on the market price of the Class A Stock prevailing from time to time. Sales or distributions of substantial amounts of Class A Stock or Class B Stock, or the perception that such sales or distributions could occur, could adversely affect the prevailing market price for the Class A Stock.

#### ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2: PROPERTIES

As of December 31, 2011, we leased our principal offices which consisted of a single 60,000 square foot building located at 401 Theodore Fremd Avenue, Rye, New York, under a lease which expires on December 31, 2023. The lease was extended for 15 years in October 2008. This building was leased in December 1997 (prior to the Offering) from an entity controlled by members of Mr. Gabelli's immediate family. For 2011, 2010 and 2009 we paid approximately \$1.1 million, \$1.1 million and \$1.1 million, respectively, or \$18.39, \$18.15 and \$18.00 per square foot, respectively, under this lease. 5,000 square feet was subleased to entities under the control of Mr. Gabelli including Teton and LICT Corporation. We receive rental payments under the sublease agreements, which totaled approximately \$188,000, \$179,000 and \$181,000 in 2011, 2010 and 2009, respectively. The lease is a triple net lease, which provides that in addition to the lease payments, all operating expenses related to the property, which are estimated at \$800,000 annually, are to be paid by us.

We have also entered into leases for office space in both the U.S. and overseas principally for portfolio management, research, sales and marketing personnel. These offices are generally less than 4,000 square feet and leased for periods of five years or less.

#### ITEM 3: 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, restitutions or other relief. The Company cannot predict the ultimate outcome of such matters. The consolidated financial statements include the necessary provisions for losses that the Company believes are probable and estimable. Furthermore, the Company evaluates whether there exist losses which may be reasonably possible and, if material, makes the necessary disclosures. Such amounts, both those that are probable and those that are reasonably possible, are not considered material to the Company's financial condition, operations or cash flows.

#### ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

## PART II

#### ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares of Class A Stock are traded on the NYSE under the symbol GBL.

As of February 1, 2012, there were 246 Class A Stockholders of record and 20 Class B Stockholders of record. These figures do not include stockholders with shares held under beneficial ownership in nominee name, which are

estimated to be approximately 3,000.

The following table sets forth the high and low prices of our Class A Stock for each quarter of 2011 and 2010 as reported by the NYSE.

Quarter Ended	High	Low
March 31, 2011	\$ 49.67	\$ 39.59
June 30, 2011	51.79	42.17
September 30, 2011	52.35	36.75
December 31, 2011	52.98	35.81
March 31, 2010	49.82	38.97
June 30, 2010	48.46	34.94
September 30, 2010	41.27	33.63
December 31, 2010	\$ 50.85	\$ 37.99

In 2009, we paid \$2.13 per share in dividends to our shareholders. This included four quarterly dividends of \$0.03 per share on March 31, 2009, June 30, 2009, September 29, 2009, and December 29, 2009, respectively, to all shareholders of record on March 17, 2009, June 16, 2009, September 15, 2009, and December 15, 2009, respectively. We also paid a special dividend of \$2.00 per share to all of our shareholders, payable on December 15, 2009 to shareholders of record on December 1, 2009. Additionally, we distributed the shares of Teton that the Company owned on March 20, 2009 to shareholders of record on March 10, 2009 which had an initial value of approximately \$0.01 per GBL share.

In 2010, we paid \$1.82 per share in cash dividends to our shareholders. This included four quarterly dividends of \$0.03 per share on March 30, 2010, June 29, 2010, September 28, 2010, and December 28, 2010, respectively, to all shareholders of record on March 16, 2010, June 15, 2010, September 14, 2010, and December 14, 2010, respectively. We also paid two special cash dividends of \$0.90 per share and \$0.80 per share to all of our shareholders, payable on September 14, 2010 and December 31, 2010, respectively, to shareholders of record on August 31, 2010 and December 15, 2010, respectively. Additionally, we paid a special dividend of \$3.20 of principal per share in the form of a five-year, zero coupon subordinated debenture due 2015 to all of our shareholders, payable on December 31, 2010 to shareholders of record on December 15, 2010. For dividend accounting purposes, the Company used a value of \$2.21 per share for the subordinated debenture.

In 2011, we paid \$1.15 per share in cash dividends to our shareholders. This included one quarterly dividend of \$0.03 per share on March 29, 2011 to all shareholders of record on March 15, 2011 and three quarterly dividends of \$0.04 per share on June 28, 2011, September 27, 2011, and December 27, 2011, respectively, to all shareholders of record on June 14, 2011, September 13, 2011, and December 13, 2011, respectively. We also paid a special dividend of \$1.00 per share to all of our shareholders, payable on November 22, 2011 to shareholders of record on November 17, 2011.

As of December 31, 2011, since the Offering, we have returned \$642.4 million in total to shareholders of which \$344.0 million was in the form of dividends and \$298.4 million was through buybacks.

The following table provides information with respect to the shares of our Class A Stock we repurchased during the three months ended December 31, 2011:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share, net of Commissions	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
10/01/11 - 10/31/11	-	\$ -	-	582,372
11/01/11 - 11/30/11	2,500	44.51	2,500	579,872
12/01/11 - 12/31/11	6,505	44.40	6,505	573,367
Totals	9,005	\$ 44.43	9,005	

In 1999, the Board of Directors established the stock repurchase program. Our stock repurchase program is not subject to an expiration date.

We are required to provide a comparison of the cumulative total return on our Class A Stock as of December 31, 2011 with that of a broad equity market index and either a published industry index or a peer group index selected by us. The following chart compares the return on the Class A Stock with the return on the S&P 500 Index and an index comprised of public asset managers ("SNL Asset Manager"). The comparison assumes that \$100 was invested in the Class A Stock and in each of the named indices, including the reinvestment of dividends, on December 31, 2006. This chart is not intended to forecast future performance of our common stock.

	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011
GAMCO Investors, Inc.	100.00	183.53	76.68	141.94	157.03	145.79
SNL Asset Manager	100.00	113.83	54.10	87.76	101.02	87.38
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.76



The following table shows information regarding outstanding options and shares reserved for future issuance under our equity compensation plans as of December 31, 2011.

Plan Category	Number of Securities to be	
	Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights
Equity compensation plans approved by security holders:		
Stock options	100,900	\$ 37.81
Restricted stock awards	275,600	n/a
Equity compensation plans not approved by security holders:		
	-	n/a
<b>Total</b>	<b>376,500</b>	

The number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column above) are 637,575. All stock options and restricted stock awards (“RSAs”) are recommended by the Company’s Chairman, whom has never received either stock options or RSAs since the Company went public.

## ITEM 6: SELECTED FINANCIAL DATA

## General

The selected historical financial data presented below has been derived in part from, and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 and “Financial Statements and Supplementary Data” included in Item 8 of this report.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
<b>Income Statement Data (in thousands) (unaudited)</b>					
<b>Revenues</b>					
Investment advisory and incentive fees	\$268,024	\$231,269	\$178,713	\$204,293	\$250,410
Institutional research services	14,288	16,600	16,715	16,129	15,729
Distribution fees and other income	44,816	32,511	22,686	24,590	26,230
Total revenues	327,128	280,380	218,114	245,012	292,369
<b>Expenses:</b>					
Compensation costs	132,970	123,840	92,859	102,840	120,036
Management fee	12,270	12,013	9,758	4,086	14,463
Distribution costs	44,427	31,048	24,339	25,090	28,500
Other operating expenses	24,167	22,450	18,948	27,979	26,203
Total expenses	213,834	189,351	145,904	159,995	189,202
Operating income	113,294	91,029	72,210	85,017	103,167
<b>Other income (expense), net</b>					
Net gain/(loss) from investments	5,551	24,391	25,558	(52,299 )	6,147
Interest and dividend income	6,594	5,905	3,425	13,136	32,497
Interest expense	(14,997 )	(11,984 )	(13,290 )	(9,441 )	(12,040 )
Total other income (expense), net	(2,852 )	18,312	15,693	(48,604 )	26,604
Income before income taxes	110,442	109,341	87,903	36,413	129,771
Income tax provision	40,767	39,326	31,761	12,323	49,548
Net income	69,675	70,015	56,142	24,090	80,223
<b>Net income (loss) attributable to noncontrolling interests</b>					
	(7 )	1,223	609	(776 )	654
<b>Net income attributable to GAMCO Investors, Inc.'s shareholders</b>					
	\$69,682	\$68,792	\$55,533	\$24,866	\$79,569
<b>Net income attributable to GAMCO Investors, Inc.'s shareholders per share:</b>					
Basic	\$2.62	\$2.55	\$2.03	\$0.89	\$2.83
Diluted	\$2.61	\$2.52	\$2.02	\$0.89	\$2.79
<b>Weighted average shares outstanding:</b>					
Basic	26,636	26,959	27,345	27,805	28,142
Diluted	26,724	28,348	28,214	27,841	29,129
	26,755	27,053	27,605	27,746	28,446

Actual shares outstanding at December 31st

(a)

Dividends declared per share:	\$ 1.15	\$ 5.02	\$ 2.13	\$ 2.02	\$ 1.12
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(a) Includes unvested RSAs of 275,600, 123,100, 360,100, 369,900 and 382,400 at December 31, 2011, 2010, 2009, 2008 and 2007, respectively.

	December 31,				
	2011	2010	2009	2008	2007
Balance Sheet Data (in thousands) (unaudited)					
Total assets	\$756,749	\$672,736	\$707,809	\$697,634	\$757,580
Long-term obligations	268,191	163,762	204,116	204,095	152,133
Other liabilities and noncontrolling interest	81,147	119,366	60,032	48,598	98,342
Total liabilities and noncontrolling interest	349,338	283,128	264,148	252,693	250,475
Total equity	\$407,411	\$389,608	\$443,661	\$444,941	\$507,105

	December 31,				
	2011	2010	2009	2008	2007
Assets Under Management (unaudited) (at year end, in millions):					
Open-end Funds	\$14,097	\$12,868	\$10,197	\$7,646	\$10,456
Closed-end Funds	5,799	5,471	4,609	3,792	6,341
Institutional & PWM Separate Accounts					
Direct	10,879	11,031	9,338	6,883	10,732
Sub-advisory	2,600	2,637	1,897	1,585	2,584
Investment Partnerships	605	515	305	295	460
SICAV (a)	105	-	-	-	-
Total	\$34,085	\$32,522	\$26,346	\$20,201	\$30,573

(a) Includes \$100 million of proprietary seed capital.

## ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in Item 8 to this report.

### Introduction

Our revenues are highly correlated to the level of AUM and fees associated with our various investment products, rather than our own corporate assets. AUM, 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. It is our belief that general stock market trends will have the greatest impact on our level of AUM and hence, revenues.

As of December 31, 2011, we had \$34.1 billion of AUM. We conduct our investment advisory business principally through: GAMCO (Institutional and Private Wealth Management), Funds Advisor (Mutual Funds) and GSI (Investment Partnerships). We also act as an underwriter and provide institutional research services through Gabelli & Company, a broker-dealer subsidiary, and are a distributor of our open-end mutual funds through our other broker-dealer subsidiary G.distributors.

### Overview

#### Consolidated Statements of Income

Investment advisory and incentive fees, which are based on the amount and composition of AUM in our Mutual Funds, Institutional and Private Wealth Management accounts and Investment Partnerships, represent our largest source of revenues. In addition to the general level and trends of the stock market, growth in revenues depends on good investment performance, which influences the value of existing AUM as well as contributes to higher investment and lower redemption rates and facilitates the ability to attract additional investors while maintaining current fee levels. Growth in AUM is also dependent on being able to access various distribution channels, which is usually based on several factors, including performance and service. Historically, we have depended primarily on direct distribution of our products and services but since 1995 have participated in third party distribution programs, including NTF programs. A majority of our cash inflows to mutual fund products have come through these channels since 1998. In recent years, we have been engaged to act as a sub-advisor for other much larger financial services companies with much larger sales distribution organizations. A substantial portion of the cash flows into our Institutional and Private Wealth Management business has come through this channel. These sub-advisory clients are subject to business combinations that may result in the termination of the relationship. The loss of a sub-advisory relationship could have a significant impact on our financial results in the future.

Advisory fees from the open-end funds, closed-end funds and sub-advisory accounts are computed daily or weekly based on average net assets. Advisory fees from Institutional and Private Wealth Management clients are generally computed quarterly based on account values as of the end of the preceding quarter. Management fees from Investment Partnerships are computed either monthly or quarterly. These revenues are highly correlated to the stock market and can vary in direct proportion to movements in the stock market and the level of sales compared with redemptions, financial market conditions and the fee structure for AUM. Revenues derived from the equity-oriented portfolios generally have higher management fee rates than fixed income portfolios.

Revenues from Investment Partnerships also generally include an incentive allocation on the absolute gain in a portfolio or a fee of 20% of the economic profit, as defined in the partnership agreement. We recognize revenue only when the measurement period has been completed and when the incentive fees have been earned. We also receive -incentive fees from certain Institutional and Private Wealth Management clients, which are based upon meeting or exceeding a specific benchmark index or indices. These fees are recognized at the end of the stipulated contract period, which may be quarterly or annually, for the respective account. Management fees on assets attributable to a majority of the closed-end preferred shares are earned at year-end if the total return to common shareholders of the closed-end fund for the calendar year exceeds the dividend rate of the preferred shares. These fees are recognized at the end of the measurement period.

Institutional research services revenues consist of brokerage commissions derived from securities transactions executed on an agency basis on behalf of mutual funds, Institutional and Private Wealth Management clients as well as investment banking revenue, which consists of underwriting profits, selling concessions and management fees associated with underwriting activities. Commission revenues vary directly with account trading activity and new account generation. Investment banking revenues are directly impacted by the overall market conditions, which affect the number of public offerings which may take place.

Distribution fees and other income primarily include distribution fee revenue earned in accordance with Rule 12b-1 of the Company Act, as amended, along with sales charges and underwriting fees associated with the sale of the Mutual Funds plus other revenues. Distribution fees fluctuate based on the level of AUM and the amount and type of Mutual Funds sold directly by G.distributors or through various distribution channels.

Compensation costs include variable and fixed compensation and related expenses paid to officers, portfolio managers, sales, trading, research and all other professional staff. Variable compensation paid to sales personnel and portfolio management generally represents 40% of revenues and is the largest component of total compensation costs. Distribution costs include marketing, product distribution and promotion costs. Management fee is incentive-based and entirely variable compensation in the amount of 10% of the aggregate pre-tax profits which is paid to Mr. Gabelli or his designee for acting as CEO pursuant to his 2008 Employment Agreement so long as he is an executive of GBL and devotes the substantial majority of his working time to the business. Other operating expenses include general and administrative operating costs and clearing charges and fees for Gabelli & Company's brokerage operation.

Other income and expenses include net gains and losses from investments (which includes both realized and unrealized gains and losses from trading securities and equity in earnings of investments in partnerships), interest and dividend income, and interest expense. Net gains and losses from investments are derived from our proprietary investment portfolio consisting of various public and private investments.

Net income (loss) attributable to noncontrolling interests represents the share of net income attributable to the minority stockholders, as reported on a separate company basis, of our consolidated majority-owned subsidiaries and net income attributable to third party limited partners of certain partnerships and offshore funds we consolidate. Please refer to Notes A and D in our consolidated financial statements included elsewhere in this report.

#### Consolidated Statements of Financial Condition

We ended the 2011 year with approximately \$674.8 million in cash and investments, which includes \$15.9 million of cash and investments held by our consolidated investment partnerships. The \$674.8 million consists of \$276.3 million cash and cash equivalents, primarily invested in our 100% U.S. Treasury Money Market Fund, \$159.4 million invested in common stocks, \$42.1 million invested in U.S. Treasury obligations, \$100.9 million invested in partnerships and \$1.7 million in other types of investments. This also included approximately \$94.4 million of our available for sale ("AFS") securities, consisting of investments in The Gabelli Dividend & Income Trust, The GDL Fund, and Westwood Holdings Group and various other Gabelli and GAMCO open-end funds.

Our debt consisted of \$99 million of 5.5% senior notes due May 2013, \$100 million of 5.875% senior notes due June 1, 2021 and \$64.1 million in zero coupon subordinated debentures (current principal amount of \$86.3 million) due December 31, 2015, which were dividended to shareholders on December 31, 2010.

Equity, excluding noncontrolling interest, was \$404.0 million or \$15.10 per share on December 31, 2011 compared to \$386.0 million or \$14.27 per share on December 31, 2010. The increase in equity from the end of 2010 was principally related to comprehensive income of \$66.8 million partially offset by the declaration of dividends of \$30.8 million and the purchase of treasury stock of \$20.4 million during 2011.

(in millions, except per share data)	12/31/2011	12/31/2010
	\$ 403.97	\$ 386.03

Stockholders'  
book value

Shares

outstanding	26.75	27.05
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Stockholders'

book value

per share	\$ 15.10	\$ 14.27
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Our balance sheet provides us access to financial markets and the flexibility to opportunistically add operating resources to our firm and consider strategic initiatives. We filed a shelf registration with the SEC in 2009 which, among other things, 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. On May 31, 2011, the Company issued \$100 million of senior unsecured notes at par. The notes mature June 1, 2021 and bear interest, payable semi-annually, at 5.875% per annum. The notes were issued pursuant to the Company's shelf registration reducing the amount for future issuances to \$300 million. The shelf is available through July 27, 2012.



Our primary goal is to use our liquid resources to opportunistically and strategically grow operating income. While this goal is a priority, if opportunities are not present with what we consider a margin of safety, we will consider alternatives to return capital to our shareholders including stock repurchase and dividends.

#### Assets Under Management Highlights (unaudited)

We reported assets under management as follows (dollars in millions):

	Year Ended December 31,					
	2011	2010	2009	2008	2007	2011/2010
<b>Equities:</b>						
Open-End	\$ 12,273	\$ 11,252	\$ 8,476	\$ 6,139	\$ 9,345	9.1 %
Closed-End	5,799	5,471	4,609	3,792	6,341	6.0
Institutional & PWM direct	10,853	11,005	9,312	6,861	10,708	(1.4 )
Institutional & PWM sub-advisory	2,600	2,637	1,897	1,585	2,584	(1.4 )
Investment Partnerships	605	515	305	295	460	17.5
SICAV (a)	105	-	-	-	-	n/m
<b>Total Equities</b>	<b>32,235</b>	<b>30,880</b>	<b>24,599</b>	<b>18,672</b>	<b>29,438</b>	<b>4.4</b>
<b>Fixed Income:</b>						
Money-Market Fund	1,824	1,616	1,721	1,507	1,111	12.9
Institutional & PWM	26	26	26	22	24	-
<b>Total Fixed Income</b>	<b>1,850</b>	<b>1,642</b>	<b>1,747</b>	<b>1,529</b>	<b>1,135</b>	<b>12.7</b>
<b>Total AUM</b>	<b>\$ 34,085</b>	<b>\$ 32,522</b>	<b>\$ 26,346</b>	<b>\$ 20,201</b>	<b>\$ 30,573</b>	<b>4.8 %</b>

Our net cash inflows or outflows by product line were as follows (in millions):

	Year Ended December 31,		
(unaudited)	2011	2010	2009
<b>Equities:</b>			
Open-End	\$ 1,330	\$ 1,109	\$ 570
Closed-End	408	69	(109 )
Institutional & PWM direct	164	(534 )	310
Institutional & PWM sub-advisory	41	190	(183 )
Investment Partnerships	77	170	(25 )
SICAV (a)	105	-	-
<b>Total Equities</b>	<b>2,125</b>	<b>1,004</b>	<b>563</b>
<b>Fixed Income:</b>			
	208	(106 )	210

Money-Market Fund			
Institutional & PWM	-	-	4
Total Fixed Income	208	(106 )	214
Total Net Cash In (Out) Flows	\$ 2,333	\$ 898	\$ 777

(a) Includes \$100 million of proprietary seed capital.

Our net appreciation and depreciation by product line were as follows (in millions):

(unaudited)	Year Ended December 31,		
	2011	2010	2009
<b>Equities:</b>			
Open-End	\$ (309 )	\$ 1,667	\$ 1,767
Closed-End	(80 )	793	926
Institutional & PWM direct	(316 )	2,227	2,141
Institutional & PWM sub-advisory	(78 )	550	495
Investment Partnerships	13	40	35
SICAV	-	-	-
<b>Total Equities</b>	<b>(770 )</b>	<b>5,277</b>	<b>5,364</b>
<b>Fixed Income:</b>			
Money-Market Fund	-	1	4
Institutional & PWM	-	-	-
<b>Total Fixed Income</b>	<b>-</b>	<b>1</b>	<b>4</b>
<b>Total Net Appreciation/(Depreciation)</b>	<b>\$ (770 )</b>	<b>\$ 5,278</b>	<b>\$ 5,368</b>

AUM was \$34.1 billion as of December 31, 2011, 4.8% above December 31, 2010 AUM of \$32.5 billion. Equity AUM were \$32.2 billion on December 31, 2011, 4.4% above the \$30.9 billion on December 31, 2010.

- Our open-end equity fund AUM were \$12.3 billion on December 31, 2011, 9.1% above the \$11.3 billion on December 31, 2010. Average AUM in our open-end equity funds were 28.4% higher at \$12.2 billion in 2011 versus \$9.5 billion in 2010.
- Our closed-end equity funds had AUM of \$5.8 billion on December 31, 2011, 6.0% above the \$5.5 billion on December 31, 2010. Net additions to AUM, largely comprised of preferred stock and rights offerings and the launch of a new fund less shareholder distributions and dividends totaled \$408 million in 2011. Average AUM in our close-end funds were 20.4% higher at \$5.9 billion in 2011 versus \$4.9 billion in 2010.
- Our Institutional and Private Wealth Management business ended the year with \$13.5 billion in separately managed accounts, 0.7% lower than the \$13.6 billion on December 31, 2010. Net cash flow, which comprises new and closed accounts as well as additional investments or withdrawals, totaled \$205 million in 2011.
- AUM in The Gabelli U.S. Treasury Fund, our 100% U.S. Treasury money market fund, rose 12.9% to \$1.8 billion at December 31, 2011 from \$1.6 billion on December 31, 2010. Beginning in the latter half of 2011 fees and expenses were waived or reimbursed due to the unusually low interest rate environment. These waivers and reimbursements totaled \$0.4 million during 2011.
- We have the opportunity to earn incentive fees for certain institutional client assets, preferred issues for our closed-end funds, common shares of The GDL Fund (NYSE: GDL) and investment partnership assets. As of December 31, 2011, assets with incentive fee opportunities were \$3.6 billion, 2.7% lower than the \$3.7 billion on December 31, 2010.
- Our Investment Partnerships AUM were \$605 million on December 31, 2011 versus \$515 million on December 31, 2010.

- The AUM in the SICAV were \$105 million, including \$100 million of proprietary seed capital, at December 31, 2011.

## Operating Results for the Year Ended December 31, 2011 as Compared to the Year Ended December 31, 2010

## Revenues

Total revenues were \$327.1 million in 2011, \$46.7 million or 16.7% higher than the total revenues of \$280.4 million in 2010. The change in total revenues by revenue component was as follows (in millions):

(unaudited)	Year Ended December 31,		Increase (decrease)	
	2011	2010	\$	%
Investment advisory	\$ 252.5	\$ 204.9	\$ 47.6	23.2 %
Incentive fees	15.5	26.4	(10.9)	(41.3)
Institutional research services	14.3	16.6	(2.3 )	(13.9)
Distribution fees and other income	44.8	32.5	12.3	37.8
Total revenues	\$ 327.1	\$ 280.4	\$ 46.7	16.7 %

**Investment Advisory and Incentive Fees:** Investment advisory fees, which comprised 77.2% of total revenues in 2011, are directly influenced by the level and mix of average AUM. Average total AUM rose 20.8% to \$34.3 billion in 2011 as compared to \$28.4 billion in 2010. Average equity AUM rose 22.6% to \$32.6 billion in 2011 from \$26.6 billion in 2010. Incentive fees, which comprised 4.7% of total revenues in 2011, result from our ability to either generate an absolute return in a portfolio or meet or exceed a specific benchmark index or indices and can vary significantly from one period to another. Incentive fees were lower in 2011 as markets were largely impacted by the prevailing global economic climate.

Mutual fund revenues increased \$26.6 million or 18.2%, to \$172.7 million, driven by higher average AUM. Revenue from open-end funds increased \$23.1 million, or 23.9%, from the prior year as average AUM in 2011 increased \$2.7 billion, or 24.1%, to \$13.9 billion from the \$11.2 billion in 2010. Closed-end fund revenues increased \$3.5 million, or 7.1%, to \$53.1 million from the prior year. The increase was primarily attributable to higher average AUM of \$5.9 billion during 2011 as compared with \$4.9 billion during 2010, and was offset by a \$7.0 million decline in incentive fees on certain preferred closed-end fund AUM. Revenue from Institutional and Private Wealth Management accounts, which are generally billed on beginning quarter AUM, increased \$10.0 million, or 12.7%, principally due to higher billable AUM levels throughout the course of 2011 partially offset by a decrease of \$2.6 million in incentive fees earned on certain accounts. In 2011, average AUM in our equity Institutional and Private Wealth Management business increased \$2.0 billion, or 16.8%, for the year to \$13.9 billion.

Total advisory fees from Investment Partnerships were unchanged at \$6.4 million in both 2011 and 2010. Management fee revenues were \$4.1 million in 2011, an increase of \$1.3 million or 46.4%, from the \$2.8 million in 2010 as average AUM increased \$173 million, or 42.0%, to \$585 million in 2011 from \$412 million in 2010. This increase was offset by a decrease of \$1.3 million to \$2.3 million in 2011 from \$3.6 million in 2010 in incentive allocations and fees from investment partnerships, which generally represent 20% of the economic profit.

**Institutional Research Services:** Institutional research services revenues in 2011 were \$14.3 million, a \$2.3 million or 13.9% decrease from \$16.6 million in 2010 largely the result of lower trading volume. Institutional research services revenues derived from transactions on behalf of our Mutual Funds and Institutional and Private Wealth Management clients totaled \$10.7 million, or approximately 75% of total institutional research services revenues in 2011.

**Distribution Fees and Other Income:** Distribution fees and other income increased \$12.3 million, or 37.8%, to \$44.8 million in 2011 from \$32.5 million in 2010. The increase was primarily due to higher distribution fees of \$39.7 million in 2011 versus \$29.0 million for the prior year, principally as a result of increased average AUM in our open-end equity mutual funds of 28.4% and an increase of \$1.4 million in fees from the sale of load shares of mutual funds.

#### Expenses

**Compensation:** Total compensation costs, which are largely variable in nature, increased \$9.2 million, or 7.4%, to \$133.0 million in 2011 from \$123.8 million in 2010. Variable compensation costs increased \$13.0 million to \$96.3 million in 2011 from \$83.3 million in 2010 but decreased as a percent of revenues to 29.4% in 2011 from 29.7% in 2010. Variable compensation is driven by revenue levels which increased in 2011 from 2010. Fixed compensation costs declined to \$36.7 million in 2011 from \$40.5 million in 2010. Included in the 2010 compensation costs was a \$5.8 million non-cash charge for the acceleration of the 2007 RSA grant. Excluding this charge fixed compensation costs rose \$2.0 million or 5.8%.

**Management Fee:** In 2011 management fee expense increased 2.5% to \$12.3 million versus \$12.0 million in 2010. Management fee expense is incentive-based and entirely variable in the amount of 10% of the aggregate pre-tax profits which is paid to Mr. Gabelli (or his designee) for acting as CEO pursuant to his 2008 Employment Agreement so long as he is an executive of GBL and devoting the substantial majority of his working time to the business. In accordance with his 2008 Employment Agreement, Mr. Gabelli chose to allocate \$0.5 million and \$2.4 million of his management fee to employees of the Company in 2011 and 2010, respectively.

**Distribution Costs:** Distribution costs, which include marketing, promotion and distribution costs increased \$13.4 million, or 43.2%, to \$44.4 million in 2011 from \$31.0 million in 2010. Included in this increase was \$5.6 million in one-time costs directly related to the launch of a new closed-end fund in the first quarter of 2011. Excluding this charge, distribution costs were \$7.8 million, or 25.2%, higher in 2011 driven by an increase in average open-end equity mutual funds AUM of 28.4%.

**Other Operating Expenses:** Our other operating expenses were \$24.2 million in 2011 compared to \$22.5 million in 2010. This 7.6% increase was spread across multiple categories of expenses with no one expense making up a significant portion of the increase.

#### Operating Income and Margin

Operating income was \$113.3 million for the year ended December 31, 2011, increasing 24.5% from \$91.0 million in the prior year. The year over year increase in operating income was primarily due to the growth in revenues which were largely attributable to the higher levels of average AUM in 2011 versus 2010. Operating expenses grew at a slower rate benefiting from lower growth in non-variable compensation and other operating expenses and the impact of lower non-operating income on management fee. Significant charges unique to each period included \$5.6 million in distribution costs related to the launch of a new closed-end fund in 2011 and a \$5.8 million charge to compensation costs in 2010 related to the acceleration of RSAs. While these charges reduced operating income for each year their net impact on the year over year comparison of total operating income was only \$0.2 million. Operating margin was 34.6% for the year ended December 31, 2011, versus 32.5% in the prior year period. Operating income before management fee was \$125.6 million for the year ended of 2011, versus \$103.0 million in the prior year.

Operating margin before management fee was 38.4% in 2011 versus 36.8% in 2010. The reconciliation of operating income before management fee and operating margin before management fee is provided at the end of this section.

#### Other Income and Expense

Total other income (expense) (which represents primarily investment income from our proprietary investments), net of interest expense, was an expense of \$2.9 million for the year ended December 31, 2011 compared to \$18.3 million of income in 2010. Net gain from investments was \$5.6 million in 2011 as compared to \$24.4 million in 2010. Interest and dividend income was \$6.6 million in 2011 compared to \$5.9 million in 2010. The increase of \$0.7 million was due to an increase of \$1.0 million of dividend income offset by a reduction of interest income of \$0.3 million due to lower interest rates on our cash and cash equivalent holdings.

Interest expense increased \$3.0 million to \$15.0 million in 2011, from \$12.0 million in 2010. The increase was primarily due to the issuance of \$100 million of 5.875% ten-year senior notes in May 2011 and the issuance of \$86.4 million in zero coupon subordinated debentures on December 31, 2010, slightly offset by the repurchases of the \$40 million 2011 Notes and the \$60 million 2018 Notes during the course of 2010.

#### Income Taxes

The effective tax rate was 36.9% for the year ended December 31, 2011, versus 36.0% for the year ended December 31, 2010.

#### Noncontrolling interest

Noncontrolling interest was a slight negative of \$7,000 in 2011 compared to \$1.2 million of expense in 2010. The decrease was primarily due to decreased earnings in 2011 as compared to 2010 from the partnerships and offshore funds that we consolidate.

#### Net Income

Net income for 2011 was \$69.7 million or \$2.61 per fully diluted share versus \$68.8 million or \$2.52 per fully diluted share for 2010.

#### Shareholder Compensation and Initiatives

During 2011, we returned \$51.2 million of our earnings to shareholders through dividends and stock repurchases. We returned \$0.15 per share in regular quarterly cash dividends and a special dividend of \$1.00 per share totaling \$30.8 million to shareholders during 2011. During 2010, we returned \$139.2 million of our earnings to shareholders through dividends and stock repurchases. We returned \$1.82 per share in cash dividends through regular quarterly cash dividends and two special cash dividends of \$0.90 per share and \$0.80 per share, totaling \$49.4 million, in 2010. Additionally, we paid a special dividend of \$59.6 million (\$3.20 of principal per share or \$86.4 million) to shareholders in the form of a five-year, zero coupon subordinated debenture due 2015.



Through our stock buyback program, we repurchased 450,966 and 684,003 shares in 2011 and 2010, respectively, for a total of approximately \$20.4 million and \$30.2 million, respectively or \$45.24 and \$44.15 per share, respectively. Approximately 573,000 shares remain authorized under our stock buyback program at December 31, 2011.

Weighted average shares outstanding on a diluted basis in 2011 were 26.7 million. During 2011, we issued 197,200 RSA shares. RSAs affect weighted average shares for diluted earnings per share but not for basic earnings per share. See Note H to the financial statements for details.

At December 31, 2011, we had 100,900 options outstanding to purchase our Class A Stock and 275,600 RSAs which were granted under our Stock Award and Incentive Plans (the "Plans"). The allocation of the options and RSAs was recommended by the Company's Chairman who did not receive options or an RSA award.

#### Reconciliation of non-GAAP financial measures to GAAP:

	2011	2010		
Revenues	\$ 327,128	\$ 280,380		
Operating income	113,294	91,029		
Add back: management fee expense	12,270	12,013		
Operating income before management fee	\$ 125,564	\$ 103,042		
Operating margin	34.6	%	32.5	%
Operating margin before management fee	38.4	%	36.8	%

Operating income before management fee expense is used by management for purposes of evaluating its business operations. We believe this measure is useful in illustrating the operating results of the Company as management fee expense is based on pre-tax income before management fee expense, which includes non-operating items including investment gains and losses from the Company's proprietary investment portfolio and interest expense. We believe that an investor would find this useful in analyzing the business operations of the Company without the impact of the non-operating items such as trading and investment portfolios or interest expense.

#### Operating Results for the Year Ended December 31, 2010 as Compared to the Year Ended December 31, 2009

##### Revenues

Total revenues were \$280.4 million in 2010, \$62.3 million or 28.6% higher than the total revenues of \$218.1 million in 2009. The change in total revenues by revenue component was as follows (in millions):

(unaudited)	Year Ended December 31,		Increase (decrease)	
	2010	2009	\$	%
Investment advisory	\$ 204.9	\$ 156.9	\$ 48.0	30.6%
Incentive fees	26.4	21.8	4.6	21.1
Institutional research services	16.6	16.7	(0.1 )	(0.6 )
Distribution fees and other income	32.5	22.7	9.8	43.2
Total revenues	\$ 280.4	\$ 218.1	\$ 62.3	28.6%

Investment Advisory and Incentive Fees: Investment advisory and incentive fees, which comprised 82.5% of total revenues in 2010, are directly influenced by the level and mix of AUM. At December 31, 2010, AUM were \$32.5 billion, a 23.4% increase from prior year-end AUM of \$26.3 billion. Our equity AUM were \$30.9 billion on December 31, 2010, or 25.5% higher, than the \$24.6 billion on December 31, 2009. We experienced increases in AUM in open-end and closed-end equity funds of \$3.6 billion, in Institutional and Private Wealth Management accounts of \$2.4 billion and in our investment partnerships of \$210 million. Our fixed income AUM decreased 6.1% to \$1.6 billion at year-end 2010 from \$1.7 billion at the end of 2009. The primary driver in this decrease were net outflows of \$0.1 billion.

Mutual fund revenues increased \$30.0 million or 25.8%, driven by higher average AUM. Revenue from open-end funds increased \$23.5 million or 32.2% from the prior year as average AUM in 2010 increased \$2.6 billion, or 30.2%, to \$11.2 billion from the \$8.6 billion in 2009. Closed-end fund revenues increased \$6.5 million, or 15.1%, to \$49.6 million from the prior year. The increase was primarily attributable to higher average AUM of \$4.9 billion during 2010 as compared with \$4.0 billion during 2009, offset slightly by a \$2.6 million decline in incentive fee revenue on The GDL Fund. Revenue from Institutional and Private Wealth Management accounts, which are generally billed on beginning quarter AUM, increased \$20.8 million, or 36.0%, principally due to higher billable AUM levels and an increase of \$6.3 million in incentive fees earned on certain accounts. In 2010, average AUM in our equity Institutional and Private Wealth Management business increased \$2.7 billion or 29.4% for the year to \$11.9 billion.

Total advisory fees from Investment Partnerships increased to \$6.4 million in 2010 from \$4.7 million in 2009. Incentive allocations and fees from investment partnerships, which generally represent 20% of the economic profit, increased to \$3.6 million in 2010 compared to \$2.7 million in 2009 and management fees were \$2.8 million in 2010 increasing \$0.8 million from the \$2.0 million in 2009.

**Institutional Research Services:** Institutional research services revenues in 2010 were \$16.6 million, a \$0.1 million or 0.6% decrease from \$16.7 million in 2009. Institutional research services revenues derived from transactions on behalf of our Mutual Funds and Institutional and Private Wealth Management clients totaled \$12.5 million, or approximately 75% of total institutional research services revenues in 2010.

**Distribution Fees and Other Income:** Distribution fees and other income increased \$9.8 million, or 43.2%, to \$32.5 million in 2010 from \$22.7 million in 2009. The increase was primarily due to higher distribution fees of \$29.0 million in 2010 versus \$20.8 million for the prior year, principally as a result of increased average AUM in our open-end equity mutual funds of 37.4%.

#### Expenses

**Compensation:** Our business model from inception in 1977 is to try to payout approximately 40% of revenues to portfolio managers and sales people. Total compensation costs, which are largely variable in nature, increased approximately \$30.9 million, or 33.3%, to \$123.8 million in 2010 from \$92.9 million in 2009. Variable compensation costs increased \$21.9 million to \$83.3 million in 2010 from \$61.5 million in 2009 and as a percent of revenues to 29.7% in 2010 compared to 28.2% in 2009 due to the higher marginal payout on incentive fees. Variable compensation is driven by revenue levels which increased in 2010 from 2009. Fixed compensation costs increased to \$40.5 million in 2010 from \$31.4 million in 2009 largely driven by the acceleration of the 2007 RSA grant during the fourth quarter of 2010 that added a \$5.5 million non-cash charge that would have been taken in 2011 and 2012.

**Management Fee:** Management fee expense is incentive-based and entirely variable in the amount of 10% of the aggregate pre-tax profits which is paid to Mr. Gabelli (or his designee) for acting as CEO pursuant to his 2008 Employment Agreement so long as he is an executive of GBL and devoting the substantial majority of his working time to the business. In accordance with his 2008 Employment Agreement, Mr. Gabelli chose to allocate 20% or \$2.4 million of his management fee to an employee of the Company in 2010. In 2010 management fee expense increased 22.4% to \$12.0 million versus \$9.8 million in 2009.

**Distribution Costs:** Distribution costs, which include marketing, promotion and distribution costs increased \$6.7 million to \$31.0 million from \$24.3 million, or 27.6%, in 2010 from the 2009 period as average open-end mutual funds AUM increased 29.1%.

**Other Operating Expenses:** Our other operating expenses were \$22.5 million in 2010 compared to \$18.9 million in 2009. The largest contributors to the increase were increases in legal expenses of \$2.7 million and charitable contributions of \$0.3 million.

#### Operating Income and Margin

Operating income was \$91.0 million for the year ended December 31, 2010, increasing 26.0% from the \$72.2 million in the prior year. The year over year increase in operating income was largely the result of increased revenues offset by increased compensation expense, mutual fund distribution costs and higher non-compensation operating expenses and an increase in management fee expense. Operating margin was 32.5% for the year ended December 31, 2010, versus 33.1% in the prior year period. Operating income before management fee was \$103.0 million for the year ended of 2010, versus \$82.0 million in the prior year. Operating margin before management fee was 36.8% in 2010 versus 37.6% in 2010. Included in the 2010 results is a charge of \$5.8 million related to the acceleration of the vesting

of RSAs. The reconciliation of operating income before management fee and operating margin before management fee is provided at the end of this section.

Other Income and Expense

Total other income (expense) (which represents primarily investment income from our proprietary investments), net of interest expense, was \$18.3 million for the year ended December 31, 2010 compared to \$15.7 million in 2009.

Net gain/(loss) from investments was \$24.4 million in 2010 as compared to \$25.6 million in 2009.

Interest and dividend income was \$5.9 million in 2010 compared to \$3.4 million in 2009. The increase of \$2.5 million was due to an increase of \$3.2 million of dividend income offset by a reduction of interest income of \$733,000 due to lower average balances in our cash and cash equivalent holdings.

Interest expense decreased \$1.3 million to \$12.0 million in 2010, from \$13.3 million in 2009. The decrease was primarily due to the repurchases of the \$40 million 2011 Notes and the \$60 million 2018 Notes during the course of 2010.

#### Income Taxes

The effective tax rate was 36.0% for the year ended December 31, 2010, versus 36.1% for the year ended December 31, 2009.

#### Noncontrolling interest

Noncontrolling interest was an expense of \$1.2 million in 2010 compared to \$609,000 in 2009. The increase was primarily due to increased earnings at our 93%-owned subsidiary, GSI in 2010 as compared to 2009.

#### Net Income

Net income for 2010 was \$68.8 million or \$2.52 per fully diluted share versus \$55.5 million or \$2.02 per fully diluted share for 2009.

#### Operating Margin

For the full year ended December 31, 2010, the operating margin before management fee was 36.8% versus 37.6% in the prior year. Operating margin after management fee was 32.5% for the full year ended December 31, 2010 compared to 33.1% in the prior year because of the impact of the other income (expense) on the management fee. The acceleration of RSAs in 2010, impacted operating margin negatively by a non-cash charge of \$5.8 million or 2.0% of margin.

#### Shareholder Compensation and Initiatives

During 2010, we returned \$139.2 million of our earnings to shareholders through dividends and our stock repurchases. We returned \$1.82 per share in cash dividends (\$49.4 million) to our common shareholders in 2010, which included four quarterly dividends of \$0.03 per share on March 30, 2010, June 29, 2010, September 28, 2010, and December 28, 2010 to all shareholders of record on March 16, 2010, June 15, 2010, September 14, 2010, and December 14, 2010, respectively. We also paid two special cash dividends of \$0.90 per share and \$0.80 per share to all of our shareholders, payable on September 14, 2010 and December 31, 2010, respectively, to shareholders of record on August 31, 2010 and December 15, 2010, respectively. Additionally, we paid a special dividend of \$59.6 million (\$3.20 of principal per share or \$86.4 million) in the form of a five-year, zero coupon subordinated debenture due 2015 to all of our shareholders, payable on December 31, 2010 to shareholders of record on December 15, 2010. During 2009, we returned \$65.8 million of our earnings to shareholders through dividends and our stock repurchases. We returned \$2.13 per share in dividends (\$58.8 million) to our common shareholders in 2009, which included four quarterly dividends of \$0.03 per share on March 31, 2009, June 30, 2009, September 29, 2009, and December 29, 2009 to all shareholders of record on March 17, 2009, June 16, 2009, September 15, 2009, and December 15, 2009, respectively. We also paid a special dividend of \$2.00 per share to all of our shareholders, on December 15, 2009 to shareholders of record on December 1, 2009. Additionally, we distributed the shares of Teton that the Company owned on March 20, 2009 to shareholders of record on March 10, 2009 that had an initial value of approximately \$0.01 per GBL share. Through our stock buyback program, we repurchased 684,003 and 156,500 shares in 2010 and 2009, respectively, for a total of approximately \$30.2 million and \$7.0 million, respectively or \$44.15 and \$44.91 per share, respectively. Approximately 524,000 shares remain authorized under our stock buyback program at December 31, 2010.

Weighted average shares outstanding on a diluted basis in 2010 were 28.3 million and included approximately 1.1 million shares from the assumed conversion of the 6% convertible note and from the assumed conversion of the 6.5% convertible note for the full year 2010. During 2010, we issued 53,850 shares from the exercise of stock options and 88,800 RSAs. RSAs affect weighted average shares for diluted earnings per share but not for basic earnings per share. See Note I to the financial statements for details.

At December 31, 2010, we had 90,900 options outstanding to purchase our Class A Stock and 123,100 RSAs which were granted under our Stock Award and Incentive Plans (the "Plans"). The allocation of the options and RSAs was recommended by the Company's Chairman who did not receive options or an RSA award.

Reconciliation of non-GAAP financial measures to GAAP:				
	2010		2009	
Revenues	\$	280,380	\$	218,114
Operating income		91,029		72,210
Add back: management fee expense		12,013		9,758
Operating income before management fee	\$	103,042	\$	81,968
Operating margin		32.5 %		33.1 %
Operating margin before management fee		36.8 %		37.6 %

Operating income before management fee expense is used by management for purposes of evaluating its business operations. We believe this measure is useful in illustrating the operating results of the Company as management fee expense is based on pre-tax income before management fee expense, which includes non-operating items including investment gains and losses from the Company's proprietary investment portfolio and interest expense. We believe that an investor would find this useful in analyzing the business operations of the Company without the impact of the non-operating items such as trading and investment performance.

#### 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 derived from our audited consolidated statements of cash flows are as follows:

	Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Cash flows provided by (used in):			
Operating activities	\$ 36,363	\$ (80,030 )	\$ 131,793
Investing activities	3,982	67,186	(55,250 )
Financing activities	67,896	(155,816)	(69,531 )
Increase (decrease) in cash and cash equivalents	108,241	(168,660)	7,012
	-	(9 )	84

Effect of exchange rates on cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	108,241	(168,669)	7,096
Net decrease in cash from consolidated partnerships and offshore funds	(1,502 )	-	-
Cash and cash equivalents at beginning of year	169,601	338,270	331,174
Cash and cash equivalents at end of year	\$ 276,340	\$ 169,601	\$ 338,270

Cash and liquidity requirements have historically been met through cash generated by operating income and our borrowing capacity. We filed a shelf registration with the SEC in 2009 which, among other things, 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. On May 31, 2011, the Company issued \$100 million of senior unsecured notes at par. The net proceeds of \$99.1 million will be used for working capital and general corporate purposes, which may include acquisitions. The notes mature June 1, 2021 and bear interest, payable semi-annually, at 5.875% per annum. The notes were issued pursuant to the Company's shelf registration reducing the amount for future issuances to \$300 million.

At December 31, 2011, we had cash and cash equivalents of \$276.3 million, an increase of \$106.7 million from the prior year-end primarily due to the Company's financing activities. Cash and cash equivalents of \$16.8 million and investments in securities of \$6.2 million held by consolidated investment partnerships and offshore funds may not be readily available for the Company to access. Total debt outstanding at December 31, 2011 was \$263.1 million, consisting of \$64.1 million in five year zero coupon subordinated debentures due 2015 ("Debentures"), with a face value of \$86.3 million, \$100 million of 5.875% senior notes due 2021 and \$99 million of 5.5% senior notes due 2013.



Net cash provided by operating activities was \$36.4 million for the year ended December 31, 2011. Net income of \$69.7 million and partnership distributions of \$57.1 million were the most significant contributors to cash provided by operating activities in 2011. The largest components of cash usage were additional investments in trading securities in our proprietary portfolios and contributions to partnerships. In 2010, we had net cash used in operating activities of \$80.0 million. Net income of \$70.0 million and partnership distributions of \$9.7 million were the most significant contributors to cash provided by operations in 2010 while additional investments in trading securities into our proprietary portfolios and contributions to partnerships were the largest component of cash usage.

Net cash provided by investing activities of \$4.0 million in 2011 is due to proceeds from sales of available for sale securities of \$6.1 million and return of capital from available for sale securities of \$2.3 million partially offset by \$4.4 million in purchases of available for sale securities. Net cash provided by investing activities of \$67.2 million in 2010 is due to a decrease in restricted cash of \$62.3 million as the collateral underlying the Cascade escrow account during 2010 was released and no longer considered restricted while during 2009 the collateral was invested in treasury bills with maturities of less than three months and considered cash equivalents. Additionally, there were purchases of available for sale securities of \$157,000, proceeds from sales of available for sale securities of \$2.1 million and return of capital from available for sale securities of \$3.0 million.

Net cash provided by financing activities of \$67.9 million in 2011 principally resulted from the \$100 million (\$99.1 million net of issuance costs) issuance of 5.875% senior unsecured notes due June 2021 and net contributions of \$20.1 million from redeemable non-controlling interests partially offset by \$20.4 million of repurchases of our Class A Stock under the Stock Repurchase Program and \$30.5 million in dividends paid. Net cash used in financing activities of \$155.8 million in 2010 principally resulted from the repayment of both the 2011 Notes and the 2018 Notes of \$100.4 million, repurchase of our Class A Stock under the Stock Repurchase Program of \$30.2 million and dividends paid of \$50.6 million offset by contributions of \$25.1 million from redeemable non-controlling interests.

Under the terms of the lease of our Rye, New York office, we are obligated to make minimum total payments of \$13.0 million through December 2023.

We continue to maintain our investment grade ratings which we have received from two ratings agencies, Moody's Investors Services and Standard and Poor's Ratings Services. We believe that our ability to maintain our investment grade ratings will provide greater access to the capital markets, enhance liquidity and lower overall borrowing costs. As of December 31, 2011 we have debt outstanding of \$100 million of 5.875% senior notes due June 1, 2021, \$99 million of 5.5% senior notes due May 15, 2013 and \$64.1 million of zero coupon subordinated debentures due December 15, 2015 (with a face value of \$86.3 million). In addition to the \$261.7 million in cash and cash equivalents at December 31, 2011, we also had \$421.6 million in investments in securities, investments in partnerships and receivable from brokers, net of securities sold not yet purchased and payables to brokers.

Gabelli & Company and G.distributors are registered with the SEC as broker-dealers and are regulated by FINRA. As such, they are subject to the minimum net capital requirements promulgated by the SEC. Gabelli & Company's and G.distributors' net capital exceeded these minimum requirements at December 31, 2011. Both Gabelli & Company and G.distributors compute their net capital under the alternative method permitted by the SEC, 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. As of December 31, 2011 and 2010, Gabelli & Company had net capital, as defined, of approximately \$6.0 million and \$11.2 million, respectively, exceeding the regulatory requirement by approximately \$5.7 million and \$11.0 million, respectively. G.distributors had net capital, as defined, of approximately \$2.3 million, exceeding the regulatory requirement by approximately \$2.1 million. Net capital requirements for our affiliated broker-dealers may increase in accordance with rules and regulations to the extent they engage in other business activities.

Our subsidiary, GAMCO Asset Management (UK) Limited is authorized and regulated by the FSA. In connection with this registration, we held Own Funds of £357,000 (\$552,000 at December 31, 2010) and had an Own Funds requirement of £5,000 (\$7,000 at December 31, 2010). In February 2011, GAMCO Asset Management (UK) Limited increased its permitted license with the FSA and held Own Funds of £343,000 (\$530,000 at December 31, 2011) and had an Own Funds requirement of €50,000 (\$65,000 at December 31, 2011). We have consistently met or exceeded these minimum requirements.

## Market Risk

Our primary market risk exposure is to changes in equity prices and interest rates. Since approximately 95% of our AUM are equities, our financial results are subject to equity-market risk as revenues from our money management services are directly correlated to changes in the stock market and are sensitive to other stock market dynamics. In addition, returns from our proprietary investment portfolio are exposed to interest rate and equity market risk.

The Company's Chief Investment Officer oversees the proprietary investment portfolios and allocations of proprietary capital among the various strategies. The Chief Investment Officer and the Board of Directors review the proprietary investment portfolios throughout the year. Additionally, the Company has a risk committee which monitors the proprietary investment portfolios to ensure that they are in compliance with the Company's guidelines.

## Equity Price Risk

With respect to our proprietary investment activities, included in investments in securities of \$297.5 million and \$305.5 million at December 31, 2011 and 2010, respectively, were investments in United States Treasury Bills and Notes of \$42.1 million and \$27.3 million, respectively, mutual funds, largely invested in equity products, of \$62.4 million and \$66.7 million, respectively, a selection of common and preferred stocks totaling \$192.6 million and \$209.5 million, respectively, and other investments of approximately \$0.4 million and \$2.0 million, respectively. Investments in mutual funds generally have 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 \$192.6 million and \$209.5 million, invested in common and preferred stocks at December 31, 2011 and 2010, respectively, \$33.3 million and \$37.1 million, respectively, was related to our investment in Westwood Holdings Group Inc., and \$69.2 million and \$24.8 million, respectively, was invested in risk arbitrage opportunities in connection with mergers, consolidations, acquisitions, tender offers or other similar transactions. Securities sold, not yet purchased are financial instruments purchased under agreements to resell and financial instruments sold under agreement to repurchase. These financial instruments are stated at fair value and are subject to market risks resulting from changes in price and volatility. At December 31, 2011 and 2010, the fair value of securities sold, not yet purchased was \$5.5 million and \$19.3 million, respectively. Investments in partnerships and affiliates totaled \$115.9 million and \$82.9 million at December 31, 2011 and 2010, respectively, 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 December 31, 2011. The sensitivity analysis assumes a 10% increase or decrease in the value of these investments (in thousands):

	Fair Value	Fair Value
	assuming	assuming
	10%	10%
	decrease in	increase in
	equity	equity
(unaudited)	prices	prices
At December 31, 2011:		

Equity price sensitive investments, at fair value	\$ 261,024	\$ 234,922	\$ 287,126
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At December 31, 2010:

Equity price sensitive investments, at fair value	\$ 359,699	\$ 323,729	\$ 395,669
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The deconsolidation of Gabelli Green Long/Short Fund, L.P., on January 1, 2011, and Gabelli Associates Limited II E, on October 1, 2011, reduced investments in securities by approximately \$80 million and securities sold, not yet purchased by \$17 million.

The Company earns substantially all of its revenue as advisory 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.

Investment advisory fees for mutual funds and sub-advisory relationships are based on average daily or weekly asset values. Advisory fees earned on Institutional and Private Wealth Management assets, for any given quarter, are generally determined based on asset values at the beginning of a quarter with any significant increases or decreases in market value of assets managed which occur during a quarter resulting in a relative increase or decrease in revenues for the following quarter.

Investment Partnership advisory fees are computed based on monthly or quarterly asset values. The incentive allocation or fee of 20% of the economic profit from Investment Partnerships is impacted by changes in the market prices of the underlying investments of these products and is not recognized until the end of the measurement period.

#### Interest Rate Risk

Our exposure to interest rate risk results, principally, from our 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. Based on December 31, 2011, cash and cash equivalent balance of \$276.3 million a 1% increase in interest rates would increase our interest income by \$2.8 million annually. Given that our current return on these cash equivalent investment is approximately 0.00% annually, an analysis of a 1% decrease is not meaningful.

#### Commitments and Contingencies

We are obligated to make future payments under various contracts such as debt agreements and capital and operating lease agreements. The following table sets forth our significant contractual cash obligations as of December 31, 2011 (in thousands):

	Total	2012	2013	2014	2015	2016	Thereafter
Contractual Obligations:							
5.5% Senior notes	\$ 99,000	\$ -	\$ 99,000	\$ -	\$ -	\$ -	\$ -
Interest on 5.5% senior notes	7,941	5,445	2,496	-	-	-	-
5.875% Senior notes	100,000	-	-	-	-	-	100,000
Interest on 5.875% senior notes	55,813	5,875	5,875	5,875	5,875	5,875	26,438
Zero coupon Subordinated debentures	86,299	-	-	-	86,299	-	-
Capital lease obligations	13,017	1,137	1,080	1,080	1,080	1,080	7,560
Non-cancelable operating lease obligations	1,487	658	513	295	21	-	-
<b>Total</b>	<b>\$ 363,557</b>	<b>\$ 13,115</b>	<b>\$ 108,964</b>	<b>\$ 7,250</b>	<b>\$ 93,275</b>	<b>\$ 6,955</b>	<b>\$ 133,998</b>

The capital lease contains an escalation clause tied to the change in the New York Metropolitan Area Consumer Price Index which may cause the future minimum payments to exceed \$1,080,000 annually. Any increases to the base rental will be accounted for prospectively.

#### Off-Balance Sheet Arrangements

We are the General Partner or co-General Partner of various limited partnerships whose underlying assets consist primarily of marketable securities.

Our income from these limited partnerships consists of our share of the management fees and a 20% incentive allocation on profits earned by the limited partners. We also receive a pro-rata return on any investment we have in

the limited partnership. We earned management fees of \$3.0 million, \$2.1 million and \$1.5 million in 2011, 2010 and 2009, respectively, and incentive fees of \$1.4 million, \$2.2 million and \$1.8 million in 2011, 2010 and 2009, respectively. Our pro-rata gain on investments in these limited partnerships totaled \$1.6 million, \$2.1 million and \$1.3 million in 2011, 2010 and 2009, respectively.

We do not invest in any other off-balance sheet vehicles that provide financing, liquidity, market or credit risk support or engage in any leasing activities that expose us to any liability that is not reflected on the Consolidated Financial Statements.

#### Critical Accounting Policies

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with U.S. generally accepted accounting principles. We base our estimates on historical experience, when available, and on other various assumptions that are believed to be reasonable under the circumstances. Actual results could differ significantly from those estimates under different assumptions and conditions.

We believe the critical assumptions and estimates are those applied to revenue recognition, the accounting for and valuation of investments in securities, partnerships, and offshore funds, goodwill and other long-lived intangibles, income taxes, and stock based compensation accounting.

#### Major Revenue-Generating Services and Revenue Recognition

The Company's revenues are derived primarily from investment advisory and incentive fees, institutional research services and distribution fees.

Investment advisory and incentive fees are directly influenced by the level and mix of AUM as fees are derived from a contractually-determined percentage of AUM for each account as well as incentive fees earned on certain accounts. Advisory fees from the open-end mutual funds, closed-end funds and sub-advisory accounts are computed daily or weekly based on average net assets and amounts receivable are included in investment advisory fees receivable on the consolidated statements of financial condition. Advisory fees from Institutional and Private Wealth Management accounts are generally computed quarterly based on account values as of the end of the preceding quarter, and amounts receivable are included in investment advisory fees receivable on the consolidated statements of financial condition. Management fees from investment partnerships and offshore funds are computed either monthly or quarterly, and amounts receivable are included in investment advisory fees receivable on the consolidated statements of financial condition. The Company derived approximately 82%, 83% and 82% of its total revenues from advisory and management fees, including incentive fees, for the periods ended December 31, 2011, 2010 and 2009, respectively. These revenues vary depending upon the level of sales compared with redemptions, financial market conditions, performance and the fee structure for AUM. Revenues derived from the equity-oriented portfolios generally have higher management fee rates than fixed income portfolios.

Revenues from investment partnerships and offshore funds also generally include an incentive allocation on the absolute gain in a portfolio or a fee of 20% of the economic profit as defined in the partnership agreement. The incentive allocation or fee is recognized at the end of the measurement period, which is annually, and amounts receivable are included in investment advisory fees receivable on the consolidated statements of financial condition. There were \$2.3 million and \$3.7 million in incentive allocations or fees receivable as of December 31, 2011 and 2010, respectively. The Company also receives incentive fees from certain Institutional and Private Wealth Management accounts, which are based upon meeting or exceeding specific benchmark index or indices. Incentive fees refer to fees earned when the return generated for the client exceeds the benchmark and can be earned even if the return to the client is negative as long as the return exceeds the benchmark. These fees are recognized, for each respective account, at the end of the stipulated contract period which is both quarterly and annually and varies by account. Receivables due for incentive fees earned are included in investment advisory fees receivable on the consolidated statements of financial condition. There were \$0.9 million and \$8.4 million in incentive fees receivable as of December 31, 2011 and 2010, respectively. Management fees on a majority of the closed-end preferred shares are received at year-end if the total return to common shareholders of the closed-end fund for the calendar year exceeds the dividend rate of the preferred shares. These fees are recognized at the end of the measurement period, which is annually. Receivables due for management fees on closed-end preferred shares are included in investment advisory fees receivable on the consolidated statements of financial condition. There were \$3.7 million and \$8.7 million in management fees receivable on closed-end preferred shares as of December 31, 2011 and 2010, respectively. For The GDL Fund, there is an incentive fee earned as of the end of the calendar year and varies to the extent the total return of the fund is in excess of the 90 day T-Bill Index total return. This fee is recognized at the end of the measurement period, which is annually on a calendar year basis. Receivables due on incentive fees relating to The GDL Fund are included in investment advisory fees receivable on the consolidated statements of financial condition and were \$1.3 million and \$3.3 million as of December 31, 2011 and 2010, respectively.

Gabelli & Company, Inc. provides institutional research services and earns brokerage commission revenues and sales manager fees on a trade-date basis from securities transactions executed on an agency basis on behalf of institutional clients and mutual funds, private wealth management clients and retail customers of affiliated companies. It has also been involved in syndicated underwriting activities that included public equity and debt offerings managed by major investment banks. Underwriting fees include underwriting revenues and syndicate profits and are accrued as earned. Underwriting fees include gains, losses, selling concessions and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as underwriter or agent. It provides institutional investors and investment partnerships with investment ideas on numerous industries and special situations, with a particular focus on small-cap and mid-cap companies. Commission revenue and related clearing charges are recorded on a trade-date basis and are included in commission revenue and other operating expenses, respectively, on the consolidated statements of income.

Distribution fees revenues are derived primarily from the distribution of Gabelli, GAMCO and Comstock open-end mutual funds ("Funds") advised by a subsidiary of GBL, Funds Advisor and a subsidiary of GGCP, Teton. Effective August 1, 2011, G.distributors distributes our open-end Funds pursuant to distribution agreements with each Fund. Under each distribution agreement with an open-end Fund, G.distributors offers and sells such open-end Fund shares on a continuous basis and pays all of the costs of marketing and selling the shares, including printing and mailing prospectuses and sales literature, advertising and maintaining sales and customer service personnel and sales and services fulfillment systems, and payments to the sponsors of third party distribution programs, financial intermediaries and G.distributors' sales personnel. G.distributors receive fees for such services pursuant to distribution plans adopted under provisions of Rule 12b-1 of the Investment Company Act of 1940 ("Company Act"). G.distributors is the principal underwriter for funds distributed in multiple classes of shares which carry either a front-end or back-end sales charge. Prior to August 1, 2011, Gabelli & Company was the distributor of the Gabelli, GAMCO and Comstock open-end Funds.



Under the distribution plans, the open-end Class AAA shares of the Funds (except The Gabelli U.S. Treasury Money Market Fund, Gabelli Capital Asset Fund and The Gabelli ABC Fund) and the Class A shares of certain Funds pay G.distributors a distribution or service fee of .25% per year (except the Class A shares of the Westwood Funds which pay .50% per year, except for the GAMCO Westwood Intermediate Bond Fund which pays .35%, and the Class A shares of the Gabelli Enterprise Mergers and Acquisitions Fund which pay .45% per year) on the average daily net assets of the fund. Class B and Class C shares have a 12b-1 distribution plan with a service and distribution fee totaling 1%.

Distribution fees from the open-end mutual funds are computed daily based on average net assets. The amounts receivable for distribution fees are included in receivables from affiliates on the consolidated statements of financial condition.

Finally, GBL also has investment gains or losses generated from its proprietary trading activities which are included in net gain/(loss) from investments on the consolidated statements of income.

#### Investments in Securities Transactions and Other Than Temporary Impairment

Investments in securities are accounted for as either “trading securities” or “available for sale” and are stated at fair value. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. U.S. Treasury Bills and Notes with maturities of greater than three months at the time of purchase are considered investments in securities. Securities that are not readily marketable are stated at their estimated fair values in accordance with Generally Accepted Accounting Principles (“GAAP”). 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 in net gain/(loss) from investments on the consolidated statements of income. 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 realized losses on the consolidated statements of income. Securities transactions and any related gains and losses are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the specific identified cost basis and are included in net gain/(loss) from investments on the consolidated statements of income.

AFS securities are evaluated for other than temporary impairments each reporting period and any impairment charges are recorded in net gain/(loss) from investments on the consolidated statements of income. Management reviews all available for sale securities whose cost exceeds their fair value to determine if the impairment is other than temporary. Management uses qualitative factors such as diversification of the investment, the intent to hold the investment, the amount of time that the investment has been impaired and the severity of the decline in determining whether the impairment is other than temporary.

Securities sold, but not yet purchased are recorded on the trade date, and are stated at fair value and represent obligations of GBL to purchase the securities at prevailing market prices. Therefore, the future satisfaction of such obligations may be for an amount greater or less than the amounts recorded on the consolidated statements of financial condition. The ultimate gains or losses recognized are dependent upon the prices at which these securities are purchased to settle the obligations under the sales commitments. Realized gains and losses from covers of securities sold, not yet purchased transactions are included in net gain/(loss) from investments on the consolidated statements of income. Securities sold, not yet purchased are stated at fair value, with any unrealized gains or losses reported in current period earnings in net gain/(loss) from investments on the consolidated statements of income.

#### Investments in Partnerships and Affiliates

#### Affiliated Entities

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”). In accordance with the consolidation assessment models set forth in ASC 810-10 and 810-20, the Company consolidates all investments in partnerships and affiliates in which the Company has a controlling financial interest.

The Company first determines whether an entity is a variable interest entity (“VIE”). A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the equity investors do not have the ability to make decisions about the entities’ activities or obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity or (c) the voting rights are not proportional to their obligations to absorb the expected losses of the entity or their rights to receive the expected residual returns of the entity. The Company evaluates whether entities in which it has an interest are VIEs and whether the Company is the primary beneficiary of any VIEs identified in its analysis. The Company is determined to be the primary beneficiary if it absorbs a majority of the VIE’s expected losses, expected residual returns, or both. If the Company is the primary beneficiary of a VIE, it consolidates that entity. If the Company is not the primary beneficiary, it accounts for its investment under the equity method.

In June 2009 the Financial Accounting Standards Board (“FASB”) amended the guidance on VIEs when it issued ASU 2009-17. This guidance requires that if a decision maker has a variable interest in a VIE, the decision maker is not solely acting in a fiduciary capacity and would be required to consolidate the VIE if it has both the power to direct the most significant activities of the VIE and economic exposure that could potentially be significant to the VIE. If the Company were to apply such guidance it would be required to consolidate most of its affiliated entities. In February 2010, the FASB issued ASU 2010-10, which indefinitely deferred the effective date of the amendments to ASC 810-10 made by ASU 2009-17, for a reporting entity’s interest in certain entities. Currently, interests in entities that qualify for the deferral are evaluated by applying the VIE model in ASC 810-10 (i.e., before the amendments by ASU 2009-17), while interests in entities that do not qualify for the deferral must be evaluated under the amendments in ASU 2009-17. Because all of the entities with which the Company is involved which would have been subject to the guidance in ASU 2009-17 were determined to qualify for the FASB’s deferral of such guidance, the Company applies the guidance for VIEs that existed prior to the issuance of ASU 2009-17.

If the entity is not considered a VIE it is treated as a voting interest entity (“VOE”) and the Company applies the guidance in ASC 810-20 in determining whether the entity should be consolidated. Under ASC 810-20, the general partner or investment manager is deemed to control the entity and therefore must consolidate it unless the unaffiliated limited partners or shareholders have the ability (a) to remove the general partner or investment manager, without cause, (b) to dissolve the entity or (c) have substantive participating rights. If the unaffiliated limited partners or shareholders possess substantive rights, then the Company does not consolidate the entity, and the equity method of accounting is applied. If the unaffiliated limited partners or shareholders do not have such rights, the Company consolidates the entity.

For those investments accounted for under the equity method, the Company’s share in net earnings or losses of these affiliated entities are reflected in income as earned and are included in net gain/(loss) from investments on the consolidated statements of income. Capital contributions are recorded as an increase in investments when paid, while withdrawals and distributions received are recorded as reductions of the investments. Depending on the terms of the investment, the Company may be restricted as to the timing and amounts of withdrawals.

For consolidated feeder funds (“CFFs”) that own 100% of their offshore master funds, the Company retains the feeder funds’ specialized investment company accounting (i.e., the feeder funds accounts for its investment in the master fund at fair value).

The Company records noncontrolling interests in consolidated entities for which the Company’s ownership is less than 100%.

Unaffiliated entities

We also have investments in unaffiliated partnerships, offshore funds and other entities. The Company applies the same guidance to unaffiliated entities as it does for affiliated entities, first looking at the VIE criteria, then VOE criteria and finally applying the equity method, if applicable. Given that we are not a general partner or investment manager in any unaffiliated entities, we do not earn any management or incentive fees and we do not have a controlling financial interest, we do not currently consolidate any unaffiliated entities.

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 above. The Company reflects the equity in earnings of these equity method investees and the change in fair value of the consolidated feeder funds under the caption net gain/(loss) from investments on the consolidated statements of income.

### Goodwill and Identifiable Intangible Assets

Goodwill is initially measured as the excess of the cost of the acquired business over the sum of the amounts assigned to assets acquired less the liabilities assumed. At December 31, 2011 and 2010, goodwill recorded on the consolidated statements of financial condition relates to our 93%-owned subsidiary, GSI and the identifiable intangible asset is an investment advisory contract for the Gabelli Enterprise Mergers and Acquisition Fund. Goodwill and identifiable intangible assets are tested for impairment at least annually on November 30th and whenever certain triggering events are met. In assessing the recoverability of goodwill and identifiable intangible assets, projections regarding estimated future cash flows and other factors are made to determine the fair value of the respective assets.

### Income Taxes

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and the reported amounts on the consolidated financial statements using the statutory tax rates in effect for the year when the reported amount of the asset or liability is recovered or settled, respectively. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying values of deferred tax assets to the amount that is more likely than not to be realized. For each tax position taken or expected to be taken in a tax return, the Company determines whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The Company recognizes the accrual of interest on uncertain tax positions and penalties in income tax provision on the consolidated statements of income.

### Stock Based Compensation

The Company has granted RSAs and stock options which were recommended by the Company's Chairman, who did not receive an RSA or option award, and approved by the Compensation Committee of the Company's Board of Directors. We use a fair value based method of accounting for stock-based compensation provided to our employees. The estimated fair value of RSAs is determined by using the closing price of our Class A Stock on the day prior to the grant date. The total expense, which is reduced by estimated forfeitures, is recognized over the vesting period for these awards which is 30% over three years from the date of grant and 70% over five years from the date of grant. The forfeiture rate is determined by reviewing historical forfeiture rates for previous stock-based compensation grants and is reviewed and updated quarterly, if necessary. During the vesting period, dividends to RSA holders are held for them until the RSA vesting dates and are forfeited if the grantee is no longer employed by the Company on the vesting dates. Dividends declared on these RSAs, less estimated forfeitures, are charged to retained earnings on the declaration date.

The estimated fair value of option awards is determined using the Black Scholes option-pricing model. This sophisticated model utilizes a number of assumptions in arriving at its results, including the estimated life of the option, the risk free interest rate at the date of grant and the volatility of the underlying common stock. There may be other factors, which have not been considered, which may have an effect on the value of the options as well. The effects of changing any of the assumptions or factors employed by the Black Scholes model may result in a significantly different valuation for the options. The total expense, which is reduced by estimated forfeitures, is recognized over the vesting period for these awards which is 75% over three years from the date of grant and 25% after four years from date of grant. The forfeiture rate is determined by reviewing historical forfeiture rates for

previous stock-based compensation grants and is reviewed and updated quarterly, if necessary.

#### 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.

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

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

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

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

#### Seasonality and Inflation

We do not believe our operations are subject to significant seasonal fluctuations. We do not believe inflation will significantly affect our compensation costs, as they are substantially variable in nature. However, the rate of inflation may affect our expenses such as information technology and occupancy costs. To the extent inflation results in rising interest rates and has other effects upon the securities markets, it may adversely affect our financial position and results of operations by reducing our AUM, revenues or otherwise.

#### ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to the information contained under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Market Risk.”

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

GAMCO INVESTORS, INC. AND SUBSIDIARIES  
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All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission that are not required under the related instructions or are inapplicable have been omitted.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
GAMCO Investors, Inc.  
Rye, New York

We have audited the accompanying consolidated statements of financial condition of GAMCO Investors, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of GAMCO Investors, Inc. and subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

New York, New York  
March 6, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
GAMCO Investors, Inc.  
Rye, New York

We have audited the internal control over financial reporting of GAMCO Investors, Inc. and subsidiaries (the "Company") as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Company and our

report dated March 6, 2012, expressed an unqualified opinion on those financial statements.

DELOITTE & TOUCHE LLP

New York, New York

March 6, 2012

GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)

	Year Ended December 31,		
	2011	2010	2009
<b>Revenues</b>			
Investment advisory and incentive fees	\$268,024	\$231,269	\$178,713
Institutional research services	14,288	16,600	16,715
Distribution fees and other income	44,816	32,511	22,686
<b>Total revenues</b>	<b>327,128</b>	<b>280,380</b>	<b>218,114</b>
<b>Expenses</b>			
Compensation	132,970	123,840	92,859
Management fee	12,270	12,013	9,758
Distribution costs	44,427	31,048	24,339
Other operating expenses	24,167	22,450	18,948
<b>Total expenses</b>	<b>213,834</b>	<b>189,351</b>	<b>145,904</b>
<b>Operating income</b>	<b>113,294</b>	<b>91,029</b>	<b>72,210</b>
<b>Other income (expense)</b>			
Net gain from investments	5,551	24,391	25,558
Interest and dividend income	6,594	5,905	3,425
Interest expense	(14,997 )	(11,984 )	(13,290 )
<b>Total other income (expense), net</b>	<b>(2,852 )</b>	<b>18,312</b>	<b>15,693</b>
<b>Income before income taxes</b>	<b>110,442</b>	<b>109,341</b>	<b>87,903</b>
Income tax provision	40,767	39,326	31,761
<b>Net income</b>	<b>69,675</b>	<b>70,015</b>	<b>56,142</b>
Net income (loss) attributable to noncontrolling interests	(7 )	1,223	609
<b>Net income attributable to GAMCO Investors, Inc.'s shareholders</b>	<b>\$69,682</b>	<b>\$68,792</b>	<b>\$55,533</b>
<b>Net income attributable to GAMCO Investors, Inc.'s shareholders</b>			
per share:			
Basic	\$2.62	\$2.55	\$2.03
Diluted	\$2.61	\$2.52	\$2.02
<b>Weighted average shares outstanding:</b>			
Basic	26,636	26,959	27,345
Diluted	26,724	28,348	28,214
See accompanying notes.			

GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(In thousands, except per share data)

	December 31, 2011	December 31, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$276,340	\$169,601
Investments in securities	297,547	305,486
Investments in partnerships	100,893	82,871
Receivable from brokers	20,913	46,621
Investment advisory fees receivable	32,156	44,660
Receivable from affiliates	5,048	3,837
Capital lease	3,133	3,394
Goodwill and identifiable intangible asset	5,358	5,358
Income tax receivable	39	325
Other assets	15,322	10,583
<b>Total assets</b>	<b>\$756,749</b>	<b>\$672,736</b>
<b>LIABILITIES AND EQUITY</b>		
Payable to brokers	\$10,770	\$1,554
Income taxes payable and deferred tax liabilities	15,296	23,225
Capital lease obligation	5,072	5,182
Compensation payable	17,695	23,771
Securities sold, not yet purchased	5,488	19,299
Mandatorily redeemable noncontrolling interests	1,386	1,444
Accrued expenses and other liabilities	24,441	23,089
Sub-total	80,148	97,564
5.5% Senior notes (due May 15, 2013)	99,000	99,000
5.875% Senior notes (due June 1, 2021)	100,000	-
Zero coupon subordinated debentures, Face value: \$86.3 million at December 31, 2011 and \$86.4 million at December 31, 2010 (due December 31, 2015)	64,119	59,580
<b>Total liabilities</b>	<b>343,267</b>	<b>256,144</b>
Redeemable noncontrolling interests	6,071	26,984
Commitments and contingencies (Note J)		
Equity:		
Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding		
Class A Common Stock, \$.001 par value; 100,000,000 shares authorized; 13,627,397 and 13,255,503		

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shares issued, respectively; 6,684,149 and 6,763,221 shares outstanding, respectively	13	13
Class B Common Stock, \$0.001 par value; 100,000,000 shares authorized; 24,000,000 shares issued		
and 20,070,746 and 20,290,140 shares outstanding, respectively	20	20
Additional paid-in capital	264,409	262,108
Retained earnings	409,191	370,272
Accumulated comprehensive income	22,520	25,389
Treasury stock, at cost (6,943,248 and 6,492,282 shares, respectively)	(292,181 )	(271,773 )
Total GAMCO Investors, Inc. stockholders' equity	403,972	386,029
Noncontrolling interests	3,439	3,579
Total equity	407,411	389,608
Total liabilities and equity	\$756,749	\$672,736

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME  
(In thousands)

	GAMCO Investors, Inc. shareholders								
	Noncontrolling Interests	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income	Treasury Stock	Total	Redeemable Noncontrolling Interests	Comprehensive Income
Balance at December 31, 2008	\$ 4,788	\$ 33	\$ 245,973	\$ 413,761	\$ 14,923	\$ (234,537)	\$ 444,941	\$ 4,201	\$ -
Redemptions of redeemable noncontrolling interests	(747 )	-	-	-	-	-	(747 )	(2,932 )	-
Spin-off of subsidiary shares to noncontrolling interests	(412 )	-	-	-	-	-	(412 )	-	-
Net income	414	-	-	55,533	-	-	55,947	195	56,142
Net unrealized gains on securities available for sale, net of income tax (\$15,765)	-	-	-	-	4,112	-	4,112	-	4,112
Foreign currency translation	-	-	-	-	53	-	53	-	53
Dividends declared (\$2.13 per share)	-	-	-	(58,821 )	-	-	(58,821 )	-	-
Income tax effect of transaction with shareholders	-	-	(243 )	-	-	-	(243 )	-	-
Stock based compensation expense	-	-	5,085	-	-	-	5,085	-	-
Exercise of stock options including tax benefit	-	-	776	-	-	-	776	-	-
Purchase of treasury stock	-	-	-	-	-	(7,030 )	(7,030 )	-	-
Balance at December 31, 2009	\$ 4,043	\$ 33	\$ 251,591	\$ 410,473	\$ 19,088	\$ (241,567)	\$ 443,661	\$ 1,464	\$ 60,307

Comprehensive income attributable to noncontrolling interest	(609 )
Total comprehensive income attributable to GAMCO Investors, Inc.	\$ 59,698

See  
accompanying  
notes.



GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME  
(continued) (In thousands)

	GAMCO Investors, Inc. shareholders								
	Noncontrolling Interests	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income	Treasury Stock	Total	Redeemable Noncontrolling Interests	Comprehensive Income
Balance at December 31, 2009	\$ 4,043	\$ 33	\$ 251,591	\$ 410,473	\$ 19,088	\$ (241,567)	\$ 443,661	\$ 1,464	\$ -
Redemptions of redeemable noncontrolling interests	-	-	-	-	-	-	-	(475 )	-
Contributions from redeemable noncontrolling interests	-	-	-	-	-	-	-	25,137	-
Dividends paid to noncontrolling interests	(829 )	-	-	-	-	-	(829 )	-	-
Net income	365	-	-	68,792	-	-	69,157	858	70,015
Net unrealized gains on securities available for sale, net of income tax (\$3,710)	-	-	-	-	6,317	-	6,317	-	6,317
Foreign currency translation	-	-	-	-	(16 )	-	(16 )	-	(16 )
Cash dividends declared (\$1.82 per share)	-	-	-	(49,413 )	-	-	(49,413 )	-	-
Non-cash dividends declared (\$3.20 of principal per share)	-	-	-	(59,580 )	-	-	(59,580 )	-	-
Stock based compensation expense	-	-	10,585	-	-	-	10,585	-	-
Reduction of deferred tax asset for excess of recorded RSA tax	-	-	(1,872 )	-	-	-	(1,872 )	-	-

benefit over actual tax benefit									
Exercise of stock options including tax benefit	-	-	1,804	-	-	-	1,804	-	-
Purchase of treasury stock	-	-	-	-	-	(30,206 )	(30,206 )	-	-
Balance at December 31, 2010	\$ 3,579	\$ 33	\$ 262,108	\$ 370,272	\$ 25,389	\$ (271,773)	\$ 389,608	\$ 26,984	\$ 76,316
Comprehensive income attributable to noncontrolling interest									(1,223 )
Total comprehensive income attributable to GAMCO Investors, Inc.									\$ 75,093

See  
accompanying  
notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME  
(continued) (In thousands)

	GAMCO Investors, Inc. shareholders								
	Noncontrolling Interests	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income	Treasury Stock	Total	Redeemable Noncontrolling Interests	Comprehensive Income
Balance at December 31, 2010	\$ 3,579	\$ 33	\$ 262,108	\$ 370,272	\$ 25,389	\$ (271,773)	\$ 389,608	\$ 26,984	\$ -
Redemptions of redeemable noncontrolling interests	-	-	-	-	-	-	-	(2,340 )	-
Contributions from redeemable noncontrolling interests	-	-	-	-	-	-	-	22,418	-
Dividends paid to noncontrolling interests	(331 )	-	-	-	-	-	(331 )	-	-
Deconsolidation of Partnership	-	-	-	-	-	-	-	(40,998 )	-
Gain attributable to noncontrolling interest holders related to common control transaction	205	-	(287 )	-	-	-	(82 )	-	-
Net income (loss)	(14 )	-	-	69,682	-	-	69,668	7	69,675
Net unrealized losses on securities available for sale, net of income tax benefit (\$1,690)	-	-	-	-	(2,877 )	-	(2,877 )	-	(2,877 )
Foreign currency translation	-	-	-	-	8	-	8	-	8
Dividends declared (\$1.15 per share)	-	-	-	(30,763 )	-	-	(30,763 )	-	-
Stock based compensation expense	-	-	2,588	-	-	-	2,588	-	-

Purchase of treasury stock	-	-	-	-	-	(20,408 )	(20,408 )	-	-
Balance at December 31, 2011	\$ 3,439	\$ 33	\$ 264,409	\$ 409,191	\$ 22,520	\$ (292,181)	\$ 407,411	\$ 6,071	\$ 66,806
Comprehensive loss attributable to noncontrolling interest									7
Total comprehensive income attributable to GAMCO Investors, Inc.									\$ 66,813

See accompanying notes.

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

	Year Ended December 31,		
	2011	2010	2009
Operating activities			
Net income	\$69,675	\$70,015	\$56,142
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in net gains from partnerships	(1,060 )	(9,155 )	(10,335 )
Depreciation and amortization	825	700	656
Stock based compensation expense	2,588	10,585	5,085
Deferred income taxes	(1,521 )	7,553	1,831
Tax benefit from exercise of stock options	-	216	168
Foreign currency translation gain/(loss)	8	(16 )	53
Donated securities	167	(524 )	370
Gains on sales of available for sale securities	(772 )	(29 )	(2,150 )
Amortization of discount on convertible debt	-	52	85
Accretion of zero coupon debentures	4,572	-	-
(Gain) loss on extinguishment of debt	(2 )	497	-
(Increase) decrease in assets:			
Investments in trading securities	(58,286 )	(132,702 )	97,533
Investments in partnerships:			
Contributions to partnerships	(15,483 )	(20,743 )	(4,351 )
Distributions from partnerships	57,148	9,680	12,739
Receivable from brokers	(30,039 )	(16,549 )	(13,612 )
Investment advisory fees receivable	12,718	(8,975 )	(24,101 )
Income tax receivable and deferred tax assets	286	-	14,865
Other assets	(5,659 )	(2,411 )	(2,121 )
Increase (decrease) in liabilities:			
Payable to brokers	9,216	1,159	(1,462 )
Income taxes payable and deferred tax liabilities	(4,456 )	1,241	-
Compensation payable	(6,076 )	10,470	(1,295 )
Mandatorily redeemable noncontrolling interests	(137 )	(178 )	226
Accrued expenses and other liabilities	2,651	(916 )	1,467
Total adjustments	(33,312 )	(150,045 )	75,651
Net cash provided by (used in) operating activities	\$36,363	\$(80,030 )	\$131,793

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

	Year Ended December 31,		
	2011	2010	2009
<b>Investing activities</b>			
Purchases of available for sale securities	\$(4,378 )	\$(157 )	\$(8,194 )
Proceeds from sales of available for sale securities	6,054	2,097	4,329
Return of capital on available for sale securities	2,306	2,988	3,717
Decrease (increase) in restricted cash	-	62,258	(55,102 )
Net cash provided by (used in) investing activities	3,982	67,186	(55,250 )
<b>Financing activities</b>			
Contributions from redeemable noncontrolling interests	22,418	25,137	-
Redemptions of redeemable noncontrolling interests	(2,340 )	(475 )	(2,930 )
Issuance of 5.875% Senior notes due June 1, 2021	100,000	-	-
Issuance costs on the 5.875% Senior notes due June 1, 2021	(934 )	-	-
Repayment of 6% Convertible note due August 14, 2011	-	(40,400 )	-
Repayment of 6.5% Convertible note due October 2, 2018	-	(60,000 )	-
Repurchase of Zero coupon subordinated debentures due December 31, 2015	(32 )	-	-
Proceeds from exercise of stock options	-	1,588	607
Dividends paid	(30,477 )	(50,631 )	(59,431 )
Dividends paid to noncontrolling interests	(331 )	(829 )	-
Purchase of subsidiary shares from noncontrolling interests	-	-	(747 )
Purchase of treasury stock	(20,408 )	(30,206 )	(7,030 )
Net cash provided by (used in) financing activities	67,896	(155,816 )	(69,531 )
Effect of exchange rates on cash and cash equivalents	-	(9 )	84
Net increase (decrease) in cash and cash equivalents	108,241	(168,669 )	7,096
Cash and cash equivalents at beginning of period	169,601	338,270	331,174
Decrease in cash from deconsolidation of partnership	(1,502 )	-	-
Cash and cash equivalents at end of period	\$276,340	\$169,601	\$338,270
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest	\$9,539	\$12,902	\$12,890
Cash paid for taxes	\$45,460	\$29,870	\$25,364

**Non-cash activity:**

- On March 20, 2009, GAMCO Investors, Inc. distributed its shares of Teton Advisors, Inc. (\$300) to its shareholders which resulted in the deconsolidation of Teton, and decreases of approximately \$911 of cash and cash equivalents, \$199 of net liabilities and \$412 of noncontrolling interests.
- On December 31, 2010, GAMCO Investors, Inc. distributed \$59,580 of zero coupon subordinated debentures (\$86.4 million principal amount) due December 31, 2015 as dividends.
- For 2010, the Company recorded \$1,872 as a reduction to its deferred tax asset and additional paid-in capital for the excess of the recorded restricted stock award tax benefit over the actual tax benefit.
- On January 1, 2011, GAMCO Investors, Inc. was no longer deemed to have control over a certain partnership which resulted in the deconsolidation of that partnership and decreases

of approximately \$1,251 of cash and cash equivalents, \$2,852 of net assets and \$4,103 of noncontrolling interests.

- On October 1, 2011, GAMCO Investors, Inc. was no longer deemed to have control over a certain VIE which resulted in the deconsolidation of that VIE and decreases of approximately \$251 of cash and cash equivalents, \$36,644 of net assets and \$36,895 of noncontrolling interests.
- For 2011, 2010 and 2009 the Company accrued restricted stock award dividends of \$278, \$626 and \$1,393, respectively.

See accompanying notes.

## A. Significant Accounting Policies

### Basis of Presentation

GAMCO Investors, Inc. (“GBL” or the “Company”) was incorporated in April 1998 in the state of New York, with no significant assets or liabilities and did not engage in any substantial business activities prior to the initial public offering (“Offering”) of our shares. On February 9, 1999, we exchanged 24 million shares of our Class B Common Stock (“Class B Stock”), representing all of our then issued and outstanding common stock, with Gabelli Funds, Inc. (“GFI”) and two of its subsidiaries in consideration for substantially all of the operating assets and liabilities of GFI, relating to its institutional and retail asset management, mutual fund advisory, underwriting and brokerage business (the “Reorganization”). GBL distributed net assets and liabilities, principally a proprietary investment portfolio, of approximately \$165 million, including cash of \$18 million, which was recorded for accounting purposes as a deemed distribution to GFI. GFI, which was renamed Gabelli Group Capital Partners, Inc. in 1999, is the majority shareholder of GBL and was renamed GGCP, Inc. (“GGCP”) in 2005. During 2010, the shares of GBL owned by GGCP were transferred to GGCP Holdings LLC, a subsidiary of GGCP.

The accompanying consolidated financial statements include the assets, liabilities and earnings of:

- GBL; and
- Our wholly-owned subsidiaries: Gabelli Funds, LLC (“Funds Advisor”), GAMCO Asset Management Inc. (“GAMCO”), G.distributors, LLC (“G.distributors”), GAMCO Asset Management (UK) Limited, Gabelli Arbitrage Holdings LLC, Gabelli Trading Holdings LLC, Gabelli Fixed Income, Inc. (“Fixed Income”) and its subsidiaries, GAMCO International Partners LLC, GAMCO Acquisition LLC, GAMCO Asset Management (Singapore) Pte. Ltd.;
- Our majority-owned or majority-controlled subsidiaries: Gabelli Securities, Inc. (“GSI”) and its subsidiaries and Teton Advisors, Inc. (“Teton”) (through the date of the spin-off on March 20, 2009); and
- Certain investment partnerships (“Investment Partnerships”) and offshore funds in which we have a direct or indirect controlling financial interest. Please see Note D included herein.

At December 31, 2011, 2010 and 2009, we owned approximately 93% of GSI. In 2009 through the date of its spin-off, we had a 51% voting interest in Teton (42% economic interest). The consolidated financial statements comprise the financial statements of GBL and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intercompany transactions and balances have been eliminated. Subsidiaries are fully consolidated from the date of acquisition, being the date on which GBL obtains control, and continue to be consolidated until the date that such control ceases.

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

### Use of Estimates

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



## Nature of Operations

GAMCO, Funds Advisor, Gabelli Fixed Income LLC (“Fixed Income LLC”), a wholly-owned subsidiary of Fixed Income, Teton and GSI are registered investment advisors under the Advisers Act of 1940. Gabelli & Company, Inc. (“Gabelli & Company”), a wholly-owned subsidiary of GSI, and G.distributors are registered broker-dealers with the Securities and Exchange Commission (“SEC”) and are regulated by the Financial Industry Regulatory Authority (“FINRA”). Gabelli & Company acts as an introducing broker, and all transactions for its customers are cleared through New York Stock Exchange (“NYSE”) member firms on a fully-disclosed basis. Accordingly, open customer transactions are not reflected in the accompanying consolidated statements of financial condition. Gabelli & Company is exposed to credit losses on these open positions in the event of nonperformance by its customers, pursuant to conditions of its clearing agreements with its clearing brokers. This exposure is reduced by the clearing brokers' policy of obtaining and maintaining adequate collateral and credit of the counterparties until the open transaction is completed. Refer to Major Revenue-Generating Services and Revenue Recognition section within Note A for additional discussion of GBL's business.

### Cash and Cash Equivalents

Cash equivalents primarily consist of an affiliated money market mutual fund which is highly liquid. U.S. Treasury Bills and Notes with maturities of three months or less at the time of purchase are also considered cash equivalents. At December 31, 2009, approximately \$62.3 million of cash and cash equivalents was held in escrow to secure the \$60 million convertible note. On October 13, 2010, the Company repaid Cascade Investment LLC (“Cascade”) \$60.1 million of principal and accrued but unpaid interest, and the escrow agreement relating to the 2018 Note was terminated by mutual consent between the Company and Cascade. The remaining funds in the escrow account were no longer restricted and were returned to the Company at that time.

### Securities Transactions

Investments in securities are accounted for as either “trading securities” or “available for sale” and are stated at fair value. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. U.S. Treasury Bills and Notes with maturities of greater than three months at the time of purchase are considered investments in securities. Securities that are not readily marketable are stated at their estimated fair values in accordance with Generally Accepted Accounting Principles (“GAAP”). 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 in net gain/(loss) from investments on the consolidated statements of income. 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 realized losses on the consolidated statements of income. Securities transactions and any related gains and losses are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the specific identified cost basis and are included in net gain/(loss) from investments on the consolidated statements of income.

Available for sale securities are evaluated for other than temporary impairments each reporting period and any impairment charges are recorded in net gain/(loss) from investments on the consolidated statements of income. Management reviews all available for sale securities whose cost exceeds their fair value to determine if the impairment is other than temporary. Management uses qualitative factors such as diversification of the investment, the intent to hold the investment, the amount of time that the investment has been impaired and the severity of the decline in determining whether the impairment is other than temporary.

Securities sold, but not yet purchased are recorded on the trade date, and are stated at fair value and represent obligations of GBL to purchase the securities at prevailing market prices. Therefore, the future satisfaction of such obligations may be for an amount greater or less than the amounts recorded on the consolidated statements of financial condition. The ultimate gains or losses recognized are dependent upon the prices at which these securities are purchased to settle the obligations under the sales commitments. Realized gains and losses from covers of securities sold, not yet purchased transactions are included in net gain/(loss) from investments on the consolidated statements of income. Securities sold, not yet purchased are stated at fair value, with any unrealized gains or losses reported in current period earnings in net gain/(loss) from investments on the consolidated statements of income.

### Investments in Partnerships

### Affiliated Entities

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”). In accordance with the two consolidation assessment models, the variable interest model and voting interest model applicable to partnerships, the Company consolidates all investments in partnerships and affiliates in which the Company has a controlling financial interest.

The Company first determines whether an entity is a variable interest entity (“VIE”). A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the equity investors do not have the ability to make decisions about the entities’ activities or obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity or (c) the voting rights are not proportional to their obligations to absorb the expected losses of the entity or their rights to receive the expected residual returns of the entity. The Company evaluates whether entities in which it has an interest are VIEs and whether the Company is the primary beneficiary of any VIEs identified in its analysis. The Company is determined to be the primary beneficiary if it absorbs a majority of the VIE’s expected losses, expected residual returns, or both. If the Company is the primary beneficiary of a VIE, it consolidates that entity. If the Company is not the primary beneficiary, it accounts for its investment under the equity method.

In June 2009 the Financial Accounting Standards Board (“FASB”) amended the guidance on VIEs. This guidance requires that if a decision maker has a variable interest in a VIE, the decision maker is not solely acting in a fiduciary capacity and would be required to consolidate the VIE if it has both the power to direct the most significant activities of the VIE and economic exposure that could potentially be significant to the VIE. If the Company were to apply such guidance it would be required to consolidate most of its affiliated entities. In February 2010, the FASB issued guidance, which indefinitely deferred the effective date of the amendments to the guidance on VIEs, for a reporting entity’s interest in certain entities. Currently, interests in entities that qualify for the deferral are evaluated by applying the VIE model before the amendments, while interests in entities that do not qualify for the deferral must be evaluated under the amended guidance. Because all of the entities with which the Company is involved which would have been subject to the amended guidance were determined to qualify for the FASB’s deferral of such guidance, the Company applies the guidance for VIEs that existed prior to the issuance of the amended guidance.

If the entity is not considered a VIE it is treated as a voting interest entity (“VOE”) and the Company applies the guidance under the voting interest model for partnerships in determining whether the entity should be consolidated. Under this guidance, the general partner or investment manager is deemed to control the entity and therefore must consolidate it unless the unaffiliated limited partners or shareholders have the ability (a) to remove the general partner or investment manager, without cause, (b) to dissolve the entity or (c) have substantive participating rights. If the unaffiliated limited partners or shareholders possess substantive rights, then the Company does not consolidate the entity, and the equity method of accounting is applied. If the unaffiliated limited partners or shareholders do not have such rights, the Company consolidates the entity.

For those investments accounted for under the equity method, the Company’s share in net earnings or losses of these affiliated entities are reflected in income as earned and are included in net gain/(loss) from investments on the consolidated statements of income. Capital contributions are recorded as an increase in investments when paid, while withdrawals and distributions received are recorded as reductions of the investments. Depending on the terms of the investment, the Company may be restricted as to the timing and amounts of withdrawals.

For consolidated feeder funds (“CFFs”) that own 100% of their offshore master funds, the Company retains the feeder funds’ specialized investment company accounting (i.e., the feeder funds accounts for its investment in the master fund at fair value).

The Company records noncontrolling interests in consolidated entities for which the Company’s ownership is less than 100%.

#### Unaffiliated entities

We also have investments in unaffiliated partnerships, offshore funds and other entities. The Company applies the same guidance to unaffiliated entities as it does for affiliated entities, first looking at the VIE criteria, then VOE criteria and finally applying the equity method, if applicable. Given that we are not a general partner or investment manager in any unaffiliated entities, we do not earn any management or incentive fees and we do not have a controlling financial interest, we do not currently consolidate any unaffiliated entities.

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 above. The Company reflects the equity in earnings of these equity method investees and the change in fair value of the consolidated feeder funds under the caption net gain/(loss) from investments on the consolidated statements of income.

Receivables from and Payables to Brokers

Receivables from and payables to brokers consist of amounts arising from the purchases and sales of securities as well as cash amounts held in anticipation of investment.

Major Revenue-Generating Services and Revenue Recognition

The Company's revenues are derived primarily from investment advisory and incentive fees, institutional research services and distribution fees.

Investment advisory and incentive fees are directly influenced by the level and mix of assets under management (“AUM”) as fees are derived from a contractually-determined percentage of AUM for each account as well as incentive fees earned on certain accounts. Advisory fees from the open-end mutual funds, closed-end funds and sub-advisory accounts are computed daily or weekly based on average net assets and amounts receivable are included in investment advisory fees receivable on the consolidated statements of financial condition. Advisory fees from Institutional and Private Wealth Management accounts are generally computed quarterly based on account values as of the end of the preceding quarter, and amounts receivable are included in investment advisory fees receivable on the consolidated statements of financial condition. Management fees from investment partnerships and offshore funds are computed either monthly or quarterly, and amounts receivable are included in investment advisory fees receivable on the consolidated statements of financial condition. The Company derived approximately 82%, 83% and 82% of its total revenues from advisory and management fees, including incentive fees, for the periods ended December 31, 2011, 2010 and 2009, respectively. These revenues vary depending upon the level of sales compared with redemptions, financial market conditions, performance and the fee structure for AUM. Revenues derived from the equity-oriented portfolios generally have higher management fee rates than fixed income portfolios.

Revenues from investment partnerships and offshore funds also generally include an incentive allocation on the absolute gain in a portfolio or a fee of 20% of the economic profit as defined in the partnership agreement. The incentive allocation or fee is recognized at the end of the measurement period, which is annually, and amounts receivable are included in investment advisory fees receivable on the consolidated statements of financial condition. There were \$2.3 million and \$3.7 million in incentive allocations or fees receivable as of December 31, 2011 and 2010, respectively. The Company also receives incentive fees from certain Institutional and Private Wealth Management accounts, which are based upon meeting or exceeding a specific benchmark index or indices. Incentive fees refer to fees earned when the return generated for the client exceeds the benchmark and can be earned even if the return to the client is negative as long as the return exceeds the benchmark. These fees are recognized, for each respective account, at the end of the stipulated contract period which is either quarterly or annually and varies by account. Receivables due for incentive fees earned are included in investment advisory fees receivable on the consolidated statements of financial condition. There were \$0.9 million and \$8.4 million in incentive fees receivable as of December 31, 2011 and 2010, respectively. Management fees on a majority of the closed-end preferred shares are received at year-end if the total return to common shareholders of the closed-end fund for the calendar year exceeds the dividend rate of the preferred shares. These fees are recognized at the end of the measurement period, which is annually. Receivables due for management fees on closed-end preferred shares are included in investment advisory fees receivable on the consolidated statements of financial condition. There were \$3.7 million and \$8.7 million in management fees receivable on closed-end preferred shares as of December 31, 2011 and respectively. For The GDL Fund, there is a performance fee earned as of the end of the calendar year if the total return of the fund is in excess of the 90 day T-Bill Index total return. This fee is recognized at the end of the measurement period, which is annually on a calendar year basis. Receivables due on incentive fees relating to The GDL Fund are included in investment advisory fees receivable on the consolidated statements of financial condition and were \$1.3 million and \$3.3 million as of December 31, 2011 and 2010, respectively.

Gabelli & Company provides institutional research services and earns brokerage commission revenues and sales manager fees on a trade-date basis from securities transactions executed on an agency basis on behalf of institutional clients and mutual funds, private wealth management clients and retail customers of affiliated companies. It has also been involved in syndicated underwriting activities that included public equity and debt offerings managed by major investment banks. Underwriting fees include underwriting revenues and syndicate profits and are accrued as earned. Underwriting fees include gains, losses, selling concessions and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as underwriter or agent. It provides institutional investors and investment partnerships with investment ideas on numerous industries and special situations, with a particular focus on small-cap and mid-cap companies. Commission revenue and related clearing charges are recorded on a trade-date

basis and are included in commission revenue and other operating expenses, respectively, on the consolidated statements of income.

Distribution fees revenues are derived primarily from the distribution of Gabelli, GAMCO and Comstock open-end mutual funds (“Funds”) advised by a subsidiary of GBL, Funds Advisor and a subsidiary of GGCP, Teton. Effective August 1, 2011, G.distributors distributes our open-end Funds pursuant to distribution agreements with each Fund. Under each distribution agreement with an open-end Fund, G.distributors offers and sells such open-end Fund shares on a continuous basis and pays all of the costs of marketing and selling the shares, including printing and mailing prospectuses and sales literature, advertising and maintaining sales and customer service personnel and sales and services fulfillment systems, and payments to the sponsors of third party distribution programs, financial intermediaries and G.distributors’ sales personnel. G.distributors receive fees for such services pursuant to distribution plans adopted under provisions of Rule 12b-1 (“12b-1”) of the Investment Company Act of 1940 (“Company Act”). G.distributors is the principal underwriter for funds distributed in multiple classes of shares which carry either a front-end or back-end sales charge. Prior to August 1, 2011, Gabelli & Company was the distributor of the Gabelli, GAMCO and Comstock open-end Funds.

Under the distribution plans, the open-end Class AAA shares of the Funds (except The Gabelli U.S. Treasury Money Market Fund, Gabelli Capital Asset Fund and The Gabelli ABC Fund) and the Class A shares of certain Funds pay G.distributors a distribution or service fee of .25% per year (except the Class A shares of the Westwood Funds which pay .50% per year and the Class A shares of the Gabelli Enterprise Mergers and Acquisitions Fund which pays .45% per year) on the average daily net assets of the fund. Class B and Class C shares have a 12b-1 distribution plan with a service and distribution fee totaling 1%.

Distribution fees from the open-end mutual funds are computed daily based on average net assets. The amounts receivable for distribution fees are included in receivables from affiliates on the consolidated statements of financial condition.

Finally, GBL also has investment gains or losses generated from its proprietary trading activities which are included in net gain/(loss) from investments on the consolidated statements of income.

#### Distribution Costs

We incur certain promotion and distribution costs, which are expensed as incurred, principally related to the sale of shares of open-end mutual funds, shares sold in the initial public offerings of our closed-end funds, and after-market support services related to our closed-end funds. Additionally, Funds Advisor has agreed to reimburse expenses on certain funds, beyond certain expense caps.

#### Dividends and Interest Income and Interest Expense

Dividends are recorded on the ex-dividend date. Interest income and interest expense are accrued as earned or incurred.

#### Depreciation and Amortization

Fixed assets other than leasehold improvements, with net book value of \$817,000 and \$869,000 at December 31, 2011 and 2010, respectively, which are included in other assets, are recorded at cost and depreciated using the straight-line method over their estimated useful lives from four to seven years. Accumulated depreciation was \$1.9 million and \$1.5 million at December 31, 2011 and 2010, respectively. Leasehold improvements, with net book value of \$2.1 million and \$2.0 million at December 31, 2011 and 2010, respectively, which are included in other assets, are recorded at cost and amortized using the straight-line method over their estimated useful lives or lease terms, whichever is shorter. The leased property under the capital lease is depreciated utilizing the straight-line method over the term of the lease, which expires on December 31, 2023. The capital lease was extended on September 15, 2008 to December 31, 2023 from April 30, 2013. For the years ended December 31, 2011, 2010 and 2009, depreciation and amortization were \$825,000, \$700,000 and \$656,000, respectively. We estimate that depreciation and amortization will be approximately \$800,000 annually over the next three years.

#### Derivative Financial Instruments

The Company recognizes all derivatives as either assets or liabilities measured at fair value and are included in either investments in securities or securities sold, not yet purchased on the consolidated statements of financial condition. From time to time, the Company will enter into hedging transactions to manage its exposure to foreign currencies and equity prices related to its proprietary investments. During 2011, 2010 and 2009, the Company had derivative transactions which resulted in net losses of \$676,000, net gains of \$42,000 and net losses of \$281,000, respectively. At December 31, 2011 and 2010 we held derivative contracts on 142,000 equity shares and 403,000 equity shares, respectively, and the fair value was \$24,000 and \$1.0 million, respectively, and are included as investments in securities on the consolidated statements of financial condition. These transactions are not designated as hedges for accounting purposes, and changes in fair values of these derivatives are included in net gain (loss) from investments on the consolidated statements of income and included in investments in trading securities on the consolidated statements of financial condition.

#### Goodwill and Identifiable Intangible Assets



Goodwill is initially measured as the excess of the cost of the acquired business over the sum of the amounts assigned to assets acquired less the liabilities assumed. At December 31, 2010, goodwill recorded on the consolidated statements of financial condition relates to our 93%-owned subsidiary, GSI, and the identifiable intangible asset is an investment advisory contact for the Gabelli Enterprise Mergers and Acquisition Fund. During 2011, concurrent with the transfer of the distribution business from Gabelli & Company to G.distributors on August 1, 2011 the Company transferred \$213,000 of goodwill from GSI to G.distributors, our wholly-owned subsidiary. At December 31, 2011, goodwill recorded on the consolidated statements of financial condition relates to two reporting units, GSI and G.distributors, and the identifiable intangible asset is an investment advisory contact for the Gabelli Enterprise Mergers and Acquisition Fund. Goodwill and identifiable intangible assets are tested for impairment at least annually on November 30th and whenever certain triggering events are met. In assessing the recoverability of the identifiable intangible asset for 2011 and 2010, projections regarding estimated future cash flows and other factors are made to determine the fair value of the asset.

In assessing the recoverability of goodwill for our annual impairment test on November 30, 2011, we early adopted the guidance issued by FASB that allowed for a qualitative assessment of whether it was more likely than not that an impairment has occurred, and concluded that a quantitative analysis was not required. In assessing the recoverability of goodwill for 2010 and the triggering event that occurred during 2011, projections regarding estimated future cash flows and other factors were made to determine the fair value of the reporting units.

## Income Taxes

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and the reported amounts on the consolidated financial statements using the statutory tax rates in effect for the year when the reported amount of the asset or liability is recovered or settled, respectively. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying values of deferred tax assets to the amount that is more likely than not to be realized. For each tax position taken or expected to be taken in a tax return, the Company determines whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The Company recognizes the accrual of interest on uncertain tax positions and penalties in income tax provision on the consolidated statements of income.

## Noncontrolling Interests

Noncontrolling interests that are mandatorily redeemable upon a certain date or event occurring are classified as liabilities and relates to certain shareholders of GSI who are employed by GBL, or its affiliates, who are required to sell their shares back to GSI at book value once they cease being employed by GBL, or its affiliates. Noncontrolling interests in investment partnerships and offshore funds that are redeemable at the option of the holder are classified as redeemable noncontrolling interests in the mezzanine section between liabilities and equity. All other noncontrolling interests are classified as equity and are presented within the equity section, separately from GAMCO Investors, Inc.'s portion of equity.

For the years ended December 31, 2011, 2010 and 2009, net income (loss) attributable to noncontrolling interests on the consolidated statements of income represents income attributable to certain minority stockholders of GSI and Teton (through March 20, 2009), as well as to certain limited partners of investment partnerships and offshore funds that are also consolidated. The minority stockholders of Teton were principally employees, officers and directors of GBL. The income/expense attributable to the noncontrolling interests classified as liabilities is included in interest expense on the consolidated statements of income.

## Fair Values of Financial Instruments

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

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

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date. Level 1 assets include cash equivalents, government obligations, open-end mutual funds, closed-end funds and equities.
- Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities that are not active and inputs other than quoted prices that are observable for the asset or liability, such as

interest rates and yield curves that are observable at commonly-quoted intervals. Assets that generally are included in this category may include certain limited partnership interests in private funds in which the valuations for substantially all of the investments within the fund are based upon Level 1 or Level 2 inputs and over the counter derivatives that have inputs to the valuations that can generally be corroborated by observable market data.

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

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

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

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

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

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

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

#### Earnings Per Share

Basic earnings per share is based on the weighted-average number of common shares outstanding during each period less unvested restricted stock. Diluted earnings per share is based on basic shares plus the incremental shares that would be issued upon the assumed exercise of in-the-money stock options and unvested restricted stock using the treasury stock method and, if dilutive, assumes the conversion of the convertible notes for the periods outstanding since the issuances in August 2001 and October 2008 using the if converted method.

#### Management Fee

Management fee expense is incentive-based and entirely variable compensation in the amount of 10% of the aggregate pre-tax profits which is paid to Mr. Gabelli or his designee for acting as CEO pursuant to his 2008 Employment Agreement so long as he is an executive of GBL and devotes the substantial majority of his working time to the business. In accordance with his 2008 Employment Agreement, he has allocated approximately \$0.5 million, \$2.4 million and \$4.0 million of his management fee to certain other employees of the Company in 2011, 2010 and 2009, respectively.

#### Stock Based Compensation

The Company has granted restricted stock awards (“RSAs”) and stock options which were recommended by the Company’s Chairman, who did not receive an RSA or option award, and approved by the Compensation Committee of the Company’s Board of Directors. We use a fair value based method of accounting for stock-based compensation provided to our employees.

The estimated fair value of RSAs is determined by using the closing price of our Class A Stock on the day prior to the grant date. The total expense, which is reduced by estimated forfeitures, is recognized over the vesting period for these awards which is 30% over three years from the date of grant and 70% over five years from the date of grant. The forfeiture rate is determined by reviewing historical forfeiture rates for previous stock-based compensation grants and is reviewed and updated quarterly, if necessary. During the vesting period, dividends to RSA holders are held for them until the RSA vesting dates and are forfeited if the grantee is no longer employed by the Company on the vesting dates. Dividends declared on these RSAs, less estimated forfeitures, are charged to retained earnings on the declaration date.

The estimated fair value of option awards on the grant date is determined using the Black Scholes option-pricing model. This sophisticated model utilizes a number of assumptions in arriving at its results, including the estimated life of the option, the risk free interest rate at the date of grant and the volatility of the underlying common stock. There may be other factors, which are not considered in the Black Scholes model, which may have an effect on the value of the options as well. The effects of changing any of the assumptions or factors employed by the Black Scholes model may result in a significantly different valuation for the options. The total expense based on the grant date fair value, which is reduced by estimated forfeitures, is recognized over the vesting period for these awards which is 75% over three years from the date of grant and 25% over four years from date of grant. The forfeiture rate is determined by reviewing historical forfeiture rates for previous stock-based compensation grants and is reviewed and updated quarterly, if necessary.

#### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and receivable from brokers. The Company maintains cash and cash equivalents primarily in the Gabelli U.S. Treasury Money Market Fund, which invests fully in instruments issued by the U.S. government, and has receivables from brokers with various brokers and financial institutions, where these balances can exceed the federally insured limit. The concentration of credit risk with respect to advisory fees receivable is generally limited due to the short payment terms extended to clients by the Company. In addition, the credit risk is further limited by virtue of the fact that no single advisory relationship provided over 10% of the total revenue of the Company during the years 2011, 2010, or 2009. All investments in securities are held at third party brokers or custodians.

#### Business Segment

The Company operates in one business segment, the investment advisory and asset management business. The Company conducts its investment advisory business principally through: GAMCO (Institutional and Private Wealth Management), Funds Advisor (Mutual Funds) and GSI (Investment Partnerships). The Company also provides institutional research through Gabelli & Company, one of the Company's broker-dealer subsidiaries. The distribution of our open-end funds and underwriting of those Funds was conducted through Gabelli & Company, until July 31, 2011, and through G.distributors, our newly formed broker-dealer subsidiary, effective August 1, 2011.

#### 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.

In May 2011, the FASB issued guidance on fair value measurement which expands existing disclosure requirements for fair value measurements and makes other amendments. The guidance requires, for level 3 fair value measurements, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation processes in place, and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs. Additionally, the guidance requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value in the statement of financial condition but whose fair value must be disclosed and clarifies that the valuation premise and highest and best use concepts are not relevant to financial assets or liabilities. The guidance is effective for interim and annual periods

beginning after December 15, 2011. The application of this guidance will result in enhanced footnote disclosure upon adoption on January 1, 2012.

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

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

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

#### B. Investments in Securities

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

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
(In thousands)				
Trading securities:				
Government				
obligations	\$ 42,124	\$ 42,126	\$ 27,327	\$ 27,288
Common stocks	153,294	159,314	158,455	170,374
Mutual funds	1,099	1,325	1,205	1,554
Convertible bonds	-	-	574	620
Preferred stocks	-	-	1,783	1,973
Other investments	466	399	1,559	1,350
Total trading securities	196,983	203,164	190,903	203,159
Available for sale securities:				
Common stocks	16,487	33,282	16,835	37,139
Mutual funds	40,679	61,101	43,707	65,188
Total available for sale securities	57,166	94,383	60,542	102,327
Total investments in securities	\$ 254,149	\$ 297,547	\$ 251,445	\$ 305,486

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

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
(In thousands)				
Common stocks	\$ 5,271	\$ 5,415	\$ 19,071	\$ 19,299
Other	49	73	-	-
Total securities sold, not yet purchased	\$ 5,320	\$ 5,488	\$ 19,071	\$ 19,299

The aggregate fair value of common stock investments available for sale at December 31, 2011 and 2010 was \$33.3



million and \$37.1 million, respectively. The total unrealized gains for common stock investments available for sale were \$16.8 million and \$20.3 million at December 31, 2011 and 2010, respectively. There were no unrealized losses for common stock investments available for sale at December 31, 2011 or December 31, 2010. At December 31, 2011 and 2010, the fair value of mutual fund investments available for sale with unrealized gains was \$61.0 million and \$65.2 million, respectively. At December 31, 2011, the fair value of mutual fund investments available for sale with unrealized losses was \$0.1 million. At December 31, 2010 there were no unrealized losses for mutual fund investments available for sale. The total unrealized gains for mutual fund investments available for sale were \$20.5 million and \$21.5 million at December 31, 2011 and 2010, respectively. The total unrealized losses for mutual fund investments available for sale was \$28,000 at December 31, 2011.

Increases in unrealized losses, net of taxes, for AFS securities for the year ended December 31, 2011 of \$2.9 million have been included in equity at December 31, 2011. Increases in unrealized gains, net of taxes, for AFS securities for the years ended December 31, 2010 and 2009 of \$6.3 million and \$4.1 million have been included in equity at December 31, 2010 and 2009, respectively. Return of capital on available for sale securities were \$2.3 million, \$3.0 million and \$3.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. Proceeds from sales of investments available for sale were approximately \$6.1 million, \$2.1 million and \$4.3 million for the years ended December 31, 2011, 2010 and 2009, respectively. For the years ended December 31, 2011, 2010 and 2009, gross gains on the sale of investments available for sale amounted to \$772,000, \$29,000 and \$2.1 million, respectively, and were reclassified from other comprehensive income into the consolidated statements of income. There were no losses on the sale of investments available for sale for the years ended December 31, 2011, 2010 and 2009. The basis on which the cost of a security sold is determined is specific identification.

GBL has an established accounting policy and methodology to determine other-than-temporary impairment. Under this policy, available for sale securities are evaluated for other than temporary impairments and any impairment charges are recorded in net gain/(loss) from investments on the consolidated statements of income. Management reviews all available for sale securities whose cost exceeds their market value to determine if the impairment is other than temporary. Management uses qualitative factors such as diversification of the investment, the amount of time that the investment has been impaired and the severity of the decline in determining whether the impairment is other than temporary.

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

At December 31, 2010, there were no available for sale holdings in loss positions.

For the years ended December 31, 2010 and 2009, there were no losses on available for sale securities deemed to be other than temporary.

### C. Fair Value

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

	Quoted Prices in			Balance as of
	Active	Significant Other	Significant	
	Markets for	Observable	Unobservable	December 31,
Assets	Identical	Inputs (Level 2)	Inputs (Level 3)	2011
	Assets (Level 1)			
Cash equivalents	\$ 260,969	\$ -	\$ -	\$ 260,969
Investments in partnerships	-	27,122	-	27,122

## Investments in securities:

AFS - Common stocks	33,282	-	-	33,282
AFS - Mutual funds	61,101	-	-	61,101
Trading - Gov't obligations	42,126	-	-	42,126
Trading - Common stocks	158,623	21	670	159,314
Trading - Mutual funds	1,325	-	-	1,325
Trading - Other	55	60	284	399
Total investments in securities	296,512	81	954	297,547
Total investments	296,512	27,203	954	324,669
Total assets at fair value	\$ 557,481	\$ 27,203	\$ 954	\$ 585,638
Liabilities				
Trading - Common stocks	\$ 5,415	\$ -	\$ -	\$ 5,415
Trading - Other	-	73	-	73
Securities sold, not yet purchased	\$ 5,415	\$ 73	\$ -	\$ 5,488

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

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 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

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

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the year ended December 31, 2011 (in thousands)

	December 31, 2010	Total Realized and Unrealized Gains or (Losses) in Income	(Losses) Included in Other	Realized and Unrealized	Net Transfers In and/or

Asset	Beginning Balance	Trading	AFS Investments	Comprehensive Income	Gains or (Losses)	Purchases	Sales	(Out) of Level 3	Ending Balance
Financial instruments owned: Trading - Common stocks	\$ 147	\$ 94	\$ -	\$ -	\$ 94	\$ 537	\$ (108 )	\$ -	\$ 670
Trading - Other	278	142	-	-	142	13	(155 )	6	284
Total	\$ 425	\$ 236	\$ -	\$ -	\$ 236	\$ 550	\$ (263 )	\$ 6	\$ 954

During the year ended December 31, 2011, there were no transfers between Level 1 and Level 2 holdings. During the year ended December 31, 2011, the Company reclassified approximately \$6,000 of investments from Level 1 to Level 3. The reclassifications were due to decreased availability of market price quotations and were based on the values at the beginning of the period in which the reclass occurred.

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the year ended December 31, 2010 (in thousands)

Asset	December 31, 2009	Total Realized and Unrealized Gains or (Losses) in Income	Total Realized and Unrealized Gains or (Losses) in AFS Comprehensive Income	Total Realized and Unrealized Gains or (Losses)	Total Realized and Purchases and Sales, net	Transfers In and/or (Out) of Level 3	Ending Balance	
								Beginning Balance
<b>Financial instruments owned:</b>								
<b>Trading - Common stocks</b>								
	\$ 205	\$ 78	\$ -	\$ -	\$ 78	\$ (206 )	\$ 70	\$ 147
<b>Trading - Preferred stocks</b>								
	15	(15 )	-	-	(15 )	-	-	-
<b>Trading - Other</b>								
	90	188	-	-	188	-	-	278
<b>Total</b>	<b>\$ 310</b>	<b>\$ 251</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 251</b>	<b>\$ (206 )</b>	<b>\$ 70</b>	<b>\$ 425</b>

During the year ended December 31, 2010, there were no transfers between Level 1 and Level 2 holdings. During the year ended December 31, 2010, the Company reclassified approximately \$23,000 of investments from Level 1 to Level 3 and \$47,000 from Level 2 to Level 3. The reclassifications were due to decreased availability of market price quotations and were based on the values at the beginning of the period in which the reclass occurred.

#### D. Investment in Partnerships, Offshore Funds and Variable Interest Entities

The Company is general partner or co-general partner of various sponsored limited partnerships and the investment manager of various sponsored offshore funds, totaling \$86.9 million and \$64.0 million at December 31, 2011 and 2010, respectively, whose underlying assets consist primarily of marketable securities (the “affiliated entities”). We also have investments in unaffiliated partnerships, offshore funds and other entities of \$14.0 million and \$18.9 million at December 31, 2011 and 2010, respectively (the “unaffiliated entities”). We evaluate each entity for the appropriate accounting treatment and disclosure. Certain of the affiliated entities are consolidated, as discussed in Note A. In addition, 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, as well as certain investments that the feeder funds hold that are carried at fair value, as described in Note C. 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 consolidated statements of income.

The following table highlights the number of entities that we consolidate as well as under which accounting guidance they are consolidated, including CFFs which retain their specialized investment company accounting, and partnerships and offshore funds which we consolidate as described in Note A.

#### Entities consolidated

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	CFFs		Partnerships		Offshore Funds		Total	
	VIEs	VOEs	VIEs	VOEs	VIEs	VOEs	VIEs	VOEs
Entities consolidated at December 31, 2008	1	5	-	1	1	-	2	6
Additional consolidated entities	-	-	-	-	-	-	-	-
Deconsolidated entities	-	(3 )	-	-	(1 )	-	(1 )	(3 )
Entities consolidated at December 31, 2009	1	2	-	1	-	-	1	3
Additional consolidated entities	-	-	-	1	1	-	1	1
Deconsolidated entities	-	-	-	-	-	-	-	-
Entities consolidated at December 31, 2010	1	2	-	2	1	-	2	4
Additional consolidated entities	-	-	-	-	-	1	-	1
Deconsolidated entities	-	-	-	(1 )	(1 )	-	(1 )	(1 )
Entities consolidated at December 31, 2011	1	2	-	1	-	1	1	4

On January 1, 2011, upon analysis of several factors, including the additional contribution of capital from unrelated third parties into a partnership that we consolidated for the year ended and as of December 31, 2010, we determined that the Company was no longer deemed to control 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 consolidated statements of financial condition and is accounted for under the equity method (which approximates fair value).

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

	December 31, 2011				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
<b>Assets</b>					
Cash and cash equivalents	\$ 259,531	\$ 15,000	\$ 1,809	\$ -	\$ 276,340
Investments in securities	284,796	-	6,228	6,523	297,547
Investments in partnerships	107,981	933	(8,021 )	-	100,893
Receivable from brokers	17,593	-	270	3,050	20,913
Investment advisory fees receivable	32,157	1	(2 )	-	32,156
Other assets	43,889	(14,989 )	-	-	28,900
<b>Total assets</b>	<b>\$ 745,947</b>	<b>\$ 945</b>	<b>\$ 284</b>	<b>\$ 9,573</b>	<b>\$ 756,749</b>
<b>Liabilities and equity</b>					
Securities sold, not yet purchased	\$ 5,488	\$ -	\$ -	\$ -	\$ 5,488
Accrued expenses and other liabilities	69,929	51	28	4,652	74,660
<b>Total debt</b>	<b>263,119</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>263,119</b>
Redeemable noncontrolling interests	-	894	256	4,921	6,071
<b>Total equity</b>	<b>407,411</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>407,411</b>
<b>Total liabilities and equity</b>	<b>\$ 745,947</b>	<b>\$ 945</b>	<b>\$ 284</b>	<b>\$ 9,573</b>	<b>\$ 756,749</b>

	December 31, 2010				
	Prior to Consolidation	CFFs	Partnerships	Offshore Funds	As Reported
<b>Assets</b>					
Cash and cash equivalents	\$ 167,753	\$ -	\$ 1,297	\$ 551	\$ 169,601
Investments in securities	219,364	-	20,410	65,712	305,486
Investments in partnerships	147,801	1,069	(13,381 )	(52,618 )	82,871
Receivable from brokers	23,062	-	8,388	15,171	46,621
Investment advisory fees receivable	44,944	7	(149 )	(142 )	44,660
Other assets	23,429	10	10	48	23,497
<b>Total assets</b>	<b>\$ 626,353</b>	<b>\$ 1,086</b>	<b>\$ 16,575</b>	<b>\$ 28,722</b>	<b>\$ 672,736</b>
<b>Liabilities and equity</b>					
Securities sold, not yet purchased	\$ 2,557	\$ -	\$ 10,157	\$ 6,585	\$ 19,299
	75,608	193	1,639	825	78,265



Accrued expenses and other liabilities

Total debt	158,580	-	-	-	158,580
Redeemable noncontrolling interests	-	893	4,779	21,312	26,984
Total equity	389,608	-	-	-	389,608
Total liabilities and equity	\$ 626,353	\$ 1,086	\$ 16,575	\$ 28,722	\$ 672,736

The following table breaks out the Company's net earnings (loss) from non consolidated entities, a component of net gain/(loss) from investments on the consolidated statements of income, management fee and incentive allocation, components of investment advisory and incentive fees on the consolidated statements of income, by type of entity (in thousands):

2011			
	Net		
	Earnings	Management	Incentive
	(Loss)	Fees	Allocation
Feeder funds	\$ (58 )	\$ 114	\$ -
Affiliated partnerships	1,558	3,029	1,397
Affiliated offshore funds	1,057	976	876
Unaffiliated entities	(929 )	-	-
Total	\$ 1,628	\$ 4,119	\$ 2,273

2010			
	Net		
	Earnings	Management	Incentive
	(Loss)	Fees	Allocation
Feeder funds	\$ 159	\$ 97	\$ 151
Affiliated partnerships	1,975	2,031	2,118
Affiliated offshore funds	1,070	722	1,337
Unaffiliated entities	3,761	-	-
Total	\$ 6,965	\$ 2,850	\$ 3,606

2009			
	Net		
	Earnings	Management	Incentive
	(Loss)	Fees	Allocation
Feeder funds	\$ 49	\$ 121	\$ 27
Affiliated partnerships	1,235	1,428	1,730
Affiliated offshore funds	1,055	501	923
Unaffiliated entities	2,585	-	-
Total	\$ 4,924	\$ 2,050	\$ 2,680

#### Variable Interest Entities

We also have sponsored a number of investment vehicles where we are the general partner or investment manager. These vehicles are variable interest entities ("VIEs"), and we are not the primary beneficiary because we do

not absorb a majority of the entities' expected losses or expected returns. The Company has not provided any financial or other support to these entities. The total assets of these entities at December 31, 2011 and 2010 were \$73.7 million and \$13.3 million, respectively. Our maximum exposure to loss as a result of our involvement with the VIEs is limited to the investment in one VIE and the deferred carried interest that we have in another. On December 31, 2011, we had an investment in one of the VIE offshore funds of approximately \$5.0 million which was included in investments in partnerships on the consolidated statements of financial condition. On December 31, 2011 and 2010, we had a deferred carried interest in one of the VIE offshore funds of approximately \$47,000 and \$325,000, respectively, which was included in investments in partnerships on the consolidated statements of financial condition. Additionally, as the general partner or investment manager to these VIEs the Company earns fees in relation to these roles, which given a decline in AUMs of the VIEs would result in lower fee revenues earned by the Company which would be reflected on the consolidated statement of income, consolidated statement of financial condition and consolidated statement of cash flows.

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

	December 31, 2011	December 31, 2010
(In thousands)		
Cash and cash equivalents	\$ 15,000	\$ 551
Investments in securities	-	65,712
Investments in partnerships	1,433	1,522
Receivable from brokers	-	15,171
Other assets	-	47
Securities sold, not yet purchased	-	(6,585 )
Accrued expenses and other liabilities	(15,006)	(864 )
Redeemable noncontrolling interests	(381 )	(21,699)
GAMCO's net interests in consolidated VIEs	\$ 1,046	\$ 53,855

#### E. Income Taxes

GBL and the Company's greater than 80% owned subsidiaries file a consolidated federal income tax return. Accordingly, the income tax provision represents the aggregate of the amounts provided for all companies.

The provision for income taxes for the years ended December 31, 2011, 2010 and 2009 consisted of the following:

2011	2010	2009
------	------	------

(In  
thousands)  
Federal:

