

GAMCO INVESTORS, INC. ET AL
Form 10-Q
August 05, 2014
SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from ___ to ___

Commission File No. 001-14761

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

Delaware 13-4007862
(State of other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Corporate Center, Rye, NY 10580-1422
(Address of principle executive offices) (Zip Code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding at July 31, 2014
Class A Common Stock, .001 par value	6,546,952
Class B Common Stock, .001 par value	19,325,820

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

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Investment advisory and incentive fees	\$90,156	\$77,443	\$177,953	\$150,050
Distribution fees and other income	15,767	12,522	30,640	23,875
Institutional research services	2,373	2,325	4,180	4,546
Total revenues	108,296	92,290	212,773	178,471
Expenses				
Compensation	44,045	37,759	87,942	73,411
Management fee	5,144	4,846	9,872	8,826
Distribution costs	15,023	11,871	28,986	22,881
Other operating expenses	6,547	6,030	11,937	10,842
Total expenses	70,759	60,506	138,737	115,960
Operating income	37,537	31,784	74,036	62,511
Other income (expense)				
Net gain from investments	9,744	12,141	16,688	24,432
Interest and dividend income	1,332	2,507	2,473	3,852
Interest expense	(2,021)	(2,796)	(4,013)	(6,284)
Shareholder-designated contribution	(134)	-	(134)	(5,000)
Total other income (expense), net	8,921	11,852	15,014	17,000
Income before income taxes	46,458	43,636	89,050	79,511
Income tax provision	17,135	15,724	31,751	28,919
Net income	29,323	27,912	57,299	50,592
Net income/(loss) attributable to noncontrolling interests	373	19	395	154
Net income attributable to GAMCO Investors, Inc.'s shareholders	\$28,950	\$27,893	\$56,904	\$50,438
Net income attributable to GAMCO Investors, Inc.'s shareholders per share:				
Basic	\$1.14	\$1.09	\$2.24	\$1.96
Diluted	\$1.13	\$1.09	\$2.22	\$1.96
Weighted average shares outstanding:				
Basic	25,381	25,679	25,431	25,710
Diluted	25,586	25,689	25,635	25,723
Dividends declared:	\$0.06	\$0.05	\$0.12	\$0.10

See accompanying notes.

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

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$29,323	\$27,912	\$57,299	\$50,592
Other comprehensive income/(loss), net of tax:				
Foreign currency translation	22	1	30	(48)
Net unrealized gains/(losses) on securities available for sale (a)	(1,728)	(6,900)	(4,425)	(860)
Other comprehensive income / (loss)	(1,706)	(6,899)	(4,395)	(908)
Comprehensive income	27,617	21,013	52,904	49,684
Less: Comprehensive income/(loss) attributable to noncontrolling interests	(373)	(19)	(395)	(154)
Comprehensive income attributable to GAMCO Investors, Inc.	\$27,244	\$20,994	\$52,509	\$49,530

(a) Net of income tax expense or (benefit) of (\$1,015), (\$4,052), (\$2,599) and (\$505), respectively.

See accompanying notes.

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

(Dollars in thousands, except per share data)

	June 30, 2014	December 31, 2013	June 30, 2013
ASSETS			
Cash and cash equivalents	\$307,490	\$210,451	\$222,776
Investments in securities	225,596	231,228	220,440
Investments in sponsored registered investment companies	40,791	44,042	52,341
Investments in partnerships	107,896	95,992	94,535
Receivable from brokers	58,945	49,461	39,669
Investment advisory fees receivable	32,228	51,506	28,240
Income tax receivable	1,077	445	413
Other assets	30,779	26,360	25,087
Total assets	\$804,802	\$709,485	\$683,501
LIABILITIES AND EQUITY			
Payable to brokers	\$19,859	\$10,765	\$14,986
Income taxes payable and deferred tax liabilities	31,029	39,846	27,864
Capital lease obligation	5,290	5,323	4,877
Compensation payable	68,908	34,663	59,643
Securities sold, not yet purchased	14,329	6,178	7,598
Mandatorily redeemable noncontrolling interests	1,339	1,355	1,322
Accrued expenses and other liabilities	32,194	32,511	31,971
Sub-total	172,948	130,641	148,261
5.5% Senior notes (repaid May 15, 2013)	-	0	0
5.875% Senior notes (due June 1, 2021)	100,000	100,000	100,000
Zero coupon subordinated debentures, Face value: \$13.2 million at June 30, 2014, \$13.8 million at December 31, 2013 and \$20.5 million at June 30, 2013 (due December 31, 2015)	11,813	11,911	17,028
Total liabilities	284,761	242,552	265,289
Redeemable noncontrolling interests	22,806	6,751	7,021
Commitments and contingencies (Note J)			
Equity			
GAMCO Investors, Inc. stockholders' equity			
Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding			
Class A Common Stock, \$.001 par value; 100,000,000 shares authorized; 15,108,373, 15,012,719 and 14,295,769 issued, respectively; 6,572,864, 6,701,930 and 6,095,806 outstanding, respectively			
	14	14	13
Class B Common Stock, \$.001 par value; 100,000,000 shares authorized; 24,000,000 shares issued; 19,325,820, 19,384,174 and 19,534,174 shares outstanding, respectively			
	19	19	20
Additional paid-in capital	287,879	282,496	280,210

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Retained earnings	560,238	506,441	456,163
Accumulated other comprehensive income	25,844	30,239	25,392
Treasury stock, at cost (8,535,509, 8,310,789 and 8,199,963 shares, respectively)	(379,576)	(361,878)	(353,385)
Total GAMCO Investors, Inc. stockholders' equity	494,418	457,331	408,413
Noncontrolling interests	2,817	2,851	2,778
Total equity	497,235	460,182	411,191
Total liabilities and equity	\$804,802	\$709,485	\$683,501

See accompanying notes.

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

For the six months ended June 30, 2014

	GAMCO Investors, Inc. stockholders							Redeemable Noncontrolling Interests
	Noncontrolling Interests	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total	
Balance at December 31, 2013	\$ 2,851	\$33	\$282,496	\$506,441	\$ 30,239	\$(361,878)	\$460,182	\$ 6,751
Redemptions of noncontrolling interests	-	-	-	-	-	-	-	(470)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	16,096
Net income (loss)	(34)	-	-	56,904	-	-	56,870	429
Net unrealized gains on securities available for sale, net of income tax benefit (\$108)	-	-	-	-	(183)	-	(183)	-
Amounts reclassified from accumulated other comprehensive income, net of income tax benefit (\$2,491)	-	-	-	-	(4,242)	-	(4,242)	-
Foreign currency translation	-	-	-	-	30	-	30	-
Dividends declared (\$0.12 per share)	-	-	-	(3,107)	-	-	(3,107)	-
Stock based compensation expense	-	-	3,397	-	-	-	3,397	-
Exercise of stock options including tax benefit (\$349)	-	-	1,986	-	-	-	1,986	-
Purchase of treasury stock	-	-	-	-	-	(17,698)	(17,698)	-
Balance at June 30, 2014	\$ 2,817	\$33	\$287,879	\$560,238	\$ 25,844	\$(379,576)	\$497,235	\$ 22,806

See accompanying notes.

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

For the six months ended June 30, 2013

	GAMCO Investors, Inc. stockholders							Redeemable Noncontrolling Interests
	Noncontrolling Interests	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total	
Balance at December 31, 2012	\$ 3,326	\$33	\$280,089	\$408,295	\$ 26,300	\$(347,109)	\$370,934	\$ 17,362
Redemptions of noncontrolling interests	(524)	-	-	-	-	-	(524)	(13,394)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	2,875
Net income (loss)	(24)	-	-	50,438	-	-	50,414	178
Net unrealized gains on securities available for sale, net of income tax (\$3,477)	-	-	-	-	5,921	-	5,921	-
Amount reclassified from accumulated other comprehensive income, net of income tax benefit (\$3,982)	-	-	-	-	(6,781)	-	(6,781)	-
Foreign currency translation	-	-	-	-	(48)	-	(48)	-
Dividends declared (\$0.10 per share)	-	-	-	(2,570)	-	-	(2,570)	-
Stock based compensation expense	-	-	29	-	-	-	29	-
Exercise of stock options including tax benefit	-	-	92	-	-	-	92	-
Purchase of treasury stock	-	-	-	-	-	(6,276)	(6,276)	-
Balance at June 30, 2013	\$ 2,778	\$33	\$280,210	\$456,163	\$ 25,392	\$(353,385)	\$411,191	\$ 7,021

See accompanying notes.

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

	Six Months Ended June 30,	
	2014	2013
Operating activities		
Net income	\$57,299	\$50,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net gains from partnerships	(2,884)	1,418
Depreciation and amortization	336	406
Stock based compensation expense	3,397	29
Deferred income taxes	(1,512)	1,421
Tax benefit from exercise of stock options	349	16
Foreign currency translation gain/(loss)	30	(48)
Other-than-temporary loss on available for sale securities	69	14
Cost basis of donated securities	1,480	277
Gains on sales of available for sale securities	(3,163)	(10,446)
Accretion of zero coupon debentures	440	645
Loss on extinguishment of debt	74	137
(Increase) decrease in assets:		
Investments in trading securities	9,899	2,538
Investments in partnerships:		
Contributions to partnerships	(12,098)	(8,221)
Distributions from partnerships	3,077	9,818
Receivable from brokers	(9,484)	10,986
Investment advisory fees receivable	19,278	14,189
Income tax receivable and deferred tax assets	(632)	605
Other assets	(4,739)	2,246
Increase (decrease) in liabilities:		
Payable to brokers	9,094	640
Income taxes payable and deferred tax liabilities	(4,707)	1,551
Compensation payable	34,240	49,108
Mandatorily redeemable noncontrolling interests	(16)	(20)
Accrued expenses and other liabilities	(405)	5,530
Total adjustments	42,123	82,839
Net cash provided by operating activities	\$99,422	\$133,431

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

	Six Months Ended June 30,	
	2014	2013
Investing activities		
Purchases of available for sale securities	\$(5,354)	\$(3,953)
Proceeds from sales of available for sale securities	6,518	21,978
Return of capital on available for sale securities	561	625
Net cash provided by investing activities	1,725	18,650
Financing activities		
Contributions from redeemable noncontrolling interests	16,096	2,875
Redemptions of redeemable noncontrolling interests	(470)	(13,394)
Redemption of 5.5% Senior Notes	-	(99,000)
Redemptions of noncontrolling interests	-	(524)
Proceeds from exercise of stock options	1,637	76
Dividends paid	(3,050)	(2,570)
Repurchase of zero coupon subordinated debentures	(612)	(1,119)
Purchase of treasury stock	(17,698)	(6,275)
Net cash used in financing activities	(4,097)	(119,931)
Effect of exchange rates on cash and cash equivalents	(11)	18
Net increase in cash and cash equivalents	97,039	32,168
Cash and cash equivalents at beginning of period	210,451	190,608
Cash and cash equivalents at end of period	\$307,490	\$222,776
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$3,539	\$6,262
Cash paid for taxes	\$37,020	\$25,165

Non-cash activity:

- For the six months ended June 30, 2014 and June 30, 2013, the Company accrued dividends on restricted stock awards of \$57 and \$0, respectively.

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014
(Unaudited)

A. Significant Accounting Policies

Basis of Presentation

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

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

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

These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 from which the accompanying condensed consolidated financial statements were derived.

Use of Estimates

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

Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in the Accounting Standards Codification ("Codification") Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods and is to be retrospectively applied. Early adoption is not permitted. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

B. Investment in Securities

Investments in securities at June 30, 2014, December 31, 2013 and June 30, 2013 consisted of the following:

	June 30, 2014		December 31, 2013		June 30, 2013	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
	(In thousands)					
Trading securities:						
Government obligations	\$23,996	\$23,998	\$37,986	\$37,994	\$27,986	\$27,996
Common stocks	124,502	156,522	96,225	124,634	137,600	155,088
Mutual funds	2,418	3,532	21,074	23,285	1,074	1,675
Other investments	532	694	287	582	470	719
Total trading securities	151,448	184,746	155,572	186,495	167,130	185,478
Available for sale securities:						
Common stocks	15,009	39,334	13,389	43,046	14,077	33,478
Mutual funds	700	1,516	843	1,687	843	1,484
Total available for sale securities	15,709	40,850	14,232	44,733	14,920	34,962
Total investments in securities	\$167,157	\$225,596	\$169,804	\$231,228	\$182,050	\$220,440

Securities sold, not yet purchased at June 30, 2014, December 31, 2013 and June 30, 2013 consisted of the following:

	June 30, 2014		December 31, 2013		June 30, 2013	
	Proceeds	Fair Value	Proceeds	Fair Value	Proceeds	Fair Value
	(In thousands)					
Trading securities:						
Common stocks	\$11,662	\$13,861	\$5,319	\$6,023	\$7,668	\$7,381
Other investments	170	468	-	155	71	217
Total securities sold, not yet purchased	\$11,832	\$14,329	\$5,319	\$6,178	\$7,739	\$7,598

Investments in sponsored registered investment companies at June 30, 2014, December 31, 2013 and June 30, 2013 consisted of the following:

	June 30, 2014		December 31, 2013		June 30, 2013	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
(In thousands)						
Trading securities:						
Mutual funds	\$19	\$14	\$19	\$10	\$19	\$11
Total trading securities	19	14	19	10	19	11
Available for sale securities:						
Closed-end funds	21,531	37,138	23,100	40,624	28,435	49,162
Mutual funds	1,931	3,639	1,951	3,408	2,040	3,168
Total available for sale securities	23,462	40,777	25,051	44,032	30,475	52,330
Total investments in sponsored registered investment companies	\$23,481	\$40,791	\$25,070	\$44,042	\$30,494	\$52,341

Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of the date of each statement of financial condition. Investments in United States Treasury Bills and Notes with maturities of greater than three months at the time of purchase are classified as investments in securities, and those with maturities of three months or less at the time of purchase are classified as cash equivalents. The portion of investments in securities held for resale in anticipation of short-term market movements are classified as trading securities. Trading securities are stated at fair value, with any unrealized gains or losses reported in current period earnings. Available for sale ("AFS") investments are stated at fair value, with any unrealized gains or losses, net of taxes, reported as a component of equity except for losses deemed to be other than temporary ("OTT") which are recorded as realized losses in the condensed consolidated statements of income.

The following table identifies all reclassifications out of accumulated other comprehensive income ("AOCI") into income for the three and six months ended June 30, 2014 and 2013 (in thousands):

Amount	Amount	Affected Line Item	Reason for
Reclassified	Reclassified	in the Statements	Reclassification
from AOCI	from AOCI	Of Income	from AOCI
Three months ended June 30,			
2014	2013		
\$1,551	\$9,849	Net gain from investments	Realized gain on sale of AFS securities
498	181	Other operating expenses/net gain from investments	Realized gain on donation of AFS securities
(69)	(14)	Net gain from investments	OTT impairment of AFS securities
1,980	10,016	Income before income taxes	
(733)	(3,706)	Income tax provision	
\$1,247	\$6,310	Net income	
Amount	Amount	Affected Line Item	Reason for
Reclassified	Reclassified	in the Statements	Reclassification
from AOCI	from AOCI	Of Income	from AOCI

Six months ended

June 30,

2014	2013		
\$3,163	\$10,446	Net gain from investments	Realized gain on sale of AFS securities
3,639	331	Other operating expenses/net gain from investments	Realized gain on donation of AFS securities
(69)	(14)	Net gain from investments	OTT impairment of AFS securities
6,733	10,763	Income before income taxes	
(2,491)	(3,982)	Income tax provision	
\$4,242	\$6,781	Net income	

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The Company recognizes all derivatives as either assets or liabilities measured at fair value and includes them in either investments in securities or securities sold, not yet purchased on the condensed consolidated statements of financial condition. From time to time, the Company and/or the partnerships and offshore funds that the Company consolidates will enter into hedging transactions to manage their exposure to foreign currencies and equity prices related to their proprietary investments. For the three months ended June 30, 2014 and 2013, the Company had transactions in equity derivatives which resulted in net gains of \$120,000 and net losses of \$1,000, respectively. For the six months ended June 30, 2014 and 2013, the Company had transactions in equity derivatives which resulted in net losses of \$167,000 and net gains of \$280,000, respectively. At June 30, 2014, December 31, 2013 and June 30, 2013, we held derivative contracts on 1.9 million equity shares, 1.3 million equity shares and 1.5 million equity shares, respectively, and the fair value was (\$299,000), \$120,000 and \$122,000, respectively; these are included in investments in securities in the condensed consolidated statements of financial condition. These transactions are not designated as hedges for accounting purposes, and therefore changes in fair values of these derivatives are included in net gain/(loss) from investments in the condensed consolidated statements of income.

The Company is a party to enforceable master netting arrangements for swaps entered into as part of the investment strategy of the Company's proprietary portfolio. They are typically not used as hedging instruments. These swaps, while settled on a net basis with the counterparties, major U.S. financial institutions, are shown gross in assets and liabilities on the condensed consolidated statements of financial condition. The swaps have a firm contract end date and are closed out and settled when each contract expires.

	Gross Amounts Not Offset in the Statements of Financial Condition		Net Amounts of Assets Presented in the Statements of Financial Condition	Gross Amounts Not Offset in the Statements of Financial Condition	
	Gross Amounts of the Recognized Financial Assets	Offset in the Statements of Financial Condition		Cash Collateral Received	Net Amount
Swaps:					
June 30, 2014	\$156	\$ -	\$ 156	\$(156)	\$ -
December 31, 2013	275	-	275	(155)	120
June 30, 2013	\$237	\$ -	\$ 237	\$(177)	\$ 60

	Gross Amounts Not Offset in the Statements of Financial Condition		Net Amounts of Liabilities Presented in the Statements of Financial Condition	Gross Amounts Not Offset in the Statements of Financial Condition	
	Gross Amounts of the Recognized Financial Assets	Offset in the Statements of Financial Condition		Cash Collateral	Net Amount

	Financial		of	Financial		Net
	Liabilities	Condition	Financial	Instrument	Pledged	Amount
Swaps:	(in thousands)		Condition			
June 30, 2014	\$205	\$ -	\$ 205	\$(156)	\$ -	\$ 49
December 31, 2013	155	-	155	(155)	-	-
June 30, 2013	\$177	\$ -	\$ 177	\$(177)	\$ -	\$ -

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The following is a summary of the cost, gross unrealized gains, gross unrealized losses and fair value of available for sale investments as of June 30, 2014, December 31, 2013 and June 30, 2013:

	June 30, 2014			
	Gross Unrealized		Gross Unrealized	Fair Value
	Cost	Gains	Losses	
	(In thousands)			
Common stocks	\$ 15,009	\$ 24,325	\$ -	\$ 39,334
Closed-end Funds	21,531	15,607	-	37,138
Mutual funds	2,631	2,524	-	5,155
Total available for sale securities	\$ 39,171	\$ 42,456	\$ -	\$ 81,627

	December 31, 2013			
	Gross Unrealized		Gross Unrealized	Fair Value
	Cost	Gains	Losses	
	(In thousands)			
Common stocks	\$ 13,389	\$ 29,657	\$ -	\$ 43,046
Closed-end Funds	23,100	17,654	(130)	40,624
Mutual funds	2,794	2,325	(24)	5,095
Total available for sale securities	\$ 39,283	\$ 49,636	\$ (154)	\$ 88,765

	June 30, 2013			
	Gross Unrealized		Gross Unrealized	Fair Value
	Cost	Gains	Losses	
	(In thousands)			
Common stocks	\$ 14,077	\$ 19,401	\$ -	\$ 33,478
Closed-end Funds	28,435	20,773	(46)	49,162
Mutual funds	2,883	1,850	(81)	4,652
Total available for sale securities	\$ 45,395	\$ 42,024	\$ (127)	\$ 87,292

Unrealized changes in fair value, net of taxes, for the three months ended June 30, 2014 and June 30, 2013 of \$1.7 million in losses and \$6.9 million in losses, respectively, have been included in other comprehensive income, a component of equity, at June 30, 2014 and June 30, 2013. Return of capital on available for sale securities was \$238,000 and \$14,000 for the three months ended June 30, 2014 and June 30, 2013, respectively. Proceeds from sales of investments available for sale were approximately \$2.6 million and \$16.6 million for the three months ended June 30, 2014 and June 30, 2013, respectively. For the three months ended June 30, 2014 and June 30, 2013, gross gains on the sale of investments available for sale amounted to \$1.6 million and \$9.8 million, respectively, and were reclassified from other comprehensive income into net gain from investments in the condensed consolidated statements of income. There were no losses on the sale of investments available for sale for the three months ended June 30, 2014 or June 30, 2013. Unrealized changes in fair value, net of taxes, for the six months ended June 30, 2014 and June 30, 2013 of \$4.4 million in losses and \$0.9 million in losses, respectively, have been included in other comprehensive income, a component of equity, at June 30, 2014 and June 30, 2013. Return of capital on available for sale securities was \$0.6 million and \$0.6 million for the six months ended June 30, 2014 and June 30, 2013, respectively. Proceeds from sales of investments available for sale were approximately \$6.5 million and \$22.0 million for the six months ended June 30, 2014 and June 30, 2013, respectively. For the six months ended June 30, 2014 and

June 30, 2013, gross gains on the sale of investments available for sale amounted to \$3.2 million and \$10.4 million, respectively, and were reclassified from other comprehensive income into net gain from investments in the condensed consolidated statements of income. There were no losses on the sale of investments available for sale for the six months ended June 30, 2014 or June 30, 2013. The basis on which the cost of a security sold is determined is specific identification.

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

	June 30, 2014			December 31, 2013			June 30, 2013		
	Unrealized		Fair	Unrealized		Fair	Unrealized		Fair
(in thousands)	Cost	Losses	Value	Cost	Losses	Value	Cost	Losses	Value
Closed-end funds	\$-	\$ -	\$ -	\$912	\$ (130)	) \$782	\$1,449	\$ (46)	) \$1,403
Mutual Funds	-	-	-	303	(24)	) 279	365	(72)	) 293
Total	\$-	\$ -	\$ -	\$1,215	\$ (154)	) \$1,061	\$1,814	\$ (118)	) \$1,696

At June 30, 2014, there were no holdings in loss positions which were not deemed to be other than temporarily impaired.

At December 31, 2013 there were four holdings in loss positions which were not deemed to be other-than-temporarily impaired due to the length of time that they had been in a loss position and because they passed scrutiny in our evaluation of issuer-specific and industry-specific considerations. In these specific instances, the investments at December 31, 2013 were open-end funds and closed-end funds with diversified holdings across multiple companies and across multiple industries. One holding was impaired for one month, one for two months, one for four months and one for seven months at December 31, 2013. The value of these holdings at December 31, 2013 was \$1.1 million.

At June 30, 2013, there were four holdings in loss positions which were not deemed to be other-than-temporarily impaired due to the length of time that they had been in a loss position and because they passed scrutiny in our evaluation of issuer-specific and industry-specific considerations. In these specific instances, the investments at June 30, 2013 were closed-end funds with diversified holdings across multiple companies and across multiple industries. All holdings were impaired for one month at June 30, 2013. The value of these holdings at June 30, 2013 was \$1.7 million.

For the three and six months ended June 30, 2014, there were \$69,000 of losses on available for sale securities deemed to be other than temporary and a loss has been recorded in net gain from investments. For the three and six months ended June 30, 2013, there was \$14,000 of losses on available for sale securities deemed to be other than temporary in the condensed consolidated statements of income.

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 June 30, 2014, December 31, 2013 and June 30, 2013 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 June 30, 2014 (in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2014
Assets				
Cash equivalents	\$307,154	\$ -	\$ -	\$307,154
Investments in partnerships	-	24,855	-	24,855
Investments in securities:				
AFS - Common stocks	39,334	-	-	39,334
AFS - Mutual funds	1,516	-	-	1,516
Trading - Gov't obligations	23,998	-	-	23,998
Trading - Common stocks	155,805	1	716	156,522
Trading - Mutual funds	3,532	-	-	3,532
Trading - Other	243	157	294	694
Total investments in securities	224,428	158	1,010	225,596
Investments in sponsored registered investment companies:				
AFS - Closed-end Funds	37,138	-	-	37,138
AFS - Mutual Funds	3,639	-	-	3,639
Trading - Mutual funds	14	-	-	14
Total investments in sponsored registered investment companies	40,791	-	-	40,791
Total investments	265,219	25,013	1,010	291,242
Total assets at fair value	\$572,373	\$ 25,013	\$ 1,010	\$598,396
Liabilities				
Trading - Common stocks	\$13,861	\$ -	\$ -	\$13,861
Trading - Other	-	468	-	468
Securities sold, not yet purchased	\$13,861	\$ 468	\$ -	\$14,329

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Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2013 (in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2013
Assets				
Cash equivalents	\$209,913	\$ -	\$ -	\$209,913
Investments in partnerships	-	25,253	-	25,253
Investments in securities:				
AFS - Common stocks	43,046	-	-	43,046
AFS - Mutual funds	1,687	-	-	1,687
Trading - Gov't obligations	37,994	-	-	37,994
Trading - Common stocks	123,927	7	700	124,634
Trading - Mutual funds	23,285	-	-	23,285
Trading - Other	23	275	284	582
Total investments in securities	229,962	282	984	231,228
Investments in sponsored registered investment companies:				
AFS - Closed-end Funds	40,624	-	-	40,624
AFS - Mutual Funds	3,408	-	-	3,408
Trading - Mutual funds	10	-	-	10
Total investments in sponsored registered investment companies	44,042	-	-	44,042
Total investments	274,004	25,535	984	300,523
Total assets at fair value	\$483,917	\$ 25,535	\$ 984	\$510,436
Liabilities				
Trading - Common stocks	\$6,023	\$ -	\$ -	\$6,023
Trading - Other	-	155	-	155
Securities sold, not yet purchased	\$6,023	\$ 155	\$ -	\$6,178

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2013 (in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2013
Assets				
Cash equivalents	\$222,647	\$ -	\$ -	\$222,647
Investments in partnerships	-	22,513	-	22,513
Investments in securities:				
AFS - Common stocks	33,478	-	-	33,478
AFS - Mutual funds	1,484	-	-	1,484
Trading - Gov't obligations	27,996	-	-	27,996
Trading - Common stocks	154,411	8	669	155,088

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Trading - Mutual funds	1,675	-	-	1,675
Trading - Other	98	337	284	719
Total investments in securities	219,142	345	953	220,440
Investments in sponsored registered investment companies:				
AFS - Closed-end Funds	49,162	-	-	49,162
AFS - Mutual Funds	3,168	-	-	3,168
Trading - Mutual funds	11	-	-	11
Total investments in sponsored registered investment companies	52,341	-	-	52,341
Total investments	271,483	22,858	953	295,294
Total assets at fair value	\$494,130	\$ 22,858	\$ 953	\$517,941
Liabilities				
Trading - Common stocks	\$7,381	\$ -	\$ -	\$7,381
Trading - Other	-	217	-	217
Securities sold, not yet purchased	\$7,381	\$ 217	\$ -	\$7,598

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

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended June 30, 2014 (in thousands)

Asset	March 31, 2014	Beginning Balance	Total Realized and Unrealized Gains or (Losses) in Income AFS Trading Investments	Total Unrealized Gains or (Losses) Included in Other Comprehensive Income	Total Unrealized Gains or (Losses)	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
Financial instruments owned:									
Trading - Common stocks	\$ 700	\$ 16	\$ -	\$ -	\$ 16	\$ -	\$ -	\$ -	\$ 716
Trading - Other	284	-	-	-	-	10	-	-	294
Total	\$ 984	\$ 16	\$ -	\$ -	\$ 16	10	\$ -	\$ -	\$ 1,010

There were no transfers between any Levels during the three months ended June 30, 2014.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended June 30, 2013 (in thousands)

Asset	March 31, 2013	Beginning Balance	Total Realized and Unrealized Gains or (Losses) in Income AFS Trading Investments	Total Unrealized Gains or (Losses) Included in Other Comprehensive Income	Total Unrealized Gains or (Losses)	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
Financial instruments owned:									
Trading - Common stocks	\$ 667	\$ 2	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ 669
Trading - Other	299	(3)	-	-	(3)	3	(15)	-	284
Total	\$ 966	\$ (1)	\$ -	\$ -	\$ (1)	\$ 3	\$ (15)	\$ -	\$ 953

There were no transfers between any Levels during the three months ended June 30, 2013.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Six Months Ended June 30, 2014 (in thousands)

Asset	December 31, 2013	Total Realized and Unrealized Gains or (Losses) in Income	AFS Investments	Total Unrealized Gains or (Losses) Included in Other Comprehensive Income	Total Unrealized Gains or (Losses)	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
Asset Financial instruments owned:									
Trading - Common stocks	\$ 700	\$ 16	\$ -	\$ -	\$ 16	\$ -	\$ -	\$ -	\$ 716
Trading - Other	284	-	-	-	-	10	-	-	294
Total	\$ 984	\$ 16	\$ -	\$ -	\$ 16	10	\$ -	\$ -	\$ 1,010

There were no transfers between any Levels during the six months ended June 30, 2014.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Six Months Ended June 30, 2013 (in thousands)

Asset	December 31, 2012	Total Realized and Unrealized Gains or (Losses) in Income	AFS Investments	Total Unrealized Gains or (Losses) Included in Other Comprehensive Income	Total Unrealized Gains or (Losses)	Purchases	Sales	Transfers In and/or (Out) of Level 3	Ending Balance
Asset Financial instruments owned:									
Trading - Common stocks	\$ 675	\$ (6)	\$ -	\$ -	\$ (6)	\$ -	\$ -	\$ -	\$ 669
Trading - Other	362	(2)	-	-	(2)	3	(79)	-	284
Total	\$ 1,037	\$ (8)	\$ -	\$ -	\$ (8)	\$ 3	\$ (79)	\$ -	\$ 953

There were no transfers between any Levels during the six months ended June 30, 2013.

D. Investments in Partnerships, Offshore Funds and Variable Interest Entities ("VIEs")

The Company is general partner or co-general partner of various affiliated entities in which the Company has investments totaling \$93.0 million, \$82.0 million and \$81.5 million at June 30, 2014, December 31, 2013 and June 30, 2013, respectively, and whose underlying assets consist primarily of marketable securities (the "affiliated entities"). We also have investments in unaffiliated entities of \$14.9 million, \$14.0 million and \$13.0 million at June 30, 2014, December 31, 2013 and June 30, 2013, respectively (the "unaffiliated entities"). On a quarterly basis we evaluate each entity for the appropriate accounting treatment and disclosure. Certain of the affiliated entities, and none of the unaffiliated entities, are consolidated.

For those entities where consolidation is not deemed to be appropriate, we report them in our condensed consolidated statement of financial condition under the caption "Investments in partnerships". This caption 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 ("CFFs") under the caption "Net gain from investments" on the condensed consolidated statements of income.

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

Entities consolidated

	CFFs		Partnerships		Offshore Funds		Total	
	VIEs	VOEs	VIEs	VOEs	VIEs	VOEs	VIEs	VOEs
Entities consolidated at December 31, 2012	1	2	-	1	-	1	1	4
Additional consolidated entities	-	-	-	-	-	-	-	-
Deconsolidated entities	-	-	-	-	-	-	-	-
Entities consolidated at June 30, 2013	1	2	-	1	-	1	1	4
Additional consolidated entities	-	-	-	-	-	-	-	-
Deconsolidated entities	-	-	-	-	-	-	-	-
Entities consolidated at December 31, 2013	1	2	-	1	-	1	1	4
Additional consolidated entities	-	-	-	-	-	-	-	-
Deconsolidated entities	-	-	-	-	-	-	-	-
Entities consolidated at June 30, 2014	1	2	-	1	-	1	1	4

At and for the six months ended June 30, 2014 and 2013 and at December 31, 2013, the one CFF VIE is consolidated, as the Company has been determined to be the primary beneficiary because it has an equity interest and absorbs the majority of the expected losses and/or expected gains. At and for the six months ended June 30, 2014 and 2013 and at December 31, 2013, the two CFF VOEs, the one Partnership VOE and the one Offshore Fund VOE are consolidated because the unaffiliated partners or shareholders lack substantive rights, and the Company, as either the general partner or investment manager, is deemed to have control.

The following table breaks down the investments in partnerships line by accounting method, either fair value or equity method, and investment type (in thousands):

Accounting method	June 30, 2014					
	Investment Type			Unaffiliated		
	Affiliated			Offshore		
	Consolidated			Offshore		
	Feeder		Offshore	Partnerships	Offshore	Total
	Funds	Partnerships	Funds	Partnerships	Funds	
Fair Value	\$24,856	\$ -	\$-	\$-	\$ -	\$24,856
Equity Method	-	32,830	35,268	6,699	8,243	83,040
Total	\$24,856	\$ 32,830	\$35,268	\$6,699	\$ 8,243	\$107,896
Accounting method	December 31, 2013					
	Investment Type			Unaffiliated		
	Affiliated			Offshore		
	Consolidated			Offshore		
	Feeder		Offshore	Partnerships	Offshore	Total
	Funds	Partnerships	Funds	Partnerships	Funds	
Fair Value	\$25,253	\$ -	\$-	\$-	\$ -	\$25,253
Equity Method	-	21,669	35,030	6,509	7,531	70,739
Total	\$25,253	\$ 21,669	\$35,030	\$6,509	\$ 7,531	\$95,992

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June 30, 2013

Investment Type

Affiliated

Unaffiliated

Consolidated

Feeder

Offshore

Offshore

Accounting method	Affiliated		Unaffiliated			Total
	Funds	Partnerships	Funds	Partnerships	Funds	
Fair Value	\$22,514	\$ -	\$-	\$-	\$ -	\$22,514
Equity Method	-	26,429	32,616	5,942	7,034	72,021
Total	\$22,514	\$ 26,429	\$32,616	\$5,942	\$ 7,034	\$94,535

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

	June 30, 2014				
	Prior to		Offshore		
	Consolidation	GFs	Partnerships	Funds	As Reported
Assets					
Cash and cash equivalents	\$307,197	\$6	\$ 287	\$-	\$307,490
Investments in securities	209,181	-	8,602	7,813	225,596
Investments in sponsored investment companies	40,777	-	14	-	40,791
Investments in partnerships	112,305	4,962	(9,371)	-	107,896
Receivable from brokers	38,266	-	792	19,887	58,945
Investment advisory fees receivable	32,269	28	(2)	(67)	32,228
Other assets	31,673	40	8	135	31,856
Total assets	\$771,668	\$5,036	\$ 330	\$27,768	\$804,802
Liabilities and equity					
Securities sold, not yet purchased	\$13,995	\$-	\$ -	\$334	\$14,329
Accrued expenses and other liabilities	148,625	84	21	9,889	158,619
Total debt	111,813	-	-	-	111,813
Redeemable noncontrolling interests	-	4,952	309	17,545	22,806
Total equity	497,235	-	-	-	497,235
Total liabilities and equity	\$771,668	\$5,036	\$ 330	\$21,768	\$804,802

	December 31, 2013				
	Prior to		Offshore		
	Consolidation	GFs	Partnerships	Funds	As Reported
Assets					
Cash and cash equivalents	\$209,667	\$450	\$ 334	\$-	\$210,451
Investments in securities	232,211	-	7,464	(8,447)	231,228
Investments in sponsored investment companies	44,033	-	9	-	44,042
Investments in partnerships	98,494	6,517	(9,019)	-	95,992
Receivable from brokers	35,151	-	-	14,310	49,461
Investment advisory fees receivable	52,509	(24)	(14)	(965)	51,506
Other assets	27,433	(2,339)	1,592	119	26,805
Total assets	\$699,498	\$4,604	\$ 366	\$5,017	\$709,485
Liabilities and equity					
Securities sold, not yet purchased	\$6,049	\$-	\$ -	\$129	\$6,178
Accrued expenses and other liabilities	121,356	165	29	2,913	124,463
Total debt	111,911	-	-	-	111,911
Redeemable noncontrolling interests	-	4,439	337	1,975	6,751
Total equity	460,182	-	-	-	460,182
Total liabilities and equity	\$699,498	\$4,604	\$ 366	\$5,017	\$709,485

	June 30, 2013				
	Prior to		Offshore		
	Consolidation	GFs	Partnerships	Funds	As Reported
Assets					

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Cash and cash equivalents	\$222,441	\$-	\$ 335	\$-	\$222,776
Investments in securities	215,755	-	7,292	(2,607)	220,440
Investments in sponsored investment companies	52,332	-	9	-	52,341
Investments in partnerships	100,342	3,189	(8,996)	-	94,535
Receivable from brokers	27,347	-	1,680	10,642	39,669
Investment advisory fees receivable	28,326	(10)	-	(76)	28,240
Other assets	25,412	-	-	88	25,500
Total assets	\$671,955	\$3,179	\$ 320	\$8,047	\$683,501
Liabilities and equity					
Securities sold, not yet purchased	\$7,427	\$-	\$ -	\$ 171	\$7,598
Accrued expenses and other liabilities	136,309	59	21	4,274	140,663
Total debt	117,028	-	-	-	117,028
Redeemable noncontrolling interests	-	3,120	299	3,602	7,021
Total equity	411,191	-	-	-	411,191
Total liabilities and equity	\$671,955	\$3,179	\$ 320	\$8,047	\$683,501

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

	Three Months Ended June 30, 2014				
	Prior to	Offshore			As
	Consolidated	GFs	Partnerships	Funds	Reported
Total revenues	\$108,513	\$(7)	\$(1)	\$(209)	\$108,296
Total expenses	70,515	(20)	14	250	70,759
Operating income	37,998	13	(15)	(459)	37,537
Total other income, net	8,093	130	33	665	8,921
Income before income taxes	46,091	143	18	206	46,458
Income tax provision	17,135	-	-	-	17,135
Net income	28,956	143	18	206	29,323
Net income attributable to noncontrolling interests	6	143	18	206	373
Net income attributable to GAMCO	\$28,950	\$-	\$-	\$-	\$28,950

	Three Months Ended June 30, 2013				
	Prior to	Offshore			As
	Consolidated	GFs	Partnerships	Funds	Reported
Total revenues	\$92,613	\$(6)	\$-	\$(317)	\$92,290
Total expenses	60,243	35	15	213	60,506
Operating income	32,370	(41)	(15)	(530)	31,784
Total other income, net	11,219	24	33	576	11,852
Income before income taxes	43,589	(17)	18	46	43,636
Income tax provision	15,724	-	-	-	15,724
Net income	27,865	(17)	18	46	27,912
Net income attributable to noncontrolling interests	(28)	(17)	18	46	19
Net income attributable to GAMCO	\$27,893	\$-	\$-	\$-	\$27,893

	Six Months Ended June 30, 2014				
	Prior to	Offshore			As
	Consolidated	GFs	Partnerships	Funds	Reported
Total revenues	\$213,214	\$(14)	\$(2)	\$(425)	\$212,773
Total expenses	138,227	14	26	470	138,737
Operating income	74,987	(28)	(28)	(895)	74,036
Total other income, net	13,634	206	37	1,137	15,014
Income before income taxes	88,621	178	9	242	89,050
Income tax provision	31,751	-	-	-	31,751
Net income	56,870	178	9	242	57,299
Net income attributable to noncontrolling interests	(34)	178	9	242	395
Net income attributable to GAMCO	\$56,904	\$-	\$-	\$-	\$56,904

	Six Months Ended June 30, 2013				
	Prior to	Offshore			As
	Consolidated	GFs	Partnerships	Funds	Reported

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Total revenues	\$ 179,069	\$(12)	\$ (1)	\$ (585)	\$ 178,471
Total expenses	115,458	88	25	389	115,960
Operating income	63,611	(100)	(26)	(974)	62,511
Total other income, net	15,721	134	48	1,097	17,000
Income before income taxes	79,332	34	22	123	79,511
Income tax provision	28,919	-	-	-	28,919
Net income	50,413	34	22	123	50,592
Net income attributable to noncontrolling interests	(25)	34	22	123	154
Net income attributable to GAMCO	\$ 50,438	\$ -	\$ -	\$ -	\$ 50,438

Variable Interest Entities

We sponsor a number of investment vehicles where we are the general partner or investment manager. Certain of these vehicles are VIEs, but we are not the primary beneficiary, in all but one case, because we do not absorb a majority of the entities' expected losses and/or expected returns, and they are, therefore, not consolidated. We consolidate the one VIE where we are the primary beneficiary. The Company has not provided any financial or other support to those VIEs where we are not the primary beneficiary. The total net assets of these non-consolidated VIEs at June 30, 2014, December 31, 2013 and June 30, 2013 were \$74.4 million, \$72.7 million and \$73.4 million, respectively. Our maximum exposure to loss as a result of our involvement with the non-consolidated VIEs is limited to the investment in two VIEs and the deferred carried interest that we have in another. On June 30, 2014, we had an investment in two of the non-consolidated VIE offshore funds of approximately \$8.9 million. On December 31, 2013 and June 30, 2013, we had an investment in one of the non-consolidated VIE offshore funds of approximately \$10.0 million and \$9.0 million, respectively, which was included in investments in partnerships on the condensed consolidated statements of financial condition. On June 30, 2014, December 31, 2013 and June 30, 2013, we had a deferred carried interest in one of the non-consolidated VIE offshore funds of \$47,000, \$45,000 and \$46,000, respectively, which was included in investments in partnerships on the condensed consolidated statements of financial condition. Additionally, as the general partner or investment manager to these VIEs the Company earns fees in relation to these roles, which given a decline in AUMs of the VIEs would result in lower fee revenues earned by the Company which would be reflected on the condensed consolidated statement of income, condensed consolidated statement of financial condition and condensed consolidated statement of cash flows.

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The assets of these VIEs may only be used to satisfy obligations of the VIEs. The following table presents the balances related to the VIE that is consolidated and is included on the condensed consolidated statements of financial condition as well as GAMCO's net interest in this VIE. Only one VIE was consolidated at June 30, 2014, December 31, 2013 and June 30, 2013:

	June 30, 2014	December 31, 2013	June 30, 2013
(In thousands)			
Cash and cash equivalents	\$	\$	\$
Investments in partnerships	14,125	15,540	13,457
Accrued expenses and other liabilities	(18)	(2,022)	(6)
Redeemable noncontrolling interests	(1,155)	(1,120)	-
GAMCO's net interests in consolidated VIE	\$12,952	\$ 12,398	\$13,451

E. Income Taxes

The effective tax rate for the three months ended June 30, 2014 was 36.9% compared to 36.0% for the prior year three month period. The effective tax rate for the six months ended June 30, 2014 was 35.7% compared to 36.4% for the prior year six month period. During the six month period ended June 30, 2014 we benefitted from the donation of appreciated securities used to fund our shareholder designated charitable contribution program. We expect the effective tax rate for the remainder of 2014 to approximate the prior year rate of 36.1%.

F. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2014	2013	2014	2013
Basic:				
Net income attributable to GAMCO Investors, Inc.'s shareholders	\$28,950	\$27,893	\$56,904	\$50,438
Weighted average shares outstanding	25,381	25,679	25,431	25,710
Basic net income attributable to GAMCO Investors, Inc.'s shareholders per share	\$1.14	\$1.09	\$2.24	\$1.96
Diluted:				
Net income attributable to GAMCO Investors, Inc.'s shareholders	\$28,950	\$27,893	\$56,904	\$50,438
Weighted average share outstanding	25,381	25,679	25,431	25,710
Dilutive stock options and restricted stock awards	205	10	204	13
Total	25,586	25,689	25,635	25,723
Diluted net income attributable to GAMCO Investors, Inc.'s shareholders per share	\$1.13	\$1.09	\$2.22	\$1.96

G. Debt

Debt consists of the following:

	June 30, 2014		December 31, 2013		June 30, 2013	
	Carrying Value	Fair Value Level 2	Carrying Value	Fair Value Level 2	Carrying Value	Fair Value Level 2
(In thousands)						
5.875% Senior notes	\$ 100,000	\$ 108,521	\$ 100,000	\$ 108,500	\$ 100,000	\$ 104,125
0% Subordinated debentures	11,813	13,206	11,911	13,819	17,028	18,924
Total	\$ 111,813	\$ 121,727	\$ 111,911	\$ 122,319	\$ 117,028	\$ 123,049

5.5% Senior notes

On May 15, 2003, the Company issued 10-year, \$100 million senior notes. The senior notes, which matured and were fully repaid on May 15, 2013, paid interest semi-annually at 5.5%.

5.875% Senior notes

On May 31, 2011, the Company issued 10-year, \$100 million senior notes. The notes mature on June 1, 2021 and bear interest at 5.875% per annum, payable semi-annually on June 1 and December 1 of each year and commenced on December 1, 2011. Upon the occurrence of a change of control triggering event, as defined in the indenture, the Company would be required to offer to repurchase the notes at 101% of their principal amount.

Zero coupon Subordinated debentures due December 31, 2015

On December 31, 2010, the Company issued \$86.4 million in par value of five year zero coupon subordinated debentures due December 31, 2015 ("Debentures") to its shareholders of record on December 15, 2010 through the declaration of a special dividend of \$3.20 per share. The Debentures have a par value of \$100 and are callable at the option of the Company, in whole or in part, at any time or from time to time, at a redemption price equal to 100% of the principal amount of the Debentures to be redeemed. During the three month periods ended June 30, 2014 and June 30, 2013 the Company repurchased 5,717 Debentures and 11,942 Debentures, respectively, having a face value of \$572,000 and \$1.2 million, respectively. The redemptions were accounted for as extinguishments of debt and resulted in losses of \$69,000 and \$137,000, respectively, which were included in net gain from investments on the condensed consolidated statements of income. During the six month periods ended June 30, 2014 and June 30, 2013 the Company repurchased 6,133 Debentures and 11,974 Debentures, respectively, having a face value of \$613,000 and \$1.2 million, respectively. The redemptions were accounted for as extinguishments of debt and resulted in losses of \$74,000 and \$137,000, respectively. The debt is being accreted to its face value using the effective rate on the date of issuance of 7.45%. At June 30, 2014, December 31, 2013 and June 30, 2013, the debt was recorded at its accreted value of \$11.8 million, \$11.9 million and \$17.0 million, respectively.

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

On May 30, 2012, the Securities and Exchange Commission ("SEC") declared effective the "shelf" registration statement filed by the Company. The "shelf" provides the Company with the flexibility of issuing any combination of senior and subordinated debt securities, convertible securities and common and preferred securities up to a total amount of \$500 million and replaced the existing shelf registration which expired in July 2012. As of June 30, 2014,

\$400 million is available on the shelf.

H. Stockholders' Equity

Shares outstanding were 25.9 million, 26.1 million and 25.6 million on June 30, 2014, December 31, 2013 and June 30, 2013, respectively.

Dividends

	Payment Date	Record Date	Amount
Three months ended March 31, 2014	March 25, 2014	March 11, 2014	\$ 0.06
Three months ended June 30, 2014	June 24, 2014	June 10, 2014	\$ 0.06
Six months ended June 30, 2014			\$ 0.12
Three months ended March 31, 2013	March 26, 2013	March 12, 2013	\$ 0.05
Three months ended June 30, 2013	June 25, 2013	June 11, 2013	\$ 0.05
Six months ended June 30, 2013			\$ 0.10

Voting Rights

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

Stock Award and Incentive Plan

The Company maintains two plans approved by the shareholders, the 1999 Plan and the 2002 Plan, which are designed to provide incentives which will attract and retain individuals key to the success of GAMCO through direct or indirect ownership of our common stock. Benefits under both the 1999 and 2002 Plans may be granted in any one or a combination of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, dividend equivalents and other stock or cash based awards. A maximum of 1.5 million shares of Class A Stock were originally reserved for issuance under each of the 1999 and 2002 Plans by a committee of the Board of Directors responsible for administering the Plans ("Compensation Committee"). In November 2013, the shareholders approved an amendment to the Company's 2002 Stock Award and Incentive Plan to increase the number of shares of Class A Stock authorized and reserved for issuance by 2 million. Under the Plans, the committee may grant restricted stock awards ("RSA") and either incentive or nonqualified stock options with a term not to exceed ten years from the grant date and at an exercise price that the Compensation committee may determine. Options granted under the plans typically vest 75% after three years and 100% after four years from the date of grant and expire after ten years. RSA shares granted under the Plans typically vest 30% after three years and 100% after five years.

On January 9, 2014, the Company approved the granting of 2,100 RSA shares at a grant date fair value of \$81.99 per share. As of June 30, 2014 and December 31, 2013, there were 564,250 RSA shares and 566,950 RSA shares outstanding, respectively, that were previously issued at an average weighted grant price of \$63.93 and \$63.93, respectively. All grants of the RSA shares were recommended by the Company's Chairman, who did not receive a RSA, and approved by the Compensation Committee. This expense, net of 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, except for the August 2013 grant which is 30% over three years from the date of grant and 10% each year over years four through ten from the date of grant. During the vesting period, dividends to RSA holders are held for them until the RSA vesting dates and are forfeited if the grantee is no longer employed by the Company on the vesting dates. Dividends declared on these RSAs, less estimated forfeitures, are charged to retained earnings on the declaration date. There were no RSAs outstanding at June 30, 2013.

For the three months ended June 30, 2014 and June 30, 2013, we recognized stock-based compensation expense of \$1.7 million and \$15,000, respectively. For the six months ended June 30, 2014 and June 30, 2013, we recognized stock-based compensation expense of \$3.4 million and \$29,000, respectively. Actual and projected stock-based compensation expense for RSA shares and options for the years ended December 31, 2014 through December 31, 2023 (based on awards currently issued or granted) is as follows (\$ in thousands):

	2013	2014	2015	2016	2017	2018
Q1	\$ 15	\$ 1,700	\$ 1,695	\$ 1,694	\$ 903	\$ 771
Q2	15	1,697	1,694	1,694	903	771
Q3	741	1,697	1,694	1,339	816	702
Q4	1,301	1,697	1,694	1,078	773	554
Full Year	\$ 2,072	\$ 6,791	\$ 6,777	\$ 5,805	\$ 3,395	\$ 2,798

	2019	2020	2021	2022	2023
Q1	\$ 325	\$ 240	\$ 168	\$ 105	\$ 50
Q2	325	240	168	105	50
Q3	268	192	126	68	17
Q4	240	168	105	50	-
Full Year	\$ 1,158	\$ 840	\$ 567	\$ 328	\$ 117

The total compensation cost related to non-vested options not yet recognized is approximately \$25.2 million as of June 30, 2014. For the three months ended June 30, 2014, proceeds from the exercise of 20,000 stock options were \$792,000 resulting in a tax benefit to GAMCO of \$175,000. There were no options exercised for the three months ended June 30, 2013. For the six months ended June 30, 2014 and 2013, proceeds from the exercise of 40,000 stock options and 2,623 stock options, respectively, were \$1.6 million and \$76,000, respectively, resulting in a tax benefit to GAMCO of \$349,000 and \$16,000, respectively.

Stock Repurchase Program

In March 1999, GAMCO's Board of Directors established the Stock Repurchase Program to grant management the authority to repurchase shares of our Class A Common Stock. On February 5, 2013, our Board of Directors authorized an incremental 500,000 shares to be added to the current buyback authorization. For the three months ended June 30, 2014 and June 30, 2013, the Company repurchased 103,528 shares and 81,726 shares, respectively, at an average price per share of \$77.76 and \$52.73, respectively. For the six months ended June 30, 2014 and June 30, 2013, the Company repurchased 224,720 shares and 118,402 shares, respectively, at an average price per share of \$78.75 and \$52.99, respectively. From the inception of the program through June 30, 2014, 8,936,313 shares have been repurchased at an average price of \$43.17 per share. At June 30, 2014, the total shares available under the program to be repurchased in the future were 698,495.

I. Goodwill and Identifiable Intangible Assets

At June 30, 2014, \$3.5 million of goodwill is reflected within other assets on the condensed consolidated statements of financial condition with \$3.3 million related to a 94%-owned subsidiary, Gabelli Securities, Inc. and \$0.2 million related to G.distributors, LLC. The Company assesses the recoverability of goodwill at least annually, or more often should events warrant, using a qualitative assessment of whether it is more likely than not that an impairment has occurred to determine if a quantitative analysis is required. There were no indicators of impairment for the three months ended June 30, 2014 or June 30, 2013, and as such there was no impairment analysis performed or charge

recorded.

As a result of becoming the advisor to the Gabelli Enterprise Mergers and Acquisitions Fund and the associated consideration paid, the Company maintains an identifiable intangible asset of \$1.9 million within other assets on the condensed consolidated statements of financial condition at June 30, 2014, December 31, 2013 and June 30, 2013. The investment advisory agreement is subject to annual renewal by the fund's Board of Directors, which the Company expects to be renewed, and the Company does not expect to incur additional expense as a result, which is consistent with other investment advisory agreements entered into by the Company. The advisory contract is next up for renewal in February 2015. The Company assesses the recoverability of this intangible asset at least annually, or more often should events warrant. There were no indicators of impairment for the three months ended June 30, 2014 or June 30, 2013, and as such there was no impairment analysis performed or charge recorded.

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J. Commitments and Contingencies

From time to time, the Company may be 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. For any such matters, the condensed consolidated financial statements include the necessary provisions for losses that the Company believes are probable and estimable. Furthermore, the Company evaluates whether there exist losses which may be reasonably possible and, if material, makes the necessary disclosures. Such amounts, both those that are probable and those that are reasonably possible, are not considered material to the Company's financial condition, operations or cash flows.

The Company indemnifies the clearing brokers of G.research, Inc., our broker-dealer subsidiary, for losses they may sustain from the customer accounts that trade on margin introduced by it. At June 30, 2014, the total amount of customer balances subject to indemnification (i.e. unsecured margin debits) was immaterial. The Company also has entered into arrangements with various other third parties many of which provide for indemnification of the third parties against losses, costs, claims and liabilities arising from the performance of obligations under the agreements. The Company has had no claims or payments pursuant to these or prior agreements and believes the likelihood of a claim being made is remote. The Company's estimate of the value of such agreements is de minimis, and therefore an accrual has not been made on the condensed consolidated financial statements.

K. Shareholder-Designated Contribution Plan

During 2013, the Company established a Shareholder Designated Charitable Contribution program. Under the program, each shareholder is eligible to designate a charity to which the Company would make a donation based upon the actual number of shares registered in the shareholder's name. Shares held in nominee or street name were not eligible to participate. The Board of Directors approved two contributions during 2013 of \$0.25 per registered share each. During the first half of 2013, the Company recorded a charge of \$5.0 million, or \$0.11 per diluted share, net of management fee and tax benefit, related to the contributions which was included in shareholder-designated contribution in the condensed consolidated statements of income.

During the fourth quarter of 2013, the Company recorded a charge of \$5.3 million, or \$0.12 per diluted share, net of management fee and tax benefit, as an estimate of the expected contribution to be made relating to the \$0.25 per share contribution approved by the Board in November 2013. Based upon the number of registered shares that participated in the program, the Company recorded an additional charge of \$134,000 during the second quarter of 2014.

L. Subsequent Events

From July 1, 2014 to August 5, 2014, the Company repurchased 28,762 shares at \$82.90 per share.

On August 5, 2014, the Board of Directors declared a regular quarterly dividend of \$0.06 per share to all of its shareholders, payable on September 30, 2014 to shareholders of record on September 16, 2014.

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

Overview

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

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

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

Assets under management ("AUM") were a record \$49.4 billion as of June 30, 2014, an increase of 3.8% from AUM of \$47.6 billion at March 31, 2014 and up 22.0% from the June 30, 2013 AUM of \$40.5 billion. The second quarter 2014 AUM rose \$1.8 billion and consisted of market appreciation of \$2.0 billion, net cash outflows of \$47 million and recurring distributions, net of reinvestments, from open-end and closed-end funds of \$150 million. Average total AUM was \$48.1 billion in the 2014 quarter versus \$40.3 billion in the prior year period, an increase of 19.4%. Average AUM in our open-end equity funds, a key driver to our investment advisory fees, was \$17.8 billion in the second quarter of 2014, rising 26.2% from the 2013 quarter average AUM of \$14.1 billion.

In addition to management fees, we earn incentive fees for certain institutional client assets, certain assets attributable to preferred issues of our closed-end funds, to our GDL Fund (NYSE: GDL) and investment partnership assets. As of June 30, 2014, assets with incentive based fees were \$4.6 billion, an increase of \$0.1 billion, or 2.2%, from the \$4.5 billion at March 31, 2014 and 17.9% higher than the \$3.9 billion on June 30, 2013.

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

Table I: Fund Flows - 2nd Quarter
2014

	March 31, 2014	Market appreciation/ (depreciation)	Net cash flows	Fund distributions, net of reinvestments	June 30, 2014
Equities:					
Open-end Funds	\$17,531	\$ 768	\$241	\$ (32)	\$18,508
Closed-end Funds	6,967	366	9	(118)	7,224
Institutional & PWM - direct	16,403	733			