

GENERAL AMERICAN INVESTORS CO INC

Form N-30B-2

October 20, 2011

For the nine months ended September 30, 2011, the net asset value per Common Share decreased 14.7%, while the investment return to our stockholders decreased by 14.4%. By comparison, our benchmark, the Standard & Poor's 500 Stock Index (including income), decreased 8.7%. For the twelve months ended September 30, 2011, the return on the net asset value per Common Share decreased by 6.2%, and the return to our stockholders decreased by 4.3%; these compare with an increase of 1.1% for the S&P 500. During both periods, the discount at which our shares traded continued to fluctuate and on September 30, 2011, it was 13.9%.

As detailed in the accompanying financial statements (unaudited), as of September 30, 2011, the net assets applicable to the Company's Common Stock were \$795,682,693 equal to \$26.66 per Common Share.

The decrease in net assets resulting from operations for the nine months ended September 30, 2011 was \$139,818,926. During this period, the net realized gain on investments sold was \$15,448,006, and the decrease in net unrealized appreciation was \$149,590,734. Net investment income for the nine months was \$2,807,781, and distributions to Preferred Stockholders amounted to \$8,483,979.

During the nine months, 579,019 shares of the Company's Common Stock were repurchased for \$15,439,317 at an average discount from net asset value of 13.9%.

Referencing our last commentary, the crisis in Europe surrounding the sustainability of sovereign debt appears to be affecting global trade, as evidenced by lower commodity prices and slowing Asian demand. It seems clear that the scope of the problem is such

The U.S. is not currently on a path that is fiscally sustainable. Our debts are excessive, our benefits too great, and our revenues inadequate. There are policy solutions that allow for the burden sharing that must take place and it remains probable that they will be found. Meanwhile, the past few months have seen a deterioration in financial conditions. Extraordinarily, the yield on the stocks in the S&P 500 Index now exceeds that of 10-year treasury bonds, which demonstrates that easy money may be a necessary, but not sufficient, condition for higher equity values. While there are similarities to the environment leading up to the 2008 financial crisis, including problem assets in the banking system and spiking market volatility, differences predominate. By most measures, valuations are conservative, earnings have held up, companies are behaving cautiously by holding cash at record levels, and the prospect of a double-dip recession is receding. Recent data suggest an economy that continues to expand modestly.

While our results have suffered, largely due to weakness in energy-related securities, and mindful of the slowdown in the global economy and the prospect for a prolonged subpar recovery from the past recession, the case for equities, on a longer-term basis continues intact. Although the investment climate may remain volatile our portfolio should be supported by low interest rates and compelling valuations.

Information about the Company, including our investment objectives, operating policies and procedures, investment results, record of dividend and distribution payments, financial reports and press releases, is on our website and has been updated through September 30, 2011. It can be accessed on the internet at [www.generalamericaninvestors.com](http://www.generalamericaninvestors.com).

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that conventional remedies like austerity-based lending together with some structural reforms are inadequate. We believe that European leaders will ultimately summon the will to create a framework that allows for access to capital at reasonable rates and restores investor confidence, but, because the cost must be born by taxpayers from 17 different countries, the time to reach consensus may be protracted.

By Order of the Board of Directors,

GENERAL AMERICAN INVESTORS COMPANY, INC.

*Spencer Davidson*

*Chairman of the Board*

*President and Chief Executive Officer*

October 12, 2011

Shares	COMMON STOCKS	Value (note 1a)
<b>AEROSPACE/DEFENSE (2.9%)</b>		
325,000	United Technologies Corporation	(Cost \$22,957,205) \$22,867,000
<b>COMMUNICATIONS AND INFORMATION SERVICES (7.1%)</b>		
960,000	Cisco Systems, Inc.	14,880,000
255,000	MSCI Inc. Class A (a)	7,734,150
700,000	QUALCOMM Incorporated	34,041,000
		(Cost \$46,083,491) 56,655,150
<b>COMPUTER SOFTWARE AND SYSTEMS (9.5%)</b>		
60,000	Apple Inc. (a)	22,879,200
1,015,000	Dell Inc. (a)	14,352,100
770,000	Microsoft Corporation	19,165,300
360,000	Teradata Corporation	19,270,800
		(Cost \$65,058,433) 75,667,400
<b>CONSUMER PRODUCTS AND SERVICES (13.4%)</b>		
350,000	Diageo plc ADR*	26,575,500
450,000	Nestle S.A.	24,673,325
325,000	PepsiCo, Inc.	20,117,500
206,000	Towers Watson & Co. Class A	12,314,680
712,288	Unilever N.V.	22,467,957
		(Cost \$81,355,585) 106,148,962
<b>ENVIRONMENTAL CONTROL (INCLUDING SERVICES) (6.0%)</b>		
957,100	Republic Services, Inc.	26,856,226
630,000	Waste Management, Inc.	20,512,800
		(Cost \$39,190,474) 47,369,026
<b>FINANCE AND INSURANCE (26.6%)</b>		
<b>BANKING (4.2%)</b>		
500,000	Bond Street Holdings LLC (a) (b)	10,250,000
520,000	JPMorgan Chase & Co.	15,662,400

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110,000	M&T Bank Corporation		7,689,000
		(Cost \$31,140,007)	33,601,400
INSURANCE (13.0%)			
875,000	Arch Capital Group Ltd. (a)		28,590,625
245,000	Everest Re Group, Ltd.		19,448,100
53,500	Forethought Financial Group, Inc. Class A (a) (c)		10,860,500
325,000	MetLife, Inc.		9,103,250
275,000	PartnerRe Ltd.		14,374,250
400,000	Platinum Underwriters Holdings, Ltd.		12,300,000
180,000	The Travelers Companies, Inc.		8,771,400
		(Cost \$65,172,570)	103,448,125
OTHER (9.4%)			
315,000	American Express Company		14,143,500
330,492	Aon Corporation		13,874,054
110	Berkshire Hathaway Inc. Class A (a)		11,748,000
1,666,667	Epoch Holding Corporation		22,616,671
645,000	Nelnet, Inc.		12,113,100
		(Cost \$37,619,544)	74,495,325
		(Cost \$133,932,121)	211,544,850

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Shares	COMMON STOCKS (continued)		Value (note 1a)
HEALTH CARE / PHARMACEUTICALS (6.1%)			
40,000	Amgen Inc.		\$2,198,400
170,000	Celgene Corporation (a)		10,524,700
529,900	Cytokinetics, Incorporated (a)		619,983
564,500	Gilead Sciences, Inc. (a)		21,902,600
755,808	Pfizer Inc.		13,362,685
195,344	Poniard Pharmaceuticals, Inc. (a)		24,418
		(Cost \$50,609,652)	48,632,786
MACHINERY AND EQUIPMENT (3.3%)			
1,200,000	ABB Ltd. ADR*		20,496,000
900,000	The Manitowoc Company, Inc.		6,039,000
		(Cost \$23,703,922)	26,535,000
METALS AND MINING (1.6%)			
467,700	Alpha Natural Resources, Inc. (a)		8,273,613
150,000	Nucor Corporation		4,746,000
		(Cost \$25,756,342)	13,019,613
MISCELLANEOUS (5.5%)			

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Other (d)	(Cost \$67,119,289)	43,487,727
<b>OIL AND NATURAL GAS (INCLUDING SERVICES) (11.0%)</b>		
296,478 Apache Corporation		23,789,395
300,000 Canadian Natural Resources Limited		8,781,000
130,062 Devon Energy Corporation		7,210,637
750,000 Halliburton Company		22,890,000
2,050,000 Weatherford International Ltd. (a)		25,030,500
	(Cost \$74,984,196)	87,701,532
<b>RETAIL TRADE (19.6%)</b>		
394,500 Costco Wholesale Corporation		32,400,285
460,000 Target Corporation		22,558,400
1,512,400 The TJX Companies, Inc.		83,892,828
333,000 Wal-Mart Stores, Inc.		17,282,700
	(Cost \$60,947,765)	156,134,213
<b>SEMICONDUCTORS (2.5%)</b>		
575,000 ASML Holding N.V.	(Cost \$13,463,950)	19,860,500
<b>TECHNOLOGY (3.0%)</b>		
750,000 International Game Technology		10,897,500
1,900,000 Xerox Corporation		13,243,000
	(Cost \$34,368,474)	24,140,500
<b>TOTAL COMMON STOCKS (118.1%)</b>	<b>(Cost \$739,530,899)</b>	<b>939,764,259</b>
Warrants	WARRANT	
<b>BANKING (0.3%)</b>		
225,000 JPMorgan Chase & Co., expires 10/28/2018 (a)	(Cost \$2,865,853)	2,094,750

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			Value (note 1a)
Shares	<b>SHORT-TERM SECURITY AND OTHER ASSETS</b>		
49,153,165	SSgA U.S. Treasury Money Market Fund (6.2%)	(Cost \$49,153,165)	\$49,153,165
	<b>TOTAL INVESTMENTS (e) (124.6%)</b>	<b>(Cost \$791,549,917)</b>	<b>991,012,174</b>
	Liabilities in excess of cash, receivables and other assets (-0.7%)		(5,212,306)
	<b>PREFERRED STOCK (-23.9%)</b>		<b>(190,117,175)</b>
	<b>NET ASSETS APPLICABLE TO COMMON STOCK (100%)</b>		<b>\$795,682,693</b>

\* ADR - American Depository Receipt

(a) Non-income producing security.

(b) Level 3 fair value measurement, restricted security acquired 11/4/09, aggregate cost \$10,000,000, unit cost is \$20 per share and fair value is \$20.50 per

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share, note 2. Fair value is based upon bid and/or transaction prices provided via the NASDAQ OMX Group, Inc. PORTAL Alliance trading and trans-

fer system for privately placed equity securities traded in the over-the-counter market among qualified investors.

(c) Level 3 fair value measurement, restricted security acquired 11/3/09, aggregate cost \$10,748,000, unit cost is \$200.90 per share and fair value is \$203 per

share, note 2. Fair valuation is based upon recent transactions and, secondarily, a market approach using valuation metrics (market price-earnings and

market price-book value multiples), and changes therein, relative to a peer group of companies established by the underwriters.

(d) Securities which have been held for less than one year, not previously disclosed, and not restricted.

(e) At September 30, 2011: the cost of investments for Federal income tax purposes was the same as the cost for financial reporting purposes, aggregate

gross unrealized appreciation was \$289,908,884, aggregate gross unrealized depreciation was \$90,446,627, and net unrealized appreciation was

\$199,462,257.

(see notes to financial statements)

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INCREASES NEW POSITION	SHARES TRANSACTIONED	SHARES HELD
Platinum Underwriters Holdings, Ltd.	25,000	400,000 (b)
Alpha Natural Resources, Inc.	100,000	467,700
Forethought Financial Group, Inc. Class A	16,000	53,500
Halliburton Company	35,000	750,000
JPMorgan Chase & Co.	45,000	520,000
Nelnet, Inc.	40,000	645,000
PartnerRe Ltd.	15,000	275,000
Target Corporation	129,000	460,000
Unilever N.V.	5,809	712,288
CEMEX, S.A. de C.V. ADR	1,516,755	—
Cephalon, Inc.	122,600	—
J.C. Penney Company, Inc.	400,000	—
Nintendo Co., Ltd.	55,000	—
American Express Company	35,000	315,000

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Arch Capital Group Ltd.	40,000	875,000
Celgene Corporation	30,000	170,000
Costco Wholesale Corporation	180,500	394,500
MSCI Inc. Class A	45,000	255,000
The Travelers Companies, Inc.	10,000	180,000

(a) Common shares unless otherwise noted; excludes transactions in Common Stocks - Miscellaneous - Other.

(b) Shares purchased in prior period and previously carried under Common Stocks - Miscellaneous - Other.

The diversification of the Company's net assets applicable to its Common Stock by industry group as of September 30, 2011 is shown in the following table.

INDUSTRY CATEGORY	COST(000)	VALUE(000)	PERCENT COMMON NET ASSETS*
Finance and Insurance			
Banking	\$34,006	\$35,696	4.5%
Insurance	65,173	103,448	13.0
Other	37,620	74,495	9.4
	136,799	213,639	26.9
Retail Trade	60,948	156,134	19.6
Consumer Products and Services	81,356	106,149	13.4
Oil and Natural Gas (Including Services)	74,984	87,702	11.0
Computer Software and Systems	65,058	75,667	9.5
Communications and Information Services	46,083	56,655	7.1
Health Care/Pharmaceuticals	50,610	48,633	6.1
Environmental Control (Including Services)	39,191	47,369	6.0
Miscellaneous**	67,119	43,488	5.5
Machinery and Equipment	23,704	26,535	3.3
Technology	34,368	24,140	3.0
Aerospace/Defense	22,957	22,867	2.9
Semiconductors	13,464	19,861	2.5
Metals and Mining	25,756	13,020	1.6
	742,397	941,859	118.4
Short-Term Securities	49,153	49,153	6.2
Total Investments	\$791,550	991,012	124.6
Other Assets and Liabilities - Net		(5,212)	(0.7)
Preferred Stock		(190,117)	(23.9)
Net Assets Applicable to Common Stock		\$795,683	100.0%

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\* Net Assets applicable to the Company's Common Stock.

\*\* Securities which have been held for less than one year, not previously disclosed, and not restricted.

(see notes to financial statements)

ASSETS

INVESTMENTS, AT VALUE (NOTE 1a)

Common stocks (cost \$739,530,899)		\$939,764,259
Warrant (cost \$2,865,853)		2,094,750
Money market fund (cost \$49,153,165)		49,153,165
Total investments (cost \$791,549,917)		991,012,174

RECEIVABLES AND OTHER ASSETS

Dividends, interest and other receivables	\$1,117,733	
Qualified pension plan asset, net excess funded (note 7)	3,671,440	
Prepaid expenses and other assets	2,229,314	7,018,487
TOTAL ASSETS		998,030,661

LIABILITIES

Payable for securities purchased	1,087,915	
Accrued preferred stock dividend not yet declared	219,955	
Accrued supplemental pension plan liability (note 7)	3,845,670	
Accrued supplemental thrift plan liability (note 7)	3,133,044	
Accrued expenses and other liabilities	3,944,209	

TOTAL LIABILITIES

12,230,793

5.95% CUMULATIVE PREFERRED STOCK, SERIES B -

7,604,687 shares at a liquidation value of \$25 per share (note 5)		190,117,175
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NET ASSETS APPLICABLE TO COMMON STOCK - 29,844,275 shares (note 5) \$795,682,693

NET ASSET VALUE PER COMMON SHARE \$26.66

NET ASSETS APPLICABLE TO COMMON STOCK

Common Stock, 29,844,275 shares at par value (note 5)	\$29,844,275	
Additional paid-in capital (note 5)	558,059,097	
Undistributed net investment income (note 5)	6,529,285	
Undistributed realized gain on investments	15,312,694	
Accumulated other comprehensive income (note 7)	(4,820,981)	
Unallocated distributions on Preferred Stock	(8,703,934)	



Unrealized appreciation on investments	199,462,257	
NET ASSETS APPLICABLE TO COMMON STOCK		\$795,682,693

(see notes to financial statements)

INCOME

Dividends (net of foreign withholding taxes of \$528,642)  
Interest

EXPENSES

Investment research  
Administration and operations  
Office space and general  
Directors' fees and expenses  
Auditing and legal fees  
Miscellaneous taxes  
Transfer agent, custodian and registrar fees and expenses  
Stockholders' meeting and reports

NET INVESTMENT INCOME

REALIZED GAIN AND CHANGE IN UNREALIZED APPRECIATION ON INVESTMENTS (NOTES 1, 3 AND 4)

Net realized gain on investments:  
Securities transactions (long-term, except for \$288,080)  
Written option transactions (note 1b and 4)

Net decrease in unrealized appreciation on investments

NET LOSS ON INVESTMENTS

DISTRIBUTIONS TO PREFERRED STOCKHOLDERS

DECREASE IN NET ASSETS RESULTING FROM OPERATIONS

	Nine Months Ended September 30, 2011 (Unaudited)	Year December
OPERATIONS		
Net investment income	\$2,807,781	
Net realized gain on investments	15,448,006	

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Net increase (decrease) in unrealized appreciation	(149,590,734)	
	(131,334,947)	
Distributions to Preferred Stockholders:		
From net investment income		—
From short-term capital gains		—
From long-term capital gains		—
Unallocated distributions	(8,483,979)	
Decrease in net assets from Preferred distributions	(8,483,979)	
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	(139,818,926)	
OTHER COMPREHENSIVE INCOME - Funded status of defined benefit plans (note 7)		—
DISTRIBUTIONS TO COMMON STOCKHOLDERS		
From net investment income		—
From short-term capital gains		—
From long-term capital gains		—
DECREASE IN NET ASSETS FROM COMMON DISTRIBUTIONS		—
CAPITAL SHARE TRANSACTIONS (NOTE 5)		
Value of Common Shares issued in payment of dividends and distributions		—
Cost of Common Shares purchased	(15,439,317)	
DECREASE IN NET ASSETS - CAPITAL TRANSACTIONS	(15,439,317)	
NET INCREASE (DECREASE) IN NET ASSETS	(155,258,243)	
NET ASSETS APPLICABLE TO COMMON STOCK		
BEGINNING OF PERIOD	950,940,936	
END OF PERIOD (including undistributed net investment income of \$6,529,285 and \$3,721,504, respectively)	\$795,682,693	

(see notes to financial statements)

The following table shows per share operating performance data, total investment return, ratios and supplemental data for the nine months ended September 30, 2011 and for each year in the five-year period ended December 31, 2010. This information has been derived from information contained in the financial statements and market price data for the Company's shares.

Nine Months Ended	Year Ended December 31,			
	September 30, 2011 (Unaudited)	2010	2009	2008

## PER SHARE OPERATING PERFORMANCE

Net asset value, beginning of period	\$31.26	\$27.50	\$21.09	\$38.10	\$40.54
Net investment income	.10	.19	.11	.42	.31
Net gain (loss) on securities - realized and unrealized	(4.42)	4.37	6.94	(16.15)	3.39
Other comprehensive income	—	—	.07	(.25)	.02
	(4.32)	4.56	7.12	(15.98)	3.72
Distributions on Preferred Stock:					
Dividends from net investment income	—	(.07)	(.11)	(.11)	(.02)
Distributions from net short-term capital gains	—	(.03)	(.05)	—	(.03)
Distributions from net long-term capital gains	—	(.27)	(.19)	(.27)	(.36)
Distributions from return of capital	—	—	(.01)	—	—
Unallocated	(.28)	—	—	—	—
	(.28)	(.37)	(.36)	(.38)	(.41)
Total from investment operations	(4.60)	4.19	6.76	(16.36)	3.31
Distributions on Common Stock:					
Dividends from net investment income	—	(.08)	(.10)	(.19)	(.33)
Distributions from net short-term capital gains	—	(.03)	(.05)	—	(.38)
Distributions from net long-term capital gains	—	(.32)	(.19)	(.46)	(5.04)
Distributions from return of capital	—	—	(.01)	—	—
	—	(.43)	(.35)	(.65)	(5.75)
Net asset value, end of period	\$26.66	\$31.26	\$27.50	\$21.09	\$38.10
Per share market value, end of period	\$22.96	\$26.82	\$23.46	\$17.40	\$34.70

## TOTAL INVESTMENT RETURN - Stockholder

return, based on market price per share	(14.39%)*	16.24%	36.86%	(48.20%)	8.72%
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## RATIOS AND SUPPLEMENTAL DATA

Net assets applicable to Common Stock, end of period (000's omitted)	\$795,683	\$950,941	\$864,323	\$674,598	\$1,202,923
Ratio of expenses to average net assets applicable to Common Stock	1.43%**	1.54%	1.93%	0.87%	1.11%
Ratio of net income to average net assets applicable to Common Stock	0.39%**	0.66%	0.46%	1.31%	0.78%
Portfolio turnover rate	10.60%*	18.09%	24.95%	25.52%	31.91%

## PREFERRED STOCK

Liquidation value, end of period (000's omitted)	\$190,117	\$190,117	\$190,117	\$199,617	\$200,000
Asset coverage	519%	600%	555%	438%	701%
Liquidation preference per share	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00
Market value per share	\$25.57	\$24.95	\$24.53	\$21.90	\$21.99

\*Not annualized

\*\*Annualized

(see notes to financial statements)

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1. SIGNIFICANT ACCOUNTING POLICIES - General American Investors Company, Inc. (the “Company”), established in 1954 under the Investment Company Act of 1940 as a closed-end, diversified management investment company. It is internally managed by its officers under the direction of the Board of Directors.

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

a. SECURITY VALUATION Equity securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the period. Equity securities reported on the NASDAQ national market are valued at the official closing price on that day. Listed and NASDAQ equity securities for which no sales are reported on that day and other securities traded in the over-the-counter market are valued at the last bid price (asked price for options written) on the valuation date. Equity securities traded primarily in foreign markets are valued at the closing price of such securities on their respective exchanges or markets. Corporate debt securities, domestic and foreign, are generally traded in the over-the-counter market rather than on a securities exchange. The Company utilizes the latest bid prices provided by independent dealers and information with respect to transactions in such securities to determine current market value. If, after the close of foreign markets, conditions change significantly, the price of certain securities may be adjusted to reflect fair value as of the time of the valuation of the portfolio. Investments in money market funds are valued at their net asset value. Special holdings (restricted securities) and other securities for which quotations are not readily available are valued at fair value determined in good faith pursuant to procedures established by and under the general supervision of the Board of Directors.

b. OPTIONS The Company may purchase and write (sell) put and call options. The Company typically purchases put options and writes call options to hedge the value of portfolio investments while it typically purchases call options and writes put options to obtain market exposure under specified circumstances. The risk associated with purchasing an option is that the Company pays a premium whether or not the option is exercised. Additionally, the Company bears the risk of loss of the premium and a change in market value should the counterparty not perform under the contract. Put and call options purchased are accounted for in the same manner as portfolio securities. Premiums received from writing options are reported as a liability on the Statement of Assets and Liabilities. Those that expire unexercised are treated by the Company on the expiration date as realized gains on written option transactions in the Statement of Operations. The difference between the premium received and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid on the closing purchase transaction, as a realized loss on written option transactions in the Statement of Operations. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company

realized a gain or loss on investments in the Statement of Operations. If a put option is exercised, the premium reduces the cost for the securities purchased by the Company and is parenthetically disclosed under cost of investments on the Statement of Assets and Liabilities. The Company as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option. See Note 4 for written option activity.

c. SECURITY TRANSACTIONS AND INVESTMENT INCOME Security transactions are recorded as of the trade date. Dividends and distributions to stockholders are recorded as of the ex-dividend dates. Interest income, adjusted for amortization of discount and premium on investments, is earned from settlement date and is recognized on the accrual basis.

d. FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies versus U.S. dollars on the date of valuation. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars based on the exchange rate in effect on the transaction date. Events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Company's Board of Directors. The Company does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between trade and settlement dates on security transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. companies as a result of, among other factors, the possibility of political or economic instability or the level of government supervision and regulation of foreign securities markets.

e. DIVIDENDS AND DISTRIBUTIONS The Company expects to pay dividends of net investment income and distributions of capital and currency gains, if any, annually to common shareholders and quarterly to preferred shareholders. Dividends and distributions to common and preferred shareholders, which are determined in accordance with Federal income tax regulations, are recorded on the ex-dividend date. Distributions for tax and book purposes are substantially the same. Permanent book/tax differences relating to income and gains are reclassified to paid-in capital as they arise.

f. FEDERAL INCOME TAXES The Company's policy is to fulfill the requirements of the Internal Revenue Code applicable to investment companies and to distribute substantially all taxable income to its stockholders. Accordingly, no provision for Federal income taxes is required. As of and during the period ended September 30, 2011, the Company did not have any liabilities for unrecognized tax positions. The Company recognizes interest and penalties, if any, related to unrecognized tax positions as incurred tax expense in the Statement of Operations. During the period, the Company did not incur any interest or penalties.

g. CONTINGENT LIABILITIES Amounts related to contingent liabilities are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Management evaluates whether there are incremental legal or other costs directly associ-

ated with the ultimate resolution of a matter that are reasonably estimable and, if so, they are included in the accrual.

h. INDEMNIFICATIONS In the ordinary course of business, the Company enters into contracts that contain a variety of indemnifications. The Company's maximum exposure under these arrangements is unknown. However, the Company has not had prior claims or losses pursuant to these indemnification provisions and expects the risk of loss thereunder to be remote.

2. FAIR VALUE MEASUREMENTS - Various data inputs are used in determining the value of the Company's investments. These are summarized in a hierarchy consisting of the three broad levels listed below:

Level 1 - quoted prices in active markets for identical securities (including money market funds which are valued using amortized cost and which transact at net asset value, typically \$1 per share),

Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.), and

Level 3 - significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. The following is a summary of the inputs used to value the Company's net assets as of September 30, 2011:

Assets	Level 1	Level 2	Level 3	Total
Common stocks	\$918,653,759	—	\$21,110,500	\$939,764,259
Warrant	2,094,750	—	—	2,094,750
Money market fund	49,153,165	—	—	49,153,165
Total	\$969,901,674	—	\$21,110,500	\$991,012,174

The aggregate value of Level 3 portfolio investments changed during the nine months ended September 30, 2011 as follows:

Change in portfolio valuations using significant unobservable inputs

Fair value at December 31, 2010

Purchases

Net change in unrealized appreciation on investments

Fair value at September 30, 2011

The increase in net unrealized appreciation included in the results of operations attributable to

Level 3 assets held at September 30, 2011 and reported within the caption *Net change in unrealized appreciation/depreciation* in the Statement of Operations:

3. PURCHASES AND SALES OF SECURITIES - Purchases and sales of securities (other than short-term securities and options)

months ended September 30, 2011 amounted to \$119,655,626 and \$157,210,065, on long transactions, respectively.

4. WRITTEN OPTIONS - Transaction in collateralized put options during the nine months ended September 30, 2011 was as follows:

	Contracts	Premiums
Options outstanding, December 31, 2010	—	—
Options written	409	\$357,424
Options expired	(200)	(193,833)
Options exercised	(209)	(163,591)
Options outstanding, September 30, 2011	0	\$0

5. CAPITAL STOCK AND DIVIDEND DISTRIBUTIONS - The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, \$1.00 par value, and 10,000,000 shares of Preferred Stock, \$1.00 par value. With respect to the Common Stock, 29,844,275 shares were issued and outstanding; 8,000,000 Preferred Shares were originally issued and 7,604,687 were outstanding as of September 30, 2011.

On September 24, 2003, the Company issued and sold 8,000,000 shares of its 5.95% Cumulative Preferred Stock, Series B in an underwritten offering. The Preferred Shares were noncallable for the 5 year period ended September 24, 2008 and have a liquidation preference of \$25.00 per share plus accumulated and unpaid dividends to the date of redemption. On December 10, 2008, the Board of Directors authorized the repurchase of 1 million Preferred Shares in the open market at prices below \$25.00 per share. The Company is required to allocate distributions from long-term capital gains and other types of income proportionately among the holders of shares of Common Stock and Preferred Stock on an annual basis. To the extent that dividends on the shares of Preferred Stock are not paid from long-term capital gains, they will be paid from ordinary income or net short-term capital gains or will represent a return of capital.

Under the Investment Company Act of 1940, the Company is required to maintain an asset coverage of at least 200% of the Preferred Stock. In addition, pursuant to Moody's Investor Service, Inc. Rating Agency Guidelines, the Company is required to maintain a discounted asset coverage for its portfolio that equals or exceeds a Basic Maintenance Amount. The Company has met these requirements since the issuance of the Preferred Stock. If the Company fails to meet these requirements in the future and does not cure the failure, the Company may be required to redeem, in whole or in part, shares of Preferred Stock at a redemption price of \$25.00 per share plus accumulated and unpaid dividends. In addition, failure to meet the foregoing asset coverage requirements could restrict the Company's ability to pay dividends on shares of Common Stock and could lead to sales of portfolio securities at inopportune times.

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

Holders of Preferred Stock will elect two members of the Company's Board of Directors and the holders of Preferred and Common Stock, voting as a single class, will elect the remaining directors. If the Company fails to pay dividends on the Preferred Stock an amount equal to two full years' dividends, the holders of Preferred Stock will have the right to elect a majority of the directors. In addition, the Investment Company Act of 1940 requires that approval of the holders of a majority of any outstanding Preferred Stock, voting separately as a class, would be required to (a) adopt any plan of reorganization that would adversely affect the Preferred

and (b) take any action requiring a vote of security holders, including, among other things, changes in the Company's subclass as a closed-end investment company or changes in its fundamental investment policies.

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##### 5. CAPITAL STOCK AND DIVIDEND DISTRIBUTIONS - (Continued from bottom of previous page.)

The Company presents its Preferred Stock, for which its redemption can be outside of the Company's control, outside of the net assets applicable to Common Stock in the Statement of Assets and Liabilities.

Transactions in Common Stock during the nine months ended September 30, 2011 and the year ended December 31, 2010 were:

	Shares		Amount	
	2011	2010	2011	2010
Increase in par value of shares issued in payment of dividends and distributions (includes 277,555 shares issued from treasury)	—	277,555	—	\$277,555
Increase in paid-in capital			—	6,941,665
Total increase			—	7,219,220
Decrease in par value of shares purchased (average discount from NAV of 13.9% and 14.6%, respectively)	579,019	1,279,476	(\$579,019)	(1,279,476)
Decrease in paid-in capital			(14,860,298)	(29,562,658)
Total decrease			(15,439,317)	(30,842,134)
Net decrease			(\$15,439,317)	(\$23,622,914)

At September 30, 2011, the Company held in its treasury 2,136,597 shares of Common Stock with an aggregate cost in the amount of \$52,742,139.

6. OFFICERS' COMPENSATION- The aggregate compensation accrued and paid by the Company during the nine months ended September 30, 2011 to its officers (identified on back cover) amounted to \$5,135,625.

7. BENEFIT PLANS - The Company has funded (qualified) and unfunded (supplemental) noncontributory defined benefit pension plans

that cover its employees. The plans provide defined benefits based on years of service and final average salary with an offset for a portion

of social security covered compensation. The components of the net periodic benefit cost (income) of the plans for the nine months

ended September 30, 2011 were:



Service cost	\$318,122
Interest cost	585,311
Expected return on plan assets	(825,541)
Amortization of prior service cost	34,946
Recognized net actuarial loss	335,318
Net periodic benefit cost	\$448,156

The Company recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on the Statement of Assets and Liabilities and recognizes changes in funded status in the year in which the changes occur through other comprehensive income.

The Company also has funded (qualified) and unfunded (supplemental) defined contribution thrift plans that are available to employees. The aggregate cost of such plans for the nine months ended September 30, 2011 was \$405,834. The qualified thrift plan purchased 16,100 shares and sold 3,306 shares of the Company's Common Stock during the nine months ended September 30, 2011 and 564,929 shares of the Company's Common Stock at September 30, 2011.

8. OPERATING LEASE COMMITMENT - In September 2007, the Company entered into an operating lease agreement for office space that expires in February 2018 and provided for future rental payments in the aggregate amount of approximately \$10,755,000, net of construction credits. The lease agreement contains clauses whereby the Company receives free rent for a specified number of months, a credit towards construction of office improvements, and incurs escalations annually relating to operating costs and real property taxes and to annual rent charges beginning in February 2013. The Company has the option to renew the lease after February 2018 for five years at market rates. Rental expense approximated \$815,500 for the nine months ended September 30, 2011. Minimum rental commitments under the operating lease are approximately \$1,075,000 per annum in 2012, \$1,183,000 in 2013 through 2017, and \$1,291,000 in 2018.

9. LITIGATION - The Company is subject to a legal action arising from a construction worker's personal injury that is covered by the terms of its insurance policies. Defense and legal costs are being funded by the insurer; damages of an amount that is immaterial to the Company are being negotiated at this time. No liabilities or expenses have been incurred by the Company to date.

Purchases of the Company's Common Stock as set forth in Note 5 on page 11, may be at such times, at such prices, in such amounts and in such manner as the Board of Directors may deem advisable.

The policies and procedures used by the Company to determine how to vote proxies relating to portfolio securities and the Company's record for the twelve-month period ended June 30, 2011 are available: (1) without charge, upon request, by calling us at our toll-free number (1-800-436-8401), (2) on the Company's website at [www.generalamericaninvestors.com](http://www.generalamericaninvestors.com) and (3) on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

In addition to distributing financial statements as of the end of each quarter, General American Investors files a Quarterly Schedule

Holdings (Form N-Q) with the Securities and Exchange Commission (“SEC”) as of the end of the first and third calendar quarter. Forms N-Q are available at [www.generalamericaninvestors.com](http://www.generalamericaninvestors.com) and on the SEC’s website: [www.sec.gov](http://www.sec.gov). Also, Forms N-Q may be copied at the SEC’s Public Reference Room in Washington, DC. Information on the operation of the SEC’s Public Reference Room may be obtained by calling 1-800-SEC-0330. A copy of the Company’s Form N-Q may also be obtained by calling us at 1-800-436-8401.

On April 25, 2011, the Company submitted a CEO annual certification to the New York Stock Exchange (“NYSE”) on which the principal executive officer certified that he was not aware, as of that date, of any violation by the Company of the NYSE’s Corporate Governance Standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Company’s principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to the Company’s disclosure controls and procedures and internal control over financial reporting, as applicable.

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#### DIRECTORS

Spencer Davidson, Chairman

Sidney R. Knafel, Lead Independent Director

Arthur G. Altschul, Jr.

Rodney B. Berens

Lewis B. Cullman

Gerald M. Edelman

John D. Gordan, III

Betsy F. Gotbaum

Daniel M. Neidich

D. Ellen Shuman

Raymond S. Trough

#### OFFICERS

Spencer Davidson, President & Chief Executive Officer

Andrew V. Vindigni, Senior Vice-President

Sally A. Lynch, Vice-President

Michael W. Robinson, Vice-President

Eugene S. Stark, Vice-President, Administration &  
Chief Compliance Officer

Jesse R. Stuart, Vice-President

Diane G. Radosti, Treasurer

Carole Anne Clementi, Secretary

Craig A. Grassi, Assistant Vice-President

Maureen E. LoBello, Assistant Secretary

#### SERVICE COMPANIES

COUNSEL

TRANSFER AGENT AND REGISTRAR

Sullivan & Cromwell LLP

INDEPENDENT AUDITORS

Ernst & Young LLP

CUSTODIAN

State Street Bank and  
Trust Company

American Stock Transfer & Trust  
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