

GENERAL AMERICAN INVESTORS CO INC
Form N-30B-2
October 26, 2016

For the nine months ended September 30, 2016, the net asset value per Common Share increased 6.32% while the investment return to our stockholders increased by 2.59%. By comparison, our benchmark, the Standard & Poor's 500 Stock Index (including income), increased 7.85%. For the twelve months ended September 30, 2016, the return on the net asset value per Common Share increased by 11.05%, and the return to our stockholders increased by 9.72%; these compare with an increase of 15.45% for the S&P 500. During both periods, the discount at which our shares traded continued to fluctuate and on September 30, 2016, it was 18.3%.

As detailed in the accompanying financial statements (unaudited), as of September 30, 2016, the net assets applicable to the Company's Common Stock were \$1,076,439,805 equal to \$39.98 per Common Share.

The increase in net assets resulting from operations for the nine months ended September 30, 2016 was \$54,867,516. During this period, the net realized gain on investments sold was \$85,564,434 and the decrease in net unrealized appreciation was \$29,521,051. Net investment income for the nine months was \$7,308,112. Distributions to common shareholders totaled \$2,826,870 and distributions to Preferred Stockholders amounted to \$8,483,979.

During the nine months, the Company also repurchased 1,371,884 of its shares at a cost of \$43,629,046 an average discount to net asset value of 17.6%. Our investments in the healthcare, materials, financials, and technology sectors contributed to our outperformance of our benchmark in the quarter, while industrials detracted modestly from performance. As well, our lack of an allocation to real estate and the utility sectors also contributed as those sectors experienced negative

For U.S. equity markets and the S&P specifically, valuation, as reflected in the price to earnings ratio and cash flow yields, is at the upper end of historic fair value, supported by ultra-low interest rates, corporate stock buybacks, dividend yields in excess of the 10 year U.S. Treasury Bond yield and no significant earning alternative for investors. Favorably, energy companies and their suppliers are stabilizing, potentially removing a significant drag on aggregate corporate earnings growth and margins. And though it appears likely that the Federal Reserve will be raising interest rates this year, changes are likely to be modest and the path to higher rates significantly elongated as world economic growth remains restrained.

As further evidence of stability, low quality bond yields when compared to U.S. Treasury yields remain controlled and significantly lower than earlier in the year. Historically, bull markets have ended with a significant geopolitical/financial event, a hostile Federal Reserve, or euphoric market behavior. Given recent economic data, particularly employment and consumption data, the prospect of a recession appears distant without some sort of shock. And though aggressive Quantitative Easing (QE) has ended in the U.S., it is being employed around the world in Europe and Japan to reflate their respective economies. Thus, assuming some QE stimulus is fungible, the U.S. economy should benefit, presuming no significant currency exchange ratio destabilization. Likewise with investors more skittish as evidenced by recent survey data, it would seem unlikely that the bull market has reached its zenith, particularly if easier traditional fiscal policy replaces the Federal Reserve's slow departure from its accommodative monetary stance. Thus, we remain optimistic for the long term performance of equities, while acknowledging some short term challenges.

performance in the quarter.

For the past year, we have highlighted the difficult economic environment facing equity markets. Slow GDP growth in the first half, due in part to inventory destocking throughout the economy, has given way to a modestly improved environment currently. Though revenue and earnings for the S&P 500 collectively have experienced declines for 5 of the last 6 consecutive quarters and 5 consecutive quarters, respectively, most of it is attributable to the decline in energy prices and its impact on the companies that operate in and around the sector. Employment data are favorable, corporate operating margins remain historically high despite headwinds, inventories look to be in a better position, recent purchasing manager surveys have improved, China's economy appears to have started to rebound, and retail sales remain a bright spot. Housing has been an improving addition and may be expected to contribute more as household formations improve. Constraints on growth remain the same; an aggressive regulatory environment, currency instability, political uncertainty - domestically and abroad (i.e. Brexit), dramatically rising U.S. healthcare costs and an elevated consumer debt burden which has led to a higher than normal savings rate.

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, 2016. It can be accessed on the internet at www.generalamericaninvestors.com.

By Order of the Board of Directors,
General American Investors Company, Inc.

Jeffrey W. Priest
President and Chief Executive Officer

October 19, 2016

	Shares	COMMON STOCKS	Value (note 1a)
Consumer Discretionary (11.0%)	Automobiles and Components (1.4%)		
	1,264,063	Ford Motor Company	(Cost \$16,174,723) \$15,257,240
	Consumer Services (0.8%)		
	21,000	Chipotle Mexican Grill, Inc. (a)	(Cost \$9,376,256) 8,893,500
	Retailing (8.8%)		
	309,665	Liberty Interactive Corporation - Ventures A (a)	12,346,344
	375,026	Macy's Inc.	13,894,713
	919,768	The TJX Companies, Inc.	68,780,251
			(Cost \$28,028,933) 95,021,308
			(Cost \$53,579,912) 119,172,048
Consumer Staples (15.2%)	Food, Beverage and Tobacco (11.6%)		
	201,174	Danone	14,931,213
	182,400	Diageo plc ADR	21,165,696
	450,000	Nestle S.A.	35,483,620
	195,000	PepsiCo, Inc.	21,210,150
	704,378	Unilever N.V.	32,511,257
			(Cost \$66,826,160) 125,301,936
	Food and Staples Retailing (3.6%)		
	168,781	Costco Wholesale Corporation	25,740,790
	142,280	CVS Health Corporation	12,661,497
		(Cost \$18,835,682) 38,402,287	
		(Cost \$85,661,842) 163,704,223	
Energy (6.9%)	113,000	Anadarko Petroleum Corporation	7,159,680
	160,900	Apache Corporation	10,276,683
	1,472,819	Cameco Corporation	12,607,331
	650,000	Enscopl - Class A	5,525,000
	3,830,440	Gulf Coast Ultra Deep Royalty Trust (a)	252,809
	535,000	Halliburton Company	24,010,800
	1,730,000	Helix Energy Solutions Group, Inc. (a)	14,064,900
			(Cost \$59,688,571) 73,897,203
Financials (22.8%)	Banks (1.5%)		
	140,000	M&T Bank Corporation	(Cost \$3,966,544) 16,254,000
	Diversified Financials (5.1%)		
	245,000	American Express Company	15,689,800
285,000	JPMorgan Chase & Co.	18,978,150	

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	500,000	Nelnet, Inc.		20,185,000
			(Cost \$23,578,547)	54,852,950
	Insurance (16.2%)			
	158,877	Aon plc		17,872,074
	610,000	Arch Capital Group Ltd. (a)		48,348,600
	187,500	Axis Capital Holdings Limited		10,186,875
	110	Berkshire Hathaway Inc. Class A (a)		23,784,200
	125,000	Everest Re Group, Ltd.		23,746,250
	400,000	MetLife, Inc.		17,772,000
	243,298	Willis Towers Watson plc		32,302,675
			(Cost \$51,091,270)	174,012,674
			(Cost \$78,636,361)	245,119,624
Health Care	Pharmaceuticals, Biotechnology and Life Sciences			
(12.1%)	757,400	Ariad Pharmaceuticals, Inc. (a)		10,368,806
	190,000	Celgene Corporation (a)		19,860,700
	514,409	Cempra, Inc. (a)		12,448,698
	438,600	Gilead Sciences, Inc.		34,702,032
	229,942	Intra-Cellular Therapies, Inc. (a)		3,504,316
	397,191	Merck & Co., Inc.		24,788,690
	540,252	Paratek Pharmaceuticals, Inc. (a)		7,028,679
	460,808	Pfizer Inc.		15,607,567
	711,123	Repros Therapeutics Inc. (a)		1,486,247
			(Cost \$75,153,558)	129,795,735

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	Shares	COMMON STOCKS (continued)	Value (note 1a)
Industrials			
(9.5%)			
	Capital Goods (5.4%)		
	189,131	Eaton Corporation plc	\$12,427,798
	900,000	General Electric Company	26,658,000
	190,000	United Technologies Corporation	19,304,000
		(Cost \$48,994,510)	58,389,798
	Commercial and Professional Services (3.7%)		
	787,800	Republic Services, Inc.	(Cost \$11,167,520)
			39,744,510
	Transportation (0.4%)		
	104,012	Hertz Global Holdings, Inc. (a)	(Cost \$6,171,377)
			4,177,122
		(Cost \$66,333,407)	102,311,430
Information			
Technology			
(16.2%)			
	Semiconductors and Semiconductor Equipment (3.4%)		
	200,850	ASML Holding N.V.	22,009,143
	390,500	Intel Corporation	14,741,375
		(Cost \$12,991,164)	36,750,518
	Software and Services (5.1%)		
	680,686	Microsoft Corporation	39,207,514
	378,034	Synchronoss Technologies, Inc. (a)	15,567,440
		(Cost \$29,257,286)	54,774,954
	Technology Hardware and Equipment (7.7%)		
	124,000	Apple Inc.	14,018,200
	790,000	Cisco Systems, Inc.	25,058,800
	127,900	Keysight Technologies, Inc. (a)	4,053,151
	391,200	QUALCOMM Incorporated	26,797,200
	238,209	Universal Display Corporation	13,222,981
		(Cost \$46,141,789)	83,150,332
		(Cost \$88,390,239)	174,675,804
Materials (1.5%)	1,026,422	Huntsman Corporation	(Cost \$19,551,633)
			16,699,886
Miscellaneous (4.1%)		Other (b)	(Cost \$40,651,299)
			44,410,454
Telecommunication	683,852	Vodafone Group plc ADR	(Cost \$23,341,423)
Services (1.9%)			19,934,286
		TOTAL COMMON STOCKS (101.2%)	(Cost \$590,988,245)
			1,089,720,693
Technology		WARRANT	
	Warrant	Applied DNA Sciences, Inc. (a)	(Cost \$2,814)
	281,409		316,698

**Hardware &
Equipment (0.0%)**

	Contracts (100 Shares Each)	CALL OPTIONS Company/Expiration Date/ Exercise Price	
Energy (0.2%)	15,000	Cameco Corporation/March 17, 2017/\$10.00 (a)	375,000
	10,000	Ensco plc/January 20, 2017/\$8.00 (a)	1,350,000
		TOTAL CALL OPTIONS	(Cost \$1,076,018) 1,725,000
	187,191,386	State Street Institutional Treasury Plus Money Market Fund (17.4%)	(Cost \$187,191,386) 187,191,386
TOTAL INVESTMENTS (c) (118.8%)			(Cost \$779,258,463) 1,278,953,777
Liabilities in excess of receivables and other assets (-1.1%)			(12,396,797)
PREFERRED STOCK (-17.7%)			1,266,556,980
NET ASSETS APPLICABLE TO COMMON STOCK (100%)			(190,117,175)
			\$1,076,439,805

ADR - American Depository Receipt (a) Non-income producing security.

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

(c) At September 30, 2016 the cost of investments for Federal income tax purposes was \$779,258,463; aggregate gross unrealized appreciation was \$535,289,523; aggregate gross unrealized depreciation was \$35,594,209; and net unrealized appreciation was \$499,695,314.

(see notes to unaudited financial statements)

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	Contracts		Value
Put Options	(100 shares each)	Company/Expiration Date/ Exercise Price	(note 1a)
Energy	15,000	Cameco Corporation/March 17, 2017/\$7.00	\$450,000
(0.1%)	10,000	EnSCO plc/January 20, 2017/\$6.00	300,000
		TOTAL OPTIONS WRITTEN	(Premiums Received \$773,965)
			\$750,000

	Net Shares Transacted	Shares Held
Increases		
New Positions		
Chipotle Mexican Grill, Inc.	—	21,000 (b)
CVS Health Corporation	142,280	142,280
Universal Display Corporation	238,209	238,209
Additions		
General Electric Company	60,000	900,000
Huntsman Corporation	45,000	1,026,422
Intel Corporation	60,000	390,500
Intra-Cellular Therapies, Inc.	32,500	229,942
Keysight Technologies, Inc.	61,600	127,900
Liberty Interactive Corporation - Ventures A	10,365	309,665
MetLife, Inc.	35,000	400,000
Paratek Pharmaceuticals, Inc.	63,176	540,252
Repros Therapeutics Inc.	315,000	711,123
Decreases		
Eliminations		
EMC Corporation	410,000	-(e)
Reductions		
Anadarko Petroleum Corporation	105,000	113,000
Apache Corporation	40,000	160,900
Apple Inc.	60,000	124,000
Arch Capital Group Ltd.	65,600	610,000
Ariad Pharmaceuticals, Inc.	442,600	757,400
Cameco Corporation	100,000	1,472,819
Cisco Systems, Inc.	249,500	790,000
Diageo plc ADR	20,000	182,400
Eaton Corporation plc	30,000	189,131
EnSCO plc - Class A	10,000	650,000
Hertz Global Holdings, Inc.	841,052	104,012

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Merck & Co., Inc.	30,000	397,191
QUALCOMM Incorporated	70,000	391,200
Republic Services, Inc.	185,000	787,800
The TJX Companies, Inc.	40,000	919,768
United Technologies Corporation	110,000	190,000

(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.

(c) Shares sold as part of a merger with Dell Technologies.

(see notes to unaudited financial statements)

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The diversification of the Company's net assets applicable to its Common Stock by industry group as of September 30, 2016 is shown in the table.

Industry Category	Cost (000)	Value (000)	Percent Common Net Assets*
Financials			
Banks	\$3,966	\$16,254	1.5 %
Diversified Financials	23,579	54,853	5.1
Insurance	51,091	174,013	16.2
	78,636	245,120	22.8
Information Technology			
Semiconductors & Semiconductor Equipment	12,991	36,751	3.4
Software & Services	29,257	54,775	5.1
Technology Hardware & Equipment	46,145	83,467	7.7
	88,393	174,993	16.2
Consumer Staples			
Food, Beverage & Tobacco	66,826	125,302	11.6
Food & Staples Retailing	18,836	38,402	3.6
	85,662	163,704	15.2
Health Care			
Pharmaceuticals, Biotechnology & Life Sciences	75,154	129,796	12.1
Consumer Discretionary			
Automobiles & Components	16,175	15,257	1.4
Consumer Services	9,376	8,894	0.8
Retailing	28,029	95,021	8.8
	53,580	119,172	11.0
Industrials			
Capital Goods	48,995	58,390	5.4
Commercial & Professional Services	11,167	39,744	3.7
Transportation	6,171	4,177	0.4
	66,333	102,311	9.5
Energy	60,765	75,622	7.1
Miscellaneous**	40,651	44,410	4.1
Telecommunication Services	23,341	19,934	1.9
Materials	19,552	16,700	1.5

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	592,067	1,091,762	101.4
Short-Term Securities	187,191	187,191	17.4
Total Investments	\$779,258	1,278,953	118.8
Other Assets and Liabilities - Net		(12,396)	(1.1)
Preferred Stock		(190,117)	(17.7)
Net Assets Applicable to Common Stock		\$1,076,440	100.0 %

* 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 unaudited financial statements)

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Assets

INVESTMENTS, AT VALUE (NOTE 1a)		
Common stocks (cost \$590,988,245)		\$1,089,720,693
Purchased options (cost \$1,076,018)		1,725,000
Warrant (cost \$2,814)		316,698
Money market fund (cost \$187,191,386)		187,191,386
Total investments (cost \$779,258,463)		1,278,953,777

RECEIVABLES AND OTHER ASSETS

Cash	\$13,003	
Dividends, interest and other receivables	2,066,567	
Qualified pension plan asset, net excess funded (note 7)	1,968,195	
Prepaid expenses, fixed assets and other assets	669,083	4,716,848

TOTAL ASSETS 1,283,670,625

Liabilities

Payable for securities purchased	4,131,496	
Outstanding options written, at value (premiums received \$773,965) (note 4)	750,000	
Accrued preferred stock dividend not yet declared	219,955	
Accrued compensation payable to officers and employees	3,000,000	
Accrued supplemental pension plan liability (note 7)	5,716,664	
Accrued supplemental thrift plan liability (note 7)	2,939,531	
Accrued expenses and other liabilities	355,999	

TOTAL LIABILITIES 17,113,645

5.95% CUMULATIVE PREFERRED STOCK, SERIES B -

7,604,687 shares at a liquidation value of \$25 per share (note 5) 190,117,175

NET ASSETS APPLICABLE TO COMMON STOCK - 26,924,813 shares (note 5) \$1,076,439,805

NET ASSET VALUE PER COMMON SHARE \$39.98

Net Assets Applicable To Common Stock

Common Stock, 26,924,813 shares at par value (note 5)	\$26,924,813
Additional paid-in capital (note 5)	468,779,278
Undistributed net investment income (note 5)	5,759,467
Undistributed realized gain on securities sold	89,208,772
Accumulated other comprehensive loss (note 7)	(5,247,870)
Unallocated distributions on Preferred Stock	(8,703,934)

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Unrealized appreciation on investments, options
written and other

499,719,279

NET ASSETS APPLICABLE TO COMMON STOCK

\$1,076,439,805

(see notes to unaudited financial statements)

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Income		
Dividends (net of foreign withholding taxes of \$584,658)		\$17,123,481
Interest		140,948
		17,264,429
Expenses		
Investment research	\$5,089,654	
Administration and operations	2,783,604	
Office space and general	1,294,894	
Auditing and legal fees	227,094	
Directors' fees and expenses	176,595	
Transfer agent, custodian and registrar fees and expenses	172,685	
State and local taxes	130,841	
Stockholders' meeting and reports	80,950	9,956,317
NET INVESTMENT INCOME		7,308,112
Net Realized Gain and Change in Unrealized Appreciation on Investments (notes 1, 3 and 4)		
Net realized gain on investments:		
Securities transactions		84,938,020
Written options transactions (notes 1b and 4)	626,414	
	85,564,434	
Net decrease in unrealized appreciation	(29,521,051)	
NET GAIN ON INVESTMENTS		56,043,383
DISTRIBUTIONS TO PREFERRED STOCKHOLDERS		(8,483,979)
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$54,867,516

	Nine Months Ended September 30, 2016 (Unaudited)	Year Ended December 31, 2015
Operations		
Net investment income	\$7,308,112	\$13,728,242
Net realized gain on investments	85,564,434	34,130,660
Net decrease in unrealized appreciation	(29,521,051)	(76,268,833)
	63,351,495	(28,409,931)
Distributions to Preferred Stockholders:		
From net investment income	—	(3,344,407)
From net capital gains	—	(7,967,565)
Unallocated distributions	(8,483,979)	—
Decrease in net assets from Preferred distributions	(8,483,979)	(11,311,972)
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	54,867,516	(39,721,903)

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OTHER COMPREHENSIVE INCOME

Funded status of defined benefit plans (note 7)	—	538,384
Distributions to Common Stockholders		
From net investment income	(1,455,838)	(9,622,112)
From net capital gains	(1,371,032)	(22,923,266)
DECREASE IN NET ASSETS FROM COMMON DISTRIBUTIONS	(2,826,870)	(32,545,378)
Capital Share Transactions (Note 5)		
Value of Common Shares issued in payment of dividends and distributions	—	13,532,276
Cost of Common Shares purchased	(43,629,046)	(101,674,879)
DECREASE IN NET ASSETS - CAPITAL TRANSACTIONS	(43,629,046)	(88,142,603)
NET INCREASE (DECREASE) IN NET ASSETS	8,411,600	(159,871,500)
Net Assets Applicable to Common Stock		
BEGINNING OF PERIOD	1,068,028,205	1,227,899,705
END OF PERIOD (including under/over distributed net investment income of		
\$5,759,467 and (\$92,807), respectively)	\$1,076,439,805	\$1,068,028,205

(see notes to unaudited financial statements)

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The following table shows per share operating performance data, total investment return, ratios and supplemental data for the nine months ended September 30, 2016 and for each year in the five-year period ended December 31, 2015. This information has been derived from information contained in the financial statements and market price data for the Company's shares.

	Year Ended December 31,					
	Nine Months Ended September 30, 2016 (Unaudited)	2015	2014	2013	2012	2011
PER SHARE OPERATING PERFORMANCE						
asset value, beginning of period	\$37.74	\$39.77	\$41.07	\$32.68	\$29.78	\$31.26
Net investment income	.27	.48	.32	.17	.24	.18
Net gain (loss) on securities, realized and unrealized, and other	2.38	(.99)	2.39	10.51	5.05	(.68)
Other comprehensive income (loss)	—	.02	(.13)	.20	—	(.10)
	2.65	(.49)	2.58	10.88	5.29	(.60)
Distributions on Preferred Stock:						
Dividends from net investment income	—	(.12)	(.04)	(.04)	(.04)	(.11)
Distributions from net capital gains	—	(.27)	(.34)	(.35)	(.35)	(.27)
Unallocated	(.31)	—	—	—	—	—
	(.31)	(.39)	(.38)	(.39)	(.39)	(.38)
from investment operations	2.34	(.88)	2.20	10.49	4.90	(.98)
Distributions on Common Stock:						
Dividends from net investment income	(.05)	(.34)	(.32)	(.18)	(.21)	(.15)
Distributions from net capital gains	(.05)	(.81)	(3.18)	(1.92)	(1.79)	(.35)
	(.10)	(1.15)	(3.50)	(2.10)	(2.00)	(.50)
asset value, end of period	\$39.98	\$37.74	\$39.77	\$41.07	\$32.68	\$29.78
share market value, end of period	\$32.65	\$31.94	\$35.00	\$35.20	\$27.82	\$24.91
TOTAL INVESTMENT RETURN - Stockholder						
return, based on market price per share	2.59%*	(5.34%)	9.32%	34.24%	19.77%	(5.29%)

RATIOS AND
SUPPLEMENTAL DATA

Net assets applicable to Common Stock, end of period (000's omitted)	\$1,076,440	\$1,068,028	\$1,227,900	\$1,229,470	\$955,418	\$886,537
Ratio of expenses to average net assets applicable to Common Stock	1.26%**	1.17%	1.10%	1.27%	1.67%	1.39%
Ratio of net income to average net assets applicable to Common Stock	0.93%**	1.17%	0.78%	0.47%	0.74%	0.56%
Portfolio turnover rate	12.20%*	14.41%	14.98%	17.12%	9.56%	11.17%

PREFERRED STOCK

Liquidation value, end of period (000's omitted)	\$190,117	\$190,117	\$190,117	\$190,117	\$190,117	\$190,117
Asset coverage	666%	662%	746%	747%	603%	566%
Liquidation preference per share	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00
Market value per share	\$26.65	\$26.75	\$26.01	\$25.30	\$25.54	\$25.47

*Not annualized

**Annualized

(see notes to unaudited financial statements)

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

The accompanying financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") pursuant to the requirements for reporting; Accounting Standards Codification 946, *Financial Services - Investment Companies* ("ASC946"), and Regulation S-X.

The preparation of financial statements in accordance with

U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income, expenses and gains and losses during the reported period. Changes in the economic environment, financial markets, and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

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 foreign

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 specific procedures appropriate to each security as established by and under the general supervision of the Board of Directors. The determination of fair value involves subjective judgments. As a result, using fair value to price a security may result in a price materially different from the price used by other investors or the price that may be realized upon the actual sale of the security.

b. Options The Company may purchase and write (sell) put and call options. The Company typically purchases put options or writes call options to hedge the value of portfolio investments while it typically purchases call options and writes put options to obtain equity 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 for the

closing purchase transaction, as a realized loss on written option transactions in the Statement of Operations. If a written call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss on investments in the Statement of Operations. If a written put option is exercised, the premium reduces the cost basis 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. Dividend income and

distributions to stockholders are recorded as of the ex-dividend dates. Interest income, adjusted for amortization of discount and premium on investments, is earned from settlement date and is recognized on the accrual basis. Cost of short-term investments represent amortized cost.

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 at 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 the trade and settlement dates on securities 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
governmental
supervi-
sion and
regulation of
foreign securities
markets.

e. Dividends and
Distributions The
Company expects
to pay dividends
of net investment
income and
distributions of
net realized
capital and
currency gains, if
any, annually to
common
shareholders and
quarterly to
preferred
shareholders.
Dividends and
distribu-
tions to common
and preferred
shareholders,
which are
determined in
accordance with
Federal income
tax regulations

are recorded on the ex-dividend date. 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 regulated investment companies and to distribute substantially all taxable income to its stockholders. Accordingly, no provision for Federal income taxes is required. In accordance with U.S. GAAP requirements regarding accounting for uncertainties in income taxes, management has analyzed the Company's tax positions taken or expected to be taken on Federal and state income tax returns for all open tax years (the current and the prior three tax years) and has concluded that no provision for income tax is required in the Company's

financial
statements.

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
associated

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 inputs 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 \$1.00 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 those securities. The following is a summary of the inputs used to value the Company's net assets as of September 30, 2016:

Assets	Level 1	Level 2	Level 3	Total
Common stocks	\$1,089,720,693	—	—	\$1,089,720,693
Purchased options	1,725,000	—	—	1,725,000
Warrant	316,698	—	—	316,698
Money market fund	187,191,386	—	—	187,191,386
Total	\$1,278,953,777	—	—	\$1,278,953,777
Liabilities				
Options written	(\$750,000)	—	—	(\$750,000)

Transfers of Level 3 securities, if any, are reported as of the actual date of reclassification. No such transfers occurred during the nine months ended September 30, 2016.

3. Purchases and Sales of Securities - Purchases and sales of securities (other than short-term securities and options) for the nine months ended September 30, 2016 amounted to \$132,953,062 and \$259,521,693, on long transactions, respectively.

4. Written Options - The level of activity in written options varies from year to year based upon market conditions. Transactions in written covered call options and collateralized put options for the nine months ended September 30, 2016 were as follows:

	Covered Calls		Collateralized Puts	
	Contracts	Premiums	Contracts	Premiums
Options outstanding, December 31, 2015	2,250	\$1,473,462	2,500	\$404,556
Options written	6,000	1,566,530	25,000	773,965
Options terminated in closing purchase transaction	(4,500)	(1,672,355)	(1,500)	(247,869)
Options expired	(500)	(129,998)	0	0
Options assigned	(3,250)	(1,237,639)	(1,000)	(156,687)
Options outstanding, September 30, 2016	0	\$0	25,000	\$773,965

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,

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26,924,813 shares were issued and outstanding; 8,000,000 Preferred Shares were originally issued and 7,604,687 were outstanding on September 30, 2016.

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 up to 1 million Preferred Shares in the open market at prices below \$25.00 per share. This authorization has been reviewed annually thereafter. To date, 395,313 shares have been repurchased.

The Company allocates distributions from net capital gains and other types of income proportionately among holders of shares of Common Stock and Preferred Stock. To the extent that dividends on the shares of Preferred Stock are not paid from net capital gains, they will be paid from investment company taxable income 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 certain discounted asset coverage for its portfolio that equals or exceeds a Basic Maintenance Amount. If, the Company fails to meet these requirements in the future and does not cure such 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 to the Company's Board of Directors and the holders of Preferred and Common Stock, voting as a single class, will elect the remaining directors. If the Company fails to pay dividends on the Preferred Stock in an amount equal to two full years' dividends, the holders of Preferred Stock will have the right to elect a majority of the directors. In addition, the Investment Company Act of 1940 requires that approval of the holders of a majority of any outstanding Preferred Shares, voting separately as a class, would be required to (a) adopt any plan of reorganization that would adversely affect the Preferred Stock and (b) take any action requiring a vote of security holders, including, among other things, changes in the Company's subclassification as a closed-end investment company or changes in its fundamental investment policies.

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

5. Capital Stock and Dividend Distributions - (Continued from bottom of previous page.)

Transactions in Common Stock during the nine months ended September 30, 2016 and the year ended December 31, 2015 were as follows:

	Shares		Amount	
	2016	2015	2016	2015
Par value of shares issued in payment of dividends and distributions (includes 439,217 shares issued from treasury)	—	439,217	—	\$439,217
			—	13,093,059
			—	13,532,276
Par value of shares purchased (at an average discount from net asset value of 17.6% and 15.5%, respectively)	(1,371,884)	(3,014,364)	(\$1,371,884)	(3,014,364)
Decrease in paid-in capital			(42,257,162)	(98,660,515)
Total decrease			(43,629,046)	(101,674,879)
Net decrease	(1,371,884)	(2,575,147)	(\$43,629,046)	(\$88,142,603)

At September 30, 2016, the Company held in its treasury 5,056,059 shares of Common Stock with an aggregate cost in the amount of \$168,679,999.

The tax basis distributions during the year ended December 31, 2015 were as follows: ordinary distributions of \$12,966,519 and net capital gains distributions of \$30,890,831. As of December 31, 2015, distributable earnings on a tax basis included \$1,442,060 from ordinary distributions, \$5,268,234 from undistributed net capital gains and \$529,240,330 from net unrealized appreciation on investments if realized in future years. Reclassifications arising from permanent “book/tax” differences reflect non-tax deductible expenses and redesignation of dividends during the year ended December 31, 2015. As a result, additional paid-in capital was decreased by \$3,081 and net investment income increased by \$3,081. As of December 31, 2015 the Company had straddle loss deferrals of \$252,864. Net assets were not affected by this reclassification .

6. Officers' Compensation - The aggregate compensation accrued and paid by the Company during the nine months ended September 30, 2016 to its officers (identified on back cover) amounted to \$5,238,375.

7. Benefit Plans - The Company has funded (qualified) and unfunded (supplemental) noncontributory defined benefit pension plans that are available to its employees. The pension 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, 2016 were:

Service cost	\$418,201
Interest cost	703,676
Expected return on plan assets	(1,019,762)

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Amortization of prior service cost	13,353
Amortization of recognized net actuarial loss	263,258
Net periodic benefit cost	\$378,726

The Company recognizes the overfunded status of its defined benefit postretirement plan as an asset in 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 its employees. The aggregate cost of such plans for the nine months ended September 30, 2016 was \$376,794. The qualified thrift plan acquired 19,000 shares and distributed 35,643 shares of the Company's Common Stock during the nine months ended September 30, 2016 and held 560,294 shares of the Company's Common Stock at September 30, 2016.

8. Operating Lease Commitment - In September 2007, the Company entered into an operating lease agreement for office space which expires in February 2018 and provided for aggregate rental payments 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 and 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 \$886,700 for the nine months ended September 30, 2016. Minimum rental commitments under the operating lease are approximately \$1,183,000 in 2016 and 2017, and \$99,000 in 2018.

Previous purchases of the Company's Common and Preferred Stock are set forth in Note 5 on pages 10 and 11. Prospective purchases of Common and Preferred Stock may be made at such times, at such prices, in such amounts and in such manner as the Board of Directors may deem advisable.

The policies and procedures used by the Company to determine how to vote proxies relating to portfolio securities and the Company's proxy voting record for the twelve-month period ended September 30, 2016 are available: (1) without charge, upon request, by calling us at our toll-free telephone number (1-800-436-8401), (2) on the Company's website at www.generalamericaninvestors.com and (3) on the Securities and Exchange Commission's website at www.sec.gov.

In addition to distributing financial statements as of the end of each quarter, General American Investors files a Quarterly Schedule of Portfolio Holdings (Form N-Q) with the Securities and Exchange Commission ("SEC") as of the end of the first and third calendar quarters. The Company's Forms N-Q are available at www.generalamericaninvestors.com and on the SEC's website: www.sec.gov. Copies of Forms N-Q may also be obtained and reviewed at the SEC's Public Reference Room in Washington, DC or through the Company by calling us at 1-800-436-8401. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

On April 15, 2016, the Company submitted a CEO annual certification to the New York Stock Exchange ("NYSE") on which the Company's 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 listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Company's principal executive and principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to, among other things, the Company's disclosure controls and procedures and internal control over financial reporting, as applicable.

DIRECTORS*

Spencer Davidson, Chairman

Sidney R. Knafel, Lead Independent Director

Arthur G. Altschul, Jr.

Daniel M. Neidich

Rodney B. Berens

Jeffrey W. Priest

Lewis B. Cullman

Henry R. Schirmer

John D. Gordan, III

Raymond S. Troubh

Betsy F. Gotbaum

(*The Company is a stand-alone fund.)

OFFICERS

Jeffrey W. Priest, President and Chief Executive Officer

Andrew V. Vindigni, Senior Vice-President

Craig A. Grassi, Vice-President

Sally A. Lynch, Vice-President

Anang K. Majmudar, Vice-President

Michael W. Robinson, Vice-President

Eugene S. Stark, Vice-President, Administration, Principal

Financial Officer & Chief Compliance Officer

Diane G. Radosti, Treasurer

Linda J. Genid, Corporate Secretary

SERVICE COMPANIES

Counsel

Sullivan & Cromwell LLP

Independent Auditors

Ernst & Young LLP

Custodian

State Street Bank and

Trust Company

Transfer Agent and Registrar

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