GAMCO
INVESTORS

Value Investing the Gabelli Way

Private Market Value with a Catalyst™

www.gabelli.com

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GAMCO INVESTORS

Introduction

GAMCO Investors, Inc. has operated under a simple premise since 1977: To earn a superior absolute return for our clients. We do this through a variety of value added products in the high net worth, institutional, and retail marketplace using fundamental research. The firm is traded on the New York Stock Exchange (GBL), and has a diversified product mix to serve the financial objectives of a broad spectrum of investors. We are research-driven, fundamental investors focusing on "Private Market Value (PMV) with a Catalyst ™" investing, based on the principles of Graham & Dodd and further adapted by our Chairman, Mario Gabelli, with his development of PMV analysis.

Our funds approach the global marketplace in a similar fashion: We focus on free cash flow defined as earnings before interest, taxes, depreciation and amortization (EBITDA) minus the capital expenditures necessary to grow the business. We believe free cash flow is the best barometer of a business' value. Deteriorating or rising free cash flow often foreshadows net earnings changes. We also look at earnings per share trends.

Unlike Wall Street's earnings momentum players, we do not try to forecast earnings with accounting precision and then trade stocks based on quarterly expectations and realities. We simply try to position ourselves in front of long-term earnings trends. In addition, we analyze on and off balance sheet assets and liabilities such as property, plant and equipment, inventories, receivables, and legal, environmental and health care issues. We want to know everything and anything that will add to, or detract from, our valuation estimates.

This method of analysis involves looking at businesses as a function of their assets and earnings power. We examine businesses as if we were owners of those businesses, and we believe that we can do that in a rational way by looking at industries on a global basis. Our investment professionals visit with hundreds of companies each year. Our work is proprietary, bottom up, and involves the full utilization of public resources.

We calculate the Private Market Value (PMV) estimate of the business, which is what an informed strategic buyer would pay for a business in its entirety in a private transaction. Effectively, it is the intrinsic value plus a strategic premium. Finally, we look for a catalyst: something happening in the company's industry or indigenous to the company itself that will help realize returns.

A company's PMV is not constant, and changes as a function of many variables. The objective is to identify large differences between our estimate of PMV and the stock market price. We then identify the catalyst to realize a return with minimal influence from the overall direction of the stock market. It is our belief that we can earn superior risk adjusted returns following this event-driven approach.

These events may be industry specific, such as a new technology; regulatory, such as changes in accounting rules; or may be company specific, and include;

- Financial engineering
- Spin-offs
- Restructurings
- Workouts
- Special Situations
- Liquidations
- Stubs
- Merger Arbitrage

INVESTING IN CATALYSTS

Avenues for value creation and surfacing value via financial engineering – including spin-offs, exchange offers, Reverse Morris Trust transactions, tracking stocks, share repurchases and REIT conversions – is increasingly being used by public corporations to create and surface value. Our Private Market Value with a Catalyst™ methodology, supported by deep, bottom-up research predisposes us toward companies with underappreciated assets and managements focused on gaining recognition for those assets. Financial engineering has been and will remain a natural focus for investment. In this white paper, we survey a variety of techniques utilized by the likes of Dr. John Malone's Liberty Media, among others.

We believe three primary levers lead to value creation/surfacing via financial engineering:

- Tax-efficiently re-arrange assets for sale. The operations of diversified companies may appeal to different buyers. Rather than selling assets and incurring corporate level taxation, a number of companies have separated "wanted" from "unwanted" businesses via spin-off or exchange offer.

  - Brink's Company: With different potential buyers for Brink's home security (Broadview) and armored car businesses, Brink's spun-off Broadview in October 2008. In January 2010, security market-leader Tyco/ADT purchased Broadview at a significant premium.

  - Ralcorp: In March 2011, Conagra launched a series of unsolicited offers for Ralcorp, culminating at $94/share. Ralcorp rebuffed those offers and in January 2012, spun-off Post Holdings, a business not highly valued by Conagra. In November 2012, Ralcorp finally accepted a $90/share offer from Conagra, but not before surfacing an incremental $21/share (based on Ralcorp holders receiving one-half share of Post, which as of December 2013 trades at $49/share).

- Highlight misunderstood dynamics. Corporations often possess segments that differ from their primary business line and thus are less well-followed. Separating those assets can force market participants to assign an appropriate value to those assets.

  - Cablevision, a cable operator in the New York market, also owned the Madison Square Garden (MSG) sports assets and the AMC group of cable networks. These units were not ascribed full value in the public market or in the controlling Dolan family's October 2007 $36.26 LBO offer. CVC spun-off MSG and AMC in February 2010 and June 2011, respectively, potentially facilitating the future acquisition of each piece. The three stocks today would aggregate to $50/share, more than doubling the return of the S&P 500.

  - Liberty Ventures: Having been spun-off from Liberty Media in 2011, Liberty Interactive (owner of multichannel commerce company QVC) issued a security known as Liberty Ventures (LVNTA) that tracks the value of an overlooked package of publicly-traded securities, cash and tax-advantaged liabilities. Since LVNTA began trading in August 2012, it has risen from $45/share to nearly $120/share as of this writing.

- Arrive at more favorable capital structure. Modern finance theory would suggest returns to equity can be enhanced by reducing cash flow shared with the government via taxes through the use of leverage or corporate structures such as REITs or MLPs.

  - DIRECTV: Although now common, rarely have buybacks been as large or effective as DTV's. Since 2006, DTV (at one time controlled by John Malone's Liberty Media) has used its cash flow and debt capacity to purchase over $30 billion of its own stock, reducing its share count from 1.4bn to 530m and driving a compounded return of 10% through 2013.

- Gaylord Hotels owned and operated four large convention and lodging properties until selling its brands to Marriott Intl. and converting to a REIT (now known as Ryman Hospitality) in January 2013. In the process, it triggered a 100%+ rise in its adjusted share price from $19 in December 2011 to over $40 in December 2013.

FINANCIAL ENGINEERING TECHNIQUES

In this section we review in more depth the techniques and requirements of some of the most popular financial tools:

Reorganizations

A. Spin-offs. Under §355 of the US tax code, corporations may distribute assets to shareholders tax-free if they meet the following criteria:

- Control requirement: Parent must "control" at least 80% of the vote of SpinCo prior to distribution.
- Active Business requirement: Parent and SpinCo must each actively conduct at least one trade or business after the distribution and have been conducting such trade or business for at least five years prior to the distribution.
- Device Test: The distribution must not be used principally to distribute the earnings and profits of a corporation.
- Distribution requirement: Parent must distribute at a minimum "control" of SpinCo.
- Business Purpose requirement: The distribution must be motivated by one or more business purposes.

Corporations and investors pay most attention to not running afoul of the Device Test. The acquisition of Parent or SpinCo subsequent to a distribution will generally not fail the Device Test as long as there were no "substantive negotiations" – understood to mean the discussion of price – regarding a deal for two years prior to the distribution. Several safe harbors exist, including a waiting period of two years following a distribution. We note several recent deals – including the acquisition of Ralcorp ten months after its spin-off of Post Holdings – have been announced relatively shortly post spin, evidently because of an absence of substantive negotiations prior to the spin-off.

Exhibit 1 **Spin-Offs Into M&A**

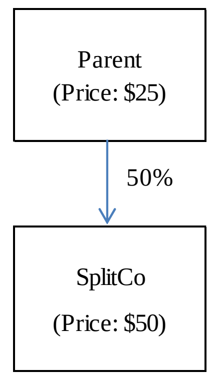
Former Parent	SpinCo Target	Spin Completed	Acquirer	Acq. Anncd.
Fortune Brands	Beam Inc.	Oct-11	Suntory	Jan-14
Belo Corp.	Belo Corp.	Feb-08	Gannett Inc.	Jun-13
Sears Holdings	Orchard Supply	Dec-12	Lowe's Cos.	Jun-13
Elan Corp.	Elan Corp. (spun Prothena)	Dec-12	Perrigo	Jun-13
Sara Lee	DE Master Blenders	Jun-12	Joh. A. Benckiser	Apr-13
Ralcorp	"New" Ralcorp (ex-Post)	Jan-12	Conagra	Nov-12
Motorola	Motorola Mobility	Jan-11	Google	Aug-11
Brink's Company	Broadview Security	Nov-08	Tyco Intl. (ADT)	Jan-10
IACI	Ticketmaster	Aug-08	Live Nation	Feb-09
Cendant Corp.	Realogy	Jul-06	Private equity (Apollo)	Dec-06

Source: Company reports

B. <u>Split-offs (or Exchange Offers)</u>. Distributions that are not made pro-rata to all shareholders are known as "split-offs" and are commonly structured as "exchange offers." In an exchange offer, shareholders can vary their ultimate holdings of Parent and SplitCo. As shown in Exhibit 2, a Parent company can choose to dispose of its stake in a subsidiary by offering shareowners the opportunity to *volunteer* to exchange their holdings of Parent for holdings of SplitCo at varying levels. The company selects a ratio of Parent to SplitCo (usually a discount to SplitCo's ultimate trading price) that would clear the market and the Parent shares turned in by volunteering shareholders are retired.

Exhibit 2 **Exchange Offer Example**

		Current Price	Shares Out	Equity Value		
Parent	A	$25.00	1,000	25,000		
SplitCo	B	$50.00	200	10,000		
SplitCo shares owned by Parent	C		100			
SplitCo discount per share		0%	5%	10%	15%	20%
Implied SplitCo price	D	$50.00	$47.50	$45.00	$42.50	$40.00
Exchange ratio (A divided by D)	E	0.50	0.53	0.56	0.59	0.63
Parent shares retired (C divided by E)	F	200	190	180	170	160
Parent shares outstanding		800	810	820	830	840
% of shares retired		*20.0%*	*19.0%*	*18.0%*	*17.0%*	*16.0%*



Source: Gabelli Funds

Corporations can benefit from exchange offers (versus spin-offs) because they enable the shrinking of their shares outstanding. However, exchanges typically require a value for the SplitCo determined via a preceding IPO or by a "buyer" in a Reverse Morris Trust transaction. Shareholders more clearly benefit from exchanges because they allow the re-arrangement of holdings without having to incur the taxes and trading costs of buying one entity and selling the other.

Exhibit 3 **Selected Exchange Offers**

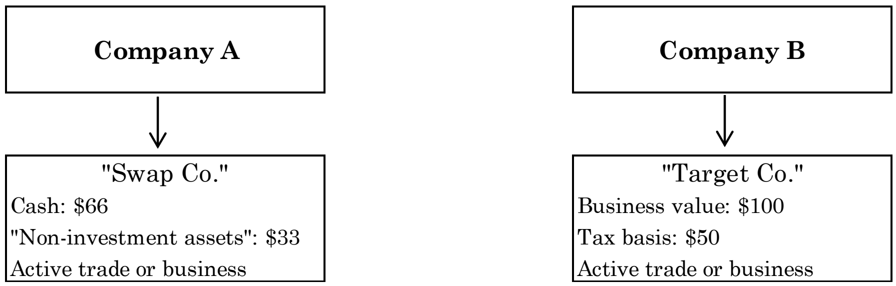
Parent	SplitCo	Date
Pfizer	Zoetis	May-13
Bristol Myers	Mead Johnson	Dec-09
Kraft	Post Holdings	Aug-08
Loews Corp.	Lorillard	Jun-08
McDonalds	Chipotle Grill	Sep-06
Viacom	Blockbuster	Oct-04
Dupont	ConocoPhilips	Jul-99

Source: Company reports

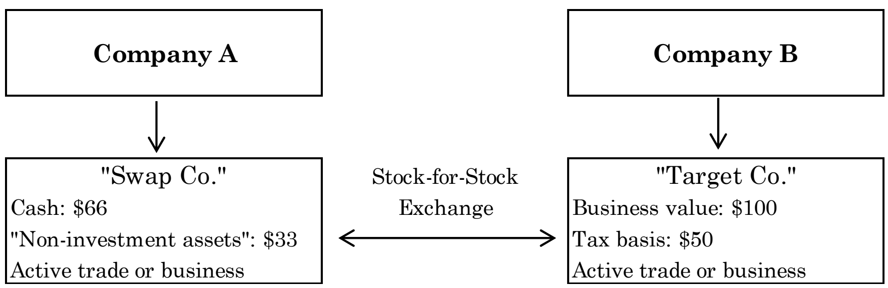
C. <u>Cash Rich Split-Offs</u> are a special class of exchange offers in which one party can tax-efficiently monetize appreciated assets.

Step 1: The "seller" of an appreciated business of stock (Company B) drops the appreciated asset into a subsidiary (TargetCo). To adhere to the requirements of §355. TargetCo must also include an "active trade or business" of any size.

The "buyer" (Company A) creates a subsidiary (SwapCo) and places consideration consisting of no greater than 2/3^{rds} cash, with the remaining consideration consisting of "non-investment assets."



Step 2: Swap Co. and Target Co. are exchanged stock-for-stock and the subsidiaries are merged into their new parent companies tax free.



Cash-rich splits are relatively rare because Company B, above, must hold and exchange shares in the "Buyer" which, along with the other assets included, must be valued similarly by each party. In practice, buyers share in the tax savings of the seller by reducing the consideration paid for Target Co. in the example above.

Exhibit 4 **Selected Cash-Rich Split-Offs**

"Buyer"			"Seller"			
Entity	**Received**	**($m)**	**Entity**	**Received**	**($m)**	**Date**
Liberty Media	6.3m LMCA shs	$832	Comcast	$417m + CNBC rev share + Leisure Arts	$860	Oct-13
News Corp.	513m NWS shs	11,788	Liberty Capital	470m DTV shs + $550m + 3 sports nets	12,158	2007
Time Warner	69m TWX shs	1,247	"	$950m + Atlanta Braves + Leisure Arts	1,400	"
CBS Corp.	8m CBS shs	236	"	$170m + CBS TV station	235	"
DST	32.3m DST shs	1,114	Janus Capital	$1bn + Output Solutions business	1,115	2003

Source: Company reports

D. Reverse Morris Trust (RMT) is a transaction structure that allows corporations to simultaneously spin-off and merges a subsidiary with another entity tax-free. In an RMT, Parent spins-off its unwanted operation (SpinCo) to shareholders and simultaneously merges it with another company (MergedCo). The key requirement of an RMT is that former Parent shareholders must control 50% or more of the vote and value of MergedCo for some period after the transaction.

Exhibit 5 **Recent RMTs**

Parent	SpinCo	"Buyer"	Date
Entergy Corp.	Electric transmission unit	ITC Holdings	Pending
PPG	PPG commodity chems.	Georgia Gulf (now Axiall)	Jan-13
Tyco Intl.	Flow Control	Pentair Ltd.	Sep-12
MeadWestvaco	Consumer & office prods.	ACCO Brands	Apr-12
Verizon	Rural line companies	Frontier Comm.	Jul-10
Liberty Ent.	DIRECTV	DIRECTV	Nov-09
Proctor & Gamble	Folgers Coffee	JM Smuckers	Nov-08
Kraft	Post Holdings	Ralcorp	Aug-08
Verizon	Rural line companies	Fairpoint Comm.	Mar-08
Walt Disney Co.	ABC Radio	Citadel Broadcasting	Feb-06
Proctor & Gamble	Jif Peanut Butter	JM Smuckers	Jun-02

Source: Company reports

E. Subsidiary IPOs (or Equity Carve-outs) can be used to highlight the value of ancillary businesses (Safeway/Blackhawk), raise capital for a parent and/or the subsidiary (Cincinnati Bell/CyrusOne), or arbitrage valuation differences between markets (Wynn Resorts/Wynn Macau). They are often followed by full spin-offs or exchange offers which can serve as a secondary catalyst for investors.

Exhibit 6 **Subsidiary IPOs**

Parent	Subsidiary	Date	Notes
Safeway	Blackhawk	Apr-13	
Cincinnati Bell	CyrusOne	Jan-13	
Pfizer	Zoetis	Feb-13	Exchange Offer, Jun-13
Dean Foods	WhiteWave Foods	Oct-12	Spin-Off, May-13
Wynn	Wynn Macau	Oct-09	
Las Vegas Sands	Sands China	Nov-09	
Rio Tinto	Cloud Peak	Nov-09	
Bristol Myers Squibb	Mead Johnson	Feb-09	Exchange Offer, Dec-09

Source: Company reports

F. <u>Tracker stocks</u> have been used with varying success over time. John Malone's Liberty Media has a track record of employing them quite effectively. In a tracker stock structure, the economics – though not legal ownership – of varying businesses may be split between different groups of shareholders. Parent and tracker companies share one Board of Directors and retain jointly liabilities in the case of liquidation.

Tracker stocks are used to attract shareholders of differing tastes and to highlight underappreciated assets in cases where a spin-off may be impractical, i.e. (a) where tax assets are shared; (b) a consolidated set of assets collateralize debt obligations; or (c) to maintain flexibility in re-arranging assets. In some cases, a tracker issuance is accompanied by an IPO (e.g. AT&T Wireless); in many cases, trackers have been preludes to spin-offs.

Exhibit 7 **Selected Tracker Stocks**

Parent	Tracker	Existence			(yrs/mos)	Notes
Liberty Interactive	Liberty Digital (e-commerce assets)	To issue Q1 '14				
"	Liberty Interactive / Liberty Ventures	Aug-12	to	present	1yr/3mos	
Liberty Media	Liberty Entertainment / Liberty Starz	Sep-09	"	Nov-11	2 " / 2 "	Reabsorbed
Acacia Group	CombiMatrix Group	Dec-02	"	Aug-07	4 " / 8 "	Spun-off
Loews Corp.	Carolina Group (tobacco)	Feb-02	"	Dec-07	5 " / 10 "	Sold down, spun-off
Sony Corp.	Sony Communication Network	Jun-01	"	Oct-05	4 " / 4 "	Reabsorbed
WorldCom	MCI	Jun-01	"	Jul-02	1 "	"
Cablevision	Rainbow Media Group (cable nets)	Mar-01	"	Aug-02	1 " / 5 "	"
Apollo Group	University of Phoenix	Sep-00	"	Dec-03	3 " / 3 "	"
AT&T	AT&T Wireless	Apr-00	"	Jul-01	1 " / 3 "	Exchange offer
Walt Disney Co.	Go.com (internet ventures)	Nov-99	"	Jan-01	1 " / 2 "	Reabsorbed
DLJ	DLJ Direct (retail brokerage)	May-99	"	Nov-01	2 " / 6 "	Purch. by BMO
Applera Corp.	Celera Genomics	Apr-99	"	May-08	9 "	Spun-off
AT&T	Liberty Media	Mar-99	"	Aug-01	2 " / 5 "	"
Sprint	Sprint FON / Sprint PCS	Nov-98	"	Mar-04	5 " / 4 "	Merged
TCI, Inc.	Liberty Ventures	Nov-97	"	Mar-99	1 " / 4 "	AT&T merger
Circuit City	CarMax	Feb-97	"	Oct-02	5 " / 8 "	Spun-off
US West	MediaOne	Nov-95		Oct-97	2 "	"
TCI, Inc.	Liberty Media	Jul-95	"	Mar-99	3 " / 8 "	AT&T merger
Pittston Company	Brink's (security) / BAX (freight) / Minerals	Jan-93	"	Jan-00	7 "	Reabsorbed
US Steel	Marathon Oil	May-91	"	Apr-01	10 "	Spun-off
General Motors	Hughes	Dec-85	"	Apr-03	17 " / 3 "	Merged News Corp.
General Motors	Electronics Data Systems	Nov-84	"	Aug-95	10 " / 9 "	Spun-off

Source: Company reports

Tracker stocks, originated by General Motors in its purchase of EDS, were especially popular during the late 1990's tech boom. Today only the Liberty trackers are outstanding. We posit that the most successful trackers are characterized by the attribution of 100% of a distinct set of business and a lack of significant overhangs (e.g. pensions, ongoing capital needs).

Capital Returns

Companies have typically returned capital to shareholders in the form of regular dividends and share repurchases. Exhibit 8 includes a list of some of the largest and most consistent repurchasers of stock. In many cases (e.g. DIRECTV), these share buyers have borrowed cheaply to retire stock below intrinsic value, a necessary condition for a repurchase to be value accretive.

Exhibit 8 **Selected Significant Cap Shrinks**

	Shares Outstanding							2007-2013 Total		2010-2013 Total	
	2007	2008	2009	2010	2011	2012	2013 (a)	Net Change	% of '07 shares	Net Change	% of '10 shares
DIRECTV	1,148	1,024	933	808	691	586	531	(617)	53.8%	(278)	34.3%
Safeway	440	429	388	370	295	240	247	(193)	43.9	(123)	33.3
Viacom FYE 9/30	-	-	-	608	558	502	449	(159)	26.2	(159)	26.2
AutoZone	66	60	51	45	40	37	34	(32)	48.0	(11)	24.0
Apollo FYE 08/31	167	159	155	148	131	112	113	(54)	32.4	(35)	23.7
Motorola Solutions	-	325	363	337	320	281	259	(67)	20.5	(79)	23.3
Lowe's FYE 1/31	1,456	1,468	1,457	1,352	1,239	1,120	1,051	(405)	27.8	(301)	22.2
ITT Education	40	39	35	30	26	23	23	(16)	41.1	(7)	22.2
Legg Mason FYE 03/31	139	142	161	150	140	130	121	(18)	12.6	(29)	19.4
Amgen	1,087	1,047	995	932	796	768	754	(333)	30.6	(178)	19.1
Time Warner Cable	-	-	359	348	315	299	283	(76)	21.2	(65)	18.8
AutoNation	180	177	172	148	136	122	122	(59)	32.5	(27)	17.9
Chemed	24	22	23	21	19	19	18	(6)	27.0	(4)	17.8
Kroger FYE 1/31	668	648	644	627	565	530	517	(152)	22.7	(111)	17.6
Discovery Comm.	-	-	-	412	389	368	355	(57)	13.8	(57)	13.8
Nathan's Famous FYE 3/31	6	6	6	5	4	4	4	(2)	28.8	(1)	13.4
Hewlett Packard FYE 10/31	2,580	2,415	2,365	2,204	1,991	1,967	1,915	(665)	25.8	(289)	13.1
Cheesecake Factory	69	60	60	60	55	54	52	(17)	24.4	(8)	12.7
Home Depot FYE 1/31	1,676	1,682	1,683	1,608	1,522	1,470	1,416	(261)	15.5	(193)	12.0
CVS/Caremark	1,427	1,436	1,391	1,363	1,298	1,246	1,204	(223)	15.6	(159)	11.7
IBM	1,385	1,339	1,305	1,228	1,163	1,176	1,086	(299)	21.6	(142)	11.6

Source: Company reports (a) Through 9/30/13

There are some "special" cases of capital return we highlight:

A. Dutch tender. A Dutch tender offer operates like a reverse auction. A company offers to repurchase a specific number of shares within a given price range. Shareholders are invited to tender shares over a 20 day period, and do so by indicating the lowest price within the range that they will accept. The company aggregates investor offers, and buys the tendered shares up to the specified share limit at the lowest price possible. All shareholders who tendered shares at the accepted price or lower will have their tender offers accepted. If the company receives more offers at the accepted price than the specified share number, all shareholders receive a pro-rata allocation.

Ex: Dutch tender offer to repurchase 1,500,000 shares in the range $50-$53

Exhibit 9 Sample Dutch Tender Offer

	Amount Tendered	Pro-rata Allocation	Price
Investor A	250,000	0	$53.00
Investor B	500,000	483,871	$52.50
Investor C	275,000	266,129	$52.00
Investor D	150,000	145,161	$51.50
Investor E	375,000	362,903	$51.00
Investor F	50,000	48,387	$50.50
Investor G	200,000	193,548	$50.00

Step 1: The issuer repurchases 1,500,000 at $52.50

Step 2: The issuer received 1,550,000 offers at $52.50 or lower

Step 3: Each investor who tendered at $52.50 or lower receives $52.50/share on a pro-rata allocation of 96.8% of tendered shares

The Dutch tender offer operates as an efficient clearing mechanism for large amounts of stock. Investors tend to want to receive the highest price possible, but risk being completely shut out of the offer if they tender their shares at the upper end of an offer. Issuers have the opportunity to amend the terms of the Dutch tender offer by changing the price range or increasing/decreasing the share amount, but doing so requires that the expiration of the offer period be extended by ten days.

B. Accelerated share repurchases (ASRs) are implemented through an intermediary which purchases the issuer's stock in the open market over a specified time frame. Under an ASR, companies can reduce their weighted average share count instantly (increasing reported EPS), though they remain subject to transaction costs as the intermediary settles its outstanding share order.

C. Special dividend/distribution. In cases where small float and/or rich public market prices make share repurchase less attractive, companies have returned cash via one-time distributions. In some instances this can be tax efficient, as distributions are treated as a reduction in basis (rather than taxable income) to the extent that it exceeds a company's accumulated earnings and profits.

In each of these cases we highlight a Board of Directors responsibility to allocate capital to its highest risk-adjusted return. In some, but not all cases, that may be through purchase of one's own shares.

REIT/MLP Conversions

While most US public companies are 'C' corporations, the tax code grants special status to companies in certain industries. There are primarily two formats – Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs) – that can limit taxation at the corporate level.

A. REITs. As the name connotes, REITs are real estate based businesses that pass-through at least 90% of their taxable income to shareholders. To qualify as a REIT, §856(c) of the tax code sets out the following qualifications:

   – Income test: At least 95% of gross income from "passive" sources including dividends, interest and rents from real property. Further, at least 75% of gross income must be derived from "real estate" sources, primarily rents and mortgage interest.

   – Asset test: At least 75% of assets must be in the form of real estate (including property and mortgages), cash or government securities.

   Companies wishing to convert to REIT status must do so one year in advance and disgorge all "earnings and profits" in its first taxable year as a REIT. Income received for non-real estate services such as hotel management or landscaping, may be derived from a Taxable REIT Subsidiary (TRS) owned by the REIT, but the aggregate size of a REIT's TRS' may be limited.

   Over time the IRS has become more permissive about what constitutes rental income, clearing the way for prison, billboard and tower REITs. However, in June 2013, it was disclosed that the IRS formed an internal working group to examine its REIT standards. Before converting, companies typically seek a Private Letter Ruling (PLR) from the IRS regarding their REIT status. As of this writing, the IRS has yet to grant PLRs to the crop of 2014 conversions, pending the outcome of its internal review.

Exhibit 11 Selected REIT Conversions

			Conversion	
Company	**Symbol**	**Industry**	**Announced**	**Completed**
CBS Corp. (Outdoor)	CBS	Outdoor Adv.	Jan-13	2014
Penn National Gaming	PENN	Gaming	Nov-12	"
Equinix	EQIX	Data Center	Sep-12	"
Geo Group	GEO	Private prisons	Aug-12	"
Lamar Adv. Co.	LAMR	Outdoor Adv.	Jun-12	"
Iron Mountain	IRM	Storage	Jun-12	"
Ryman Hospitality	RHP	Lodging	May-12	Jan-13
Corrections Corp. of America	CCA	Private prisons	Apr-12	"
American Tower	AMT	Telecom	May-11	Jan-12
Dillard's	DDS	Retail	Jan-11	Jan-10
Weyerhauser	WY	Timber	Dec-09	"

Source: Company reports

B. Master Limited Partnerships (MLPs) are passive investment vehicles exempt from paying entity level taxes if they meet two requirements:

- MLPs must be publicly traded.
- 90% or more of income must be from ***qualified income*** including interest, dividends and rent derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber).

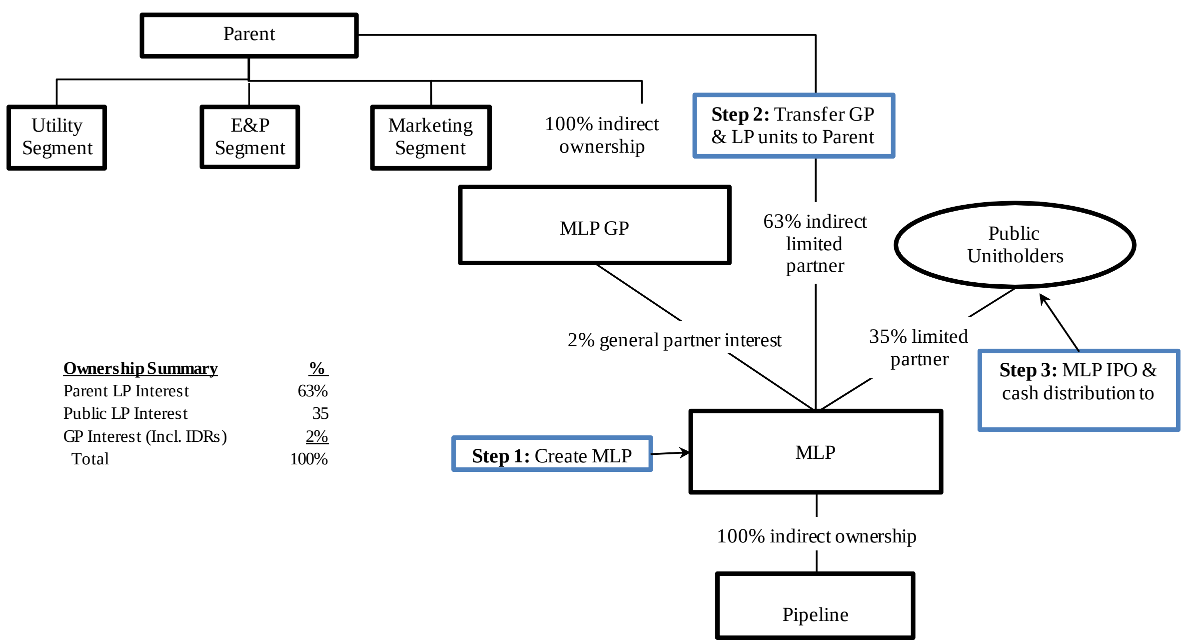
Corporations can surface value by transferring qualifying assets into an MLP. This process, simplified in Exhibit 12 using a diversified utility that owns a pipeline, includes:

Step 1: Parent creates an MLP to hold 100% of the Pipeline

Step 2: MLP issues 65% economic interest (63% in the form of Limited Partner (LP) and 2% in the form of General Partner (GP) units) along with Incentive Distribution Rights (IDRs or performance fees) to Parent in exchange for Pipeline

Step 3: MLP IPOs 35% interest in the form of LP units and indirectly distributes the proceeds to Parent on a tax-free basis using a so-called "Lakehead structure"

Exhibit 12 **MLP Drop Down Example**



MLP drop-downs can benefit Parent shareholders by reducing aggregate corporate tax paid, thus increasing the pool of distributable cash flow. A Parent may also arbitrage the valuation differences between MLPs and corporates through a drop-down. MLPs can themselves be attractive to unitholders because they allow tax deferral on a substantial portion (typically 80%) of annual distributions.

Gabelli Investment Process

Our investment process centers on the application of principles first articulated in 1934 by the founders of modern security analysis, Benjamin Graham and David Dodd. We begin the process by focusing on a company's underlying fundamentals, looking for changes in their market positions and their ability to generate free cash flow. Our goal is to identify companies in the public market that are selling at differences to their intrinsic or private market values with a catalyst in place to generate returns. Over the long term we strive to achieve superior risk– adjusted annual returns above inflation for our clients.

Research Methodology

Our analysts follow industries on a global basis, and narrow the universe of potential investment candidates to a short list of the most attractive companies. All publicly available company material is reviewed, including annual and quarterly reports, 10Ks, 10-Qs, and proxy statements.

Each analyst develops an operational understanding of their industry, effectively becoming an expert in that industry. The analysts hone this expertise by continually visiting companies and their senior managements, as well as talking to competitors, suppliers, and customers. They also develop and maintain government and trade sources to derive an overall understanding of their industry. In addition, our firm hosts a number of industry seminars, where the top executives of the leading firms share their insights with the investment community.

The objective of this process is to identify companies that trade at significant differences to their intrinsic or private market values.

Management

We continually visit the management of hundreds of companies and integrate their input with our knowledge base. Our goal is to understand managements' motivations and expectations. Given our approach, we want to know who our partners are and if they are working to enhance shareholder value. This process, coupled with our financial analysis, helps us select the most attractive investment candidates for our portfolios.

Valuation Process

We employ a three-dimensional approach to valuation:

- Earnings per share
- Free cash flow
- Private market value

The first step is to analyze the income statement and cash flow. Cash flow is viewed as a barometer of financial health and often foreshadows earnings trends. We attempt to forecast the direction and growth rates of the earnings and cash flow streams.

The second step is to examine the balance sheet. The corporate balance sheet is recast, assessing real-world values of inventories, property, plant and equipment and stated book value.

To these two analytical processes, dynamic forecasting and static asset and liability valuation, we add our assessment of the PMV of the business. In other words, what would this company be worth to an informed business person attempting to create or purchase a business with similar characteristics.

Catalyst
Identification of a mispriced situation, however, does not necessarily guarantee a rewarding investment. The next step is to determine events that will narrow the spread between a stock's public market price and our determination of its intrinsic value. We call these events catalysts. Catalysts include industry fundamentals, changes in the regulatory environment, management, financial engineering, merger and acquisition activity, spin-offs and sales of divisions.

Results
After we have identified and selected stocks that qualify as candidates based on these fundamental and conceptual considerations, our objective is to structure a diversified portfolio. This has been a proven long-term method for creating wealth, risk adjusted, in the stock market.

CUSTOMIZED SOLUTIONS

Our portfolios offer the broad spectrum of catalyst-driven value investing.

We are dedicated to achieving your investment goals through our value-generating portfolios, products and services. We can individually tailor investment solutions to your specific requirements and also provide a sector based portfolio.

GAMCO Investors, Inc. is committed to providing our clients with a high level of services in administration, custody, and record keeping. We utilize leading technology; therefore, our reporting systems ensure the timely and accurate dissemination of information to our clients.

Our administrative staff deals with over one hundred custodians and brokers and understands their specific capabilities and requirements. Our service representatives are continually seeking new ways to capture and deliver information more effectively, and are willing to meet any special reporting and record keeping need.

APPENDIX A: SELECTED COMPLETED/PENDING SPIN-OFFS

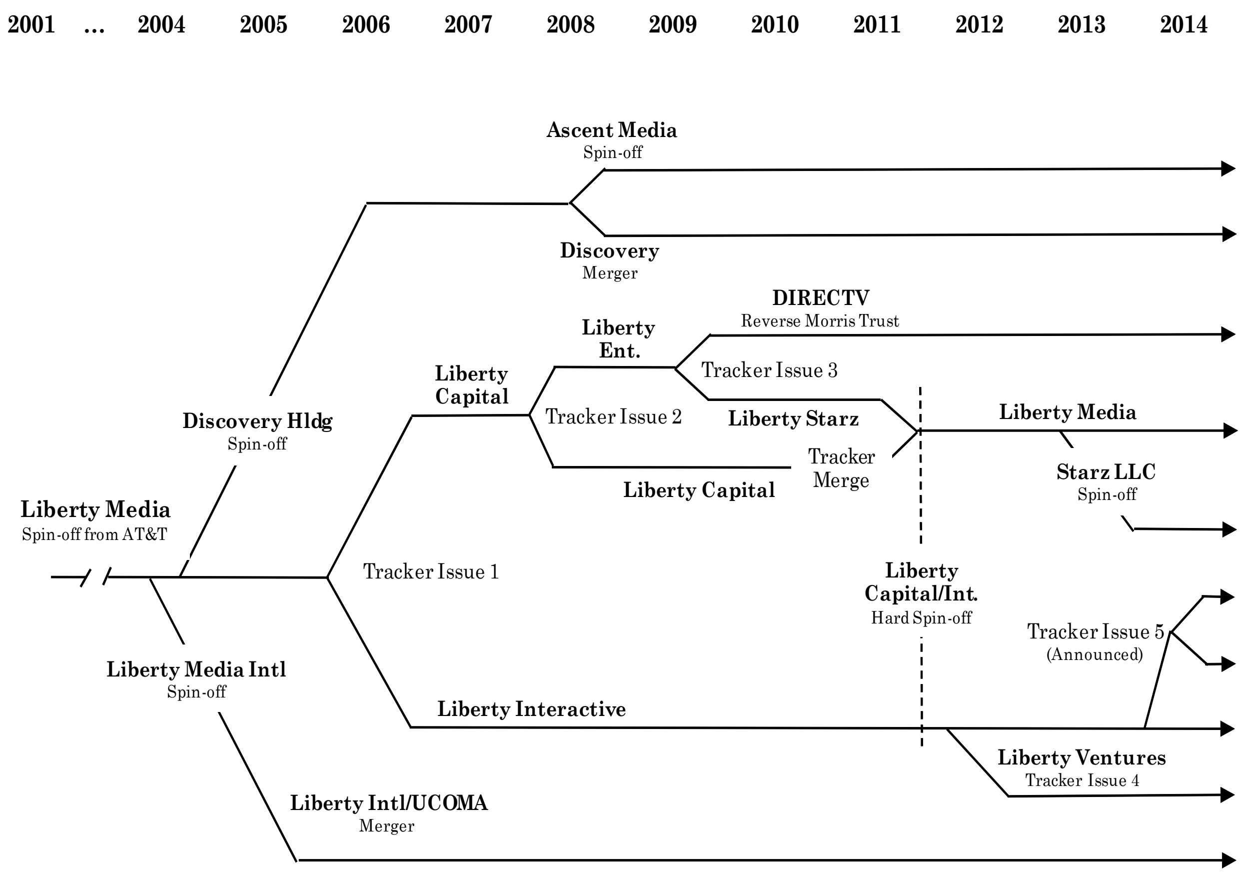
	Parent	Parent / SpinCo(s)	Completed
2014	Agilent Technologies	Life Science Co / Electronic Measurement Co	2014
	Dover Corp.	Dover / Knowles Corp. (communications equipment)	"
	DuPont	DuPont / Performance chemicals	"
	Exelis	Defense / Government services	"
	General Electric	GE / N. American retail finance	"
	Kimberly Clark	KMB / Feminine hygeine	"
	Liberty Interactive	Liberty Interactive / Liberty TripAdvisor	"
	National Oilwell Varco	NOV / Distribution Co	"
	Noble Corp.	Standard Spec Co / Deepwater Co	"
	Oil States International	Oil States / Accomodations business	"
	ONEOK Inc.	ONEOK Inc. / ONE Gas Inc.	"
	Sears	Sears / Lands' End	"
	Simon Property	Simon / Strip centers	"
	SLM Corp.	SLM Corp. / Education Loan Mgmt	"
	Theravance	BioPharma Co / Royalty Co	"
	Time Warner	Time Warner / Time Inc. (publishing)	"
	Timken	Timken / Engineered Steel Co	"
	Tribune	Broadcast / Newspapers	"
	Vivendi	SFR / MediaCo	"
2013	Brambles Ltd.	Brambles / Recall Holdings Ltd.	Dec-13
	Metso Oyj	Metso (Mining & Automation) / Valmet (Pulp & Paper)	"
	Ingersoll-Rand	Ingersoll-Rand / Allegion plc (security)	"
	Penn Gaming	Penn Gaming / Gaming & Leisure Properties	Nov-13
	United Online	United Online / FTD Cos. (floral distribution)	"
	SAIC	SAIC / Leidos (defense consulting)	Sep-13
	IDT Corp.	IDT Corp. / Straight Path Communications	Aug-13
	Murphy Oil	Murphy Oil / Murphy USA (retail)	"
	News Corp.	"New" News Corp. / 21st Century Fox	Jun-13
	Covidien	Covidient / Mallinkrodt (pharma)	"
	Valero	Valero / CST Brands (retail)	May-13
	Dean Foods	Dean Foods (dairy) / WhiteWave Foods (soy)	"
	Leucadia	Leucadia / Crimson Wine Group	Feb-13
	Pfizer	Pfizer / Zoetis (animan health)	"
	Seacor	Seacor / Era Group (helicopter ops)	"
	Liberty Media	Liberty Media / Starz (pay-TV network)	Jan-13
	Abbott Labs	Abbott / AbbVie (pharma)	"
2012	Elan Corp.	Elan / Prothena (drug discovery)	Dec-12
	Kraft	Kraft / Mondelez (snacks)	Oct-12
	Nacco Industries	Nacco / Hyster-Yale (material handling)	Sep-12
	L-3 Communications	L-3 Communications / Engility (govt services)	Jul-12
	Alexander & Baldwin	Alexander & Baldwin / Matson (shipping)	Jun-12
	Sara Lee	Hillshire Brnds (meats) / DE Master Blndrs (coffee)	"
	Carrols Restaurant	Carrols / Fiesta Restaurant Group	May-12
	ConocoPhillips	Conoco / Phillips 66 (downstream)	"
	NovaGold	NovaGold / NovaCopper	Apr-12
	Ralcorp	Ralcorp (private label) / Post Hldngs (branded foods)	Feb-12
	General Growth	General Growth / Rouse Properties	Jan-12
	Sunoco, Inc.	Sunoco / SunCoke Energy	"

APPENDIX A: SELECTED COMPLETED/PENDING SPIN-OFFS (CONTINUED)

	Parent	Parent / SpinCo(s)	Completed
2011	Sears Holdings	Sears / Orchard Supply (harware retail)	Dec-11
	Expedia	Expedia / TripAdvisor (online travel research)	"
	Williams Companies	Williams / WPX Energy	"
	Liberty Media	Liberty Media / Liberty Interactive	Nov-11
	Marriott Intl.	Marriott Intl. / Marriott Vacations	"
	IDT Corp.	IDT / Genie Energy	Oct-11
	ITT	ITT / Exelis (defense) / Xylem (water)	"
	Fortune Brands	FBHS / Beam Inc.	"
	NTELOS	NTELOS (wireless) / Lumos Networks (wireline)	"
	Forest Oil	Forest Oil / Lone Pine Resources	Sep-11
	Marathon Oil Corp.	Marathon Oil / Marathon Petroleum (downstream)	Jun-11
	Cablevision	Cablevision / AMC Networks (pay-TV network)	"
	Northrup Grumman	Northrop Grumman / Huntington Ingalls	Mar-11
	Motorola	Motorola Mobility / Motorola Solutions	Jan-11
2009/10	General Growth	General Growth / Howard Hughes Corp.	Nov-10
	Questar Corp.	Questar (gas distribution) / QEP Resources (E&P)	Jul-10
	McDermott Intl.	McDermott Intl. / Babcock & Wilcox	Jun-10
	CVC	Cablevision / The Madison Square Garden Co.	Feb-10
	Bristol Myers	Bristol Myers / Mead Johnson (infant nutrition)	Dec-09
	Time Warner	Time Warner / AOL	"
	Cardinal Health	Cardinal Health (distribution) / Carefusion (medtech)	Aug-09
	Pride Intl.	PRIDE / Seahawk Drilling	"
	Time Warner	Time Warner / Time Warner Cable	Mar-09
2008	Brink's Co	Brink's / Broadview (security monitoring)	Nov-08
	IACI	IACI / HSN / Tree.com / Interval Leisure / Ticketmaster	Aug-08
	EW Scripps	EW Scripps / Scripps Networks (pay-TV networks)	Jul-08
	Loews Corp.	Loews Corp. / Lorillard (tobacco)	Jun-08
	Cadbury	Cadbury / Dr. Pepper Snapple (beverages)	May-08
	Belo Corp.	Belo Corp. / AH Belo (newspapers)	Feb-08
	DISH	DISH / Echostar (satellite)	Jan-08
Other	Altria	Altria / Kraft	Mar-07
	Tyco	Tyco / Covidien (healthcare) / TE Electronics	Jul-07
	Sara Lee	Sara Lee / Hanes Brands (apparel)	Sep-06
	CBS	CBS / Viacom (pay-TV networks)	Dec-05
	American Express	American Express / Ameriprise	Sep-05
	Viacom	Viacom / Blockbuster (entertainment retail)	Oct-04

Source: Company reports

APPENDIX B: DR. JOHN MALONE MASTER CLASS



100 Shs ($1,120) of Liberty Media @ AT&T Spin-Off (Aug 10, 2001) Now Equals..

Entity	Shs	Last [b]	Value
Ascent Capital			
ASCMA	2	$84.80	$170
Discovery Comm.			
DISCA	15	86.32	1,295
DISCK	5	79.71	399
DIRECTV			
DTV	20	65.93	1,319
Liberty Media			
LMCA	7	143.27	969
Starz			
STRZA	7	28.18	191
Liberty TripAdvisor			
LTRP	(a)	NA	NA
Liberty Digital			
LDIG	(a)	NA	NA
Liberty Interactive			
LINTA	25	28.22	706
Liberty Ventures			
LVNTA	1	99.12	124
Liberty Global			
LBTYA	5	81.41	407
LBTYK	5	80.91	405
Total			**$5,982**
Annualized Return		Liberty	14.5%
		S&P 500	3.4

(a) To be issued 1H 2014 (b) As at 12/19/13

Source: Company reports, Gabelli Funds estimates

Christopher J. Marangi

Mr. Marangi is Associate Portfolio Manager of the Gabelli Value Fund and Gabelli Asset Fund, two open-ended mutual funds that invest in securities selling below their Private Market Values. He is also a member of the teams managing the Gabelli Global Multimedia Trust, the Gabelli Dividend & Income Trust and the Gabelli Equity Trust, three closed-end funds, as well as separate accounts in the All Cap Value and Small Cap Value strategies.
Mr. Marangi has appeared on CNBC, Fox Business and Bloomberg television and radio numerous times and has been quoted extensively in publications including the *Wall Street Journal*, *The New York Times*, *Barrons*, *Newsday*, Bloomberg, *Variety* and *Broadcasting & Cable.*
Mr. Marangi joined GAMCO in 2003 as a research analyst covering companies in the Cable, Satellite and Entertainment sectors. He began his career as an investment banking analyst with J. P. Morgan & Co and later joined private equity firm Wellspring Capital Management.
Mr. Marangi graduated *magna cum laude* and *Phi Beta Kappa* with a BA in Political Economy from Williams College and holds an MBA with honors from the Columbia Graduate School of Business.

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This whitepaper is not an offer to sell any security nor is it a solicitation of an offer to buy any security.

Investors should consider the investment objectives, risks, sales charges and expense of the fund carefully before investing.

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