

GENERAL AMERICAN INVESTORS CO INC

Form N-30B-2

October 20, 2008

For the nine months ended September 30, 2008, the net asset value per Common Share decreased 21.0%, while the investment return to our stockholders declined by 24.9%. By comparison, our benchmark, the Standard & Poor's 500 Stock Index (including income) decreased 19.4%. For the twelve months ended September 30, 2008, the return on the net asset value per Common Share was -24.7%, and the return to our stockholders was -25.9%; these compare with a return of -22.2% for the S&P 500. During each period, the discount at which our shares traded continued to fluctuate and on September 30, 2008, it was 13.5%.

As set forth in the accompanying financial statements (unaudited), as of September 30, 2008, the net assets applicable to the Company's Common Stock were \$943,905,356 equal to \$29.91 per Common Share.

The decrease in net assets resulting from operations for the nine months ended September 30, 2008 was \$251,862,302. During this period, the net realized gain on securities sold was \$68,263,862, and the decrease in net unrealized appreciation was \$318,450,468. Net investment income for the nine months was \$7,249,304, and distributions to Preferred Stockholders amounted to \$8,925,000.

During the nine months, 13,500 shares of the Company's Common Stock were repurchased for \$370,215 at an average discount from net asset value of 9.7%.

Current market conditions are the most challenging in recent memory. The stock market has become a primary source of liquidity as the deleveraging process attending the credit crisis plays out. In consequence, shares have been sold indiscriminately, with little regard to their intrinsic value. Perversely, because they tend to be the most liquid, many of the strongest equities have performed the worst.

The genesis of the financial crisis has been commented upon widely. Lenders who should not have, lent to house buyers who should not have borrowed. Declining prices led to defaults on mortgages, which impacted the liquidity of opaque mortgage-related securities, which has led banks to restrict credit. The corrosive cycle continues as stricter lending standards exert downward pressure on housing values and household wealth.

The Troubled Asset Relief Program, or TARP, by adding liquidity to the banking system, may lessen uncertainty, and may also relieve the fear that undermines confidence and depresses both lending and spending. It will take time to judge its effect on an economy that has shown resilience but now faces a full blown recession. While the reach of the credit crunch appears to be spreading to encompass even state and local finance, the federal government's massive effort is likely, ultimately, to restore confidence and lay the groundwork for at least a moderate recovery.

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, 2008. It can be accessed on the internet at www.generalamericaninvestors.com.

By Order of the Board of Directors,

GENERAL AMERICAN INVESTORS COMPANY, INC.

Spencer Davidson Chairman of the Board President and Chief Executive Officer

October 8, 2008

ASSETS

INVESTMENTS, AT VALUE (NOTE 1a)

| | |
|--|-----------------|
| Common stocks (cost \$809,512,804) | \$1,049,853,840 |
| Corporate notes (cost \$23,015,514) | 22,629,688 |
| Money market fund (cost \$63,321,632) | 63,321,632 |
| Total investments (cost \$895,849,950) | 1,135,805,160 |

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| | | |
|---|--------------|----------------------|
| CASH, RECEIVABLES AND OTHER ASSETS | | |
| Cash | \$1,704 | |
| Receivable for securities sold | 4,793,440 | |
| Premiums deposited with brokers for options written | 1,194,090 | |
| Dividends, interest and other receivables | 1,707,975 | |
| Qualified pension plan asset, net excess funded (note 6) | 10,026,747 | |
| Prepaid expenses and other assets | 3,182,644 | 20,906,600 |
| TOTAL ASSETS | | 1,156,711,760 |
| LIABILITIES | | |
| Payable for securities purchased | 1,144,863 | |
| Accrued preferred stock dividend not yet declared | 231,389 | |
| Outstanding options written, at value (premiums deposited with brokers \$1,194,090) (note 1a) | 288,250 | |
| Accrued supplemental pension plan liability (note 6) | 3,218,206 | |
| Accrued supplemental thrift plan liability (note 6) | 3,129,361 | |
| Accrued expenses and other liabilities | 4,794,335 | |
| TOTAL LIABILITIES | | 12,806,404 |
| 5.95% CUMULATIVE PREFERRED STOCK, SERIES B - | | |
| 8,000,000 shares at a liquidation value of \$25 per share (note 2) | | 200,000,000 |
| NET ASSETS APPLICABLE TO COMMON STOCK - 31,559,558 shares (note 2) | | \$943,905,356 |
| NET ASSET VALUE PER COMMON SHARE | | \$29.91 |
| NET ASSETS APPLICABLE TO COMMON STOCK | | |
| Common Stock, 31,559,558 shares at par value (note 2) | \$31,559,558 | |
| Additional paid-in capital (note 2) | 602,381,420 | |
| Undistributed realized gain on investments | 68,361,232 | |
| Undistributed net investment income | 8,777,528 | |
| Accumulated other comprehensive income (note 6) | 1,120,957 | |
| Unallocated distributions on Preferred Stock | (9,156,389) | |
| Unrealized appreciation on investments and options | 240,861,050 | |
| NET ASSETS APPLICABLE TO COMMON STOCK | | \$943,905,356 |
| (see notes to financial statements) | | |
| <hr style="border: 1px solid black;"/> | | |
| INCOME | | |
| Dividends (net of foreign withholding taxes of \$413,817) | \$15,249,031 | |
| Interest | 1,733,549 | \$16,982,580 |
| EXPENSES | | |
| Investment research | 5,780,560 | |
| Administration and operations | 2,116,573 | |
| Office space and general | 1,135,561 | |
| Directors' fees and expenses | 217,152 | |
| Auditing and legal fees | 183,601 | |
| Transfer agent, custodian and registrar fees and expenses | 127,798 | |
| Stockholders' meeting and reports | 98,651 | |
| Miscellaneous taxes | 73,380 | 9,733,276 |
| NET INVESTMENT INCOME | | 7,249,304 |
| REALIZED GAIN (LOSS) AND CHANGE IN UNREALIZED APPRECIATION ON INVESTMENTS (NOTES 1, 4 AND 5) | | |
| Net realized gain on investments: | | |
| Securities transactions (net long term capital gain) | 62,050,784 | |
| Written option transactions | 6,213,078 | |

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| | | |
|--|---------------|-----------------|
| | 68,263,862 | |
| Net decrease in unrealized appreciation | (318,450,468) | |
| NET LOSS ON INVESTMENTS | | (250,186,606) |
| DISTRIBUTIONS TO PREFERRED STOCKHOLDERS | | (8,925,000) |
| DECREASE IN NET ASSETS RESULTING FROM OPERATIONS | | (\$251,862,302) |
| (see notes to financial statements) | | |

| | Nine Months | |
|--|--|------------------------------------|
| | Ended September 30, 2008 (Unaudited) | Year Ended December 31, 2007 |
| OPERATIONS | | |
| Net investment income | \$7,249,304 | \$9,782,623 |
| Net realized gain on investments | 68,263,862 | 175,785,885 |
| Net decrease in unrealized appreciation | (318,450,468) | (71,533,458) |
| | (242,937,302) | 114,035,050 |
| Distributions to Preferred Stockholders: | | |
| From net investment income | | (689,497) |
| From short-term capital gains | | (778,809) |
| From long-term capital gains | | (10,431,694) |
| Unallocated distributions | (8,925,000) | |
| Decrease in net assets from Preferred distributions | (8,925,000) | (11,900,000) |
| INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | (251,862,302) | 102,135,050 |
| OTHER COMPREHENSIVE INCOME (Adjustment to apply FAS 158; Note 6) | 12,394 | 456,004 |
| DISTRIBUTIONS TO COMMON STOCKHOLDERS | | |
| From net investment income | (183,597) | (9,603,869) |
| From short-term capital gains | | (10,847,882) |
| From long-term capital gains | (6,613,893) | (145,301,188) |
| DECREASE IN NET ASSETS FROM COMMON DISTRIBUTIONS | (6,797,490) | (165,752,939) |
| CAPITAL SHARE TRANSACTIONS (NOTE 2) | | |
| Value of Common Shares issued in payment of dividends and distributions | | 96,902,914 |
| Cost of Common Shares purchased | (370,215) | (30,271,148) |
| INCREASE (DECREASE) IN NET ASSETS - CAPITAL TRANSACTIONS | (370,215) | 66,631,766 |
| NET INCREASE (DECREASE) IN NET ASSETS | (259,017,613) | 3,469,881 |
| NET ASSETS APPLICABLE TO COMMON STOCK | | |
| BEGINNING OF PERIOD | 1,202,922,969 | 1,199,453,088 |
| END OF PERIOD (including undistributed net investment income of \$8,777,528 and \$1,711,821, respectively) | \$943,905,356 | \$1,202,922,969 |
| (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, 2008 and for each year in the five-year period ended December 31, 2007. This information has been derived from information contained in the financial statements and market price data for the Company's shares.

Nine Months

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| | Ended | | Year Ended December 31, | | | |
|---|--------------------|-------------|-------------------------|-------------|-------------|-----------|
| | September 30, 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| | (Unaudited) | | | | | |
| PER SHARE OPERATING PERFORMANCE | | | | | | |
| Net asset value, beginning of period | \$38.10 | \$40.54 | \$39.00 | \$35.49 | \$33.11 | \$26.48 |
| Net investment income | .23 | .31 | .34 | .19 | .32 | .03 |
| Net gain (loss) on investments - realized and unrealized | (7.92) | 3.39 | 4.72 | 5.85 | 3.48 | 7.72 |
| Other comprehensive income | | .02 | .03 | | | |
| Distributions on Preferred Stock: | | | | | | |
| Dividends from net investment income | | (.02) | (.04) | (.03) | (.09) | (.01) |
| Distributions from net short-term capital gains | | (.03) | (.01) | (.08) | | |
| Distributions from net long-term capital gains | | (.36) | (.36) | (.30) | (.32) | (.35) |
| Unallocated | (.28) | | | | | |
| | (.28) | (.41) | (.41) | (.41) | (.41) | (.36) |
| Total from investment operations | (7.97) | 3.31 | 4.68 | 5.63 | 3.39 | 7.39 |
| Distributions on Common Stock: | | | | | | |
| Dividends from net investment income | (.01) | (.33) | (.29) | (.15) | (.23) | (.02) |
| Distributions from net short-term capital gains | | (.38) | (.04) | (.44) | | |
| Distributions from net long-term capital gains | (.21) | (5.04) | (2.81) | (1.53) | (.78) | (.52) |
| Capital Stock transaction - effect of Preferred Stock offering | (.22) | (5.75) | (3.14) | (2.12) | (1.01) | (.54) |
| | | | | | | (.22) |
| Net asset value, end of period | \$29.91 | \$38.10 | \$40.54 | \$39.00 | \$35.49 | \$33.11 |
| Per share market value, end of period | \$25.87 | \$34.70 | \$37.12 | \$34.54 | \$31.32 | \$29.73 |
| TOTAL INVESTMENT RETURN - Stockholder | | | | | | |
| return, based on market price per share | (24.92)%* | 8.72% | 16.78% | 17.40% | 8.79% | 27.01% |
| RATIOS AND SUPPLEMENTAL DATA | | | | | | |
| Net assets applicable to Common Stock, end of period (000 s omitted) | \$943,905 | \$1,202,923 | \$1,199,453 | \$1,132,942 | \$1,036,393 | \$986,335 |
| Ratio of expenses to average net assets applicable to Common Stock | 1.15%** | 1.11% | 1.06% | 1.25% | 1.15% | 1.23% |
| Ratio of net income to average net assets applicable to Common Stock | 0.85%** | 0.78% | 0.86% | 0.51% | 0.94% | 0.13% |
| Portfolio turnover rate | 19.22%* | 31.91% | 19.10% | 20.41% | 16.71% | 18.62% |
| PREFERRED STOCK | | | | | | |
| Liquidation value, end of period (000 s omitted) | \$200,000 | \$200,000 | \$200,000 | \$200,000 | \$200,000 | \$200,000 |
| Asset coverage | 572% | 701% | 700% | 666% | 618% | 593% |
| Liquidation preference per share | \$25.00 | \$25.00 | \$25.00 | \$25.00 | \$25.00 | \$25.00 |
| Market value per share | \$20.20 | \$21.99 | \$24.44 | \$24.07 | \$24.97 | \$25.04 |
| *Not annualized | | | | | | |
| **Annualized | | | | | | |

| | | Value |
|---------------------------------|--------------------|--------------|
| Shares | COMMON STOCKS | (note 1a) |
| AEROSPACE/DEFENSE (7.6%) | | |
| 600,000 | The Boeing Company | \$34,410,000 |
| 600,700 | Textron Inc. | 17,588,496 |

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| | | | |
|--|---------------------------------------|----------------------|-------------|
| 325,000 | United Technologies Corporation | | 19,519,500 |
| | | (COST \$97,343,906) | 71,517,996 |
| BUILDING AND REAL ESTATE (4.2%) | | | |
| 2,306,589 | CEMEX, S.A. de C.V. ADR (a) (c) | (COST \$31,830,078) | 39,719,463 |
| COMMUNICATIONS AND INFORMATION SERVICES (9.3%) | | | |
| 915,000 | Cisco Systems, Inc. (a) | | 20,642,400 |
| 324,100 | Lamar Advertising Company Class A (a) | | 10,011,449 |
| 142,500 | Leap Wireless International, Inc. (a) | | 5,429,250 |
| 1,210,000 | MetroPCS Communications, Inc. (a) | | 16,927,900 |
| 800,000 | QUALCOMM Incorporated | | 34,376,000 |
| | | (COST \$91,269,241) | 87,386,999 |
| COMPUTER SOFTWARE AND SYSTEMS (9.9%) | | | |
| 1,555,000 | Dell Inc. (a) | | 25,626,400 |
| 570,000 | Microsoft Corporation | | 15,213,300 |
| 445,100 | NetEase.com, Inc. (a) | | 10,148,280 |
| 70,000 | Nintendo Co., Ltd. | | 28,698,281 |
| 690,000 | Teradata Corporation (a) | | 13,455,000 |
| | | (COST \$99,798,479) | 93,141,261 |
| CONSUMER PRODUCTS AND SERVICES (9.9%) | | | |
| 350,000 | Diageo plc ADR | | 24,101,000 |
| 425,000 | Heineken N. V. | | 16,956,208 |
| 466,100 | Hewitt Associates, Inc. Class A (a) | | 16,984,684 |
| 425,000 | Nestle S.A. | | 18,317,984 |
| 240,000 | PepsiCo, Inc. | | 17,104,800 |
| | | (COST \$77,948,081) | 93,464,676 |
| ENVIRONMENTAL CONTROL (INCLUDING SERVICES) (5.1%) | | | |
| 881,500 | Republic Services, Inc. | | 26,427,370 |
| 680,000 | Waste Management, Inc. | | 21,413,200 |
| | | (COST \$39,285,764) | 47,840,570 |
| FINANCE AND INSURANCE (22.5%) | | | |
| BANKING (2.0%) | | | |
| 215,000 | M&T Bank Corporation | (COST \$1,097,256) | 19,188,750 |
| INSURANCE (16.0%) | | | |
| 325,000 | The Allstate Corporation | | 14,989,000 |
| 315,000 | Arch Capital Group Ltd. (a) | | 23,004,450 |
| 300,000 | AXIS Capital Holdings Limited | | 9,513,000 |
| 200 | Berkshire Hathaway Inc. Class A (a) | | 26,120,000 |
| 300,000 | Everest Re Group, Ltd. | | 25,959,000 |
| 950,000 | Fidelity National Financial, Inc. | | 13,965,000 |
| 250,000 | MetLife, Inc. | | 14,000,000 |
| 275,000 | PartnerRe Ltd. | | 18,724,750 |
| 88,000 | Transatlantic Holdings, Inc. | | 4,782,800 |
| | | (COST \$76,682,695) | 151,058,000 |
| OTHER (4.5%) | | | |
| 375,000 | American Express Company | | 13,286,250 |
| 1,666,667 | Epoch Holding Corporation | | 17,583,337 |
| 850,000 | Nelnet, Inc. (a) | | 12,070,000 |
| | | (COST \$42,962,399) | 42,939,587 |
| | | (COST \$120,742,350) | 213,186,337 |

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| Shares | COMMON STOCKS (continued) | Value (note 1a) |
|--|--|--------------------------------|
| HEALTH CARE / PHARMACEUTICALS (3.1%) | | |
| 70,000 | Biogen Idec Inc. (a) | \$3,520,300 |
| 529,900 | Cytokinetics, Incorporated (a) | 2,511,726 |
| 200,000 | Genentech, Inc. (a) | 17,736,000 |
| 119,500 | Gilead Sciences, Inc. (a) | 5,452,785 |
| | (COST \$11,385,257) | 29,220,811 |
| MACHINERY AND EQUIPMENT (2.1%) | | |
| 1,000,000 | ABB Ltd. ADR | (COST \$10,326,510) 19,400,000 |
| MISCELLANEOUS (1.9%) | | |
| | Other (b) | (COST \$31,094,878) 18,324,195 |
| OIL AND NATURAL GAS (INCLUDING SERVICES) (16.8%) | | |
| 499,800 | Apache Corporation | 52,119,144 |
| 800,000 | Halliburton Company | 25,912,000 |
| 350,000 | McDermott International, Inc. (a) | 8,942,500 |
| 500,000 | Patterson-UTI Energy, Inc. | 10,010,000 |
| 2,470,000 | Weatherford International Ltd. (a) | 62,095,800 |
| | (COST \$91,424,196) | 159,079,444 |
| RETAIL TRADE (14.1%) | | |
| 575,000 | Costco Wholesale Corporation | 37,334,750 |
| 333,100 | Target Corporation | 16,338,555 |
| 1,675,000 | The TJX Companies, Inc. | 51,121,000 |
| 470,000 | Wal-Mart Stores, Inc. | 28,148,300 |
| | (COST \$54,015,566) | 132,942,605 |
| SEMICONDUCTORS (1.3%) | | |
| 700,000 | ASML Holding N.V. | (COST \$16,353,612) 12,327,000 |
| TECHNOLOGY (2.3%) | | |
| 1,900,000 | Xerox Corporation | (COST \$25,689,854) 21,907,000 |
| TRANSPORTATION (1.1%) | | |
| 236,100 | Alexander & Baldwin, Inc. | (COST \$11,005,032) 10,395,483 |
| | (COST \$809,512,804) | 1,049,853,840 |
| TOTAL COMMON STOCKS (111.2%) | | |
| Principal Amount CORPORATE NOTES | | |
| CONSUMER PRODUCTS AND SERVICES (1.4%) | | |
| \$13,750,000 | General Motors Nova Scotia Finance Company | |
| | 6.85% Guaranteed Notes due 10/15/08 (e) | (COST \$13,770,514) 13,629,688 |
| MISCELLANEOUS (1.0%) | | |
| | Other (b) (e) | (COST \$9,245,000) 9,000,000 |
| | | (COST \$23,015,514) 22,629,688 |
| Shares SHORT-TERM SECURITY AND OTHER ASSETS | | |
| 63,321,632 | SSgA Prime Money Market Fund (6.7%) | (COST \$63,321,632) 63,321,632 |
| TOTAL INVESTMENTS (e) (120.3%) | | |
| | (COST \$895,849,950) | 1,135,805,160 |
| | Cash, receivables and other assets less liabilities (0.9%) | 8,100,196 |
| PREFERRED STOCK (-21.2%) | | |
| NET ASSETS APPLICABLE TO COMMON STOCK (100%) | | |
| | | \$943,905,356 |

(a) Non-income producing security.

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

(c) 1,600,000 shares held by custodian in a segregated custodial account as collateral for short positions and options, if any.

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- (d) At September 30, 2008: (1) the cost of investments for Federal income tax purposes was the same as the cost for financial reporting purposes, (2) aggregate gross unrealized appreciation was \$346,631,562, (3) aggregate gross unrealized depreciation was \$106,676,352, and (4) net unrealized appreciation was \$239,955,210.
- (e) Level 2 fair value measurement, note 8.

(see notes to financial statements)

| Contracts (100 shares each) | COMMON STOCK/EXPIRATION DATE/EXERCISE PRICE | Value (note 1a) |
|---|---|---|
| CALL OPTIONS | | |
| AEROSPACE/DEFENSE | | |
| 1,750 | The Boeing Company/October 08/\$65.00 | (PREMIUMS DEPOSITED WITH BROKERS \$347,250) \$50,750 |
| OIL AND NATURAL GAS (INCLUDING SERVICES) | | |
| 1,000 | Apache Corporation/October 08/\$120.00 | (PREMIUMS DEPOSITED WITH BROKERS \$596,997) 120,000 |
| RETAIL TRADE | | |
| 500 | Costco Wholesale Corporation/October 08/\$70.00 | 30,000 |
| 500 | Walmart Stores, Inc./October 08/\$60.00 | 87,500 |
| | | (PREMIUMS DEPOSITED WITH BROKERS \$249,843) 117,500 |
| | TOTAL CALL OPTIONS | (PREMIUMS DEPOSITED WITH BROKERS \$1,194,090) \$288,250 |
| (See notes to financial statements) | | |

The diversification of the Company's net assets applicable to its Common Stock by industry group as of September 30, 2008 and 2007 is shown in the following table.

| INDUSTRY CATEGORY | SEPTEMBER 30, 2008 | | PERCENT COMMON NET ASSETS* | |
|--|--------------------|------------|----------------------------|-------|
| | COST(000) | VALUE(000) | 2008 | 2007 |
| Finance and Insurance | | | | |
| Banking | \$1,097 | \$19,189 | 2.0% | 5.6% |
| Insurance | 76,683 | 151,058 | 16.0 | 16.3 |
| Other | 42,962 | 42,940 | 4.5 | 3.3 |
| | 120,742 | 213,187 | 22.5 | 25.2 |
| Oil and Natural Gas (Including Services) | 91,424 | 159,079 | 16.8 | 17.7 |
| Retail Trade | 54,015 | 132,943 | 14.1 | 14.5 |
| Consumer Products and Services | 91,719 | 107,094 | 11.3 | 10.3 |
| Computer Software and Systems | 99,798 | 93,141 | 9.9 | 8.7 |
| Communications and Information Services | 91,269 | 87,387 | 9.3 | 8.3 |
| Aerospace/Defense | 97,344 | 71,518 | 7.6 | 4.4 |
| Environmental Control (Including Services) | 39,286 | 47,841 | 5.1 | 4.1 |
| Building and Real Estate | 31,830 | 39,719 | 4.2 | 5.1 |
| Health Care/Pharmaceuticals | 11,385 | 29,221 | 3.1 | 4.5 |
| Miscellaneous** | 40,340 | 27,324 | 2.9 | 4.2 |
| Technology | 25,690 | 21,907 | 2.3 | 3.2 |
| Machinery & Equipment | 10,327 | 19,400 | 2.1 | 2.0 |
| Semiconductors | 16,354 | 12,327 | 1.3 | |
| Transportation | 11,005 | 10,395 | 1.1 | 0.9 |
| Metals | | | | 1.5 |
| | 832,528 | 1,072,483 | 113.6 | 114.6 |

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| | | | | |
|---------------------------------------|-----------|-----------|--------|--------|
| Short-Term Securities | 63,322 | 63,322 | 6.7 | 0.5 |
| Total Investments | \$895,850 | 1,135,805 | 120.3 | 115.1 |
| Other Assets and Liabilities - Net | | 8,100 | 0.9 | 0.0 |
| Preferred Stock | | (200,000) | (21.2) | (15.1) |
| Net Assets Applicable to Common Stock | | \$943,905 | 100.0% | 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.

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 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 Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the period. Securities reported on the NASDAQ national market are valued at the official closing price on that day. Listed and NASDAQ 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. Securities traded primarily in foreign markets are generally valued at the preceding closing price of such securities on their respective exchanges or markets. If, after the close of the foreign market, 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.

b. OPTIONS The Company may purchase and write (sell) put and call options. 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 that expire unexercised are treated by the Company on the expiration date as realized gains from investments. 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. 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 has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis for the securities purchased by the Company. 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.

c. 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.

d. 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.

e. OTHER As is customary in the investment company industry, securities 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 represents

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amortized cost.

2. CAPITAL STOCK - 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, 31,574,058 and 31,559,558 shares were issued and outstanding, respectively, and 8,000,000 Preferred Shares were issued and outstanding on September 30, 2008.

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 an amount equal to accumulated and unpaid dividends to the date of redemption. The underwriting discount and other expenses associated with the Preferred Stock offering amounted to \$6,700,000 and were charged to paid-in capital.

The Company is required to allocate distributions from long-term 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 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% for the Preferred Stock. In addition, pursuant to the Rating Agency Guidelines, the Company is required to maintain a certain discounted asset coverage for its portfolio that equals or exceeds the Basic Maintenance Amount under the guidelines established by Moody's Investors Service, Inc. 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 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 (whether or not earned or declared). In addition, the Company's failure to meet the foregoing asset coverage requirements could restrict its 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.

At all times, 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 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 classifies its Preferred Stock pursuant to the requirements of EITF D-98, Classification and Measurement of Redeemable Securities, which require that preferred stock for which its redemption is outside of the company's control should be presented outside of net assets in the statement of assets and liabilities.

2. CAPITAL STOCK - (Continued from bottom of previous page.)

Transactions in Common Stock during the nine months ended September 30, 2008 and the year ended December 31, 2007 were as follows:

| | Shares | | Amount | |
|---|-------------|-------------|-------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Shares issued in payment of dividends and distributions (includes 2,404,865 shares issued from treasury) | | 2,747,460 | | \$2,747,460 |
| Increase in paid-in capital | | | | 94,155,454 |
| Total increase | | | | 96,902,914 |

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| | | | | |
|--|--------|---------|-------------|--------------|
| Shares purchased (average discount from NAV of 9.7% and 10.4%, respectively) | 13,500 | 763,600 | (\$13,500) | (763,600) |
| Decrease in paid-in capital | | | (356,715) | (29,507,548) |
| Total decrease | | | (370,215) | (30,271,148) |
| Net increase (decrease) | | | (\$370,215) | \$66,631,766 |

At September 30, 2008, the Company held in its treasury 14,500 shares of Common Stock with an aggregate cost in the amount of \$405,496. Distributions for tax and book purposes are substantially the same.

3. OFFICERS COMPENSATION The aggregate compensation paid and accrued by the Company during the nine months ended September 30, 2008 to its officers (identified on back cover) amounted to \$6,126,375.

4. PURCHASES AND SALES OF SECURITIES - Purchases and sales of securities (other than short-term securities and options) for the nine months ended September 30, 2008 amounted to \$249,657,983 and \$314,828,702.

5. WRITTEN OPTIONS - Transactions in written covered call and collateralized put options during the nine months ended September 30, 2008 were as follows:

| | Covered Calls | | Collateralized Puts | |
|---|------------------|-----------------|---------------------|-----------------|
| | <u>Contracts</u> | <u>Premiums</u> | <u>Contracts</u> | <u>Premiums</u> |
| Options outstanding, December 31, 2007 | 7,500 | \$3,073,787 | 1,999 | \$638,671 |
| Options written | 23,456 | 11,381,672 | 4,766 | 1,421,523 |
| Options expired | (11,874) | (6,046,470) | | |
| Options exercised | (1,002) | (557,561) | (159) | (58,304) |
| Options terminated in closing purchase transactions | (14,330) | (6,657,338) | (6,606) | (2,001,890) |
| Options outstanding, September 30, 2008 | 3,750 | \$1,194,090 | 0 | \$0 |

6. 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, 2008 were:

| | |
|------------------------------------|-------------|
| Service cost | \$236,512 |
| Interest cost | 554,963 |
| Expected return on plan assets | (1,073,193) |
| Amortization of prior service cost | 16,570 |
| Net periodic benefit cost (income) | (\$265,148) |

The Company also has funded and unfunded defined contribution thrift plans that are available to its employees. The aggregate cost of such plans for the nine months ended September 30, 2008 was (\$20,658). The unfunded liability at September 30, 2008 was \$3,129,361.

The Company applies the recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans which requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statement of assets and liabilities and to recognize changes in funded status in the year in which the changes occur through other comprehensive income.

7. OPERATING LEASE COMMITMENT - In June 2007, the Company entered into an operating lease agreement for office space which expires in February 2018 and provides for future rental payments in the aggregate amount of approximately \$10.8 million. 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 \$718,600 for the nine months ended September 30, 2008. Minimum rental commitments under the operating lease are approximately \$0.9 million in 2008, \$1.0 million per annum in 2009 through 2012, \$1.1 million in 2013 through 2017, and \$0.1 million in 2018.

8. FAIR VALUE MEASUREMENTS - Effective January 1, 2008, the Company adopted FASB Statement of Financial Accounting Standard No.

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157 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 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, 2008:

| Valuation Inputs | Investments in Securities | Options Written |
|---|---------------------------|-----------------|
| Level 1 - Quoted prices | \$1,113,175,472 | \$288,250 |
| Level 2 - Other significant observable inputs (see (e), page 7) | 22,629,688 | |
| Level 3 - Unobservable inputs | | |
| Total | \$1,135,805,160 | \$288,250 |

| | SHARES TRANSACTIONED | SHARES HELD SEPTEMBER 30, 2008 |
|--|-------------------------|-----------------------------------|
| INCREASES | | |
| NEW POSITIONS | | |
| ASML Holding N.V. | 700,000 | 700,000 |
| Epoch Holding Corporation, common stock | 1,666,667 | 1,666,667 (b) |
| Leap Wireless International, Inc. | | 142,500 (c) |
| McDermott International, Inc. | 350,000 | 350,000 |
| ADDITIONS | | |
| AXIS Capital Holdings Limited | 115,000 | 300,000 |
| The Boeing Company | 300,000 | 600,000 |
| Heineken N.V. | 50,000 | 425,000 |
| MetroPCS Communications, Inc. | 171,500 | 1,210,000 |
| NetEase.com, Inc. | 35,100 | 445,100 |
| DECREASES | | |
| ELIMINATIONS | | |
| Activision, Inc. | 700,000 | |
| American International Group, Inc. | 325,000 | |
| Carpenter Technology Corporation | 371,000 | |
| Epoch Holding Corporation, Series A Convertible Preferred 4.6% | 10,000 | (b) |
| The Home Depot, Inc. | 725,000 | |
| Novo Nordisk B | 190,000 | |
| THQ Inc. | 335,000 | |
| Wachovia Corporation | 485,000 | |
| REDUCTIONS | | |
| American Express Company | 75,000 | 375,000 |
| Apache Corporation | 50,000 | 499,800 |
| Arch Capital Group Ltd. | 10,000 | 315,000 |
| Everest Re Group, Ltd. | 15,000 | 300,000 |
| Fidelity National Financial, Inc. | 325,000 | 950,000 |
| M&T Bank Corporation | 85,000 | 215,000 |
| MetLife, Inc. | 15,000 | 250,000 |
| Nelnet, Inc. | 175,000 | 850,000 |
| Patterson-UTI Energy, Inc. | 100,000 | 500,000 |

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| | | | |
|-----|---|---------|---------|
| | Teradata Corporation | 200,000 | 690,000 |
| | Transatlantic Holdings, Inc. | 12,000 | 88,000 |
| (a) | Excludes transactions in Common Stocks - Miscellaneous - Other. | | |
| (b) | Shares of Series A Convertible Preferred 4.6% converted to common stock. | | |
| (c) | Includes shares purchased in prior period and previously carried under Common Stocks - Miscellaneous - Other. | | |

In addition to purchases of the Company's Common Stock as set forth in Note 2 on page 10, purchases of Common 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 June 30, 2008 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. Also, Forms N-Q may be reviewed and 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 30, 2008, 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*

Joseph T. Stewart, Jr., *Lead Independent Director*

Arthur G. Altschul, Jr.

Sidney R. Knafel

Rodney B. Berens

Daniel M. Neidich

Lewis B. Cullman

D. Ellen Shuman

Gerald M. Edelman

Raymond S. Trough

John D. Gordan, III

OFFICERS

Spencer Davidson, President & Chief Executive Officer

Andrew V. Vindigni, Senior Vice-President

Peter P. Donnelly, Vice-President & Trader

Sally A. Lynch, 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

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SERVICE COMPANIES

COUNSEL

Sullivan & Cromwell LLP

INDEPENDENT AUDITORS

Ernst & Young LLP

CUSTODIAN

State Street Bank and

Trust Company

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust

Company

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