



Mario Gabelli, CFA,
Portfolio Manager

Objective:

Growth of capital.
Current income is a
secondary objective

Portfolio:

At least 80% common
stocks and securities
convertible into common
stocks

Inception Date:

May 1, 1995

**Net Assets at
December 31, 2010:**

\$136,306,192

An Update from Fund Management

The Gabelli Capital Asset Fund's (the "Fund") net asset value ("NAV") per share rose 29.9% in 2010, compared with the Standard & Poor's (S&P) 500 Index of 15.1%.

The first quarter of 2010 started the year off on relatively good footing with the S&P 500 up over 5%. By year end, the S&P 500 was up over 15%. Throughout the year, investors were rightfully concerned about sovereign debt issues in various European countries. The size and trend of our federal deficit led many investors to consider whether our country might eventually face these same debt issues.

During 2010, another concern causing some volatility in the stock market was the pace at which the U.S. economy was emerging from the Great Recession. As a reminder, the National Bureau of Economic Research, which is charged with deciding when recessions begin and end, stated in September 2010 that the Great Recession actually ended in June 2009, eighteen months after it began. Although the economy did begin to rebuild inventories in the second half of 2009 and corporate profits grew throughout 2010, the pace of recovery was still of concern. The unemployment rate, which is a lagging indicator, stayed stubbornly high, hovering between 9% - 10% for most of the year.

Selected holdings that contributed positively to performance in 2010 was Las Vegas Sands Corp. (1.6% of net assets as of December 31, 2010), RPC Inc. (1.3%), an oilfield services company, and CNH Global (1.3%), a leader in the agricultural and construction business. Some of our weaker performing stocks during the year were Boston Scientific Corp. (0.70%), GenCorp Inc. (0.4%), and Morgan Stanley (0.4%).

We appreciate your confidence and trust.

The views expressed above are those of the Gabelli Capital Asset Fund's portfolio manager as of December 31, 2010 and are subject to change without notice. They do not necessarily represent the views of Gabelli Funds, LLC (the "Adviser"). The views expressed herein are based on current market conditions and are not intended to predict or guarantee the future performance of any Fund, any individual security, any market, or market segment. The composition of each Fund's portfolio is subject to change. No recommendation is made with respect to any security discussed herein.

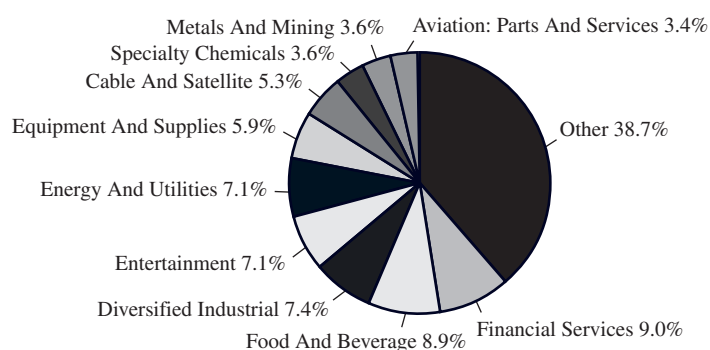
About information in this report:

- It is important to consider carefully the Fund's investment objectives, risks, fees, and expenses before investing. All funds involve some risk, including possible loss of the principal amount invested.
- The S&P 500 Index is an index of 500 primarily large cap U.S. stocks, which is generally considered to be representative of U.S. stock market activity. Index returns are provided for comparative purposes. Please note that the index is unmanaged and not available for direct investment and its returns do not reflect the fees and expenses that have been deducted from the Fund.

Top Ten Holdings (As of 12/31/2010) (Unaudited)

Company	Percentage of Total Net Assets
Cablevision Systems Corp., Cl. A	3.0%
American Express Co.	2.8%
Honeywell International Inc.	2.6%
Viacom Inc., Cl. A, Cl. B	2.5%
Diageo plc, ADR	2.5%
The Coca-Cola Co.	2.2%
Newmont Mining Corp.	2.2%
Grupo Televisa SA, ADR	2.1%
Texas Instruments Inc.	1.8%
National Fuel Gas Co.	1.7%

Sector Weightings (Percentage of Total Net Assets as of 12/31/2010) (Unaudited)



Average Annual Total Returns (For periods ended 12/31/2010) (Unaudited)

	1 Year	5 Year	10 Year	Since Inception (5/1/1995)
Gabelli Capital Asset Fund	29.89%	6.76%	6.89%	10.41%
S&P 500 Index	15.08	2.29	1.42	7.81

In the current prospectus, the expense ratio is 1.21%. See page 10 for the expense ratio for the year ended December 31, 2010.

About information in this report:

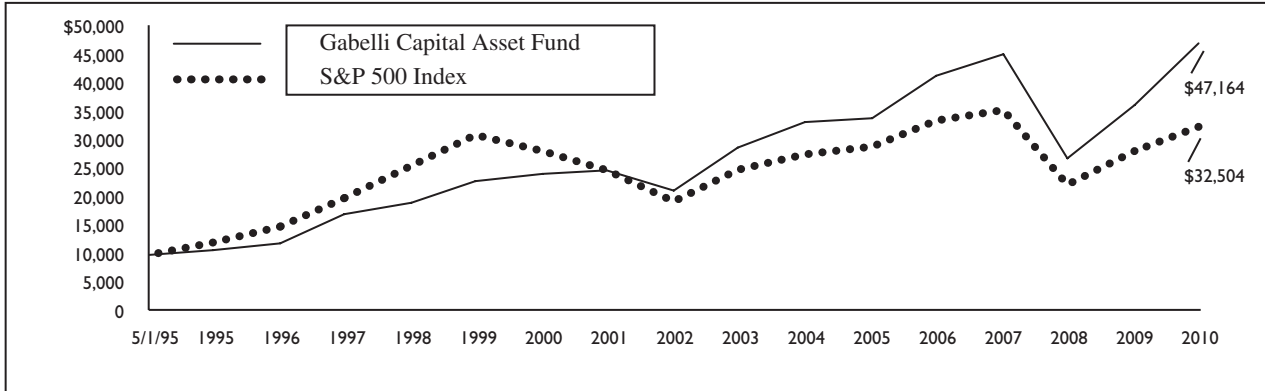
All performance data quoted is historical and the results represent past performance and neither guarantee nor predict future investment results. To obtain performance data current to the most recent month (availability within seven business days of the most recent month end), please call us at (800) 221-3253 or visit our website at www.guardianinvestor.com. Current performance may be higher or lower than the performance quoted here. Investment returns and the principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.

Total return figures are historical and assume the reinvestment of dividends and distributions and the deduction of all Fund expenses. The actual total returns for owners of variable annuity contracts or variable life insurance policies that provide for investment in the Fund will be lower to reflect separate account and contract/policy charges. The return figures shown do not reflect the deduction of taxes that a contractowner may pay on distributions or redemption of units.

■ Gabelli Capital Asset Fund

Growth of a Hypothetical \$10,000 Investment (Unaudited)

To give you a comparison, this chart shows you the performance of a hypothetical \$10,000 investment made in the Fund and in the S&P 500 Index. Index returns do not include the fees and expenses of the Fund, but do include the reinvestment of dividends.



Past performance is not predictive of future results. The S&P 500 Index is an unmanaged indicator of stock market performance.

The Fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission (the “SEC”) for the first and third quarters of each fiscal year on Form N-Q, the last of which was filed for the quarter ended September 30, 2010. The Fund’s Form N-Q is available on the SEC’s website at www.sec.gov and may also be reviewed and copied at the SEC’s Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Proxy Voting

The Fund files Form N-PX with its complete proxy voting record for the twelve months ended June 30th, no later than August 31st of each year. A description of the Fund’s proxy voting policies, procedures, and how the Fund voted proxies relating to portfolio securities is available without charge, upon request, by (i) calling 800-GABELLI (800-422-3554); (ii) writing to The Gabelli Funds at One Corporate Center, Rye, NY 10580-1422; or (iii) visiting the SEC’s website at www.sec.gov.

Disclosure of Fund Expenses (Unaudited)

For the Six Month Period from July 1, 2010 through December 31, 2010

Expense Table

We believe it is important for you to understand the impact of fees and expenses regarding your investment. All mutual funds have operating expenses. As a shareholder of a fund, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a fund’s gross income, directly reduce the investment return of a fund. When a fund’s expenses are expressed as a percentage of its average net assets, this figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your Fund and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The Expense Table below illustrates your Fund’s costs in two ways:

Actual Fund Return: This section provides information about actual account values and actual expenses. You may use this section to help you to estimate the actual expenses that you paid over the period after any fee waivers and expense reimbursements. The “Ending Account Value” shown is derived from the Fund’s **actual** return during the past six months, and the “Expenses Paid During Period” shows the dollar amount that would have been paid by an investor who started with \$1,000 in the Fund. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number given for your Fund under the heading “Expenses Paid During Period” to estimate the expenses you paid during this period.

Hypothetical 5% Return: This section provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio. It assumes a hypothetical annualized return of 5% before expenses during the period shown. In this case – because the hypothetical return used is **not** the Fund’s actual return – the results do not apply to your investment and you cannot use the hypothetical account value and expense to estimate the actual ending account balance or expenses you paid for the period. This example is useful in making comparisons of the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as sales charges (loads), redemption fees, or exchange fees, if any, which would be described in the Prospectus. If these costs were applied to your account, your costs would be higher. Therefore, the 5% hypothetical return is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. The “Annualized Expense Ratio” represents the actual expenses for the last six months and may be different from the expense ratio in the Financial Highlights which is for the year ended December 31, 2010.

	Beginning Account Value July 1, 2010	Ending Account Value December 31, 2010	Annualized Expense Ratio	Expenses Paid During Period*
<i>Gabelli Capital Asset Fund</i>				
Actual Fund Return	\$1,000.00	\$1,317.90	1.18%	\$6.89
Hypothetical 5% Return	\$1,000.00	\$1,019.26	1.18%	\$6.01

* Expenses are equal to the Fund’s annualized expense ratio for the last six months multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year (184 days), then divided by 365.

Gabelli Capital Asset Fund

Schedule of Investments

December 31, 2010

Common Stocks — 99.5%

Shares	Cost	Market Value
Aerospace — 3.3%		
4,200 HEICO Corp.	\$ 78,787	\$ 214,326
52,000 Herley Industries Inc.†	860,638	900,640
4,000 Rockwell Automation Inc.	186,103	286,840
200,000 Rolls-Royce Group plc†	1,488,744	1,942,625
12,800,000 Rolls-Royce Group plc., Cl. C†	20,200	19,956
17,000 The Boeing Co.	1,094,293	1,109,420
	<u>3,728,765</u>	<u>4,473,807</u>
Agriculture — 0.5%		
12,000 Archer-Daniels-Midland Co.	261,766	360,960
4,000 Bunge Ltd.	226,090	262,080
500 The Mosaic Co.	10,688	38,180
	<u>498,544</u>	<u>661,220</u>
Automotive — 1.1%		
25,000 Navistar International Corp.†	695,823	1,447,750
Automotive: Parts and Accessories — 2.3%		
10,000 BorgWarner Inc.†	198,525	723,600
24,000 CLARCOR Inc.	218,000	1,029,360
25,000 Midas Inc.†	455,286	202,750
88,000 Standard Motor Products Inc.	771,597	1,205,600
	<u>1,643,408</u>	<u>3,161,310</u>
Aviation: Parts and Services — 3.4%		
32,000 Curtiss-Wright Corp.	464,335	1,062,400
110,000 GenCorp Inc.†	838,563	568,700
40,000 Kaman Corp.	476,181	1,162,800
13,000 Precision Castparts Corp.	469,465	1,809,730
	<u>2,248,544</u>	<u>4,603,630</u>
Broadcasting — 3.2%		
52,000 CBS Corp., Cl. A, Voting	998,607	989,560
10,000 Cogeco Inc.	195,072	377,049
43,000 Fisher Communications Inc.†	1,759,234	937,400
24,500 Liberty Media Corp. - Capital, Cl. A†	361,527	1,532,720
17,000 LIN TV Corp., Cl. A†	21,420	90,100
52,000 Sinclair Broadcast Group Inc., Cl. A	380,403	425,360
	<u>3,716,263</u>	<u>4,352,189</u>
Business Services — 1.4%		
2,500 Ascent Media Corp., Cl. A†	43,340	96,900
34,000 Diebold Inc.	1,109,964	1,089,700
54,000 Intermec Inc.†	996,384	683,640
	<u>2,149,688</u>	<u>1,870,240</u>
Cable and Satellite — 5.3%		
5,000 Adelphia Communications Corp., Cl. A† (a)	1,597	0
5,000 Adelphia Communications Corp., Cl. A, Escrow† (a)	0	0
5,000 Adelphia Recovery Trust†	0	50
120,000 Cablevision Systems Corp., Cl. A	673,917	4,060,800
42,000 DIRECTV, Cl. A†	1,067,515	1,677,060
20,000 DISH Network Corp., Cl. A†	377,083	393,200
5,000 EchoStar Corp., Cl. A†	112,486	124,850
10,000 Liberty Global Inc., Cl. A†	130,664	353,800
9,315 Liberty Global Inc., Cl. C†	155,984	315,685
6,000 Scripps Networks Interactive Inc., Cl. A	241,516	310,500
	<u>2,760,762</u>	<u>7,235,945</u>

Shares	Cost	Market Value
Communications Equipment — 2.3%		
49,000 Corning Inc.	\$ 375,050	\$ 946,680
44,000 Thomas & Betts Corp.†	1,047,017	2,125,200
	<u>1,422,067</u>	<u>3,071,880</u>
Computer Software and Services — 1.7%		
120,000 Furmanite Corp.†	419,394	829,200
23,000 NCR Corp.†	268,937	353,510
70,000 Yahoo! Inc.†	1,958,953	1,164,100
	<u>2,647,284</u>	<u>2,346,810</u>
Consumer Products — 0.7%		
8,000 Kimberly-Clark Corp.	480,965	504,320
53,000 Schiff Nutrition International Inc.	141,025	481,240
	<u>621,990</u>	<u>985,560</u>
Consumer Services — 1.6%		
110,000 Rollins Inc.	377,325	2,172,500
Diversified Industrial — 7.4%		
23,000 Ampco-Pittsburgh Corp.	359,758	645,150
10,000 Baldor Electric Co.	340,000	630,400
20,000 Cooper Industries plc	620,459	1,165,800
32,000 Crane Co.	764,039	1,314,240
4,000 Greif Inc., Cl. A	46,099	247,600
25,000 Griffon Corp.†	292,412	318,500
66,000 Honeywell International Inc.	1,939,731	3,508,560
30,000 ITT Corp.	1,406,238	1,563,300
29,300 Katy Industries Inc.†	69,390	35,160
72,000 Myers Industries Inc.	752,469	701,280
	<u>6,590,595</u>	<u>10,129,990</u>
Electronics — 2.3%		
30,000 Cypress Semiconductor Corp.†	130,598	557,400
20,000 LSI Corp.†	97,485	119,800
75,000 Texas Instruments Inc.	1,772,274	2,437,500
	<u>2,000,357</u>	<u>3,114,700</u>
Energy and Utilities — 7.1%		
3,000 Cameron International Corp.†	42,348	152,190
8,000 Chevron Corp.	499,840	730,000
16,000 ConocoPhillips	434,880	1,089,600
8,000 Devon Energy Corp.	274,271	628,080
60,000 El Paso Corp.	602,807	825,600
27,000 El Paso Electric Co.†	242,555	743,310
16,000 Exxon Mobil Corp.	589,965	1,169,920
20,000 GenOn Energy Inc., Escrow† (a)	0	0
35,000 National Fuel Gas Co.	1,888,621	2,296,700
17,000 Progress Energy Inc., CVO†	7,800	2,593
3,000 Royal Dutch Shell plc, Cl. A, ADR	184,449	200,340
100,000 RPC Inc.	621,238	1,812,000
	<u>5,388,774</u>	<u>9,650,333</u>

See accompanying notes to financial statements.

■ Gabelli Capital Asset Fund

Schedule of Investments (Continued)

December 31, 2010

Shares	Cost	Market Value
Entertainment — 7.1%		
5,000 Discovery Communications Inc., Cl. A†	\$ 72,723	\$ 208,500
5,000 Discovery Communications Inc., Cl. C†	50,769	183,450
110,000 Grupo Televisa SA, ADR†	1,597,422	2,852,300
3,000 Liberty Media Corp. - Starz, Cl. A†	53,740	199,440
35,000 Madison Square Garden Inc., Cl. A†	171,403	902,300
40,000 Time Warner Inc.	1,236,766	1,286,800
62,000 Viacom Inc., Cl. A	2,618,844	2,843,320
14,000 Viacom Inc., Cl. B	308,817	554,540
25,000 Vivendi	843,515	674,836
	<u>6,953,999</u>	<u>9,705,486</u>
Environmental Services — 0.9%		
34,000 Waste Management Inc.	1,260,423	1,253,580
Equipment and Supplies — 5.9%		
36,000 AMETEK Inc.	162,963	1,413,000
38,000 Baldwin Technology Co. Inc., Cl. A†	52,525	50,160
10,000 Belden Inc.	172,443	368,200
40,000 Capstone Turbine Corp.†	70,880	38,392
20,000 CIRCOR International Inc.	623,306	845,600
107,000 CTS Corp.	932,994	1,183,420
8,000 Flowsolve Corp.	242,219	953,760
13,500 Franklin Electric Co. Inc.	136,103	525,420
20,000 GrafTech International Ltd.†	165,148	396,800
34,000 IDEX Corp.	687,660	1,330,080
50,000 L.S. Starrett Co., Cl. A	715,461	584,000
10,000 The Eastern Co.	92,654	178,500
3,000 Watts Water Technologies Inc., Cl. A	47,803	109,770
	<u>4,102,159</u>	<u>7,977,102</u>
Financial Services — 9.0%		
90,000 American Express Co.	2,718,344	3,862,800
10,000 Argo Group International Holdings Ltd.	271,787	374,500
16,000 BKF Capital Group Inc.†	65,957	18,400
14,000 Deutsche Bank AG	684,856	728,700
145,000 Epoch Holding Corp.	304,976	2,251,850
15,000 JPMorgan Chase & Co.	497,597	636,300
5,000 Marsh & McLennan Companies Inc.	130,198	136,700
20,000 Morgan Stanley	586,674	544,200
3,000 Northern Trust Corp.	162,937	166,230
3,000 State Street Corp.	137,702	139,020
55,000 The Bank of New York Mellon Corp.	1,644,029	1,661,000
55,000 Wells Fargo & Co.	1,649,487	1,704,450
	<u>8,854,544</u>	<u>12,224,150</u>
Food and Beverage — 8.9%		
27,000 Brown-Forman Corp., Cl. A	699,205	1,876,770
5,000 Brown-Forman Corp., Cl. B	166,087	348,100
115,000 Danone SA, ADR	1,228,865	1,454,750
45,000 Diageo plc, ADR	1,817,097	3,344,850
15,000 Fomento Economico Mexicano SAB de CV, ADR	506,335	838,800
11,000 Kraft Foods Inc., Cl. A	315,961	346,610
45,000 The Coca-Cola Co.	2,010,494	2,959,650
33,000 Tootsie Roll Industries Inc.	552,731	956,010
	<u>7,296,775</u>	<u>12,125,540</u>

Shares	Cost	Market Value
Health Care — 2.2%		
1,000 Beckman Coulter Inc.	\$ 74,705	\$ 75,230
130,000 Boston Scientific Corp.†	1,115,303	984,100
1,000 DENTSPLY International Inc.	21,925	34,170
8,000 Henry Schein Inc.†	363,738	491,120
5,000 Laboratory Corp. of America Holdings†	318,148	439,600
12,000 Mead Johnson Nutrition Co.	527,794	747,000
8,000 Patterson Companies Inc.	238,343	245,040
	<u>2,659,956</u>	<u>3,016,260</u>
Hotels and Gaming — 3.1%		
24,000 Boyd Gaming Corp.†	131,519	254,400
8,000 Canterbury Park Holding Corp.†	91,665	92,960
9,000 Churchill Downs Inc.	319,160	390,600
6,000 Dover Downs Gaming & Entertainment Inc.	32,197	20,400
80,000 Dover Motorsports Inc.†	441,751	142,400
24,000 Gaylord Entertainment Co.†	527,429	862,560
19,000 International Game Technology	386,726	336,110
47,500 Las Vegas Sands Corp.†	299,403	2,182,625
	<u>2,229,850</u>	<u>4,282,055</u>
Machinery — 1.9%		
36,000 CNH Global NV†	673,336	1,718,640
10,000 Deere & Co.	302,965	830,500
	<u>976,301</u>	<u>2,549,140</u>
Manufactured Housing and Recreational Vehicles — 0.2%		
4,000 Cavco Industries Inc.†	113,920	186,760
4,000 Skyline Corp.	125,071	104,320
	<u>238,991</u>	<u>291,080</u>
Metals and Mining — 3.6%		
16,500 Freeport-McMoRan Copper & Gold Inc.	457,123	1,981,485
48,000 Newmont Mining Corp.	1,998,993	2,948,640
	<u>2,456,116</u>	<u>4,930,125</u>
Publishing — 1.0%		
85,000 Journal Communications Inc., Cl. A†	516,527	429,250
45,000 Media General Inc., Cl. A†	128,782	260,100
4,000 Meredith Corp.	89,512	138,600
40,000 News Corp., Cl. A	409,963	582,400
	<u>1,144,784</u>	<u>1,410,350</u>
Real Estate — 1.2%		
50,000 Griffin Land & Nurseries Inc.	753,028	1,619,000
Retail — 2.1%		
46,500 Aaron's Inc.†	257,804	948,135
29,000 CVS Caremark Corp.	964,126	1,008,330
12,000 Ingles Markets Inc., Cl. A	155,171	230,400
15,000 Safeway Inc.	307,433	337,350
10,000 Walgreen Co.	260,328	389,600
	<u>1,944,862</u>	<u>2,913,815</u>
Specialty Chemicals — 3.6%		
87,000 Ferro Corp.†	750,494	1,273,680
8,000 Hawkins Inc.	112,641	355,200
19,000 International Flavors & Fragrances Inc.	886,929	1,056,210
64,000 Omnova Solutions Inc.†	318,500	535,040
3,800 Quaker Chemical Corp.	67,140	158,346
40,000 Sensient Technologies Corp.	843,930	1,469,200
	<u>2,979,634</u>	<u>4,847,676</u>

See accompanying notes to financial statements.

■ Gabelli Capital Asset Fund

Schedule of Investments (Continued)

December 31, 2010

<i>Shares</i>	<i>Cost</i>	<i>Market Value</i>
Telecommunications — 2.7%		
210,100 Cincinnati Bell Inc.†	\$ 843,318	\$ 588,280
3,000 NII Holdings Inc.†	132,318	133,980
12,000 Rogers Communications Inc., Cl. B	164,214	415,560
230,000 Sprint Nextel Corp.†	1,926,188	972,900
33,000 Telephone & Data Systems Inc.	1,176,251	1,206,150
10,000 Telephone & Data Systems Inc., Special	296,612	315,200
	<u>4,538,901</u>	<u>3,632,070</u>
Transportation — 0.5%		
21,000 GATX Corp.	708,441	740,880
Wireless Communications — 2.0%		
6,000 Millicom International Cellular SA	462,810	573,600
44,000 United States Cellular Corp.†	1,722,675	2,197,360
	<u>2,185,485</u>	<u>2,770,960</u>
Total Common Stocks	87,774,438	135,567,133

Preferred Stocks — 0.0%

Consumer Products — 0.0%		
1,000 Revlon Inc., 12.750% Pfd., Ser. A (a)	26,464	5,500

Warrants — 0.0%

Energy and Utilities — 0.0%		
1,000 GenOn Energy Inc., expire 01/03/11† (a)	2,199	7

<i>Principal Amount</i>	<i>Cost</i>	<i>Market Value</i>
U.S. Government Obligations — 0.2%		
\$ 260,000 U.S. Treasury Bill, 0.180%††, 06/30/11	\$ 259,766	\$ 259,775
TOTAL INVESTMENTS — 99.7%	\$88,062,867	135,832,415
Other Assets and Liabilities (Net) — 0.3%		473,777
NET ASSETS — 100.0%		\$ 136,306,192

(a) Security fair valued under procedures established by the Board of Directors. The procedures may include reviewing available financial information about the company and reviewing valuation of comparable securities and other factors on a regular basis. At December 31, 2010, the market value of fair valued securities amounted to \$5,507 or 0.00% of net assets.

† Non-income producing security.

†† Represents annualized yield at date of purchase.

ADR American Depositary Receipt

CVO Contingent Value Obligation

■ Gabelli Capital Asset Fund

Statement of Assets and Liabilities

December 31, 2010

ASSETS:

Investments, at value (cost \$88,062,867)	\$ 135,832,415
Foreign currency, at value (cost \$19)	17
Cash	367
Receivable for investments sold	878,894
Receivable for Fund shares issued	38,097
Dividends receivable	82,193
Prepaid expense	4,057

Total Assets \$ 136,836,040

LIABILITIES:

Payable for Fund shares redeemed	336,983
Payable for investment management fees	115,677
Payable for accounting fees	7,500
Payable for legal and audit fees	52,515
Other accrued expenses	17,173

Total Liabilities \$ 529,848

Net Assets (applicable to 7,249,493 shares outstanding) \$ 136,306,192

NET ASSETS CONSIST OF:

Paid-in capital	\$ 96,494,206
Undistributed net investment income	4,914
Accumulated net realized loss on investments and foreign currency transactions	(7,962,474)
Net unrealized appreciation on investments and foreign currency translations	47,769,546

Net Assets \$ 136,306,192

Shares of Capital Stock at \$0.001 par value; 500,000,000 shares authorized:

Net Asset Value, offering, and redemption price per share ($\$136,306,192 \div 7,249,493$ shares outstanding) \$18.80

Statement of Operations

For the Year Ended
December 31, 2010

INVESTMENT INCOME:

Dividends (net of foreign withholding taxes of \$24,158)	\$ 1,985,221
Interest	605

Total Investment Income 1,985,826

EXPENSES:

Management fees	1,230,269
Legal and audit fees	74,655
Accounting fees	45,000
Custodian fees	25,163
Directors' fees	24,244
Shareholder communications expenses	14,924
Shareholder services fees	11,710
Interest expense	2,421
Miscellaneous expenses	23,043

Total Expenses 1,451,429

Net Investment Income 534,397

NET REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:

Net realized gain on investments	7,847,650
Net realized loss on foreign currency transactions	(627)
Net realized gain on investments and foreign currency transactions	<u>7,847,023</u>

Net change in unrealized appreciation on investments and foreign currency translations 24,306,115

Net Realized and Unrealized Gain/(Loss) on Investments and Foreign Currency 32,153,138

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS \$32,687,535

See accompanying notes to financial statements.

■ Gabelli Capital Asset Fund

Statement of Changes in Net Assets

	<u>Year Ended December 31, 2010</u>	<u>Year Ended December 31, 2009</u>
OPERATIONS:		
Net investment income	\$ 534,397	\$ 777,194
Net realized gain/(loss) on investments and foreign currency transactions	7,847,023	(10,330,205)
Net change in unrealized appreciation on investments and foreign currency translations	<u>24,306,115</u>	<u>41,726,777</u>
Net Increase in Net Assets Resulting from Operations	<u>32,687,535</u>	<u>32,173,766</u>
DISTRIBUTIONS TO SHAREHOLDERS:		
Net investment income	(528,856)	(860,189)
Net realized gain	—	(71,897)
Return of capital	<u>—</u>	<u>(1,274)</u>
Total Distributions to Shareholders	<u>(528,856)</u>	<u>(933,360)</u>
CAPITAL SHARE TRANSACTIONS:		
Net decrease in net assets from capital share transactions	<u>(16,216,996)</u>	<u>(19,738,660)</u>
Net Increase in Net Assets	15,941,683	11,501,746
NET ASSETS:		
Beginning of period	<u>120,364,509</u>	<u>108,862,763</u>
End of period (including undistributed net investment income of \$4,914 and \$0, respectively)	<u>\$136,306,192</u>	<u>\$120,364,509</u>

■ Gabelli Capital Asset Fund

Financial Highlights

Selected data for a share of capital stock outstanding throughout the periods indicated:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Operating Performance:					
Net asset value, beginning of period	\$14.53	\$10.87	\$18.66	\$18.58	\$17.40
Net investment income (a)	0.07	0.09	0.12	0.10	0.06
Net realized and unrealized gain/(loss) on investments	4.27	3.68	(7.68)	1.61	3.77
Total from investment operations	4.34	3.77	(7.56)	1.71	3.83
Distributions to Shareholders:					
Net investment income	(0.07)	(0.10)	(0.13)	(0.10)	(0.06)
Net realized gain on investments	—	(0.01)	(0.10)	(1.53)	(2.59)
Return of capital	—	(0.00)(d)	—	(0.00)(d)	(0.00)(d)
Total distributions	(0.07)	(0.11)	(0.23)	(1.63)	(2.65)
Net Asset Value, End of Period	\$18.80	\$14.53	\$10.87	\$18.66	\$18.58
Total Return †	29.9%	34.7%	(40.4)%	9.1%	21.9%
Ratios to Average Net Assets and Supplemental Data:					
Net assets, end of period (in 000's)	\$136,306	\$120,365	\$108,863	\$228,944	\$234,414
Ratio of net investment income to average net assets	0.43%	0.72%	0.76%	0.45%	0.28%
Ratio of operating expenses to average net assets (b)(c)	1.18%	1.21%	1.15%	1.10%	1.09%
Portfolio turnover rate ††	10%	12%	11%	24%	40%

† Total return represents aggregate total return of a hypothetical \$1,000 investment at the beginning of the period and sold at the end of the period including reinvestment of distributions.

†† Effective in 2008, a change in accounting policy was adopted with regard to the calculation of the portfolio turnover rate to include cash proceeds due to mergers. Had this policy been adopted retroactively, the portfolio turnover rate for the year ended December 31, 2007 would have been 33%. The portfolio turnover rate for the year ended 2006 would have been as shown.

(a) Per share amounts have been calculated using the average shares outstanding method for the years ended December 31, 2010, 2009, 2008, and 2007.

(b) The Fund incurred interest expense during the year ended December 31, 2008. If interest expense had not been incurred, the ratios of operating expenses to average net assets would have been 1.14%. For the years ended December 31, 2010, 2009, and 2006, the effect of interest expense was minimal. For the year ended December 31, 2007, there was no interest expense.

(c) The ratios include a reduction for custodian fee credits on cash balances maintained with the custodian ("Custodian Fee Credits"). Historically, the ratios reflected operating expenses before the reduction for Custodian Fee Credits. If the ratios did not reflect a reduction for Custodian Fee Credits, the ratios for the year ended December 31, 2006 would have been 1.10%. For the years ended December 31, 2008 and 2007, the effect of Custodian Fee Credits was minimal. For the years ended December 31, 2010 and 2009, there were no Custodian Fee Credits.

(d) Amount represents less than \$0.005 per share.

See accompanying notes to financial statements.

■ Gabelli Capital Asset Fund

Notes to Financial Statements

December 31, 2010

1. Organization

The Gabelli Capital Asset Fund (the “Fund”) is a series of Gabelli Capital Series Funds, Inc. (the “Company”), which was organized on April 8, 1993 as a Maryland corporation. The Company is a diversified open-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The Fund’s primary objective is growth of capital. Current income is a secondary objective. The Fund commenced investment operations on May 1, 1995. Shares of the Fund are available to the public only through the purchase of certain variable annuity and variable life insurance contracts issued by The Guardian Insurance & Annuity Company, Inc. (“Guardian”) and other selected insurance companies.

2. Significant Accounting Policies

The Fund’s financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), which may require the use of management estimates and assumptions. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

Security Valuation

Portfolio securities listed or traded on a nationally recognized securities exchange or traded in the U.S. over-the-counter market for which market quotations are readily available are valued at the last quoted sale price or a market’s official closing price as of the close of business on the day the securities are being valued. If there were no sales that day, the security is valued at the average of the closing bid and asked prices or, if there were no asked prices quoted on that day, then the security is valued at the closing bid price on that day. If no bid or asked prices are quoted on such day, the security is valued at the most recently available price or, if the Board of Directors (the “Board”) so determines, by such other method as the Board shall determine in good faith to reflect its fair market value. Portfolio securities traded on more than one national securities exchange or market are valued according to the broadest and most representative market, as determined by the Gabelli Funds, LLC (the “Adviser”).

Portfolio securities primarily traded on a foreign market are generally valued at the preceding closing values of such securities on the relevant market, but may be fair valued pursuant to procedures established by the Board if market conditions change significantly after the close of the foreign market but prior to the close of business on the day the securities are being valued. Debt instruments with remaining maturities of sixty days or less that are not credit impaired are valued at amortized cost, unless the Board determines such amount does not reflect the securities’ fair value, in which case these securities will be fair valued as determined by the Board. Debt instruments having a maturity greater than sixty days for which market quotations are readily available are valued at the average of the latest bid and asked prices. If there were no asked prices quoted on such day, the security is valued using the closing bid price.

Securities and assets for which market quotations are not readily available are fair valued as determined by the Board. Fair valuation methodologies and procedures may include, but are not limited to: analysis and review of available financial and non-financial information about the company; comparisons with the valuation and changes in valuation of similar securities, including a comparison of foreign securities with the equivalent U.S. dollar value ADR securities at the close of the U.S. exchange; and evaluation of any other information that could be indicative of the value of the security.

The inputs and valuation techniques used to measure fair value of the Fund’s investments are summarized into three levels as described in the hierarchy below:

- Level 1 – quoted prices in active markets for identical securities;
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.); and
- Level 3 – significant unobservable inputs (including the Fund’s determinations as to the fair value of investments).

■ Gabelli Capital Asset Fund

Notes to Financial Statements (Continued)

December 31, 2010

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input both individually and in aggregate that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of the Fund's investments in securities by inputs used to value the Fund's investments as of December 31, 2010 is as follows:

	Valuation Inputs			Total Market Value at 12/31/10
	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	
INVESTMENTS IN SECURITIES:				
ASSETS (Market Value):				
Common Stocks:				
Aerospace	\$ 4,453,851	\$ 19,956	—	\$ 4,473,807
Cable and Satellite	7,235,945	—	\$ 0	7,235,945
Energy and Utilities	9,647,740	2,593	0	9,650,333
Other Industries (a)	114,207,048	—	—	114,207,048
Total Common Stocks	135,544,584	22,549	0	135,567,133
Preferred Stocks:				
Consumer Products	—	—	5,500	5,500
Warrants:				
Energy and Utilities	—	—	7	7
Total Warrants	—	—	7	7
U.S. Government Obligations	—	259,775	—	259,775
TOTAL INVESTMENTS IN SECURITIES – ASSETS	\$135,544,584	\$282,324	\$5,507	\$135,832,415

(a) Please refer to the Schedule of Investments for the industry classifications of these portfolio holdings.

The Fund did not have significant transfers between Level 1 and Level 2 during the year ended December 31, 2010.

The following table reconciles Level 3 investments for which significant unobservable inputs were used to determine fair value:

	Balance as of 12/31/09	Accrued discounts/ (premiums)	Realized gain/ (loss)	Change in unrealized appreciation/ depreciation†	Net purchases/ (sales)	Transfers into Level 3††	Transfers out of Level 3††	Balance as of 12/31/10	Net change in unrealized appreciation/ depreciation during the period on Level 3 investments held at 12/31/10†
INVESTMENTS IN SECURITIES:									
ASSETS (Market Value):									
Common Stocks:									
Cable and Satellite	\$ 0	\$—	\$ 0	\$ 3,653	\$(3,653)	\$ —	\$—	\$ 0	\$ 3,653
Energy and Utilities	0	—	—	—	—	—	—	0	—
Wireless Communications	0	—	0	—	(0)	—	—	—	—
Total Common Stocks	0	—	0	3,653	(3,653)	—	—	0	3,653
Preferred Stocks:									
Consumer Products	—	—	—	(11,510)	—	17,010	—	5,500	(11,510)
Warrants:									
Energy and Utilities	—	—	—	(473)	—	480	—	7	(473)
TOTAL INVESTMENTS IN SECURITIES	\$ 0	\$—	\$ 0	\$ (8,330)	\$(3,653)	\$17,490	\$—	\$5,507	\$ (8,330)

† Net change in unrealized appreciation/depreciation on investments is included in the related amounts in the Statement of Operations.

†† The Fund's policy is to recognize transfers into and transfers out of Level 3 as of the beginning of the reporting period.

In January 2010, the Financial Accounting Standards Board ("FASB") issued amended guidance to improve disclosure about fair value measurements which requires additional disclosures about transfers between Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). FASB also clarified existing disclosure requirements relating to the levels of disaggregation of fair value measurement and inputs and valuation techniques used to measure fair value. The amended guidance is effective for financial statements for fiscal years beginning after December 15, 2009 and interim periods within those fiscal years. Management has adopted the amended guidance and determined that there was no material impact to the Fund's financial statements except for additional disclosures made in the notes. Disclosures about purchases, sales, issuances, and settlements in the rollforward of

■ Gabelli Capital Asset Fund

Notes to Financial Statements (Continued)

December 31, 2010

activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Management is currently evaluating the impact of the additional disclosure requirements on the Fund's financial statements.

Foreign Currency Translations

The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments, and other assets and liabilities are translated into U.S. dollars at the current exchange rates. Purchases and sales of investment securities, income, and expenses are translated at the exchange rate prevailing on the respective dates of such transactions. Unrealized gains and losses that result from changes in foreign exchange rates and/or changes in market prices of securities have been included in unrealized appreciation/depreciation on investments and foreign currency translations. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date on investment securities transactions, foreign currency transactions, and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amounts actually received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the initial purchase trade date and subsequent sale trade date is included in realized gain/loss on investments.

Foreign Securities

The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible revaluation of currencies, the inability to repatriate funds, less complete financial information about companies, and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. issuers.

Foreign Taxes

The Fund may be subject to foreign taxes on income, gains on investments, or currency repatriation, a portion of which may be recoverable. The Fund will accrue such taxes and recoveries as applicable, based upon its current interpretation of tax rules and regulations that exist in the markets in which it invests.

Securities Transactions and Investment Income

Securities transactions are accounted for on the trade date with realized gain or loss on investments determined by using the identified cost method. Interest income (including amortization of premium and accretion of discount) is recorded on the accrual basis. Premiums and discounts on debt securities are amortized using the effective yield to maturity method. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities that are recorded as soon after the ex-dividend date as the Fund becomes aware of such dividends.

Expenses

Certain administrative expenses are common to, and allocated among, various affiliated funds. Such allocations are made on the basis of each fund's average net assets or other criteria directly affecting the expenses as determined by the Adviser pursuant to procedures established by the Board.

Custodian Fee Credits and Interest Expense

When cash balances are maintained in the custody account, the Fund receives credits which are used to offset custodian fees. The gross expenses paid under the custody arrangement are included in custodian fees in the Statement of Operations with the corresponding expense offset, if any, shown as "Custodian fee credits." When cash balances are overdrawn, the Fund is charged an overdraft fee equal to 2.00% above the federal funds rate on outstanding balances. This amount, if any, would be included in "interest expense" in the Statement of Operations. There were no custodian fee credits earned during the year ended December 31, 2010.

Distributions to Shareholders

Distributions to shareholders are recorded on the ex-dividend date. Distributions to shareholders are based on income and capital gains as determined in accordance with federal income tax regulations, which may differ from income and capital gains as determined under GAAP. These differences are primarily due to differing treatments of income and gains on various investment

■ Gabelli Capital Asset Fund

Notes to Financial Statements (Continued)

December 31, 2010

securities and foreign currency transactions held by the Fund, timing differences, and differing characterizations of distributions made by the Fund. Distributions from net investment income for federal income tax purposes include net realized gains on foreign currency transactions. These book/tax differences are either temporary or permanent in nature. To the extent these differences are permanent, adjustments are made to the appropriate capital accounts in the period when the differences arise. Permanent differences were primarily due to tax treatment of currency gains and losses. These reclassifications have no impact on the net asset value (“NAV”) per share of the Fund. For the year ended December 31, 2010, reclassifications were made to decrease undistributed net investment income by \$627 and decrease accumulated net realized loss on investments and foreign currency transactions by \$627.

The tax character of distributions paid during the years ended December 31, 2010 and December 31, 2009 was as follows:

	<u>Year Ended December 31, 2010</u>	<u>Year Ended December 31, 2009</u>
Distributions paid from:		
Ordinary income	\$528,856	\$860,189
Net long-term capital gains	—	71,897
Return of capital	—	1,274
Total distributions paid	<u>\$528,856</u>	<u>\$933,360</u>

Provision for Income Taxes

The Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). It is the policy of the Fund to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of its net investment company taxable income and net capital gains. Therefore, no provision for federal income taxes is required.

At December 31, 2010, the components of accumulated earnings/losses on a tax basis were as follows:

Accumulated capital loss carryforwards	\$ (4,822,053)
Undistributed ordinary income	4,914
Net unrealized appreciation on investments and foreign currency translations	<u>44,629,125</u>
Total	<u>\$39,811,986</u>

At December 31, 2010, the Fund had net capital loss carryforwards for federal income tax purposes of \$4,822,053 which are available to reduce future required distributions of net capital gains to shareholders through 2017.

During the year ended December 31, 2010, the Fund utilized capital loss carryforwards of \$6,641,641.

At December 31, 2010, the temporary difference between book basis and tax basis net unrealized appreciation on investments was primarily due to deferral of losses from wash sales for tax purposes and wash sales adjustments.

The following summarizes the tax cost of investments and the related net unrealized appreciation at December 31, 2010:

	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation</u>
Investments	\$91,203,288	\$52,924,318	\$(8,295,191)	\$44,629,127

The Fund is required to evaluate tax positions taken or expected to be taken in the course of preparing the Fund’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Income tax and related interest and penalties would be recognized by the Fund as tax expense in the Statement of Operations if the tax positions were deemed not to meet the more-likely-than-not threshold. For the year ended December 31, 2010, the Fund did not incur any income tax, interest, or penalties. As of December 31, 2010, the Adviser has reviewed all open tax years and concluded that there was no impact to the Fund’s net assets or results of operations. Tax years ended December 31, 2007 through December 31, 2010 remain subject to examination by the Internal Revenue Service and state taxing authorities. On an ongoing basis, the Adviser will monitor the Fund’s tax positions to determine if adjustments to this conclusion are necessary.

■ Gabelli Capital Asset Fund

Notes to Financial Statements (Continued)

December 31, 2010

3. Agreements with Affiliated Parties

Pursuant to a management agreement (the "Management Agreement"), the Fund will pay Guardian Investor Services Corporation (the "Manager") a fee, computed daily and paid monthly, at the annual rate of 1.00% of the value of its average daily net assets. Pursuant to an Investment Advisory Agreement among the Fund, the Manager, and the Adviser, the Adviser, under the supervision of the Company's Board and the Manager, manages the Fund's assets in accordance with the Fund's investment objectives and policies, makes investment decisions for the Fund, places purchase and sale orders on behalf of the Fund, provides investment research, and provides facilities and personnel required for the Fund's administrative needs. The Adviser may delegate its administrative role and currently has done so to BNY Mellon Investment Servicing (US), Inc. (formerly known as PNC Global Investment Servicing (U.S.) Inc.), the Fund's sub-administrator (the "Sub-Administrator"). The Adviser will supervise the performance of administrative and professional services provided by others and pays the compensation of the Sub-Administrator and all Officers and Directors of the Company who are its affiliates. As compensation for its services and the related expenses borne by the Adviser, the Manager pays the Adviser a fee, computed daily and paid monthly, at the annual rate of 0.75% of the value of the Fund's average daily net assets.

The Fund pays each Director who is not considered an affiliated person an annual retainer of \$3,000 plus \$500 for each Board meeting attended. Each Director is reimbursed by the Fund for any out of pocket expenses incurred in attending meetings. All Board committee members receive \$500 per meeting attended and the Chairman of the Audit Committee and the Lead Director each receive an annual fee of \$1,000. A Director may receive a single meeting fee, allocated among the participating funds, for participation in certain meetings held on behalf of multiple funds. Directors who are directors or employees of the Adviser or an affiliated company receive no compensation or expense reimbursement from the Fund.

4. Portfolio Securities

Purchases and sales of securities for the year ended December 31, 2010, other than short-term securities and U.S. Government obligations aggregated \$12,755,118 and \$29,645,122, respectively.

5. Transactions with Affiliates

During the year ended December 31, 2010, the Fund paid brokerage commissions on security trades of \$37,452 to Gabelli & Company, Inc.

The cost of calculating the Fund's NAV per share is a Fund expense pursuant to the Investment Advisory Agreement between the Fund and the Adviser. During the year ended December 31, 2010, the Fund paid or accrued \$45,000 to the Adviser in connection with the cost of computing the Fund's NAV.

The Fund is assuming its portion of the allocated cost of the Adviser's Chief Compliance Officer in the amount of \$2,774 for the year ended December 31, 2010, which is included in miscellaneous expenses in the Statement of Operations.

6. Line of Credit

The Fund participates in an unsecured line of credit of up to \$75,000,000 under which it may borrow up to 10% of its net assets from the custodian for temporary borrowing purposes. Borrowings under this arrangement bear interest at the higher of the sum of the overnight LIBOR plus 125 basis points or the sum of the federal funds rate plus 125 basis points at the time of borrowing. This amount, if any, would be included in "interest expense" in the Statement of Operations. At December 31, 2010, there were no borrowings outstanding under the line of credit.

The average daily amount of borrowings outstanding under the line of credit during the year ended December 31, 2010 was \$151,704 with a weighted average interest rate of 1.43%. The maximum amount borrowed at any time during the year ended December 31, 2010 was \$913,000.

■ Gabelli Capital Asset Fund

Notes to Financial Statements (Continued)

December 31, 2010

7. Capital Stock

Transactions in shares of capital stock were as follows:

	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2010	Year Ended December 31, 2009
	Shares		Amount	
Shares sold	404,020	282,549	\$ 6,468,527	\$ 3,363,939
Shares issued upon reinvestment of distributions	28,026	63,624	528,857	933,360
Shares redeemed	(1,467,206)	(2,075,967)	(23,214,380)	(24,035,959)
Net decrease	(1,035,160)	(1,729,794)	\$(16,216,996)	\$(19,738,660)

8. Indemnifications

The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts. Management has reviewed the Fund's existing contracts and expects the risk of loss to be remote.

9. Other Matters

On April 24, 2008, the Adviser entered into a settlement with the SEC to resolve an inquiry regarding prior frequent trading activity in shares of the GAMCO Global Growth Fund (the "Global Growth Fund") by one investor who was banned from the Global Growth Fund in August 2002. In the administrative settlement order, the SEC found that the Adviser had willfully violated Section 206(2) of the 1940 Act, Section 17(d) of the 1940 Act and Rule 17d-1 thereunder, and had willfully aided and abetted and caused violations of Section 12(d)(1)(B)(i) of the 1940 Act. Under the terms of the settlement, the Adviser, while neither admitting nor denying the SEC's findings and allegations, paid \$16 million (which included a \$5 million civil monetary penalty), approximately \$12.8 million of which is in the process of being paid to shareholders of the Global Growth Fund in accordance with a plan developed by an independent distribution consultant and approved by the independent directors of the Global Growth Fund and acceptable to the staff of the SEC, and agreed to cease and desist from future violations of the above referenced federal securities laws and rule. The SEC order also noted the cooperation that the Adviser had given the staff of the SEC during its inquiry. The settlement did not have a material adverse impact on the Adviser or its ability to fulfill its obligations under the Advisory Agreement. On the same day, the SEC filed a civil action against the Executive Vice President and Chief Operating Officer of the Adviser, alleging violations of certain federal securities laws arising from the same matter. The officer is also an officer of the Fund, the Global Growth Fund, and other funds in the Gabelli/GAMCO fund complex. The officer denied the allegations and is continuing in his positions with the Adviser and the funds. The court dismissed certain claims and found that the SEC was not entitled to pursue various remedies against the officer while leaving one remedy in the event the SEC were able to prove violations of law. The court subsequently dismissed without prejudice the remaining remedy against the officer, which would allow the SEC to appeal the court's rulings. On October 29, 2010 the SEC filed its appeal with the U.S. Court of Appeals for the Second Circuit regarding the lower court's orders. The Adviser currently expects that any resolution of the action against the officer will not have a material adverse impact on the Fund or the Adviser or its ability to fulfill its obligations under the Advisory Agreement.

10. Subsequent Events

Management has evaluated the impact on the Fund of all subsequent events occurring through the date the financial statements were issued and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

■ Gabelli Capital Series Fund, Inc.

**Report of Independent Registered
Public Accounting Firm**

**To the Shareholders and Board of Directors of
Gabelli Capital Series Funds, Inc.**

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Gabelli Capital Asset Fund (the “Fund”), the sole series of Gabelli Capital Series Funds, Inc., as of December 31, 2010, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also

includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2010, by correspondence with the Fund’s custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Gabelli Capital Asset Fund, a series of Gabelli Capital Series Funds, Inc., at December 31, 2010, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Philadelphia, Pennsylvania
February 18, 2011

■ Gabelli Capital Asset Fund

Additional Information (Unaudited)

The business and affairs of the Fund are managed under the direction of the Company's Board of Directors. Information pertaining to the Directors and Officers of the Fund is set forth below. The Fund's Statement of Additional Information includes additional information about the Fund's Directors and Officers and is available without charge, upon request, by writing to Gabelli Capital Series Funds, Inc. at One Corporate Center, Rye, NY 10580-1422.

Name, Position(s) Address ¹ and Age	Term of Office and Length of Time Served ²	Number of Funds in Fund Complex Overseen by Director	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director ⁴
Interested Directors³				
Mario J. Gabelli Director and Chief Investment Officer Age: 68	Since 1995	26	Chairman and Chief Executive Officer of GAMCO Investors, Inc. and Chief Investment Officer – Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc.; Director/Trustee or Chief Investment Officer of other registered investment companies in the Gabelli/GAMCO Funds complex; Chief Executive Officer of GGCP, Inc.	Director of Morgan Group Holdings, Inc. (holding com- pany); Chairman of the Board and Chief Executive Officer of LICT Corp. (multimedia and communication services company); Director of CIBL, Inc. (broadcasting and wireless communications)
Arthur V. Ferrara Director Age: 80	Since 1995	8	Former Chairman of the Board and Chief Executive Officer of The Guardian Life Insurance Company of America (1992-1995)	—
Independent Directors				
Anthony J. Colavita Director Age: 75	Since 1995	34	President of the law firm of Anthony J. Colavita, P.C.	—
Anthony R. Pustorino Director Age: 85	Since 1995	13	Certified Public Accountant; Professor Emeritus, Pace University	—
Werner J. Roeder, MD Director Age: 70	Since 1995	22	Medical Director of Lawrence Hospital and practicing private physician	—
Anthonie C. van Ekris Director Age: 76	Since 1995	20	Director of Aurado Energy Inc. (oil and gas operations) through 2005	—

■ Gabelli Capital Asset Fund

Additional Information (Unaudited) (Continued)

Name, Position(s) Address ¹ and Age	Term of Office and Length of Time Served ²	Principal Occupation(s) During Past Five Years
Officers		
Bruce N. Alpert President and Secretary Age: 59	Since 1995	Executive Vice President and Chief Operating Officer of Gabelli Funds, LLC and an officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex. Director of Teton Advisors, Inc. since 1998; Chairman of Teton Advisors, Inc. 2008 to 2010; President of Teton Advisors, Inc. 1998 through 2008; Senior Vice President of GAMCO Investors, Inc. since 2008
Agnes Mullady Treasurer Age: 52	Since 2006	Senior Vice President of GAMCO Investors, Inc. since 2009; Vice President of Gabelli Funds, LLC since 2007; Officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex
Peter D. Goldstein Chief Compliance Officer Age: 57	Since 2004	Director of Regulatory Affairs at GAMCO Investors, Inc. since 2004; Chief Compliance Officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex

1. Address: One Corporate Center, Rye, NY 10580-1422, unless otherwise noted.
2. Each Director will hold office for an indefinite term until the earliest of (i) the next meeting of shareholders, if any, called for the purpose of considering the election or re-election of such Director and until the election and qualification of his or her successor, if any, elected at such meeting, or (ii) the date a Director resigns or retires, or a Director is removed by the Board of Directors or shareholders, in accordance with the Fund's By-Laws and Articles of Incorporation. Each officer will hold office for an indefinite term until the date he or she resigns or retires or until his or her successor is elected and qualified.
3. "Interested person" of the Fund as defined in the 1940 Act. Mr. Gabelli is considered an "interested person" because of his affiliation with Gabelli Funds, LLC which acts as the Fund's investment adviser. Mr. Ferrara is considered an interested person because of his affiliation with The Guardian Life Insurance Company of America, which is the parent company of the Fund's Manager.
4. This column includes only directorships of companies required to report to the SEC under the Securities Exchange Act of 1934, as amended, i.e., public companies, or other investment companies registered under the 1940 Act.

■ Gabelli Capital Asset Fund

2010 Tax Notice to Shareholders (Unaudited)

For the year ended December 31, 2010, the Fund paid to shareholders ordinary income distributions (comprised of net investment income) totaling \$0.073 per share. For the year ended December 31, 2010, 100% of the ordinary income distribution qualifies for the dividends received deduction available to corporations. The Fund designates 100% of the ordinary income distribution as qualified dividend income pursuant to the Jobs and Growth Tax Relief Reconciliation Act of 2003. The Fund designates 0.03% of the ordinary income distribution as qualified interest income, pursuant to the American Jobs Creation Act of 2004.

U.S. Government Income

The percentage of the ordinary income distribution paid by the Fund during 2010 which was derived from U.S. Treasury securities was 0.03%. Such income is exempt from state and local tax in all states. However, many states, including New York and California, allow a tax exemption for a portion of the income earned only if a mutual fund has invested at least 50% of its assets at the end of each quarter of the Fund's fiscal year in U.S. Government securities. The Gabelli Capital Asset Fund did not meet this strict requirement in 2010. The percentage of U.S. Government securities held as of December 31, 2010 was 0.19%. Due to the diversity in state and local tax law, it is recommended that you consult your personal tax adviser as to the applicability of the information provided to your specific situation.

All designations are based on financial information available as of the date of this annual report and, accordingly, are subject to change. For each item, it is the intention of the Fund to designate the maximum amount permitted under the Internal Revenue Code and the regulations thereunder.