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GAMCO INVESTORS, INC. ET AL  
Form 10-Q  
August 08, 2006

SECURITIES & EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-106

GAMCO INVESTORS, INC.

-----  
(Exact name of Registrant as specified in its charter)

New York

13-4007862

-----  
(State of other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Corporate Center, Rye, NY

10580-1422

-----  
(Address of principle executive offices)

(Zip Code)

(914) 921-3700

-----  
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer \_\_\_\_\_ Accelerated filer  Non-accelerated filer \_\_\_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

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Yes \_\_\_\_\_ No  X  
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Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practical date.

Class -----	Outstanding at July 31, 2006 -----
Class A Common Stock, .001 par value	7,473,758
Class B Common Stock, .001 par value	20,781,027

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### GAMCO INVESTORS, INC. AND SUBSIDIARIES

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- Six months ended June 30, 2006 and 2005

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- June 30, 2006
- June 30, 2005

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- Three months ended June 30, 2006 and 2005
- Six months ended June 30, 2006 and 2005

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- Three months ended June 30, 2006 and 2005
- Six months ended June 30, 2006 and 2005

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GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
UNAUDITED  
(In thousands, except per share data)

	Three Months Ended June 30,		Si
	2006	2005 (A)	
<b>Revenues</b>			
Investment advisory and incentive fees	\$ 54,724	\$ 52,088	\$ 10
Commission revenue	2,722	2,574	
Distribution fees and other income	5,351	4,908	1
<b>Total revenues</b>	<b>62,797</b>	<b>59,570</b>	<b>12</b>
<b>Expenses</b>			
Compensation and related costs	26,724	27,246	5
Management fee	1,804	2,306	
Distribution costs	5,329	4,535	1
Other operating expenses	7,713	6,000	1
Reserve for settlement	11,900	-	1
<b>Total expenses</b>	<b>53,470</b>	<b>40,087</b>	<b>9</b>
Operating income	9,327	19,483	2
<b>Other income (expense)</b>			
Net gain from investments	4,244	387	2
Interest and dividend income	6,111	4,157	1
Interest expense	(3,394)	(3,275)	(
<b>Total other income, net</b>	<b>6,961</b>	<b>1,269</b>	<b>3</b>
Income before income taxes and minority interest	16,288	20,752	5
Income tax provision	7,308	7,782	2
Minority interest	108	107	
<b>Net income</b>	<b>\$ 8,872</b>	<b>\$ 12,863</b>	<b>\$ 2</b>
<b>Net income per share:</b>			
Basic	\$ 0.31	\$ 0.43	\$
Diluted	\$ 0.31	\$ 0.42	\$
<b>Weighted average shares outstanding:</b>			
Basic	28,507	30,079	2
Diluted	29,496	31,211	2
Dividends declared:	\$ 0.03	\$ 0.02	\$

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(A) As restated for the Change in Accounting Method for recognizing management fee revenues on closed-end preferred shares (See Note A in item 1 of this report on Form 10-Q).

See accompanying notes.

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GAMCO INVESTORS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
 (In thousands, except per share data)

	December 31, 2005	June 2006
	-----	-----
<b>ASSETS</b>		
Cash and cash equivalents, including restricted cash of \$2,503, \$730 and \$1,508.	\$ 170,659	\$ 116,000
Investments in securities, including restricted securities of \$52,219, \$52,141 and \$52,270.	401,216	447,000
Investments in partnerships and affiliates	91,971	89,000
Receivable from brokers	8,545	39,000
Investment advisory fees receivable	22,260	24,000
Other assets	26,443	12,000
	-----	-----
Total assets	\$ 721,094	\$ 729,000
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Payable to brokers	\$ 4	\$ 2,000
Income taxes payable, including deferred taxes of \$1,699, \$4,323, and \$296.	10,132	2,000
Compensation payable	27,889	39,000
Capital lease obligation	2,992	2,000
Securities sold, not yet purchased	-	-
Accrued expenses and other liabilities	17,489	28,000
	-----	-----
Total operating liabilities	58,506	75,000
	-----	-----
5.5% Senior notes (due May 15, 2013)	100,000	100,000
5% Convertible note (conversion price, \$52.00 per share; note due August 14, 2011)	50,000	50,000
5.22% Senior notes (due February 17, 2007)	82,308	82,000
	-----	-----
Total liabilities	290,814	307,000
Minority interest	6,151	19,000
<b>Stockholders' equity</b>		
Class A Common Stock, \$0.001 par value; 100,000,000 shares authorized; 9,648,339, 12,010,812 and 9,621,064 issued, respectively; 6,414,517, 7,509,058 and 6,820,642 outstanding, respectively		

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Class B Common Stock, \$0.001 par value; 100,000,000 shares authorized; 23,128,500, 23,128,500 and 23,128,500 issued, respectively; 23,128,500, 20,781,027 and 23,128,500 outstanding, respectively	23	
Additional paid-in capital	226,353	228
Retained earnings	329,090	355
Accumulated comprehensive gain	526	2
Treasury stock, at cost (3,233,822, 4,501,754 and 2,800,422 shares, respectively)	(131,873)	(184,
	-----	-----
Total stockholders' equity	424,129	402
	-----	-----
Total liabilities and stockholders' equity	\$ 721,094	\$ 729
	=====	=====

(A) As restated for the Change in Accounting Method for recognizing management fee revenues on closed-end preferred shares (See Note A in item 1 of this report on Form 10-Q).

See accompanying notes.

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GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
UNAUDITED  
(In thousands)

	Three Months Ended June 30,		
	2006	2005 (A)	2004
	-----	-----	-----
Stockholders' equity -- beginning of period	\$ 410,991	\$ 417,445	\$ 421,111
Comprehensive income:			
Net income	8,872	12,863	2,863
Foreign currency translation adjustments	(128)	(16)	
Net unrealized (loss) gain on securities available for sale	(588)	741	
	-----	-----	-----
Comprehensive income	8,156	13,588	2,863
Dividends declared	(851)	(599)	(1,000)
Stock option expense	14	2,275	
Proceeds from settlement of purchase contracts	-	-	
Excess tax benefit for exercised stock options	1,782	-	
Exercise of stock options including tax benefit	137	304	
Capitalized costs	-	(15)	
Purchase of treasury stock	(17,913)	(15,772)	(52,000)
	-----	-----	-----
Stockholders' equity -- end of period	\$ 402,316	\$ 417,226	\$ 402,974
	=====	=====	=====

(A) As restated for the Change in Accounting Method for recognizing management fee revenues on closed-end preferred shares (See Note A in item 1 of this report on Form 10-Q).

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See accompanying notes.

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GAMCO INVESTORS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 UNAUDITED  
 (In thousands)

	Three Months End June 30,	
	2006	2005
Operating activities		
Net income	\$ 8,872	\$ 12,872
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in gains from partnerships and affiliates	(1,021)	(1,021)
Depreciation and amortization	220	220
Stock-based compensation expense	14	2,000
Tax benefit from exercise of stock options	21	21
Foreign currency loss	30	30
Other-than-temporary loss on available for sale securities	56	56
Impairment of goodwill	-	-
Minority interest in net income of consolidated subsidiaries	75	75
Realized gains on sales of available for sale securities, net	-	-
Realized gains on sales of investments in securities, net	(2,704)	(2,704)
Change in unrealized value of investments in securities, net	(2,493)	(1,493)
Excess tax benefit adjustment	1,782	1,782
(Increase) decrease in operating assets:		
Purchases of investments in securities	(203,842)	(147,842)
Proceeds from sales of investments in securities	166,816	70,816
Receivables from affiliates	2,277	2,277
Investments in partnerships and affiliates	(7,833)	(4,833)
Distributions from partnerships and affiliates	7,075	4,075
Investment advisory fees receivable	655	655
Receivable from brokers	37,151	37,151
Other assets	842	842
Increase (decrease) in operating liabilities:		
Payable to brokers	190	190
Income taxes payable	(12,110)	(5,110)
Compensation payable	2,645	2,645
Accrued expenses and other liabilities	10,307	(3,307)
Effects of consolidation of investment partnerships and offshore funds consolidated under FIN 46R and EITF 04-5:		
Realized gains on sales of investments in securities and securities sold short, net	(163)	(163)
Change in unrealized value of investments in securities and securities sold short, net	(2,942)	(2,942)
Purchases of investments in securities and securities sold short	(9,218)	(9,218)
Proceeds from sales of investments in securities and securities sold short	9,517	9,517
Investment advisory fees receivable	10,897	10,897
Increase in receivable from brokers	(9,757)	(9,757)
Decrease in other assets	(21)	(21)

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Increase in payable to brokers	1,847	
Decrease in accrued expenses and other liabilities	(1,892)	
Income related to investment partnerships and offshore funds consolidated under FIN 46R and EITF 04-5, net	207	
Total adjustments	(1,369)	(82,)
Net cash provided by (used in) operating activities	7,500	(69,)

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GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
UNAUDITED  
(In thousands)

	Three Months Ended June 30,	
	2006	2005
Investing activities		
Purchases of available for sale securities	(247)	(1,016)
Proceeds from sales of available for sale securities	-	
Net cash used in investing activities	(247)	(1,016)
Financing activities		
Dividend paid to minority stockholders of subsidiary	-	(544)
Contributions related to investment partnerships and offshore funds consolidated under FIN 46R and EITF 04-5, net	1,537	
Proceeds from exercise of stock options	116	25
Repurchase of 5% convertible note	-	(50,000)
Dividends paid	(851)	(599)
Proceeds from settlement of purchase contracts	-	(1)
Capitalized costs	-	(15)
Purchase of treasury stock	(17,913)	(15,772)
Net cash used in financing activities	(17,111)	(66,678)
Net decrease in cash and cash equivalents	(9,858)	(136,988)
Net increase in cash from partnerships and offshore funds consolidated under FIN 46R and EITF 04-5	-	
Effect of exchange rates on cash and cash equivalents	(132)	(27)
Cash and cash equivalents at beginning of period	126,842	328,42
Cash and cash equivalents at end of period	\$116,852	\$191,41

(A) As restated for the Change in Accounting Method for recognizing management fee revenues on closed-end preferred shares (See Note A in item 1 of this report on Form 10-Q).

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2006  
(Unaudited)

A. Basis of Presentation

Unless we have indicated otherwise, or the context otherwise requires, references in this report to "GAMCO Investors, Inc.," "GAMCO," "we," "us" and "our" or similar terms are to GAMCO Investors, Inc. (formerly Gabelli Asset Management Inc.), its predecessors and its subsidiaries.

The unaudited interim Condensed Consolidated Financial Statements of GAMCO Investors, Inc. included herein have been prepared in conformity with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position, results of operations and cash flows of GAMCO for the interim periods presented and are not necessarily indicative of a full year's results.

In preparing the unaudited interim condensed consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

These financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005, from which the accompanying Condensed Consolidated Statement of Financial Condition was derived.

Certain items previously reported have been reclassified to conform to the current period's financial statement presentation.

Changes in Accounting Policy

GAMCO has voluntarily changed its accounting method for recognizing management fee revenues on closed-end preferred shares effective January 1, 2006. GAMCO, unlike most investment advisors that use leverage, does not earn a fee on assets from the leverage until the return on assets exceeds the cost of capital. GAMCO recognized these revenues during each interim reporting period if and when the total return to common shareholders of the closed-end fund exceeded the dividend rate of the preferred shares. Under this method, management fee revenues recognized in prior interim periods during the measurement period were subject to possible reversal in subsequent periods during that measurement period.

After considering the guidance provided in EITF D-96, "Accounting for Management Fees Based on a Formula", GAMCO believes that the preferable method of accounting is to recognize management fee revenues on closed-end preferred shares (which fees are only earned if the annual performance of the fund exceeds the cost to the fund of the preferred shares) at the end of the measurement period, which is currently the end of each calendar year for all closed-end funds. This method results in revenue recognition only when the measurement period has been completed and when the management fees have been earned. This eliminates the possibility of revenues that have been recognized in interim



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measurement periods subsequently being reversed in later periods during a fiscal year.

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### A. Basis of Presentation (continued)

Under SFAS No. 154, which GAMCO adopted on January 1, 2006, this voluntary change in accounting principle requires retrospective application to each period presented as if the different accounting principle had always been used and requires an adjustment at the beginning of the first period presented for the cumulative effect of the change to the new accounting principle. Because full year results are equivalent under both the old and new accounting methods, only interim periods during a year are affected by the change. Therefore, there is no cumulative effect adjustment at the beginning of the first period presented herein. This policy change resulted in a restatement to reduce 2005 revenues of approximately \$0.3 million, or \$0.01 per fully diluted share, in the second quarter, \$2.9 million, or approximately \$0.03 per fully diluted share, in the third quarter and a corresponding increase in revenues of \$3.2 million, or approximately \$0.03 per fully diluted share, in the fourth quarter. This change will have no effect on total revenues or net income reported in 2005.

		Quarter Ended (a)			
		March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
		-----	-----	-----	-----
Revenue	Reported	\$61.5 million	\$59.8 million	\$66.2 million	\$64.8 million
	Restated	\$61.5 million	\$59.6 million	\$63.3 million	\$68.0 million
	Change	-	(\$0.3) million	(\$2.9) million	\$ 3.2 million
EPS	Reported	\$0.42	\$0.43	\$0.64	\$0.64
	Restated	\$0.42	\$0.42	\$0.61	\$0.61
	Change	-	(\$0.01)	(\$0.03)	-

(a) Differences due to rounding

### Recent Accounting Developments

In February 2006, the FASB issued FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statement No. 133 and 140," that amends FASB Statements No. 133 "Accounting for Derivative Instruments and Hedging Activities," and No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principle-only strips are not subject to the requirements of Statement 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. Statement 155 does not permit prior period restatement. The Statement is effective for all financial instruments acquired or issued after the beginning of an entity's second fiscal year that begins after September 15, 2006. The Company plans to adopt this Statement on January 1, 2007. The adoption is not

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expected to have a material impact on the Company's future consolidated financial statements.

In March 2006, the FASB issued FASB Statement No. 156, "Accounting for Servicing of Financial Assets," which amends FASB Statements No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Statement permits an entity to choose either the amortization method or fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. The Statement is effective as of the beginning of an entity's second fiscal year that begins after September 15, 2006. The Company plans to adopt this Statement on January 1, 2007. The adoption is not expected to have a material impact on the Company's future consolidated financial statements.

In April 2006, the FASB issued FSP FIN 46R-6 "Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R)." The FSP addresses certain major implementation issues related to FIN 46R, specifically how a reporting enterprise should determine the variability to be considered in applying FIN 46R. The FSP is effective as of the beginning of the second day of the second reporting period beginning after June 15, 2006. The Company plans to adopt this Statement on January 1, 2007. The adoption is not expected to have a material impact on the Company's future consolidated financial statements.

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In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" which is an interpretation of FASB Statement No. 109, "Accounting for Income Taxes". This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expect to be taken in a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company plans to adopt this Statement on January 1, 2007. The adoption is not expected to have a material impact on the Company's future consolidated financial statements.

### B. Investment in Securities

Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Investments in Treasury Bills and Notes with maturities of greater than three months at the time of purchase are classified as investments in securities and with maturities of three months or less at time of purchase are classified as cash and cash equivalents. A substantial portion of Investments in Securities are held for resale in anticipation of short-term market movements and therefore are classified as trading securities. Trading securities are stated at fair value, with any unrealized gains or losses, net of deferred taxes, reported in current period earnings. Available for sale ("AFS") investments are stated at fair value, with any unrealized gains or losses, net of deferred taxes, reported as a component of stockholders' equity except for losses deemed to be other than temporary which are recorded as realized losses in the statement of income.

For the three and six month periods ended June 30, 2006, there were \$0.1 million in losses on AFS securities deemed to be other than temporary which were recorded in the statement of income. For the three and six month periods ended June 30, 2005, there were \$0.1 million in losses and \$3.3 million in losses, respectively, on AFS securities deemed to be other than temporary which were recorded in the statement of income.

The losses related to AFS securities in the six month period ended June 30, 2005 were partially offset by gains related to our \$100,000 venture capital

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investment in optionsXpress Holdings, Inc. (Nasdaq: OXPS) made in 2001 through our 92% owned subsidiary, Gabelli Securities, Inc. OXPS completed its initial public offering during the first quarter of 2005. We recorded a total gain of \$2.1 million on OXPS for the first six months of 2005. For the six month period ended June 30, 2006, we recorded a gain of \$0.5 million on OXPS.

At June 30, 2006 and June 30, 2005, the market value of investments available for sale was \$86.7 million and \$80.9 million, respectively. An unrealized gain in market value, net of management fee and taxes, of \$2.4 million and \$1.9 million has been included in stockholders' equity for June 30, 2006 and June 30, 2005, respectively. The unrealized gain in the six month period ended June 30, 2005 included an increase of \$1.9 million, net of management fee and taxes, from the write down of available for sale securities when these losses were reclassified from comprehensive loss within stockholders' equity to current period statement of income for the six months ended June 30, 2005.

There were no sales of investments available for sale for the three month period ended June 30, 2006 or for the three and six month periods ended March 31, 2005 and June 30, 2005. Proceeds from sales of investments available for sale were approximately \$1.5 million for the six month period ended June 30, 2006.

### C. Investments in Partnerships and Affiliates

Beginning January 1, 2006, the provisions of FASB Interpretation No. 46R ("FIN 46R") and Emerging Issue Task Force 04-5 ("EITF 04-5") require consolidation of the majority of our investment partnerships and offshore funds managed by our subsidiaries into our consolidated financial statements. However, since we amended the agreements of certain investment partnerships and an offshore fund on March 31, 2006, FIN46R and EITF 04-5 only required us to consolidate these entities on our income statement and statement of cash flows for the first quarter 2006. We were not required to consolidate these entities on our balance sheet at March 31, 2006. In addition, these partnerships and offshore funds, for which the agreements were amended, are not required to be consolidated within our statement of income and statement of cash flows or on our balance sheet in the second quarter or future periods. However, for the six months ended June 30, 2006, the consolidation of these entities for the first quarter 2006 does affect the classification of income between operating and

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other income. As a result, we have provided our results for the six month period through June 30, 2006 before adjusting for FIN46R and EITF 04-5 as we believe this basis is comparable to our reported results for the six months ended June 30, 2005.

We consolidated four other investment partnerships and two offshore funds in which we have a direct or indirect controlling financial interest as of and for the three and six months ended June 30, 2006. These entities have been consolidated within our financial statements for the three and six month periods ended June 30, 2006 and will continue to be consolidated in future periods as long as we continue to maintain a direct or indirect controlling financial interest. In addition to minor FIN 46R and EITF 04-5 adjustments to the statement of income and statement of cash flows for the three and six month periods ended June 30, 2006 related to these entities, the consolidation of these entities also resulted in minor adjustments to our statement of financial condition at June 30, 2006. The consolidation of these entities on the statement of financial condition has increased assets by \$16.0 million, liabilities by \$2.8 million and minority interest by \$13.2 million. Prior to consolidation of these entities, our investments in these entities were reflected within

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Investments in partnerships and affiliates on the statement of financial condition and accounted for under the equity method.

For the three and six months ended June 30, 2006, the consolidation of these entities had no impact on net income but did result in (a) the elimination of revenues and expenses which are now intercompany transactions; (b) the recording of all the partnerships' operating expenses of these entities including those pertaining to third-party interests; (c) the recording of all other income of these entities including those pertaining to third-party interests; (d) recording of income tax expense of these entities including those pertaining to third party interests and (e) the recording of minority interest which offsets the net amount of any of the partnerships' revenues, operating expenses, other income and income taxes recorded in these respective line items which pertain to third-party interest in these entities. While this had no impact on net income, the consolidation of these entities does affect the classification of income between operating and other income.

### D. Earnings Per Share

The computations of basic and diluted net income per share are as follows:

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005*	2006	2005
<b>Basic:</b>				
Net income	\$ 8,872	\$ 12,863	\$ 28,150	\$ 28,150
Average shares outstanding	28,507	30,079	28,842	28,842
Basic net income per share	\$ 0.31	\$ 0.43	\$ 0.98	\$ 0.98
<b>Diluted:</b>				
Net income	\$ 8,872	\$ 12,863	\$ 28,150	\$ 28,150
Add interest expense on 5% convertible note, net of management fee and taxes	351	352	703	703
Total	\$ 9,223	\$ 13,215	\$ 28,853	\$ 28,853
Average shares outstanding	28,507	30,079	28,842	28,842
Dilutive stock options	27	171	34	34
Assumed conversion of 5% convertible note	962	961	962	962
Total	29,496	31,211	29,838	29,838
Diluted net income per share	\$ 0.31	\$ 0.42	\$ 0.97	\$ 0.97

\* As restated for the Change in Accounting Method for recognizing management fee revenues on closed-end preferred shares (See Note A in item 1 of this report on Form 10-Q).

### E. Stockholders' Equity

Shares outstanding on June 30, 2006 were 28,290,085, approximately 1.7%

lower than the March 31, 2006 outstanding shares of 28,774,485, and approximately 5.5% below the 29,949,142 shares outstanding on June 30, 2005. Fully diluted shares outstanding for the second quarter of 2006 were 29,495,759 approximately 2.3% lower than first quarter 2006 fully diluted shares of 30,185,312 and approximately 5.5% lower than our fully diluted shares of 31,211,347 for the second quarter 2005.

In June 2006, the holders of 2,347,473 Class B shares exchanged their Class B shares for an equal number of Class A shares. The 2,347,473 Class A shares are currently unregistered with Securities and Exchange Commission ("SEC") and GAMCO intends to file a registration statement for the Class A shares with the SEC in the near future. 2,071,635 of these Class A shares are subject to a lockup period of two years, beginning on the date of registration of the shares with the SEC. On the first day of every month during the lockup period, one-twenty fourth (1/24th) of these 2,071,635 Class A shares are freed from the lockup restrictions and thereafter may be sold in the public markets or otherwise disposed of. As of June 30, 2006, there were 7,509,058 of Class A shares outstanding compared to 5,645,985 shares outstanding at March 31, 2006.

On May 8, 2006, the Board of Directors declared a quarterly dividend of \$0.03 per share that was paid on June 28, 2006 to shareholders of record on June 15, 2006.

#### Stock Award and Incentive Plan

Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123 in accordance with the transition and disclosure provisions under SFAS No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure."

We adopted SFAS 123 (R) on January 1, 2005. In light of our modified prospective adoption of the fair value recognition provisions of SFAS 123 (R) for all grants of employee stock options, the adoption of SFAS 123 (R) did not have a material impact on our consolidated financial statements. During June 2005, we announced that our Board of Directors approved the accelerated vesting of all unvested stock options. In accordance with Statement of Financial Accounting Standards ("SFAS") 123(R), the acceleration of vesting resulted in the recognition of approximately \$1.8 million of incremental compensation expense during the second quarter 2005. For the three months ended June 30, 2006, we recognized a tax benefit from previously exercised stock options of \$1.8 million. For the three months ended June 30, 2006 and 2005, we recognized stock-based compensation expense of approximately \$14,000 and \$2.3 million, respectively. For the six months ended June 30, 2006 and 2005, we recognized stock-based compensation expense of approximately \$20,000 and \$2.3 million, respectively. The total compensation costs related to non-vested awards not yet recognized is approximately \$0.2 million. This will be recognized as expense in the following periods:

Remainder of 2006	2007	2008	2009	2010
-----	-----	-----	-----	-----
\$33,000	\$67,000	\$62,000	\$20,000	\$2,000

Proceeds from the exercise of 5,000 and 8,750 stock options were approximately \$133,000 and \$253,000 for the three months ended June 30, 2006 and 2005, respectively, resulting in a tax benefit to GAMCO of \$21,000 and \$52,000 for the three months ended June 30, 2006 and 2005, respectively. Proceeds from the exercise of 15,000 and 22,225 stock options were approximately \$348,000 and \$586,000 for the six months ended June 30, 2006 and 2005, respectively,

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resulting in a tax benefit to GAMCO of \$87,000 and \$154,000 for the three months ended June 30, 2006 and 2005, respectively.

### Stock Repurchase Program

Our stock buyback program was initiated in March 1999. In the second quarter of 2006, we repurchased 489,400 shares at an average investment of \$36.58. In May 2006, our Board of Directors authorized an additional 400,000 shares to be repurchased bringing the total amount of shares currently available to be repurchased under the program to approximately 714,000 shares at June 30, 2006. In the period since our buyback program was initiated, 4,602,558 class A common shares have been repurchased through June 30, 2006 at an average investment of \$39.52 per share.

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### F. Debt

In May 2006, the SEC declared effective the Company's \$400 million "shelf" registration statement on Form S-3. This provides us flexibility to sell any combination of senior and subordinate debt securities, convertible debt securities and equity securities (including common and preferred securities) up to a total amount of \$520 million, which includes the remaining \$120 million available under our shelf registration filed in 2001.

In June 2006, GAMCO and Cascade Investments L.L.C. ("Cascade") agreed to amend the terms of the \$50 million convertible note maturing in August 2011. The rate on the note will increase from 5% to 6% while the conversion price will be raised to \$53 per share from \$52 per share, in each case effective September 15, 2006. In addition, the exercise date of Cascade's put option was extended to May 15, 2007, the expiration date of the related letter of credit was extended to May 22, 2007 and a call option was included giving GAMCO the right to redeem the note at 101% of its principle amount together with all accrued but unpaid interest thereon upon at least 30 days prior written notice, subject to certain provisions.

### G. Goodwill

In accordance with SFAS 142 "Accounting for Goodwill and Other Intangible Assets," we assess the recoverability of goodwill and other intangible assets at least annually, or more often should events warrant. There was no impairment charge recorded for the three month or six month periods ended June 30, 2006. During the first quarter of 2005, assets under management for our fixed income business decreased approximately 42% from the beginning of the year, triggering under our accounting policies the need to reassess goodwill for this 80% owned subsidiary. Using a present value cash flow method, we reassessed the recoverability of goodwill for this entity and determined that the value of the entity no longer justified the amount of goodwill. Accordingly, we recorded a charge of \$1.1 million during the first quarter of 2005 for the impairment of goodwill that represented the entire amount of goodwill for this entity. At June 30, 2006, there remains \$3.5 million, included in other assets, of goodwill related to our 92% owned subsidiary, Gabelli Securities, Inc.

### H. Other Matters

Since September 2003, GAMCO and certain of its subsidiaries have been cooperating with inquiries from the N.Y. Attorney General's office and the SEC by providing documents and testimony regarding certain mutual fund share trading practices. In June 2006, we began discussions with the SEC for a potential resolution of their inquiry. As a result of these discussions, GAMCO recorded a reserve against earnings of approximately \$12 million. Since these discussions

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are ongoing, we cannot determine at this time whether they will ultimately result in a settlement of this matter, whether our reserves will be sufficient to cover any payments by GAMCO related to such a settlement, or whether and to what extent insurance may cover such payments.

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others" ("FIN 45"), which provides accounting and disclosure requirements for certain guarantees. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Interpretation's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. We indemnify our clearing brokers for losses they may sustain from the customer accounts introduced by our broker-dealer subsidiaries. In accordance with NYSE rules, customer balances are typically collateralized by customer securities or supported by other recourse provisions. In addition, we further limit margin balances to a maximum of 25% versus 50% permitted under Regulation T of the Federal Reserve Board and exchange regulations. At June 30, 2006 and June 30, 2005, the total amount of customer balances subject to indemnification (i.e. margin debits) was immaterial. The Company also has entered into arrangements with various other third parties which provide for indemnification against losses, costs, claims and liabilities arising from the performance of their obligations under our agreement, except for gross negligence or bad faith. The Company has had no claims or payments pursuant to these or prior agreements, and we believe the likelihood of a claim being made is remote. Utilizing the methodology in FIN 45, our estimate of the value of such agreements is de

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minimis, and therefore an accrual has not been made in the financial statements.

### I. Subsequent Events

From July 1 through July 31, 2006, we repurchased 45,800 shares of our class A common stock, under the Stock Repurchase Program, at an average investment of \$34.31 per share.

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## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (INCLUDING QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK)

### Overview

GAMCO Investors, Inc. (formerly Gabelli Asset Management Inc.) (NYSE: GBL) is a widely recognized provider of investment advisory services to mutual funds, institutional and high net worth investors, and investment partnerships. Through Gabelli & Company, Inc., we provide institutional research services to institutional clients and investment partnerships. We generally manage assets on a discretionary basis and invest in a variety of U.S. and international securities through various investment styles. Our revenues are based primarily on the firm's levels of assets under management and fees associated with our various investment products, rather than our own corporate assets.

Since 1977, we have been identified with and enhanced the "value" style

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approach to investing. Our investment objective is to earn a superior risk-adjusted return for our clients over the long-term through our proprietary fundamental research. In addition to our value products, we offer our clients a broad array of investment strategies that include growth, international and convertible products. We also offer non-market correlated, and fixed income strategies. By earning returns for our clients, we will be earning returns for all our constituents.

As part of our re-branding initiative to accelerate growth, our corporate name change to GAMCO Investors, Inc. became effective August 29, 2005. Since the firm was founded in 1977, GAMCO has been the name of our asset management business, representing our institutional and high net worth effort. We believe changing our corporate name to GAMCO helps us achieve our vision for assets entrusted to us, that is, to earn a superior return for our clients by providing various value-added (alpha) products. GAMCO is a more inclusive parent company name, and more appropriately represents the various investment strategies and asset management brands contributing to the continued growth of our company. The Gabelli brand will continue to represent our absolute return, research driven Value style that focuses on our unique Private Market Value with a Catalyst (TM) investment approach. Our class A common stock will continue to trade on the New York Stock Exchange under the ticker symbol "GBL". As part of this initiative, the directors of our mutual funds approved in November 2005 the name change of the Growth, the Global Series, the Mathers and the International Growth funds (among others) to GAMCO from Gabelli, which became effective in December 2005. The funds that reflect the Private Market Value with a Catalyst approach will continue under the Gabelli brand.

Our revenues are highly correlated to the level of assets under management, which are directly influenced by the level and changes of the overall equity markets. Assets under management can also fluctuate through acquisitions, the creation of new products, the addition of new accounts or the loss of existing accounts. Since various equity products have different fees, changes in our business mix may also affect revenues. At times, the performance of our equity products may differ markedly from popular market indices, and this can also impact our revenues. It is our belief that general stock market trends will have the greatest impact on our level of assets under management and hence, revenues. This becomes increasingly likely as the base of assets grows.

We conduct our investment advisory business principally through: GAMCO Asset Management Inc. (Separate Accounts), Gabelli Funds, LLC (Mutual Funds) and Gabelli Securities, Inc. (Investment Partnerships). We also act as an underwriter, are a distributor of our open-end mutual funds and provide institutional research through Gabelli & Company, Inc., our broker-dealer subsidiary.

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Assets Under Management (AUM) were \$26.8 billion as of June 30, 2006, 3.1% lower than March 31, 2006 and June 30, 2005 AUM of \$27.6 billion. Equity assets under management were \$25.9 billion on June 30, 2006, down 3.4% from March 31, 2006 equity assets of \$26.8 billion, and down 2.4% from \$26.5 billion on June 30, 2005. Our equity open-end funds and closed-end funds stood at \$13.1 billion in AUM on June 30, 2006, 4.6% higher than the \$12.5 billion on June 30, 2005, but 3.0% below the \$13.5 billion level on March 31, 2006. Our institutional and high net worth business had AUM of \$12.3 billion in separately managed equity accounts on June 30, 2006, 2.9% lower than the \$12.6 billion on March 31, 2006, and 7.0% under the \$13.2 billion on June 30, 2005. AUM in our investment partnerships were \$536 million versus \$681 million on March 31, 2006 and \$831 million on June 30, 2005. Fixed income AUM, primarily money market mutual funds, totaled \$918 million on June 30, 2006, up 6% from the March 31, 2006 assets of \$866 million, and 18% lower than fixed income AUM of \$1.1 billion on June 30,



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2005, principally due to the closing of the Treasurer's Fund in the fourth quarter of 2005.

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### Assets Under Management

The company reported assets under management as follows:

Table I:

	Assets Under Management (in millions)		
	June 30		%
	2005	2006	Inc. (Dec.)
Mutual Funds:			
Equities			
Open end	\$ 7,798	\$ 7,796	(0.0)%
Closed-end	4,684	5,258	12.3
Fixed Income	852	863	1.3
	13,334	13,917	4.4
Institutional & High Net Worth Separate Accounts:			
Equities	13,189	12,270	(7.0)
Fixed Income	269	55	(79.6)
	13,458	12,325	(8.4)
Investment Partnerships	831	536	(35.5)
Total Assets Under Management	\$ 27,623	\$ 26,778	(3.1)
Equities	\$ 26,502	\$ 25,860	(2.4)
Fixed Income	1,121	918	(18.1)
Total Assets Under Management	\$ 27,623	\$ 26,778	(3.1)

Table II:

Fund Flows - 2nd Quarter 2006 (in millions)

	March 31, 2006	Net Cash Flows	Appreci (Deprec)
Mutual Funds:			
Equities	\$ 13,460	(\$411)	\$
Fixed Income	807	43	
Total Mutual Funds	14,267	(368)	

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Institutional & HNW Separate Accounts			
Equities	12,639	(376)	
Fixed Income	59	(5)	
	-----	-----	-----
Total Institutional & HNW Separate Accounts	12,698	(381)	
	-----	-----	-----
Investment Partnerships	681	(155)	
	-----	-----	-----
Total Assets Under Management	\$ 27,646	(\$904)	\$
	=====	=====	=====

Assets Under Management (in millions)

Table III:

	6/05	9/05	12/05	3/06	6/06
	-----	-----	-----	-----	-----
Mutual Funds					
Open end	\$7,798	\$7,959	\$7,888	\$8,176	\$7,798
Closed-end	4,684	4,851	5,075	5,284	5,250
Fixed income	852	796	735	807	860
	-----	-----	-----	-----	-----
Total Mutual Funds	13,334	13,606	13,698	14,267	13,910
	-----	-----	-----	-----	-----
Institutional & HNW Separate Accounts:					
Equities	13,189	13,129	12,382	12,639	12,270
Fixed Income	269	158	84	59	50
	-----	-----	-----	-----	-----
Total Institutional & HNW Separate Accounts	13,458	13,287	12,466	12,698	12,320
	-----	-----	-----	-----	-----
Investment Partnerships	831	745	634	681	530
	-----	-----	-----	-----	-----
Total Assets Under Management	\$ 27,623	\$ 27,638	\$ 26,798	\$ 27,646	\$ 26,770
	=====	=====	=====	=====	=====

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Recent regulatory developments

On September 3, 2003, the New York Attorney General's office ("NYAG") announced that it had found evidence of widespread improper trading involving mutual fund shares. These transactions included the "late trading" of mutual fund shares after the 4:00 p.m. pricing cutoff and "time zone arbitrage" of mutual fund shares designed to exploit pricing inefficiencies. Since the NYAG's announcement, the NASD, the SEC, the NYAG and officials of other states have been conducting inquiries into and bringing enforcement actions related to trading abuses in mutual fund shares. We have received information requests and subpoenas from the SEC and the NYAG in connection with their inquiries. We are complying with these requests for documents and testimony and have been conducting an internal review of our mutual fund practices and procedures in a variety of areas with the guidance of outside counsel. A special committee of all of our independent directors was also formed to review various issues

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involving mutual fund share transactions and was assisted by independent counsel.

As part of our review, hundreds of documents were examined and approximately fifteen individuals were interviewed. We have found no evidence that any employee participated in or facilitated any "late trading". We also have found no evidence of any improper trading in our mutual funds by our investment professionals or senior executives. As we previously reported, we did find that in August of 2002, we banned an account, which had been engaging in frequent trading in our Global Growth Fund (the prospectus of which did not impose limits on frequent trading) and which had made a small investment in one of our hedge funds, from further transactions with our firm. Certain other investors had been banned prior to that. We also found that certain discussions took place in 2002 and 2003 between GAMCO's staff and personnel of an investment advisor regarding possible frequent trading in certain Gabelli domestic equity funds. In June 2006, we began discussions with the SEC for a potential resolution of their inquiry. As a result of these discussions, GAMCO recorded a reserve against earnings of approximately \$12 million. Since these discussions are ongoing, we cannot determine at this time whether they will ultimately result in a settlement of this matter, whether our reserves will be sufficient to cover any payments by GAMCO related to such a settlement, or whether and to what extent insurance may cover such payments.

In September 2005, we were informed by the staff of the Securities and Exchange Commission that they may recommend to the Commission that one of our advisory subsidiaries be held accountable for the actions of two of the seven closed-end funds managed by the subsidiary relating to Section 19(a) and Rule 19a-1 of the Investment Company Act of 1940. These provisions require registered investment companies to provide written statements to shareholders when a dividend is made from a source other than net investment income. While the funds sent annual statements containing the required information and 1099 statements as required by the IRS, the funds did not send written statements to shareholders with each distribution in 2002 and 2003. The staff indicated that they may recommend to the Commission that administrative remedies be sought, including a monetary penalty. The closed-end funds changed their notification procedures and we believe that all of the funds are now in compliance.

In response to industry-wide inquiries and enforcement actions, a number of regulatory and legislative initiatives were introduced. The SEC has proposed and adopted a number of rules under the Investment Company Act and the Investment Advisers Act and is currently studying potential major revisions of other rules. The SEC adopted rules requiring written compliance programs for registered investment advisers and registered investment companies and additional disclosures regarding portfolio management and advisory contract renewals. In addition, several bills were introduced in a prior Congress that, if adopted, would have amended the Investment Company Act. These proposals, if reintroduced and enacted, or if adopted by the SEC, could have a substantial impact on the regulation and operation of our registered and unregistered funds. For example, certain of these proposals would, among other things, limit or eliminate Rule 12b-1 distribution fees, limit or prohibit third party soft dollar arrangements and restrict the management of hedge funds and mutual funds by the same portfolio manager.

In the coming months, the investment management industry is likely to continue facing a high level of regulatory scrutiny and become subject to additional rules designed to increase disclosure, tighten controls and reduce potential conflicts of interest. In addition, the SEC has substantially increased its use of focused inquiries in which it requests information from a number of fund complexes regarding particular practices or provisions of the securities laws. We participate in some of these inquiries in the normal course of our business. Changes in laws, regulations and administrative practices by

regulatory authorities, and the associated compliance costs, have increased our cost structure and could in the future have a material impact.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the notes thereto included in Item 1 to this report.

## RESULTS OF OPERATIONS

Three Months Ended June 30, 2006 Compared To Three Months Ended June 30, 2005

Consolidated Results -- Three Months Ended June 30:

(Unaudited; in thousands, except per share data)

	2006	2005 (a)	2005 (b)
Revenues			
Investment advisory and incentive fees	\$ 54,724	\$ 52,088	\$ 52,359
Commission revenue	2,722	2,574	2,574
Distribution fees and other income	5,351	4,908	4,908
Total revenues	62,797	59,570	59,841
Expenses			
Compensation and related costs	26,724	27,246	27,353
Management fee	1,804	2,306	2,322
Distribution costs	5,329	4,535	4,535
Reserve for settlement	11,900	-	-
Other operating expenses	7,713	6,000	6,000
Total expenses	53,470	40,087	40,210
Operating income	9,327	19,483	19,631
Other income (expense)			
Net gain from investments	4,244	387	387
Interest and dividend income	6,111	4,157	4,157
Interest expense	(3,394)	(3,275)	(3,275)
Total other income (expense), net	6,961	1,269	1,269
Income before taxes and minority interest	16,288	20,752	20,900
Income tax provision	7,308	7,782	7,838
Minority interest	108	107	107
Net income	\$ 8,872	\$ 12,863	\$ 12,955
Net income per share:			
Basic	\$ 0.31	\$ 0.43	\$ 0.43
Diluted	\$ 0.31	\$ 0.42	\$ 0.43

## Reconciliation of Net income to Adjusted EBITDA:

Net income	\$ 8,872	\$ 12,863	\$ 12,955
Interest Expense	3,394	3,275	3,275
Income tax provision and minority interest	7,416	7,889	7,945
Depreciation and amortization	220	237	237

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	-----	-----	-----
Adjusted EBITDA(c)	\$ 19,902	\$ 24,264	\$ 24,412
	-----	-----	-----

- (a) As restated for the Change in Accounting Method for recognizing management fee revenues on closed-end preferred shares (See Note A in item 1 of this report on Form 10-Q).
- (b) As originally reported during the quarter ended June 30, 2005.
- (c) Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and minority interest. Adjusted EBITDA is a Non-GAAP measure and should not be considered as an alternative to any measure of performance as promulgated under accounting principles generally accepted in the United States nor should it be considered as an indicator of our overall financial performance. We use Adjusted EBITDA as a supplemental measure of performance as we believe it gives investors a more complete understanding of our operating results before the impact of investing and financing activities as a tool for determining the private market value of an enterprise.

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Total revenues were \$62.8 million in the second quarter of 2006 up \$3.2 million or 5.4% from total revenues of \$59.6 million reported in the second quarter of 2005

For the second quarter of 2006, investment advisory fees were \$54.7 million, an increase of 5.1% from the \$52.1 million generated in the second quarter of 2005. Our closed-end funds revenues increased 17.0% to \$10.8 million for the second quarter 2006, up from \$9.2 million in the prior year's period. The increase was due to increased AUM within our closed-end funds from \$4.7 billion as of second quarter 2005 to \$5.3 billion as of second quarter 2006. Open-end mutual funds revenues rose 3.4% to \$20.2 million from \$19.5 million in the 2005 period. Institutional and high net worth separate accounts revenues increased 2.2% to \$20.7 million, up from the \$20.3 million reported in 2005. The 2006 period includes the recognition of \$2.4 million in performance based fulcrum fees not in the year ago quarter. Investment Partnership revenues were \$3.1 million, level with the prior year's period.

Commission revenues from our institutional research affiliate, Gabelli & Company, Inc., were \$2.7 million in the second quarter 2006, up 5.7% from the prior year's comparable period, attributable to increased trading volume offset by lower commissions per trade.

Mutual fund distribution fees and other income were \$5.4 million for the second quarter 2006, 9.0% higher than the \$4.9 million reported in the 2005 period. The increase is due to higher distribution fees of \$5.1 million for second quarter 2006 versus \$4.7 million for second quarter 2005, principally as a result of higher average assets under management.

Operating margin, before management fee, decreased to 17.7% for the second quarter 2006 from 36.6% in the prior year's quarter primarily due to a reserve against earnings taken in the second quarter 2006 as further described below. Excluding the reserve, the operating margin for the second quarter 2006 was 36.7%.

Expenses not directly tied to revenues were \$25.2 million, an increase from the \$12.9 million recorded in the second quarter of 2005. The increase was primarily due to a reserve against earnings of approximately \$12 million in the second quarter 2006 relating to the potential resolution of a regulatory

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inquiry. Excluding the reserve, expenses not directly tied to revenues were approximately \$13 million. Since September 2003, GAMCO and certain of its subsidiaries have been cooperating with inquiries from the N.Y. Attorney General's office and the SEC by providing documents and testimony regarding certain mutual fund share trading practices. In June 2006, we began discussions with the SEC for a potential resolution of their inquiry. As a result of these discussions, GAMCO recorded the reserve. Since these discussions are ongoing, we cannot determine at this time whether they will ultimately result in a settlement of this matter, whether our reserves will be sufficient to cover any payments by GAMCO related to such a settlement, or whether and to what extent insurance may cover such payments.

Total other income, net of interest expense, rose to \$7.0 million for the second quarter 2006 from \$1.3 million in the 2005 period. The majority of this increase was attributable to higher net gains from investments as well as higher interest income due to higher interest rates as compared to the prior year period. In 2005, we recorded gains from our investment in optionsXpress (Nasdaq: OXPS) of: \$0.03 per fully diluted share in the first quarter, \$0.00 per fully diluted share in the second quarter, \$0.05 per fully diluted share in the third quarter, and \$0.01 per fully diluted share in the fourth quarter. For 2006, we recorded \$0.01 per fully diluted share in the first quarter and six months ended June 30, 2006.

For the second quarter 2006, interest expense was \$3.4 million versus \$3.3 million in the prior year's period.

Management fee was \$1.8 million for the three months ended June 30, 2006, versus \$2.3 million for the comparable 2005 period. The decrease is due to lower operating income before management fee, income taxes, and minority interest of \$18.1 million for second quarter 2006 as compared to \$23.1 million for second quarter 2005.

The effective tax rate for the quarter ended June 30, 2006, excluding the reserve, remained at 37.5%, the same as the prior year period.

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### Six Months Ended June 30, 2006 Compared To Six Months Ended June 30, 2005

To provide a better understanding of core results and trends, GAMCO has provided our results before adjusting for FASB Interpretation No. 46R ("FIN 46R") and Emerging Issue Task Force 04-5 ("EITF 04-5"). These results are not presented in accordance with generally accepted accounting principles ("GAAP") in the United States. A reconciliation of these non-GAAP financial measures to results presented in accordance with GAAP is presented herein. See Note A in item 1C, "Investments in Partnerships and Affiliates", of this report on Form 10-Q for a discussion of FIN 46 and EITF 04-5.

### Consolidated Results -- Six Months Ended June 30:

(Unaudited; in thousands, except per share data)

	2005 Restated (a)	2006 (b)	Adjustments (c)
	-----	-----	-----
Revenues			
Investment advisory and incentive fees	\$106,019	\$109,429	(\$ 3,016)

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Commission revenue	5,039	6,173	-
Distribution fees and other income	10,043	10,786	-
	-----	-----	-----
Total revenues	121,101	126,388	(3,016)
Expenses			
Compensation and related costs	53,401	54,233	-
Management fee	4,561	5,282	-
Distribution costs	10,748	10,544	-
Reserve for settlement	-	11,900	-
Other operating expenses	12,754	14,915	189
	-----	-----	-----
Total expenses	81,464	96,874	189
Operating income	39,637	29,514	(3,205)
Other income (expense)			
Net gain from investments	982	13,597	13,772
Interest and dividend income	7,629	11,159	1,325
Interest expense	(7,204)	(6,678)	(591)
	-----	-----	-----
Total other income (expense), net	1,407	18,078	14,506
Income before taxes and minority interest	41,044	47,592	11,301
Income tax provision	15,391	19,047	4,238
Minority interest	108	395	7,063
	-----	-----	-----
Net income	\$ 25,545	\$ 28,150	\$ -
	=====	=====	=====
Net income per share:			
Basic	\$ 0.86	\$ 0.98	\$ -
	=====	=====	=====
Diluted	\$ 0.85	\$ 0.97	\$ -
	=====	=====	=====
Reconciliation of Net income to Adjusted EBITDA:			
Net income	\$ 25,545	\$ 28,150	\$ -
Interest Expense	7,204	6,678	591
Income tax provision and minority interest	15,499	19,442	11,301
Depreciation and amortization	471	444	-
	-----	-----	-----
Adjusted EBITDA(e)	\$ 48,719	\$ 54,714	\$ 11,892
	-----	-----	-----

- (a) GAAP, as restated for change in accounting method.
- (b) Under a comparable reporting methodology as in 2005 -- Non-GAAP in 2006.
- (c) Represents the effects of consolidation of those entities in which GBL holds a direct or indirect controlling interest and the consolidation of entities under FIN 46R and EITF 04-5 for the first quarter of 2006.
- (d) GAAP basis.
- (e) Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and minority interest. Adjusted EBITDA is a Non-GAAP measure and should not be considered as an alternative to any measure of performance as promulgated under accounting principles generally accepted in the United States nor should it be considered as an indicator of our overall financial performance. We use Adjusted EBITDA as a supplemental measure of performance as we believe it gives investors a more complete understanding of our operating results before the impact of investing and financing activities as a tool for determining the private market value of an enterprise.

Total revenues were \$123.4 million for the six months ended June 30, 2006 up \$2.3 million or 1.9% from total revenues of \$121.1 million reported in the prior year's period

For the six months ended June 30, 2006, investment advisory fees were \$106.4 million, an increase of \$0.4 million from the \$106.0 million generated for the six months ended June 30, 2005. Further details on our six month ended June 30, 2006 investment advisory revenues included the following:

Revenues from our closed-end fund increased 19.2% to \$21.0 million for the six months ended June 30, 2006, up from \$17.6 million in the prior year's period. The increase was due to increased average AUM within our closed-end funds from \$4.5 billion for the first six months of 2005 to \$5.3 billion for the first half of 2006, largely due to the launch of Gabelli Global Gold, Natural Resources & Income Trust (GGN) as of March 29, 2005. Open-end mutual funds revenues were \$40.3 million, up 1.7% from the \$39.6 million in the 2005 period. Institutional and high net worth separate accounts revenues decreased 5.4% to \$40.1 million from the \$42.4 million reported in 2005. Investment Partnership revenues were \$8.1 million, an increase of 27.1%, as higher incentive fees were slightly offset by lower management fee revenues.

Commission revenues from our institutional research affiliate, Gabelli & Company, Inc., were \$6.2 million for the six months ended June 30, 2006, up 22.5% from the prior year's comparable period amount of \$5.0 million.

Mutual fund distribution fees and other income were \$10.8 million for the six months ended June 30, 2006, 7.4% higher than the \$10.0 million reported in the 2005 period. The increase is due to higher distribution fees of \$10.2 million for six months ended June 30, 2006 versus \$9.4 million for prior year period, principally as a result of higher average assets under management.

Operating margin, before management fee, decreased to 25.6% for the six months ended June 30, 2006 from 36.5% in the prior year's period primarily due to a reserve against earnings taken in the second quarter 2006 as previously described. Excluding the reserve, the operating margin for the six month period ended June 30, 2006 was 35.3%.

Expenses not directly tied to revenues were \$37.4 million, an increase of 42.6% from the \$26.3 million recorded in the period ended June 30, 2005. The increase was primarily due to a reserve against earnings of approximately \$12 million in the second quarter 2006 relating to the potential resolution of a regulatory inquiry. Excluding the reserve, expenses not directly tied to revenues were \$26 million.

Total other income, net of interest expense, rose to \$32.6 million for the six months ended June 30, 2006 from \$1.4 million in the 2005 period. Approximately \$14.5 million of the increase represents the effects of consolidation of entities in which GAMCO holds a direct or indirect controlling interest under FIN46R and EITF 04-5 during 2006 for the first quarter of 2006. In addition, there were higher net gains of \$13.6 million from investments as well as higher interest income of \$4.9 million due to higher interest rates, as compared to the prior year period. In 2005, we recorded gains from our investment in optionsXpress (Nasdaq: OXPS) of: \$0.03 per fully diluted share in the first quarter, \$0.00 per fully diluted share in the second quarter, \$0.05 per fully diluted share in the third quarter, and \$0.01 per fully diluted share in the fourth quarter. For 2006, we recorded \$0.01 per fully diluted share in the first quarter and six months ended June 30, 2006.



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Minority interest had an increase of \$7.1 million as a result of the consolidation of entities in which GAMCO holds a direct or indirect controlling interest under FIN46R and EITF 04-5 during 2006.

For the six months ended June 30, 2006, interest expense increased \$0.1 million to \$7.3 million.

Management fee was \$5.3 million for the six months ended June 30, 2006, versus \$4.6 million for the comparable 2005 period. The increase is due to higher operating income before management fee, income taxes, and minority interest of \$64.2 million for the six months ended June 30, 2006, as compared to \$45.6 million for the comparable 2005 period.

The effective tax rate for the six months ended June 30, 2006, excluding the reserve, remained at 37.5%, the same as the prior year period.

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### LIQUIDITY AND CAPITAL RESOURCES

Our assets are primarily liquid, consisting mainly of cash, short term investments, securities held for investment purposes and investments in partnerships and affiliates in which we are a general partner, limited partner or investment manager. Investments in partnerships and affiliates are generally illiquid, however the underlying investments in such entities are generally liquid and the valuations of the investment partnerships and affiliates reflect this underlying liquidity.

Summary cash flow data is as follows:

	Six Months Ended June 30,	
	2005	2006
	(in thousands)	
Cash flows used in:		
Operating activities	\$ (44,805)	\$ (27,097)
Investing activities	(4,960)	(1,767)
Financing activities	(15,874)	(26,429)
	(65,639)	(55,293)
Decrease		
Net increase in cash from investment partnerships and offshore funds consolidated under FIN 46R and EITF 04-5	-	1,550
Effect of exchange rates on cash and cash equivalents	(44)	(64)
Cash and cash equivalents at beginning of period	257,096	170,659
	\$ 191,413	\$ 116,852

Cash requirements and liquidity needs have historically been met through cash generated by operating activities and through our borrowing capacity. We have received investment grade ratings from both Moody's Investors Services and Standard & Poor's Rating Services. These investment grade ratings expand our ability to attract both public and private capital. In February 2005, our Board of Directors authorized a plan to file a "shelf" registration statement on Form S-3, which was filed on June 13, 2005. Our shelf registration, which was declared effective on May 8, 2006, provides us opportunistic flexibility to sell any combination of senior and subordinate debt securities, convertible debt securities, equity securities (including common and preferred stock), and other securities up to a total amount of \$400 million. This authorization is in

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addition to the remaining \$120 million available under our "shelf" registration filed in 2001.

At June 30, 2006, we had total cash and cash equivalents of \$116.9 million, a decrease of \$53.8 million from December 31, 2005. This decrease is primarily due to an increase in the purchase of securities during the six month period ended June 30, 2006. Gabelli has established a collateral account, consisting of cash and cash equivalents and investments in securities totaling \$52.8 million, to secure a letter of credit issued in favor of the holder of the \$50 million 5% convertible note. On April 1, 2005, the letter of credit was reduced to \$51.3 million and extended to September 22, 2006. Additionally, the principal of the convertible note was reduced to \$50 million and limitations on the issuance of additional debt were removed. The expiration date of the related letter of credit was extended to May 22, 2007. Cash and cash equivalents and investments in securities held in the collateral account are restricted from other uses until the date of expiration and cash and cash equivalents and investments in securities held by investment partnerships and offshore funds consolidated under FIN 46R and EITF 04-5 are also restricted from use for general operating purposes. Total debt at June 30, 2006 was \$232.3 million, consisting of the \$50 million 5% convertible note, \$100 million of 5.5% non-callable senior notes due May 15, 2013 and \$82.3 million in 5.22% senior notes due February 17, 2007, issued pursuant to our mandatory convertible securities.

Cash used in operating activities was \$27.1 million in the first six months of 2006 principally resulting from \$450.8 million in purchases of investments in securities, a \$27.0 million increase in receivable from brokers, \$10.1 million in purchases of investments in partnerships and affiliates and \$39.5 million from the net effects of the FIN 46R and EITF 04-5 consolidation. This was partially offset by \$28.2 million in net income, proceeds from sales of investments in securities of \$451.0 million, \$7.9 million in distributions from

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investments in partnerships and affiliates and an increase in compensation payable of \$11.0 million. Excluding the net effects of the consolidation of investment partnerships and offshore funds, our cash provided by operating activities was \$9.4 million.

Cash used in investing activities, related to purchases and sales of available for sale securities, was \$1.8 million in the first six months of 2006.

Cash used in financing activities in the first six months of 2006 was \$26.4 million. The decrease in cash principally resulted from the repurchase of our class A common stock under the Stock Repurchase Program of \$52.3 million partially offset by a \$30.3 million in contributions by partners into our investment partnerships. Excluding the net effects of the consolidation of investment partnerships and offshore funds, our net cash used in financing activities was \$0.8 million.

Cash used in operating activities was \$44.8 million in the first six months of 2005 principally resulting from \$535.1 million in purchases of investments in securities, a \$18.7 million increase in receivable from brokers and a \$6.7 million decrease in income taxes payable partially offset by \$473.4 million in proceeds from sales of investments in securities, \$25.5 million in net income, a \$10.3 million decrease in investment advisory fees receivable and a \$3.8 million increase in compensation payable.

Cash used in investing activities, related to investments in and purchases and sales of available for sale securities, was \$5.0 million in the first six months of 2005.

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Cash used in financing activities in the first six months of 2005 was \$15.9 million. The decrease in cash principally resulted from the repurchase of \$50 million of our \$100 million 5% convertible note on April 1, 2005, \$18.6 million in dividends paid and \$17.8 million from the repurchase of our class A common stock under the Stock Repurchase Program. This was partially offset by \$70.6 million in proceeds from the issuance of 1.5 million shares of class A common stock in settlement of the purchase contracts issued pursuant to our mandatory convertible securities and \$0.6 million received from the exercise of non-qualified stock options that further generated cash tax savings of \$0.2 million.

Based upon our current level of operations and anticipated growth, we expect that our current cash balances plus cash flows from operating activities and our borrowing capacity will be sufficient to finance our working capital needs for the foreseeable future. We have no material commitments for capital expenditures.

Gabelli & Company, Inc., a subsidiary of Gabelli, is registered with the Securities and Exchange Commission as a broker-dealer and is a member of the National Association of Securities Dealers. As such, it is subject to the minimum net capital requirements promulgated by the Commission. Gabelli & Company's net capital has historically exceeded these minimum requirements. Gabelli & Company computes its net capital under the alternative method permitted by the Commission, which requires minimum net capital of the greater of \$250,000 or 2% of the aggregate debt items in the reserve formula for those broker-dealers subject to Rule 15c3-3. The requirement was \$250,000 at June 30, 2006. At June 30, 2006, Gabelli & Company had net capital, as defined, of approximately \$15.7 million, exceeding the regulatory requirement by approximately \$15.5 million. Regulatory net capital requirements increase when Gabelli & Company is involved in underwriting activities.

### Market Risk

Our primary market risk exposure is to changes in equity prices and interest rates. Since over 95% of our AUM are equities, our financial results are subject to equity-market risk as revenues from our money management services are sensitive to stock market dynamics. In addition, returns from our proprietary investment portfolio are exposed to interest rate and equity market risk.

We are subject to potential losses from certain market risks as a result of absolute and relative price movements in financial instruments due to changes in interest rates, equity prices and other factors. Our exposure to market risk is directly related to our role as financial intermediary, advisor and general partner for assets under management in our mutual funds, institutional and separate accounts business, investment partnerships and our proprietary investment activities.

With respect to our proprietary investment activities, included in investments in securities of \$447.5 million at June 30, 2006 were investments in Treasury Bills and Notes of \$253.8 million, in mutual funds, largely invested in equity products, of \$109.1 million, a selection of common and preferred stocks totaling \$65.7 million and other investments of approximately \$18.9 million. Investments in mutual funds generally lower market risk through the diversification of financial instruments within their portfolio. In addition, we may alter our investment holdings from time to time in response to changes in market risks and other factors considered appropriate by management. Of the approximately \$65.7 million invested in common and preferred stocks at June 30, 2006, \$22.1 million is related to our investment in Westwood Holdings Group Inc.

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and \$1.2 million is invested in risk arbitrage opportunities in connection with mergers, consolidations, acquisitions, tender offers or other similar transactions. Investments in partnerships and affiliates totaled \$89.4 million at June 30, 2006, the majority of which consisted of investment partnerships and offshore funds which invest in risk arbitrage opportunities. These transactions generally involve announced deals with agreed upon terms and conditions, including pricing, which typically involve less market risk than common stocks held in a trading portfolio. The principal risk associated with risk arbitrage transactions is the inability of the companies involved to complete the transaction.

GAMCO's exposure to interest rate risk results, principally, from its investment of excess cash in U.S. Government obligations. These investments are primarily short term in nature and the carrying value of these investments generally approximates market value.

Since over 95% of our AUM are invested in equities, the primary risk factor affecting our revenues and financial results is the general market level of stock prices and interest rates. Our financial results are also subject to the gain or loss of clients. In addition, returns from our proprietary investment portfolio are also exposed to interest rate and equity market risk. Should negative market conditions that impact our AUM or proprietary investment portfolio occur, we could report lower operating results in the second half of 2006 than would otherwise be the case. We also note that second half 2006 earnings will be measured against the backdrop of strong financial results in the second half of 2005.

### Recent Accounting Developments

In February 2006, the FASB issued FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statement No. 133 and 140," that amends FASB Statements No. 133 "Accounting for Derivative Instruments and Hedging Activities," and No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principle-only strips are not subject to the requirements of Statement 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. Statement 155 does not permit prior period restatement. The Statement is effective for all financial instruments acquired or issued after the beginning of an entity's second fiscal year that begins after September 15, 2006. The Company plans to adopt this Statement on January 1, 2007. The adoption is not expected to have a material impact on the Company's future consolidated financial statements.

In March 2006, the FASB issued FASB Statement No. 156, "Accounting for Servicing of Financial Assets," which amends FASB Statements No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Statement permits an entity to choose either the amortization method or fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. The Statement is effective as of the beginning of an entity's second fiscal year that begins after September 15, 2006. The Company plans to adopt this Statement on January 1, 2007. The adoption is not expected to have a material impact on the Company's future consolidated financial statements.

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In April 2006, the FASB issued FSP FIN 46R-6 "Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R)." The FSP addresses

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certain major implementation issues related to FIN 46R, specifically how a reporting enterprise should determine the variability to be considered in applying FIN 46R. The FSP is effective as of the beginning of the second day of the second reporting period beginning after June 15, 2006. The Company plans to adopt this Statement on January 1, 2007. The adoption is not expected to have a material impact on the Company's future consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" which is an interpretation of FASB Statement No. 109, "Accounting for Income Taxes". This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expect to be taken in a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company plans to adopt this Statement on January 1, 2007. The adoption is not expected to have a material impact on the Company's future consolidated financial statements.

### Item 4. Controls and Procedures

Management, including the Chief Executive Officer and the Chief Financial Officer has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on the evaluation, the Chief Executive Officer and the Interim Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and the Chief Financial Officer completed their evaluation.

### Forward-Looking Information

Our disclosure and analysis in this report contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements because they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning. They also appear in any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance of our products, expenses, the outcome of any legal proceedings, and financial results. Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ from our expectations or beliefs include, without limitation: the adverse effect from a decline in the securities markets; a decline in the performance of our products; a general downturn in the economy; changes in government policy or regulation; changes in our ability to attract or retain key employees; and unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations. We also direct your attention to any more specific discussions of risk contained in our Form 10-K and other public filings. We are providing these statements as permitted by the Private Litigation Reform Act of 1995. We do not undertake to update publicly any forward-looking statements if we subsequently learn that we

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are unlikely to achieve our expectations or if we receive any additional information relating to the subject matters of our forward-looking statements.

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### Part II: Other Information

#### Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table provides information with respect to the shares of common stock we repurchased during the three months ended June 30, 2006:

Period	(a) Total Number of Shares Repurchased	(b) Average Price Paid Per Share, net of Commissions	(c) Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Yet Be Purchased Under Plans or Programs
4/01/06 - 4/30/06	-	-	-	804,261
5/01/06 - 5/31/06	413,400	\$37.04	413,400	790,861
6/01/06 - 6/30/06	76,000	\$34.11	76,000	714,861
	-----		-----	
Totals	489,400		489,400	
	=====		=====	

In May 2006, the board of directors approved an increase of 400,000 shares of GBL available to be repurchased under our stock repurchase program. Our stock repurchase programs are not subject to expiration dates.

#### Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of GAMCO Investors, Inc. was held in Greenwich, Connecticut on May 8, 2006. At that meeting, the stockholders considered and acted upon the following matter:

THE ELECTION OF DIRECTORS. The stockholders elected the following individuals to serve as directors until the 2007 annual meeting of stockholders and until their respective successors are duly elected and qualified. All of the nominees were elected with the following votes cast:

Nominees	For	Withheld
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Edwin L. Artzt	232,832,610	1,385,513
Richard L. Bready	234,149,101	69,022
John C. Ferrara	234,142,210	75,913
John D. Gabelli	232,536,392	1,681,731
Mario J. Gabelli	232,552,342	1,665,781
Karl Otto Pohl	232,599,849	1,618,274
Robert S. Prather, Jr.	234,047,756	170,367
Vincent S. Tese	234,046,830	171,293

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Item 6. (a) Exhibits

- 4.1 Fourth Amendment to the Note Purchase Agreement dated as of June 30, 2006. (Incorporated by reference to Exhibit 99.1 of the Company's Report on Form 8-K dated June 30, 2006.)
- 4.2 \$50 Million Convertible Promissory Note. (Incorporated by reference to Exhibit 99.2 of the Company's Report on Form 8-K dated June 30, 2006.)
- 10.1 Exchange and Standstill Agreement dated May 31, 2006.
- 10.2 Registration Rights Agreement dated May 31, 2006.
- 31.1 Certification by Chief Executive Officer Pursuant to Rule 13a-14 (a) and 15d-14 (a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by Interim Chief Financial Officer Pursuant to Rule 13a-14 (a) and 15d-14 (a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GAMCO INVESTORS, INC.

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(Registrant)

August 7, 2006

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Date

/s/ John C. Ferrara

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John C. Ferrara  
Interim Chief Financial Officer