



## **Explanatory Note**

This Form 10-Q/A of GAMCO Investors, Inc. (the “Company”) constitutes Amendment No. 1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which was initially filed with the Securities and Exchange Commission on November 9, 2006. As further described in Note A to the Condensed Consolidated Financial Statements, the purpose of this filing is to restate the Financial Statements and amend Management’s Discussion and Analysis of Financial Condition and Results of Operations (Including Quantitative and Qualitative Disclosure about Market Risk) in Part I, Items 1 and 2, respectively, relating to the reporting of individual assets and liabilities of certain proprietary investment accounts. In addition, certain reclassifications on the Condensed Consolidated Statements of Financial Condition and on the Condensed Consolidated Statements of Cash Flows have been made relating to the consolidation of certain investment partnerships and offshore funds in accordance with the provisions of FASB Interpretation No. 46R (“FIN 46R”) and Emerging Issue Task Force 04-5 (“EITF 04-5”) and relating to the voluntary change in accounting principle.

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GAMCO INVESTORS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
UNAUDITED

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005 (a)	2006	2005 (a)
<b>Revenues</b>				
Investment advisory and incentive fees	\$ 49,751	\$ 52,019	\$ 153,735	\$ 157,068
Commission revenue	2,800	3,259	8,973	8,298
Distribution fees and other income	<u>5,443</u>	<u>5,428</u>	<u>16,229</u>	<u>15,471</u>
Total revenues	57,994	60,706	178,937	180,837
<b>Expenses</b>				
Compensation and related costs	24,161	24,972	75,459	77,513
Management fee	3,026	3,240	8,153	7,759
Distribution costs	5,024	5,175	15,568	15,923
Other operating expenses	7,563	7,019	22,667	20,077
Reserve for settlement	-	-	<u>11,900</u>	-
Total expenses	<u>39,774</u>	<u>40,406</u>	<u>133,747</u>	<u>121,272</u>
Operating income	18,220	20,300	45,190	59,565
<b>Other income (expense)</b>				
Net gain from investments	4,663	6,937	32,032	7,919
Interest and dividend income	7,665	5,216	20,149	12,845
Interest expense	<u>(3,368)</u>	<u>(3,298)</u>	<u>(10,637)</u>	<u>(10,502)</u>
Total other income, net	<u>8,960</u>	<u>8,855</u>	<u>41,544</u>	<u>10,262</u>
Income before income taxes and minority interest	27,180	29,155	86,734	69,827
Income tax provision	10,192	10,933	33,726	26,186
Minority interest	<u>104</u>	<u>176</u>	<u>8,783</u>	<u>266</u>
Net income	<u>\$ 16,884</u>	<u>\$ 18,046</u>	<u>\$ 44,225</u>	<u>\$ 43,375</u>
Net income per share:				
Basic	\$ <u>0.60</u>	\$ <u>0.60</u>	\$ <u>1.54</u>	\$ <u>1.45</u>
Diluted	\$ <u>0.59</u>	\$ <u>0.59</u>	\$ <u>1.53</u>	\$ <u>1.43</u>
Weighted average shares outstanding:				
Basic	<u>28,254</u>	<u>29,935</u>	<u>28,647</u>	<u>29,859</u>
Diluted	<u>29,235</u>	<u>31,079</u>	<u>29,644</u>	<u>31,323</u>
Dividends declared:	\$ <u>0.03</u>	\$ <u>0.02</u>	\$ <u>0.09</u>	\$ <u>0.06</u>

(a) As restated for the change in accounting method as described in note A in item 1 of this report on Form 10-Q/A which was previously reported on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2006.

See accompanying notes.

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

	<b>December 31, 2005 (a)</b>	<b>September 30, 2006 (a)</b>	<b>September 30, 2005 (a)</b>
<b>ASSETS</b>	(Unaudited)		
Cash and cash equivalents, including restricted cash of \$2,503, \$2,056 and \$2,483.	\$ 173,161	\$ 112,089	\$ 205,050
Investments in securities, including restricted securities of \$52,219, \$51,461 and \$51,731.	421,414	503,801	413,018
Investments in partnerships and affiliates	74,827	81,326	72,889
Receivable from brokers	9,827	49,149	9,138
Investment advisory fees receivable	22,098	16,219	15,792
Other assets	<u>26,821</u>	<u>15,452</u>	<u>22,345</u>
Total assets	<u>\$ 728,138</u>	<u>\$ 778,036</u>	<u>\$ 738,232</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Payable to brokers	\$ 3,937	\$ 18,599	\$ 1,773
Income taxes payable, including deferred taxes of \$1,699, (\$287), and \$1,713.	10,097	5,353	5,408
Compensation payable	27,820	40,381	36,614
Capital lease obligation	2,992	2,837	3,039
Securities sold, not yet purchased	3,183	8,465	3,379
Accrued expenses and other liabilities	<u>17,579</u>	<u>31,844</u>	<u>19,327</u>
Total operating liabilities	<u>65,608</u>	<u>107,479</u>	<u>69,540</u>
5.5% Senior notes (due May 15, 2013)	100,000	100,000	100,000
6% Convertible note (conversion price, \$53.00 per share; note due August 14, 2011) <sup>(b)</sup>	50,000	50,000	50,000
5.22% Senior notes (due February 17, 2007)	<u>82,308</u>	<u>82,308</u>	<u>82,308</u>
Total liabilities	297,916	339,787	301,848
Minority interest	6,147	20,218	5,915
Stockholders' equity			
Class A Common Stock, \$0.001 par value; 100,000,000 shares authorized; 9,648,339, 12,022,762 and 9,640,339 issued, respectively; 6,414,517, 7,458,608 and 6,733,317 outstanding, respectively	10	10	10
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	23	23
Additional paid-in capital	226,353	228,880	235,735
Retained earnings	329,036	370,613	309,782
Accumulated comprehensive gain	526	4,803	2,171
Treasury stock, at cost (3,233,822, 4,564,154 and 2,907,022 shares, respectively)	<u>(131,873)</u>	<u>(186,298)</u>	<u>(117,252)</u>
Total stockholders' equity	<u>424,075</u>	<u>418,031</u>	<u>430,469</u>
Total liabilities and stockholders' equity	<u>\$ 728,138</u>	<u>\$ 778,036</u>	<u>\$ 738,232</u>

(a) As restated for (1) the change in accounting method which was previously reported on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2006 as described in Note A in item 1 of this report on Form 10-Q/A, and (2) the reporting of individual assets and liabilities of certain proprietary investment accounts as described in Note A in item 1 of this report on Form 10-Q/A.

(b) Convertible note was 5% with a conversion price of \$52 per share for December 31, 2005 and September 30, 2005.

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2006</u>	<u>2005 (a)</u>	<u>2006</u>	<u>2005 (a)</u>
Stockholders' equity – beginning of period	\$ 401,453	\$ 416,832	\$ 424,075	\$ 334,878
Cumulative effect of change in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>(178)</u>
Beginning balance, as restated	401,453	416,832	424,075	334,700
Comprehensive income:				
Net income	16,884	18,046	44,225	43,375
Foreign currency translation adjustments	13	(9)	(40)	25
Net unrealized (loss) gain on securities available for sale	<u>2,367</u>	<u>316</u>	<u>4,234</u>	<u>2,199</u>
Comprehensive income	19,264	18,353	48,419	45,599
Dividends declared	(847)	(599)	(2,565)	(1,933)
Stock option expense	17	-	37	2,760
Proceeds from settlement of purchase contracts	-	-	-	70,567
Excess tax benefit for exercised stock options	-	-	1,782	-
Exercise of stock options including tax benefit	290	648	708	1,388
Capitalized costs	-	(16)	-	(31)
Purchase of treasury stock	<u>(2,146)</u>	<u>(4,749)</u>	<u>(54,425)</u>	<u>(22,581)</u>
Stockholders' equity – end of period	<u>\$ 418,031</u>	<u>\$ 430,469</u>	<u>\$ 418,031</u>	<u>\$ 430,469</u>

(a) As restated for the change in accounting method as described in note A in item 1 of this report on Form 10-Q/A which was previously reported on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2006.

See accompanying notes.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b><u>2006 (a)</u></b>	<b><u>2005 (a)</u></b>	<b><u>2006 (a)</u></b>	<b><u>2005 (a)</u></b>
<b>Operating activities</b>				
Net income	\$16,884	\$ 18,046	\$44,225	\$ 43,375
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Equity in gains from partnerships and affiliates	(1,090)	(2,046)	(4,428)	(4,749)
Depreciation and amortization	221	298	665	769
Stock-based compensation expense	16	-	36	2,760
Tax benefit from exercise of stock options	79	133	166	287
Foreign currency loss	14	(6)	44	196
Other-than-temporary loss on available for sale securities	-	-	56	3,301
Impairment of goodwill	-	-	-	1,127
Minority interest in net income of consolidated subsidiaries	143	176	438	266
Realized gains on sales of available for sale securities, net	-	-	(442)	-
Realized gains on sales of investments in securities, net	(4,244)	(5,125)	(14,218)	(6,745)
Change in unrealized value of investments in securities, net	(1,923)	(1,652)	(5,259)	(5,282)
Excess tax benefit adjustment	-	-	1,782	-
(Increase) decrease in operating assets:				
Purchases of investments in securities	(300,255)	(228,893)	(837,871)	(783,966)
Proceeds from sales of investments in securities	277,225	201,201	804,747	683,257
Receivables from affiliates	325	2,370	10,417	5,051
Investments in partnerships and affiliates	(354)	(3,058)	(4,402)	(13,741)
Distributions from partnerships and affiliates	3,925	1,561	11,838	35,428
Investment advisory fees receivable	(363)	519	5,763	9,645
Receivable from brokers	(9,222)	18,067	(36,781)	(3,600)
Other assets	262	575	142	(1,225)
Increase (decrease) in operating liabilities:				
Payable to brokers	9,404	1,772	12,848	1,471
Income taxes payable	2,028	2,479	(7,348)	(4,316)
Compensation payable	3,878	6,189	11,809	9,399
Accrued expenses and other liabilities	2,538	3,784	13,116	1,512
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	(235)	-	(12,315)	-
Change in unrealized value of investments in securities and securities sold short, net	(304)	-	(4,573)	-
Equity in gains from partnerships and affiliates	240	-	(288)	-
Purchases of investments in securities and securities sold short	(10,515)	-	(661,456)	-
Proceeds from sales of investments in securities and securities sold short	9,849	-	639,070	-
Investments in partnerships and affiliates	(586)	-	(1,904)	-
Distributions from partnerships and affiliates	-	-	380	-
Investment advisory fees receivable	19	-	117	-
Increase in receivable from brokers	1,399	-	(10,028)	-
Decrease in other assets	172	-	505	-
Increase in payable to brokers	(33)	-	7,597	-
Decrease in accrued expenses and other liabilities	(6)	-	(11,684)	-
Income related to investment partnerships and offshore funds consolidated under FIN 46R and EITF 04-5, net	84	-	14,721	-
Total adjustments	<u>(17,309)</u>	<u>(1,656)</u>	<u>(76,740)</u>	<u>(69,155)</u>
Net cash provided by (used in) operating activities	<u>(425)</u>	<u>16,390</u>	<u>(32,515)</u>	<u>(25,780)</u>

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<u><b>2006 (a)</b></u>	<u><b>2005 (a)</b></u>	<u><b>2006 (a)</b></u>	<u><b>2005 (a)</b></u>
<b>Investing activities</b>				
Purchases of available for sale securities	(1,680)	(560)	(4,933)	(5,520)
Proceeds from sales of available for sale securities	<u>-</u>	<u>-</u>	<u>1,486</u>	<u>-</u>
Net cash used in investing activities	<u>(1,680)</u>	<u>(560)</u>	<u>(3,447)</u>	<u>(5,520)</u>
<b>Financing activities</b>				
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	(89)	-	29,638	-
Accrual for settlement of minority interest	-	36	-	36
Proceeds from exercise of stock options	210	515	542	1,100
Repurchase of 5% convertible note	-	-	-	(50,000)
Dividends paid	(847)	(599)	(2,565)	(19,235)
Proceeds from settlement of purchase contracts	-	-	-	70,568
Capitalized costs	-	(16)	-	(31)
Purchase of treasury stock	<u>(2,146)</u>	<u>(4,748)</u>	<u>(54,425)</u>	<u>(22,580)</u>
Net cash used in financing activities	<u>(2,872)</u>	<u>(4,812)</u>	<u>(26,810)</u>	<u>(20,686)</u>
Net increase in (decrease in) cash and cash equivalents	(4,977)	11,018	(62,772)	(51,986)
Net increase in cash from partnerships and offshore funds consolidated under FIN 46R and EITF 04-5	204	-	1,754	-
Effect of exchange rates on cash and cash equivalents	<u>10</u>	<u>(16)</u>	<u>(54)</u>	<u>(60)</u>
Cash and cash equivalents at beginning of period	<u>116,852</u>	<u>194,048</u>	<u>173,161</u>	<u>257,096</u>
Cash and cash equivalents at end of period	<u>\$112,089</u>	<u>\$205,050</u>	<u>\$112,089</u>	<u>\$205,050</u>

(a) As restated for (1) the change in accounting method which was previously reported on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2006 as described in Note A in item 1 of this report on Form 10-Q/A, and (2) the reporting of individual assets and liabilities of certain proprietary investment accounts as described in Note A in item 1 of this report on Form 10-Q/A.

See accompanying notes.

**GAMCO INVESTORS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 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 to recognize management fee revenues on closed-end preferred shares at the end of the measurement period, effective January 1, 2006. Unlike most money management firms, GAMCO does not charge fees on leverage in its closed-end funds unless the total return to the common shareholders (of the closed-end fund at year-end) exceeds the dividend rate of the preferred shares. In 2005, 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. Had this method not changed, we would have recorded approximately \$3.1 million in management fee revenues on closed-end preferred shares for the three month period ended September 30, 2006.

In addition, GAMCO has changed its accounting method to recognize incentive fee revenues on investment partnerships at the end of the measurement period, effective January 1, 2006. Previously, GAMCO recognized these revenues during each interim reporting period. Under this method, incentive fee revenues recognized in prior interim periods during the measurement period were subject to possible reversal in subsequent periods during the measurement period. Had this method not changed, we would have recorded approximately \$0.9 million in incentive fee revenues on investment partnerships for the three month period ended September 30, 2006.

After considering the guidance provided in EITF D-96, “Accounting for Management Fees Based on Formula”, GAMCO believes that the preferable method of accounting is to recognize management fee revenues on closed-end preferred shares and incentive fees on investment partnerships at the end of the measurement period. This method results in revenue recognition only when the measurement period has been completed and when the management fees and incentive fees have been earned. This eliminates the possibility of revenues that have been recognized in interim measurement periods subsequently being reversed in later periods during a fiscal year.

Under SFAS No. 154 “Accounting Changes and Error Corrections,” which GAMCO adopted on January 1, 2006, a 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. Whereas some investment partnerships have a fiscal year-end differing from GAMCO’s fiscal year-end, there is an adjustment for the cumulative effect of a change to the accounting principle at January 1, 2005 and a change in full year 2005 revenues and net income from what was previously reported. Therefore, this change in accounting principle will result in a reduction of revenues of approximately \$1.2 million in the first quarter of 2005, approximately \$23,000 in the second quarter of 2005, \$5.5 million in the third quarter of 2005 and an increase in revenues of \$7.7 million in the fourth quarter of 2005.

(\$ millions)	Quarter Ended (a)			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
<b>Revenue Reported</b>	\$61.5	\$59.8	\$66.2	\$64.8
<b>Restated</b>	<u>\$60.3</u>	<u>\$59.8</u>	<u>\$60.7</u>	<u>\$72.5</u>
<b>Change</b>	(\$1.2)	-	(\$5.5)	\$7.7
<b>EPS Reported</b>	\$0.42	\$0.43	\$0.64	\$0.61
<b>Restated</b>	<u>\$0.41</u>	<u>\$0.42</u>	<u>\$0.59</u>	<u>\$0.67</u>
<b>Change</b>	(\$0.01)	(\$0.01)	(\$0.05)	\$0.06

(a) Differences due to rounding.

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006 (filed with the Securities and Exchange Commission on March 19, 2007), GAMCO is restating its financial statements included herein to properly report individual assets and liabilities relating to certain of GAMCO’s proprietary investments. The assets and liabilities (primarily short positions and margin) associated with these investment accounts were previously reported on a net asset basis but should have been reported on a gross asset and liability basis. This change had no effect on net income or stockholders’ equity. See Item 7 and Note A contained in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006 for further details. The impact of the change on our Condensed Consolidated Statements of Financial Condition for March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005, respectively, is as follows:

(\$ millions)	<u>3/31/2005</u>	<u>6/30/2005</u>	<u>9/30/2005</u>	<u>12/31/2005</u>
<b>Assets:</b>				
<b>Reported</b>	\$ 768.7	\$ 709.9	\$ 733.4	\$ 720.9
<b>Restated</b>	770.5	712.0	738.2	728.1
<b>Change</b>	<u>1.8</u>	<u>2.1</u>	<u>4.8</u>	<u>7.2</u>
<b>Operating Liabilities:</b>				
<b>Reported</b>	63.2	55.1	64.7	58.4
<b>Restated</b>	65.0	57.2	69.5	65.6
<b>Change</b>	<u>1.8</u>	<u>2.1</u>	<u>4.8</u>	<u>7.2</u>
<b>Total Liabilities:</b>				
<b>Reported</b>	345.5	287.4	297.0	290.7
<b>Restated</b>	347.3	289.5	301.8	297.9
<b>Change</b>	<u>1.8</u>	<u>2.1</u>	<u>4.8</u>	<u>7.2</u>
<b>Equity:</b>				
<b>Reported</b>	417.0	416.8	430.5	424.1
<b>Restated</b>	417.0	416.8	430.5	424.1
<b>Change</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The impact of the change on our Condensed Consolidated Statement of Financial Condition at September 30, 2006 is as follows:

(\$ millions)	<u>Assets</u>	<u>Operating Liabilities</u>	<u>Total Liabilities</u>	<u>Equity</u>
<b>Reported</b>	\$ 754.4	\$ 83.9	\$ 316.2	\$ 418.0
<b>Restated</b>	778.0	107.5	339.8	418.0
<b>Change</b>	<u>\$ 23.6</u>	<u>\$ 23.6</u>	<u>\$ 23.6</u>	<u>\$ -</u>

### *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 first 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 first 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 first day of the first reporting period beginning 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 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 materiality of the adoption on the Company's future consolidated financial statements is not known at this time.

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurement." The statement provides guidance for using fair value to measure assets and liabilities. The statement provides guidance to companies about the extent to which to measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The statement applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances. Although early adoption is permitted, the statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. 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.

The Company accounts for derivative financial instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133 ("Statement No. 133"), Accounting for Derivative Instruments and Hedging Activities, as amended. Statement No. 133 requires that an entity recognize all derivatives, as defined, as either assets or liabilities measured at fair value. The Company uses swaps and treasury futures to manage its exposure to market and credit risks from changes in certain equity prices, interest rates, and volatility and does not hold or issue swaps and treasury futures for speculative or trading purposes. These swaps and treasury futures are not designated as hedges, and changes in fair values of these derivatives are recognized in earnings as gains (losses) on derivative contracts. The fair value of swaps and treasury shares are included in the investments in securities in the statements of financial condition, and gains and losses from the swaps and treasury shares are included in net gain from investments in the statement of income.

There were no losses in the three month period ended September 30, 2006 and \$0.1 million in losses for the nine month period ended September 30, 2006 on AFS securities deemed to be other than temporary which were recorded in the statement of income. There were no losses in the three month period ended September 30,

2005 and \$3.3 million in losses for the nine month period ended September 30, 2005 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 nine month period ended September 30, 2005 were partially offset by gains related to our \$100,000 venture capital 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 \$4.9 million on OXPS for the first nine months of 2005, of which \$2.7 million was recognized during the third quarter of 2005. For the nine month period ended September 30, 2006, we recorded a gain of \$0.5 million on OXPS, none of which was recorded in the third quarter of 2006.

At September 30, 2006 and September 30, 2005, the market value of investments available for sale was \$92.6 million and \$82.0 million, respectively. An unrealized gain in market value, net of management fee and taxes, of \$4.7 million and \$2.1 million has been included in stockholders' equity for September 30, 2006 and September 30, 2005, respectively. The unrealized gain in the nine month period ended September 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 nine months ended September 30, 2005.

There were no sales of investments available for sale for the three month period ended September 30, 2006 or for the three and nine month periods ended September 30, 2005. Proceeds from sales of investments available for sale were approximately \$1.5 million for the nine month period ended September 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 nine months ended September 30, 2006, the consolidation of these entities for the first quarter 2006 does affect the classification of income between operating and other income. As a result, we have provided our results for the nine month period through September 30, 2006 before adjusting for FIN46R and EITF 04-5, in management's discussion and analysis, as we believe this basis is comparable to our reported results for the nine months ended September 30, 2005.

We consolidated five 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 nine months ended September 30, 2006. These entities have been consolidated within our financial statements for the three and nine month periods ended September 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 nine month periods ended September 30, 2006 related to these entities, the consolidation of these entities also resulted in minor adjustments to our statement of financial condition at September 30, 2006. The consolidation of these entities on the statement of financial condition has increased assets by \$16.5 million, liabilities by \$2.9 million and minority interest by \$13.6 million. Prior to consolidation of these entities, our investments in these entities were reflected within investments in partnerships and affiliates on the statement of financial condition and accounted for under the equity method.

For the three and nine months ended September 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		Nine Months Ended	
	September 30,		September 30,	
	2006	2005 (a)	2006	2005 (a)
<b>Basic:</b>				
Net income	\$ <u>16,884</u>	\$ <u>18,046</u>	\$ <u>44,225</u>	\$ <u>43,375</u>
Average shares outstanding	<u>28,254</u>	<u>29,935</u>	<u>28,644</u>	<u>29,859</u>
Basic net income per share	\$ <u>0.60</u>	\$ <u>0.60</u>	\$ <u>1.54</u>	\$ <u>1.45</u>
<b>Diluted:</b>				
Net income	\$ 16,884	\$ 18,046	\$ 44,225	\$ 43,375
Add interest expense on 5% convertible note, net of management fee and taxes	<u>289</u>	<u>352</u>	<u>1,067</u>	<u>1,406</u>
Total	\$ <u>17,173</u>	\$ <u>18,398</u>	\$ <u>45,292</u>	\$ <u>44,781</u>
Average shares outstanding	28,254	29,935	28,644	29,859
Dilutive stock options	22	182	30	185
Assumed conversion of 5% convertible note	<u>959</u>	<u>962</u>	<u>961</u>	<u>1,279</u>
Total	<u>29,235</u>	<u>31,079</u>	<u>29,635</u>	<u>31,323</u>
Diluted net income per share	\$ <u>0.59</u>	\$ <u>0.59</u>	\$ <u>1.53</u>	\$ <u>1.43</u>

(a) As restated for the change in accounting method in Note A in item 1 of this report.

## E. Stockholders' Equity

Shares outstanding on September 30, 2006 were 28,239,635, approximately 0.2% lower than the June 30, 2006 outstanding shares of 28,290,085, and approximately 5.4% lower than the 29,861,817 shares outstanding on September 30, 2005. Fully diluted shares outstanding for the third quarter of 2006 were 29,235,083 approximately 0.9% lower than second quarter 2006 fully diluted shares of 29,495,759 and approximately 5.9% lower than our fully diluted shares of 31,079,413 for the third 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. 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 September 30, 2006, there were 7,458,608 of Class A shares outstanding compared to 7,509,085 shares outstanding at June 30, 2006.

On August 10, 2006, the Board of Directors declared a quarterly dividend of \$0.03 per share that was paid on September 28, 2006 to shareholders of record on September 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. In the second quarter of 2006, we recognized a tax benefit from previously exercised stock options of \$1.8 million. For the three months ended September 30, 2006, we recognized stock-based compensation expense of approximately \$16,000 and for the three months ended September 30, 2005, we did not recognize any stock-based compensation expense. For the nine months ended September 30, 2006 and 2005, we recognized stock-based compensation expense of approximately \$36,000 and \$2.8 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	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$17,000	\$67,000	\$62,000	\$20,000	\$2,000

Proceeds from the exercise of 11,950 and 19,275 stock options were approximately \$210,000 and \$515,000 for the three months ended September 30, 2006 and 2005, respectively, resulting in a tax benefit to GAMCO of \$79,000 and \$133,000 for the respective periods. Proceeds from the exercise of 26,950 and 41,500 stock options were approximately \$542,000 and \$1,100,000 for the nine months ended September 30, 2006 and 2005, respectively, resulting in a tax benefit to GAMCO of \$166,000 and \$287,000 for the respective periods.

#### *Stock Repurchase Program*

In the third quarter of 2006, we repurchased 62,400 shares at an average investment of \$34.38. The total amount of shares currently available to be repurchased under the program is approximately 653,000 shares at September 30, 2006. Since our buyback program was initiated in March 1999, 4,664,958 class A common shares have been repurchased through September 30, 2006 at an average investment of \$39.45 per share.

## **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. Effective September 15, 2006, the rate on the note increased from 5% to 6% while the conversion price was raised to \$53 per share from \$52 per share. 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 nine month periods ended September 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 September 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 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 September 30, 2006 and September 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 minimis, and therefore an accrual has not been made in the financial statements.

## **I. Subsequent Events**

On November 7, 2006, our Board of Directors authorized the repurchase of an additional 400,000 shares of our Class A common stock, bringing the total available authorization to approximately 1,052,000 shares.

## **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. The Gabelli brand represents our absolute return, research driven Value style that focuses on our unique Private Market Value with a Catalyst™ investment approach. In addition to our Value products, we offer our clients a broad array of investment strategies under the GAMCO brand that include growth, international, convertible, non-market correlated, and fixed income products. Through Gabelli & Company, Inc., we provide our institutional equity research reports and services to institutional clients and investment partnerships.

Since 1977, we have been identified with and enhanced the “value” style 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 equity research. By earning returns for our clients, we will be earning returns for all our constituents. We generally manage assets on a discretionary basis and invest in a variety of U.S. and international securities.

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. As part of this initiative, the directors of our mutual funds approved (November 2005) the name change of the Growth, the Global Series, Gold, International Growth, and Mathers 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 and fees associated with our various investment products, rather than our own corporate assets. Assets under management, which are directly influenced by the level and changes of the overall equity markets, 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.

Assets Under Management (AUM) were \$26.6 billion as of September 30, 2006, nominally lower than June 30, 2006 AUM of \$26.8 billion and 3.8% lower than September 30, 2005 AUM of \$27.6 billion. Equity assets under management were \$25.9 billion on September 30, 2006, remaining level with June 30, 2006 equity assets of \$25.9 billion, but 3.1% lower than the \$26.7 billion on September 30, 2005. Our equity closed-end funds reached record AUM of \$5.3 billion on September 30, 2006, slightly above AUM at June 30, 2006 and 9.8% higher than the \$4.9 billion on September 30, 2005. Our equity open-end funds were \$7.9 billion in AUM on September 30, 2006, 0.7% above the \$7.8 billion level on June 30, 2006 and 1.3% lower than the \$8.0 billion on September 30, 2005. Our institutional and high net worth business had AUM of \$12.2 billion in separately managed equity accounts on September 30, 2006, 0.6% lower than the \$12.3 billion on June 30, 2006, and 7.1% lower than the \$13.1 billion on September 30, 2005. AUM in our investment partnerships were \$488 million versus \$536 million on June 30, 2006 and \$745 million on September 30, 2005. Fixed income AUM, primarily money market mutual funds, totaled \$737 million on September 30, 2006, down 19.7% from the June 30, 2006 AUM of \$918 million, and 22.7% lower than fixed income AUM of \$954 million on September 30, 2005.

The company reported Assets Under Management as follows:

Table I:	Assets Under Management (millions)		
	September 30		%
	2005	2006	Inc. (Dec.)
Mutual Funds:			
Equities			
Open end	\$ 7,959	\$ 7,854	(1.3)%
Closed-end	4,851	5,327	9.8
Fixed Income	<u>796</u>	<u>683</u>	(14.2)
Total Mutual Funds	<u>13,606</u>	<u>13,864</u>	1.9
Institutional & High Net Worth Separate Accounts:			
Equities	13,129	12,195	(7.1)
Fixed Income	<u>158</u>	<u>54</u>	(65.8)
Total Institutional & High Net Worth Separate Accounts	<u>13,287</u>	<u>12,249</u>	(7.8)
Investment Partnerships	<u>745</u>	<u>488</u>	(34.5)
Total Assets Under Management	<u>\$ 27,638</u>	<u>\$ 26,601</u>	(3.8)
Equities	26,684	25,864	(3.1)
Fixed Income	<u>954</u>	<u>737</u>	(22.7)
Total Assets Under Management	<u>\$ 27,638</u>	<u>\$ 26,601</u>	(3.8)

Table II:	Assets Under Management (millions)						
							% Increase/(decrease)
	9/05	12/05	3/06	6/06	9/06	6/06	9/05
Mutual Funds							
Open end	\$ 7,959	\$ 7,888	\$ 8,176	\$ 7,796	\$ 7,854	0.7%	(1.3)%
Closed-end	4,851	5,075	5,284	5,258	5,327	1.3	9.8
Fixed income	<u>796</u>	<u>735</u>	<u>807</u>	<u>863</u>	<u>683</u>	(20.9)	(14.2)
Total Mutual Funds	<u>13,606</u>	<u>13,698</u>	<u>14,267</u>	<u>13,917</u>	<u>13,864</u>	(0.4)	1.9
Institutional & HNW Separate Accounts:							
Equities	13,129	12,382	12,639	12,270	12,195	(0.6)	(7.1)
Fixed Income	<u>158</u>	<u>84</u>	<u>59</u>	<u>55</u>	<u>54</u>	(1.8)	(65.8)
Total Institutional & HNW Separate Accounts	<u>13,287</u>	<u>12,466</u>	<u>12,698</u>	<u>12,325</u>	<u>12,249</u>	(0.6)	(7.8)
Investment Partnerships	<u>745</u>	<u>634</u>	<u>681</u>	<u>536</u>	<u>488</u>	(9.0)	(34.5)
Total Assets Under Management	<u>\$ 27,638</u>	<u>\$ 26,798</u>	<u>\$ 27,646</u>	<u>\$ 26,778</u>	<u>\$ 26,601</u>	(0.7)	(3.8)

Table III:	Fund Flows – 3 <sup>rd</sup> Quarter 2006 (millions)			
	June 30, 2006	Net Cash Flows	Market Appreciation / (Depreciation)	September 30, 2006
Mutual Funds:				
Equities	\$ 13,054	(\$94)	\$ 221	\$ 13,181
Fixed Income	<u>863</u>	<u>(188)</u>	<u>8</u>	<u>683</u>
Total Mutual Funds	<u>13,917</u>	<u>(282)</u>	<u>229</u>	<u>13,864</u>
Institutional & HNW Separate Accounts				
Equities	12,270	(182)	107	12,195
Fixed Income	<u>55</u>	<u>(2)</u>	<u>1</u>	<u>54</u>
Total Institutional & HNW Separate Accounts	<u>12,325</u>	<u>(184)</u>	<u>108</u>	<u>12,249</u>
Investment Partnerships	<u>536</u>	<u>(51)</u>	<u>3</u>	<u>488</u>
Total Assets Under Management	<u>\$ 26,778</u>	<u>(\$517)</u>	<u>\$340</u>	<u>\$ 26,601</u>

## 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 and have been complying with these requests for documents and testimony. We implemented additional compliance policies and procedures in response to recent industry initiatives and an internal review of our mutual fund practices and procedures in a variety of areas. A special committee of all of our independent directors was also formed to review various issues 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 September 30, 2006 Compared To Three Months Ended September 30, 2005*

Consolidated Results – Three Months Ended September 30:

(Unaudited; in thousands, except per share data)

	<u>2006</u>	<u>2005 (a)</u>
<b>Revenues</b>		
Investment advisory and incentive fees	\$ 49,751	\$ 52,019
Commission revenue	2,800	3,259
Distribution fees and other income	<u>5,443</u>	<u>5,428</u>
Total revenues	57,994	60,706
<b>Expenses</b>		
Compensation and related costs	24,161	24,972
Management fee	3,026	3,240
Distribution costs	5,024	5,175
Other operating expenses	<u>7,563</u>	<u>7,019</u>
Total expenses	<u>39,774</u>	<u>40,406</u>
Operating income	18,220	20,300
<b>Other income (expense)</b>		
Net gain from investments	4,663	6,937
Interest and dividend income	7,665	5,216
Interest expense	<u>(3,368)</u>	<u>(3,298)</u>
Total other income (expense), net	<u>8,960</u>	<u>8,855</u>
Income before taxes and minority interest	27,180	29,155
Income tax provision	10,192	10,933
Minority interest	<u>104</u>	<u>176</u>
Net income	\$ <u>16,884</u>	\$ <u>18,046</u>
Net income per share:		
Basic	<u>\$ 0.60</u>	<u>\$ 0.60</u>
Diluted	<u>\$ 0.59</u>	<u>\$ 0.59</u>
Reconciliation of Net income to Adjusted EBITDA:		
Net income	\$ 16,884	\$ 18,046
Interest Expense	3,368	3,298
Income tax provision and minority interest	10,296	11,109
Depreciation and amortization	<u>221</u>	<u>298</u>
Adjusted EBITDA (b)	<u>\$ 30,769</u>	<u>\$ 32,751</u>

(a) As restated for the change in accounting method as described in Note A in item 1 of this report.

(b) 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.

Revenues were \$58.0 million for the third quarter versus \$60.7 million in the comparable 2005 period.

Investment advisory fees for the third quarter of 2006 were \$49.8 million, a decrease of 4.4% from the \$52.0 million generated in the third quarter of 2005. Our closed-end funds revenues increased 8.6% to \$10.7 million for the third quarter 2006, up from \$9.8 million in the prior year's period primarily due to increased average AUM. Open-end mutual funds revenues decreased 3.8% to \$19.6 million from \$20.4 million in the 2005 period primarily due to lower average AUM. Institutional and high net worth separate accounts revenues decreased 8.2% to \$18.3 million, down from the \$19.9 million reported in 2005 primarily due to a decrease in AUM. Investment Partnership revenues decreased 37.5% to \$1.2 million from \$1.9 million in the prior year's period primarily due to a decrease in AUM.

Commission revenues from our institutional research affiliate, Gabelli & Company, Inc., were \$2.8 million in the third quarter 2006, down 14.1% from the prior year's comparable period. The decrease was primarily due to a decline in trading volume and average revenue earned per share traded.

Mutual fund distribution fees and other income were \$5.4 million for the third quarter 2006, level with the prior year's period.

Expenses not directly tied to revenues were \$13.0 million, an increase from the \$12.2 million recorded in the third quarter of 2005. The increase was primarily due to a \$0.4 million increase in compensation costs and a net \$0.4 increase in operating expenses, primarily legal and accounting fees resulting in operating margin, before management fee, decreasing to 36.6% for the third quarter 2006 from 38.8% in the prior year's quarter,

Total other income, net of interest expense was \$9.0 million for the third quarter 2006, marginally higher than the \$8.9 million in the comparable 2005 period. A \$2.4 million increase in interest and dividend income from the prior quarter was partially offset by a \$2.3 million decrease in net gain from investments. For the quarter ended September 30, 2006, we recorded no earnings from our investment in optionXpress (Nasdaq: OXPS) as compared to \$0.05 per fully diluted share for the quarter ended September 30, 2005.

For the third quarter 2006, interest expense was \$3.4 million, \$0.1 million greater than the prior year's period.

Management fee dropped to \$3.0 million for the three months ended September 30, 2006, versus \$3.2 million for the comparable 2005 period.

The effective tax rate for the quarter ended September 30, 2006 was 37.5%, the same as the prior year period.

***Nine Months Ended September 30, 2006 Compared To Nine Months Ended September 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 C, “Investments in Partnerships and Affiliates”, of this report on Form 10-Q for a discussion of FIN 46 and EITF 04-5.

**Consolidated Results – Nine Months Ended September 30:**

(Unaudited; in thousands, except per share data)

	<b>2005 (e)</b>	<b>2006 (a) (e)</b>	<b>Adjust- ments (b)</b>	<b>2006 (c) (e)</b>
<b>Revenues</b>				
Investment advisory and incentive fees	\$ 157,068	\$154,698	(\$ 963)	\$153,735
Commission revenue	8,298	8,973	-	8,973
Distribution fees and other income	<u>15,471</u>	<u>16,229</u>	<u>-</u>	<u>16,229</u>
Total revenues	180,837	179,900	(963)	178,937
<b>Expenses</b>				
Compensation and related costs	77,513	75,459	-	75,459
Management fee	7,759	8,153	-	8,153
Distribution costs	15,923	15,568	-	15,568
Reserve for settlement	-	11,900	-	11,900
Other operating expenses	<u>20,077</u>	<u>22,478</u>	<u>189</u>	<u>22,667</u>
Total expenses	<u>121,272</u>	<u>133,558</u>	<u>189</u>	<u>133,747</u>
Operating income	59,565	46,342	(1,152)	45,190
<b>Other income (expense)</b>				
Net gain from investments	7,919	18,260	13,772	32,032
Interest and dividend income	12,845	18,824	1,325	20,149
Interest expense	<u>(10,502)</u>	<u>(10,046)</u>	<u>(591)</u>	<u>(10,637)</u>
Total other income (expense), net	<u>10,262</u>	<u>27,038</u>	<u>14,506</u>	<u>41,544</u>
Income before taxes and minority interest	69,827	73,380	13,354	86,734
Income tax provision	26,186	28,718	5,008	33,726
Minority interest	<u>266</u>	<u>437</u>	<u>8,346</u>	<u>8,783</u>
Net income	\$ <u>43,375</u>	\$ <u>44,225</u>	\$ <u>-</u>	\$ <u>44,225</u>
Net income per share:				
Basic	\$ <u>1.45</u>	\$ <u>1.54</u>	\$ <u>-</u>	\$ <u>1.54</u>
Diluted	\$ <u>1.43</u>	\$ <u>1.53</u>	\$ <u>-</u>	\$ <u>1.53</u>

**Reconciliation of Net income to Adjusted EBITDA:**

Net income	\$ 43,375	\$ 44,225	\$ -	\$ 44,225
Interest Expense	10,502	10,046	591	10,637
Income tax provision and minority interest	26,452	29,155	13,354	42,509
Depreciation and amortization	<u>769</u>	<u>665</u>	<u>-</u>	<u>665</u>
Adjusted EBITDA(d)	\$ <u>81,098</u>	\$ <u>84,091</u>	\$ <u>13,945</u>	\$ <u>98,036</u>

(a) Under a comparable reporting methodology as in 2005 – Non-GAAP in 2006.

(b) 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.

(c) GAAP basis.

(d) 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.

(e) As restated for the change in accounting method as described in Note A in item 1 of this report.

Revenues were \$178.9 million for the nine months ended September 30, 2006 versus \$180.8 million for the comparable 2005 period.

Investment advisory fees for the nine months ended September 30, 2006 were \$153.7 million, a decrease of \$3.3 million, or 2.1%, from the \$157.1 million generated for the nine months ended September 30, 2005. Revenues from our closed-end fund increased 15.4% to a record \$31.7 million for the nine months ended September 30, 2006, up from \$27.5 million in the prior year's period primarily due to increased average AUM within our closed-end funds from \$4.6 billion for the first nine months of 2005 to \$5.3 billion for the first nine months of 2006. Open-end mutual funds revenues were \$59.9 million, down 0.2% from the \$60.0 million in the 2005 period. Institutional and high net worth separate accounts revenues decreased 6.3% to \$58.4 million from the \$62.3 million reported in 2005 primarily due to a decrease in AUM. Investment Partnership revenues were \$3.7 million, a decrease of 48.8% from the \$7.3 million in the 2005 period primarily due to a decrease in AUM and lower performance fees.

Commission revenues from our institutional research affiliate, Gabelli & Company, Inc., were \$9.0 million for the nine months ended September 30, 2006, up 8.1% from the prior year's comparable period amount of \$8.3 million primarily due to increased trading volume which was partially offset by a decline in the average revenue earned per share traded.

Mutual fund distribution fees and other income were \$16.2 million for the nine months ended September 30, 2006, 4.9% higher than the \$15.5 million reported in the 2005 period. The increase was primarily due to higher distribution fees of \$15.2 million for nine months ended September 30, 2006 versus \$14.4 million for prior year period, principally as a result of an increase in average assets under management from our increased wholesaling of funds sold through unaffiliated broker dealers.

For the nine months ended September 30, 2006, operating margin, before management fee, decreased to 29.8% from 37.2% in the prior year's period primarily due to an \$11.9 million litigation reserve recorded during the second quarter of 2006. Without the reserve, operating margin would have been 36.5% for 2006.

Expenses not directly tied to revenues were \$50.7 million, an increase of 31.9% from the \$38.5 million recorded in the period ended September 30, 2005. The increase was primarily the result of the litigation reserve taken during second quarter 2006.

Total other income, net of interest expense, rose to \$41.5 million for the nine months ended September 30, 2006 from \$10.3 million in the 2005 period.

For the nine months ended September 30, 2006, interest expense increased \$0.1 million from the prior year's comparable period to \$10.6 million.

Management fee was \$8.2 million for the nine months ended September 30, 2006, versus \$7.8 million for the comparable 2005 period. The increase was due to higher operating income before management fee, income taxes, and minority interest of \$94.9 million for the nine months ended September 30, 2006, as compared to \$77.6 million for the comparable 2005 period.

The effective tax rate for the nine months ended September 30, 2006, excluding the reserve taken during the second quarter of 2006, remained at 37.5%, the same as the prior year period.

## **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:

	<u>Nine Months Ended September 30,</u>	
	<u>2006 (a)</u>	<u>2005 (a)</u>
	(in thousands)	
Cash flows used in:		
Operating activities	\$ (32,515)	\$ (25,780)
Investing activities	(3,447)	(5,520)
Financing activities	<u>(26,810)</u>	<u>(20,686)</u>
Decrease	(62,772)	(51,986)
Net increase in cash from investment partnerships and offshore funds consolidated under FIN 46R	1,754	-
and EITF 04-5		
Effect of exchange rates on cash and cash equivalents	<u>(54)</u>	<u>(60)</u>
Cash and cash equivalents at beginning of period	<u>173,161</u>	<u>257,096</u>
Cash and cash equivalents at end of period	<u>\$ 112,089</u>	<u>\$ 205,050</u>

(a) As restated for (1) the change in accounting method which was previously reported on Form 10-Q/A (Amendment No. 1) filed with the Securities and Exchange Commission on November 9, 2006 as described in Note A in item 1 of this report on Form 10-Q/A, and (2) the reporting of individual assets and liabilities of certain proprietary investment accounts as described in Note A in item 1 of this report on Form 10-Q/A.

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

At September 30, 2006, we had total cash and cash equivalents of \$112.1 million, a decrease of \$61.1 million from December 31, 2005. This decrease was primarily due to an increase in the purchase of securities during the nine month period ended September 30, 2006. Gabelli has established a collateral account, consisting of cash and cash equivalents and investments in securities totaling \$53.5 million, to secure a letter of credit issued in favor of the holder of the \$50 million 6% 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. In addition, 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 September 30, 2006 was \$232.3 million, consisting of the \$50 million 6% 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 \$32.5 million in the first nine months of 2006 principally resulting from \$837.9 million in purchases of investments in securities, a \$36.8 million increase in receivable from brokers, \$4.4 million in purchases of investments in partnerships and affiliates and \$39.9 million from the net effects of the FIN 46R and EITF 04-5 consolidation. The uses were partially offset by \$44.2 million in net income, proceeds from sales of investments in securities of \$804.7 million, \$11.8 million in distributions from investments in partnerships and affiliates and an increase in compensation payable of \$11.8 million. Excluding the net effects of the consolidation of investment partnerships and offshore funds, our cash provided by operating activities was \$7.4 million.

Cash used in investing activities, related to purchases and sales of available for sale securities, was \$3.4 million in the first nine months of 2006.

Cash used in financing activities in the first nine months of 2006 was \$26.8 million. The decrease in cash principally resulted from the repurchase of our class A common stock under the Stock Repurchase Program of \$54.4 million partially offset by \$29.6 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 \$56.4 million.

Cash used in operating activities was \$25.8 million in the first nine months of 2005 principally resulting from purchases of \$784.0 million of investments in securities, proceeds from sales of investments in securities of \$683.3 million and a \$4.3 million decrease in income taxes payable, partially offset by \$43.4 million in net income, a \$9.6 million decrease in investment advisory fees receivable and a \$9.4 million increase in compensation payable.

Cash used in investing activities, related to purchases and sales of available for sale securities, was \$5.5 million in the first nine months of 2005.

Cash used in financing activities in the first nine months of 2005 was \$20.7 million. The decrease in cash principally resulted from the repurchase of \$50 million of our \$100 million 6% convertible note, \$19.2 million in dividends paid and the repurchase of \$22.6 million of our class A common stock under the Stock Repurchase Program. These uses were 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 \$1.1 million received from the exercise of non-qualified stock options that further generated cash tax savings of \$0.3 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 September 30, 2006. At September 30, 2006, Gabelli & Company had net capital, as defined, of approximately \$16.5 million, exceeding the regulatory requirement by approximately \$16.3 million. Regulatory net capital requirements increase when Gabelli & Company is involved in underwriting activities.

## **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.

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 fourth quarter of 2006 than expected under current market conditions.

With respect to our proprietary investment activities, included in investments in securities of \$503.8 million at September 30, 2006 were investments in Treasury Bills and Notes of \$231.7 million, in mutual funds, largely invested in equity products, of \$113.5 million, a selection of common and preferred stocks totaling \$104.6 million and other investments of approximately \$54.0 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 \$104.6 million invested in common and preferred stocks at September 30, 2006, \$25.3 million is related to our investment in Westwood Holdings Group Inc. and \$12.4 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 \$81.3 million at September 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.

### **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 first 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 first 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 first day of the first reporting period beginning 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 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 materiality of the adoption on the Company's future consolidated financial statements is not known at this time.

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurement". The statement provides guidance for using fair value to measure assets and liabilities. The statement provides guidance to companies about the extent to which to measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The statement applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. 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, with the participation of the Chief Executive Officer and under the supervision of the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2006. In conducting the aforementioned evaluation and assessment, management identified two material weaknesses in internal control over financial reporting relating to (i) the reporting of individual assets and liabilities of certain proprietary investment accounts in accordance with U.S. generally accepted accounting principles and (ii) the evaluation of and accounting for certain non-routine transactions in accordance with U.S. generally accepted accounting principles, as further described Item 9A (b) of the Company's Form 10-K. These deficiencies were identified during the course of the 2006 audit. Accordingly, because of these material weaknesses, management concluded that the Company's disclosure controls and procedures were not effective, with respect to these items, as of December 31, 2006.

As a result of the first material weakness, the Company restated its December 31, 2005 consolidated financial statements, included in Item 8 of the Company's Form 10-K, to properly reflect these proprietary investments. This first material weakness also resulted in errors in the Company's interim consolidated financial statements for the periods ended March 31, 2006, June 30, 2006, and September 30, 2006.

Based upon the evaluation described above, management concluded that, as of September 30, 2006, the Company did not maintain effective internal control over financial reporting because of the effect of the material weaknesses described above.

However, subsequent to December 31, 2006, we have taken steps to strengthen our disclosure controls, procedures and internal controls over financial reporting. These steps were taken to strengthen our processes relating to the material weaknesses discussed above. Specifically, we have implemented or are in the process of implementing the following internal control improvements:

- With regard to the first material weakness, we have implemented a new procedure to review the accounting treatment for all proprietary investments on a regular basis. We have also worked with the personnel in our operations and accounting areas who are responsible for the accounting for these proprietary investments to ensure that appropriate procedures are in place to more closely monitor proprietary investments. Although these design changes have been implemented, management has not had the opportunity to evaluate the operating effectiveness of these revised controls.
- With regard to the second material weakness, we are formalizing the process for identifying and evaluating non-routine and/or non-recurring transactions to ensure that the revised procedures will detect such transactions on a timely basis and ensure adequate evaluation for conformity with U.S. generally accepted accounting principles. This process is expected to be fully implemented in the first half of 2007.

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

## 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 September 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 the Plans or Programs
7/01/06 – 7/30/06	45,800	\$34.31	45,800	669,061
8/01/06 – 8/31/06	16,600	\$34.56	16,600	652,461
9/01/06 – 9/30/06	-	-	-	652,461
Totals	<u>62,400</u>		<u>62,400</u>	

### Item 6. (a) Exhibits

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.

(Registrant)

April 13, 2007

Date

/s/ John C. Ferrara

John C. Ferrara  
Interim Chief Financial Officer