GAMCO INVESTORS, INC. ET AL
Form 10-Q
November 09, 2005
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SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OF 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, New York	10580
(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 [X] No [_]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [_]

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes [_] No [X]

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 October 31, 2005
Class A Common Stock, .001 par value	6,487,517
Class B Common Stock, .001 par value	23,128,500

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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,	
	2005	2004	2005	2004
Revenues				
Investment advisory and incentive fees	$57,547	$49,685	$163,837	$154,928
Commission revenue	3,259	2,962	8,298	11,312
Distribution fees and other income	5,428	4,590	15,471	14,740
Total revenues	66,234	57,237	187,606	180,980
Expenses				
Compensation and related costs	28,189	23,380	81,697	72,335
Management fee	3,495	2,284	8,072	7,558
Distribution costs	4,931	4,537	15,679	14,193
Other operating expenses	7,021	5,085	19,775	15,232
Total expenses	43,636	35,286	125,223	109,318
Operating income	22,598	21,951	62,383	71,662
Other income (expense)				
Net gain (loss) from investments	6,937	(296)	7,919	1,949
Interest and dividend income	5,216	2,916	12,845	6,510
Interest expense	(3,298)	(4,014)	(10,502)	(12,095)
Total other income (expense), net	8,855	(1,394)	10,262	(3,636)
Income before income taxes and minority interest	31,453	20,557	72,645	68,026
Income tax provision	11,795	7,483	27,242	24,768
Minority interest	210	43	318	238
Net income	$19,448	$13,031	$ 45,085	$ 43,020
Net income per share:				
Basic	$ 0.65	$ 0.44	$ 1.51	$ 1.44
Diluted	$ 0.64	$ 0.43	$ 1.48	$ 1.41
Weighted average shares outstanding:				
Basic	29,935	29,707	29,859	29,886
Diluted	31,079	31,820	31,323	32,011
Dividends declared:				
Quarterly	$ 0.02	$ 0.02	$ 0.06	$ 0.04
Special	$ -	$ 1.00	$ -	$ 1.10

See accompanying notes.

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

	September 30 2005	September 30 2004	D
ASSETS	(Unaudited)		
Cash and cash equivalents, including restricted cash of $2,483, $1,902 and $1,054.	$ 205,050	$ 337,830	$
Investments in securities, including restricted securities of $51,731, $101,969 and $102,111.	391,484	249,779	
Investments in partnerships and affiliates	90,241	91,149	
Receivable from brokers	8,692	22,620	
Investment advisory fees receivable	19,005	17,894	
Other assets	26,827	25,051	
Total assets	$ 741,299	$ 744,323	$
LIABILITIES AND STOCKHOLDERS' EQUITY			
Payable to brokers	$ 86	$ -	$
Income taxes payable, including deferred taxes of $1,713, $2,016 and $938.	6,580	5,608	
Compensation payable	41,388	33,871	
Capital lease obligation	3,039	2,751	
Securities sold, not yet purchased	337	1,084	
Dividends payable	-	-	
Accrued expenses and other liabilities	19,222	16,669	
Total operating liabilities	70,652	59,983	
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	100,000	
5.22% Senior notes (due February 17, 2007)	82,308	-	
Mandatory convertible securities (purchase contract settlement date, February 17, 2005; notes due February 17, 2007)	-	82,308	
Total liabilities	302,960	342,291	
Minority interest	5,981	5,916	
Stockholders' equity			
Class A Common Stock, $0.001 par value; 100,000,000 shares authorized; 9,640,339, 7,778,625 and 8,081,356 issued and outstanding, respectively	10	8	
Class B Common Stock, $0.001 par value; 100,000,000 shares authorized; 23,128,500, 23,128,500 and 23,128,500 issued and outstanding, respectively	23	23	
Additional paid-in capital	235,735	147,381	
Retained earnings	311,671	296,116	
Accumulated comprehensive gain / (loss)	2,171	(624)	
Treasury stock, at cost (2,907,022, 1,349,272 and			

2,372,822 shares, respectively)	(117,252)	(46,788)	
Total stockholders' equity	432,358	396,116	
Total liabilities and stockholders' equity	$ 741,299	$ 744,323	$

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 M Sept
	2005	2004	2005
Stockholders' equity - beginning of period	$417,318	$392,803	$334,878
Comprehensive income:			
Net income	19,448	13,031	45,085
Translation adjustments	(9)	-	25
Net unrealized gain (loss) on securities available for sale	316	1,368	2,199
Comprehensive income	19,755	14,399	47,309
Dividends declared	(599)	(593)	(1,933)
Stock option expense	-	467	2,760
Proceeds from settlement of purchase contracts	-	-	70,568
Purchase and retirement of mandatory convertible securities	-	15	-
Capitalized costs	(16)	-	(31)
Exercise of stock options including tax benefit	648	678	1,387
Purchase of treasury stock	(4,748)	(11,653)	(22,580)
Stockholders' equity - end of period	$432,358	$396,116	$432,358

See accompanying notes.

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

	Three Months Ended	Nine M

	September 30,		Sep
	2005	2004	2005
Operating activities			
Net income	$ 19,448	$ 13,031	$ 45,08
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in losses / (gains) from partnerships and affiliates	(2,540)	403	(5,23
Depreciation and amortization	298	241	76
Stock-based compensation expense	-	467	2,76
Tax benefit from exercise of stock options	133	191	28
Foreign currency (gain) / loss	(6)	-	19
Other-than-temporary loss on available for sale securities	-	-	3,30
Impairment of goodwill	-	-	1,12
Minority interest in net income of consolidated subsidiaries	210	43	31
Realized gains on available for sale securities	-	-	
(Increase) decrease in operating assets:			
Investments in securities	(23,699)	6,263	(93,00
Investment advisory fees receivable	(2,423)	(1,248)	7,56
Receivables from affiliates	(216)	1,070	36
Receivable from brokers	15,582	(5,795)	(3,15
Other assets	711	778	(1,02
Increase (decrease) in operating liabilities:			
Payable to brokers	85	(1)	(21
Income taxes payable	3,342	1,365	(3,26
Compensation payable	9,418	4,335	13,35
Accrued expenses and other liabilities	3,686	517	1,40
Securities sold, not yet purchased	(3,020)	15	(75
Total adjustments	1,561	8,644	(75,20
Net cash provided by (used in) operating activities	21,009	21,675	(30,11
Investing activities			
Purchases of available for sale securities	(560)	(822)	(5,52
Proceeds from sales of available for sale securities	-	-	
Distributions from partnerships and affiliates	1,074	2,552	18,07
Investments in partnerships and affiliates	(3,058)	(727)	(13,74
Net cash (used in) provided by investing activities	(2,544)	1,003	(1,18
Financing activities			
Dividend paid to minority stockholders of subsidiary	-	-	(54
Accrual for settlement of minority interest	36	-	3
Proceeds from exercise of stock options	515	487	1,10
Repurchase of 5% convertible note	-	-	(50,00
Dividends paid	(599)	(593)	(19,23
Purchase of mandatory convertible securities	-	(547)	
Proceeds from settlement of purchase contracts	-	-	70,56
Capitalized costs	(16)	-	(3
Purchase of treasury stock	(4,748)	(11,653)	(22,58
Net cash used in financing activities	(4,812)	(12,306)	(20,68
Net increase (decrease) in cash and cash equivalents	13,653	10,372	(51,98
Effect of exchange rates on cash and cash equivalents	(16)	-	(6
Cash and cash equivalents at beginning of period	191,413	327,458	257,09
Cash and cash equivalents at end of period	$205,050	$337,830	$205,05

See accompanying notes.

GAMCO INVESTORS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(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 U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles 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, 2004, 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.

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 in Cash and cash equivalents if three months or less at time of purchase. A substantial portion of investments in securities are held for resale in anticipation of short-term market movements and classified as trading securities. Available for sale 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 operations.

For the nine month period ended September 30, 2005, there were $3.3 million in losses on available for sale 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 or in the prior year's three month or nine month periods ended September 30, 2004.

B. Investment in Securities (continued)

The losses related to available for sale securities in the nine month period ended September 30, 2005 were 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 $4.8 million on OXPS for the first nine months of 2005, of which $2.7 million was recognized during the third quarter of 2005. In addition we had previously recorded a gain of $0.9 million related to this investment in the fourth quarter of 2003. During the third quarter of 2005, we sold 155,000 shares for approximately $2.8 million. We recorded a total gain on these shares of $2.3 million for the first nine months of 2005, of which $1.3 million was recorded in the third quarter. Gabelli Securities, Inc. owned approximately 160,000 shares at September 30, 2005, which are held for trading purposes. These shares have an original cost basis of $0.23 per share and were written up to $3.11 per share in December 2003 concurrent with a second round of financing prior to the IPO, and were marked to market at $19.04 per share on September 30, 2005.

At September 30, 2005 and 2004, the market value of investments available for sale was $82.0 million and $73.1 million, respectively. An unrealized gain in market value, net of management fee and taxes, of $2.1 million and an unrealized loss in market value, net of management fee and taxes, of $624,000 has been included in stockholders' equity for September 30, 2005 and 2004, respectively.

There were no sales of investments available for sale for the three and nine month periods ended September 30, 2005. Proceeds from sales of investments available for sale were approximately $0.6 million for the nine month period ended September 30, 2004. For the first nine months of 2004, gross gains on the sale of investments available for sale amounted to $101,000; there were no gross losses on the sale of investments available for sale.

C. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	2005	2004	2005	200
Basic:				
Net income	$19,448	$13,031	$45,085	$43,02
Average shares outstanding	29,935	29,707	29,859	29,88
Basic net income per share	$ 0.65	$ 0.44	$ 1.51	$ 1.4
Diluted:				
Net income	$19,448	$13,031	$45,085	$43,02
Add interest expense on 5% convertible note, net of management fee and taxes	352	716	1,406	2,14
Total	$19,800	$13,747	$46,491	$45,16
Average shares outstanding	29,935	29,707	29,859	29,88
Dilutive stock options	182	190	185	20
Assumed conversion of 5% convertible note	962	1,923	1,279	1,92
Total	31,079	31,820	31,323	32,01

Diluted net income per share	$ 0.64	$ 0.43	$ 1.48	$ 1.4

D. Stockholders' Equity

Shares outstanding on September 30, 2005 were 29,861,817, which is approximately 3.6% higher than shares outstanding of 28,837,034 at the end of 2004 and approximately 1.0% above shares outstanding of 29,557,853 on September 30, 2004 reflecting the issuance of 1,517,483 shares of class A common stock in settlement of the purchase contracts issued pursuant to our mandatory convertible securities on February 17, 2005 and the repurchase of approximately 0.5 million shares and 1.6 million shares during the nine and twelve month periods, respectively. Fully diluted shares outstanding for the third quarter 2005 were 31,079,413 approximately 0.4% lower than second quarter 2005 fully diluted shares of 31,211,347 and approximately 2.3% lower than our fully diluted shares of 31,820,157 for the third quarter 2004.

Our Board of Directors has announced that the regular quarterly dividend will be increased 50% to $0.03 per share beginning with the fourth quarter 2005. The Board of Directors also declared a quarterly dividend of $0.02 per share that was paid on September 28, 2005 to shareholders of record on September 15, 2005. During the first nine months of 2005, we have paid total dividends of $0.66 per share to all shareholders, which includes a special dividend of $0.60 per share on January 18, 2005. This follows the $1.16 per share of dividends paid in 2004 which included special dividends of $0.10 per share in the second quarter 2004 and $1.00 per share in the fourth quarter 2004.

Stock Award and Incentive Plan

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. As a result, we did not recognize any stock-based compensation expense for the three months ended September 30, 2005. For the three months ended September 30, 2004, we recognized stock-based compensation expense of $467,000. For the nine months ended September 30, 2005 and 2004, we recognized $2,760,000 and $1,352,000, respectively, in stock-based compensation. For the fourth quarter of 2005 compensation expense will be lower by approximately $467,000 as compared to the prior year quarter as we currently estimate there will be no stock option expense in the 2005 quarter.

Proceeds from the exercise of 19,275 and 22,900 stock options were $515,000 and $487,000 for the three months ended September 30, 2005 and 2004, respectively, resulting in a tax benefit to GAMCO of $133,000 and $191,000 for the three months ended September 30, 2005 and 2004, respectively. Proceeds from the exercise of 41,500 and 81,025 stock options were $1,100,000 and $1,939,000 for the nine months ended September 30, 2005 and 2004, respectively, resulting in a tax benefit to GAMCO of $287,000 and $570,000 for the nine months ended September 30, 2005 and 2004, respectively.

Prior to January 1, 2003, we applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our stock option plan. Accordingly, no compensation expense was recognized where the exercise price equals or exceeds the market price of the underlying stock on the date of grant.

Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123 in accordance with the transition and disclosure

provisions under the recently issued 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, the Board of Directors authorized the accelerated vesting of all unvested stock options as of July 1, 2005. This resulted in the expensing of an additional $1.8 million in stock option expense during the second quarter of 2005. All compensation costs related to stock options granted have been recognized in our consolidated financial statements.

D. Stockholders' Equity (continued)

If we had elected for 2001 and 2002 to account for our stock options under the fair value method of SFAS No. 123 "Accounting for Stock Based Compensation," our net income and net income per share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (in thousands):				
As reported	$19,448	$13,031	$45,085	$43,020
Pro forma	$19,448	$13,009	$45,085	$42,864
Net income per share - Basic				
As reported	$ 0.65	$ 0.44	$ 1.51	$ 1.44
Pro forma	$ 0.65	$ 0.44	$ 1.51	$ 1.44
Net income per share - Diluted				
As reported	$ 0.64	$ 0.43	$ 1.48	$ 1.41
Pro forma	$ 0.64	$ 0.43	$ 1.48	$ 1.41

Stock Repurchase Program

In March 1999, the Board of Directors established the Stock Repurchase Program to grant us authority to repurchase shares of our Class A common stock. For the three and nine months ended September 30, 2005, we repurchased 106,600 and 534,200 shares at an average investment of $44.93 and $42.25, respectively. Since the inception of the program we have repurchased 3,307,826 shares at an average investment of $37.33 per share. During August 2005, the Board of Directors authorized an additional 500,000 shares to be repurchased. At September 30, 2005 the total shares available under the program to be repurchased was approximately 910,000.

The Board of Directors had also previously approved the repurchase of up to 900,000 shares of our mandatory convertible securities. During the third quarter and first nine months of 2004, we repurchased 22,500 shares at an average investment of $24.10 per share and 68,900 shares at an average investment of $24.67 per share, respectively. A gain attributable to the debt component of the mandatory convertible securities totaling $24,000 and $34,000 has been included in other income (expense) for both the three and nine months ended September 30, 2004, respectively. The total shares repurchased were 307,700 at a total investment of $6.9 million. In February 2005 we issued approximately 1,517,000 shares of class A common stock in settlement of the 2,822,700 purchase contracts issued pursuant to our mandatory convertible securities resulting in proceeds of $70.6 million. The settlement rate of 0.5376 was determined based on the average closing price per share of class A common

stock for the twenty consecutive trading days ending February 14, 2005.

In June 2005, the firm filed a "shelf" registration statement on Form S-3. The shelf is currently being reviewed by the staff of the Securities and Exchange Commission. If and when declared effective, the shelf process will provide us with opportunistic 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 $400 million. This authorization is in addition to the remaining $120 million available under our "shelf" registration filed in 2001.

E. 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. 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 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 for the impairment of goodwill that represented the entire amount of goodwill for this entity during the first quarter of 2005. There was no impairment charge recorded for the three months ended September 30, 2005. There remains $3.5 million of goodwill related to our 92% owned subsidiary, Gabelli Securities, Inc.

F. Subsequent Events

On October 5, 2005, the Company announced that a total of approximately 110 option holders elected to tender options to purchase an aggregate of approximately 522,000 shares of its Class A common stock. These option holders received an aggregate of approximately $9.7 million in cash (less any withholding taxes). As a result of the completion of the tender offer, there will be a reduction in fully diluted shares outstanding of approximately 130,000 shares for the fourth quarter 2005.

From October 1 through October 31, 2005, we repurchased 247,300 shares of our class A common stock, under the Stock Repurchase Program, at an average investment of $44.61 per share.

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

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, we will ask the directors of our mutual funds at the next board meeting to approve the name change of the Growth, the Global Series, the Mathers and the International Growth funds (amongst others) to GAMCO from Gabelli. 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

As of September 30, 2005, we had $27.6 billion of assets under management (AUM), approximately 96.5% of which were in equity products. Our equity open-end mutual funds and closed-end funds had a record $12.8 billion in AUM at quarter end, 2.6% above the $12.5 billion on June 30, 2005 and 13.8% ahead of the $11.3 billion on September 30, 2004. In the institutional and high net worth segment of our business, GAMCO Asset Management Inc. had AUM of $13.1 billion in separately managed equity accounts on September 30, 2005, down 0.5% from the $13.2 billion on June 30, 2005 and down 0.4% from the $13.2 billion on September 30, 2004. Assets in our investment partnerships were $745 million, down 10.3% from second quarter-end 2005 assets of $831 million and 20.2% below the $934 million on September 30, 2004. Fixed income assets, primarily money market mutual funds, totaled $954 million on September 30, 2005, down 14.9% from second quarter-end 2005 assets of $1.1 billion and 48.9% lower than assets of $1.9 billion on September 30, 2004.

Assets Under Management

The company reported assets under management as follows:

Table I:

	Assets Under Management (in millions)		
	September 30		
	2004	2005	% Inc. (Dec.)
Mutual Funds:			
Equities			
Open End	$ 7,534	$ 7,959	5.6%
Closed-End	3,727	4,851	30.2
Fixed Income	1,524	796	(47.8)
Total Mutual Funds	12,785	13,606	6.4
Institutional & High Net Worth Separate Accounts:			
Equities	13,185	13,129	(0.4)
Fixed Income	344	158	(54.1)
Total Institutional & High Net Worth Separate Accounts	13,529	13,287	(1.8)
Investment Partnerships	934	745	(20.2)
Total Assets Under Management	$27,248	$27,638	1.4

Table II:

	Fund Flows - 3rd Quarter 2005 (in millions)			
	June 30, 2005	Net Cash Flows	Market Appreciation / (Depreciation)	September 30, 2005
Mutual Funds:				
Equities	$12,482	($ 212)	$540	$12,810
Fixed Income	852	(62)	6	796
Total Mutual Funds	13,334	(274)	546	13,606
Institutional & HNW Separate Accounts				
Equities	13,189	(340)	280	13,129
Fixed Income	269	(113)	2	158
Total Institutional & HNW Separate Accounts	13,458	(453)	282	13,287
Investment Partnerships	831	(103)	17	745
Total Assets Under Management	$27,623	($ 830)	$845	$27,638

Table III:

	Assets Under Management (in millions)						
						%Increase/(decrea	
	9/04	12/04	3/05	6/05	9/05	6/05	9/
Mutual Funds							
Open end	$ 7,534	$ 8,029	$ 7,808	$ 7,798	$ 7,959	2.1%	5
Closed-end	3,727	4,342	4,602	4,684	4,851	3.6	30
Fixed income	1,524	1,499	1,154	852	796	(6.6)	(47
Total Mutual Funds	12,785	13,870	13,564	13,334	13,606	2.0	6
Institutional & HNW Separate Accounts:							
Equities	13,185	13,587	13,364	13,189	13,129	(0.5)	(0
Fixed Income	344	388	266	269	158	(41.3)	(54
Total Institutional & HNW Separate Accounts	13,529	13,975	13,630	13,458	13,287	(1.3)	(1
Investment Partnerships	934	814	854	831	745	(10.3)	(20
Total Assets Under Management	$27,248	$28,659	$28,048	$27,623	$27,638	0.1	1

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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 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. Since our internal review and requests from regulators for documents and testimony are ongoing, we can make no assurances that additional information will not become available or that we will

not become subject to disciplinary action.

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 the 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.

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 GAMCO believes that all of the funds are now in compliance.

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, 2005 Compared To Three Months Ended September 30, 2004

Consolidated Results - Three Months Ended September 30th:

(Unaudited; in thousands, except per share data)

	2005	2004
Revenues	$66,234	$ 57,237
Expenses	43,636	35,286
Operating income	22,598	21,951

Investment income, net	12,153	2,620
Interest expense	(3,298)	(4,014)
Total other income (expense), net	8,855	(1,394)
Income before taxes and minority interest	31,453	20,557
Income tax provision	11,795	7,483
Minority interest	210	43
Net income	$19,448	$ 13,031
Net income per share:		
Basic	$ 0.65	$ 0.44
Diluted	$ 0.64	$ 0.43
Reconciliation of Net income to Adjusted EBITDA:		
Net income	$19,448	$ 13,031
Interest Expense	3,298	4,014
Income tax provision and minority interest	12,005	7,526
Depreciation and amortization	298	241
Adjusted EBITDA(a)	$35,049	$ 24,812

(a) 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 $66.2 million in the third quarter of 2005 up $9.0 million or 15.7% from total revenues of $57.2 million reported in the third quarter of 2004. Operating income improved $0.6 million to $22.6 million up 2.9% from the $21.9 million reported in last year's third quarter. Net income for the quarter was $19.4 million or $0.64 per fully diluted share versus $13.0 million or $0.43 per fully diluted share in the prior year's quarter. The 2005 quarter was boosted by a $10.2 million swing in net investment income. In the short-run, our results remain sensitive to changes in the equity market.

Investment advisory and incentive fees, which comprised 86.9% of total revenues, were $57.5 million in the third quarter of 2005 up $7.8 million or 15.8% from the $49.7 million reported in the prior year's quarter. The higher revenues during the quarter were primarily driven by our closed-end funds as revenues jumped 67.3% to $12.8 million in the third quarter 2005 up from $7.6 million in the prior year's quarter. This increase was principally due to management fees of $2.9 million recorded for preferred shares in the third quarter 2005 covering the first nine of months of 2005 versus a reversal of $200,000 in revenue from preferred shares in the prior year's quarter. In addition, we recorded approximately $0.9 million of revenues from the inclusion of The Gabelli Global Gold, Natural Resources & Income Trust (AMEX: GGN), our new closed-end fund, which started on March 29, 2005.

Unlike most money management firms, we do not earn a management fee on

closed-end preferred shares (approximately $875 million in total assets) unless the total return to common shareholders of the closed-end fund at year-end exceeds the dividend rate of the preferred shares. As a result, management fees accrued for preferred shares are affected by current weak market conditions and may be subject to reversal in the fourth quarter of 2005.

Incentive fees from investment partnerships increased by $2.9 million in the third quarter 2005 from the prior year as the 2004 quarter included a clawback in incentive fees that reduced revenues. For the third quarter 2005, our revenues of $20.4 million from open-end mutual funds were 3.9% higher than the $19.6 million recorded in the 2004 quarter. Revenues from our institutional and high net worth separate accounts business, which are generally billed based on asset levels at the beginning of a quarter, declined by 2.3% to $19.9 million in the third quarter 2005, down from $20.4 million in the 2004 quarter.

Commission revenues from our institutional research affiliate, Gabelli & Company, Inc., were $3.3 million in the third quarter of 2005, up 10.0% from $3.0 million in the same period a year earlier.

Revenues from the distribution of mutual funds and other income were $5.4 million in the third quarter of 2005 versus $4.6 million in the third quarter of 2004. This increase was the result of increases in both underwriting revenue and distribution revenue. As previously discussed, several bills were introduced in the prior Congress that, if adopted, would, among other things, pose a risk to our future distribution fee revenue as Rule 12b-1 distribution fees may be limited or eliminated.

Total expenses, excluding management fee, were $40.1 million in the third quarter of 2005, a 21.6% increase from total expenses of $33.0 million reported in the third quarter of 2004.

Compensation and related costs, which are largely variable, were $28.2 million or 20.6% higher than the $23.4 million recorded in the same period a year earlier. This increase was primarily due to higher revenues versus the prior's year's quarter and accruals for variable compensation costs related to management fees on closed-end preferred shares and investment partnership incentive fees in the 2005 quarter. Revenues related to investment partnership incentive fees have higher variable compensation costs, as a percent of revenue, as compared to our other investment advisory fees.

Distribution costs were $4.9 million, an increase of 8.7% from $4.5 million in the prior year's period. Other operating expenses were higher by $1.9 million, a 38.1% increase to $7.0 million in the third quarter of 2005 from the prior year third quarter of $5.1 million. This increase included legal and accounting costs related to regulatory and corporate governance dynamics, including Sarbanes-Oxley compliance, and the incremental costs incurred due to the elimination of soft dollar usage, which took effect in the fourth quarter of 2004, for our mutual fund business. Management fee expense, which is totally variable and based on pretax income, was $3.5 million in the third quarter of 2005 versus $2.3 million in the third quarter of 2004.

Other income, net of interest expense, was $8.9 million in the third quarter of 2005, a positive swing of $10.2 million from the $1.4 million loss reported in the third quarter of 2004. The net return from our corporate investment portfolio improved to $12.2 million in the 2005 third quarter from $2.6 million in the prior year's quarter as we benefited from the strength of the equity markets in the third quarter of 2005 as well as an increase in interest rates from the prior year. We recorded a total gain of $2.7 million on our investment in OXPS during the third quarter of 2005 and $5.2 million in interest and dividend income, $2.3 million or 78.9% higher than the $2.9 million reported in previous year's quarter.

Interest expense fell to $3.3 million in the third quarter of 2005 from

$4.0 million in the comparable prior year quarter. This decrease is a result of the April 1, 2005 repurchase of $50 million of the $100 million 5% convertible note and the remarketing of the senior notes in November 2004, which reduced the interest rate from 6.0% to 5.22%.

The estimated effective tax rate for the third quarter of 2005 increased to 37.5% from 36.4% for the third quarter of 2004 as we adjusted the tax rate to reflect our estimate of the current year end tax liability.

Nine Months Ended September 30, 2005 Compared To Nine Months Ended September 30, 2004

Consolidated Results - Nine Months Ended September 30th:

(Unaudited; in thousands, except per share data)

	2005	2004
Revenues	$187,606	$ 180,980
Expenses	125,223	109,318
Operating income	62,383	71,662
Investment income, net	20,764	8,459
Interest expense	(10,502)	(12,095)
Total other income (expense), net	10,262	(3,636)
Income before taxes and minority interest	72,645	68,026
Income tax provision	27,242	24,768
Minority interest	318	238
Net income	$ 45,085	$ 43,020
Net income per share:		
Basic	$ 1.51	$ 1.44
Diluted	$ 1.48	$ 1.41
Reconciliation of Net income to Adjusted EBITDA:		
Net income	$ 45,085	$ 43,020
Interest Expense	10,502	12,095
Income tax provision and minority interest	27,560	25,006
Impairment of goodwill	1,127	-
Depreciation and amortization	769	720
Adjusted EBITDA(a)	$ 85,043	$ 80,841

(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.

Total revenues were $187.6 million in the first nine months of 2005 an increase of $6.6 million or 3.7% from total revenues of $181.0 million reported in the first nine months of 2004. Operating income declined $9.3 million to $62.4 million down 12.9% from the $71.7 million reported in last year's first

nine months. Net income for the nine months was $45.1 million or $1.48 per fully diluted share versus $43.0 million or $1.41 per fully diluted share in the prior year's nine months. One-time charges of $1.5 million related to the launch of our new closed-end fund, The Gabelli Global Gold, Natural Resources & Income Trust (AMEX: GGN), and $1.1 million for the impairment of goodwill at our 80% owned fixed income subsidiary as well as $1.8 million in incremental costs relating to the accelerated vesting of stock options contributed to the decline in operating income.

Investment advisory and incentive fees, which comprised 87.3% of total revenues, were $163.8 million in the first nine months of 2005 up $8.9 million or 5.8% from the $154.9 million reported in the first nine months of 2004. The higher revenues during the year were primarily driven by our closed-end funds as revenues increased 29.9% to $30.7 million in the first nine months of 2005 up from $23.6 million in the prior year's period. The increase in revenues from closed-end funds for the first nine months of 2005 resulted principally from an increase in management fees accrued on preferred shares, revenues from GGN, and the inclusion of The Gabelli Global Utility and Income Trust (AMEX: GLU), which launched at the end of May 2004, for the entire 2005 period.

Advisory fees from investment partnerships increased 66.1% in the first nine months of 2005 versus the prior year's first nine months due principally to an increase in performance fees as the third quarter of 2004 included a clawback in incentive fees that decreased revenues. For the first nine months of 2005, our revenues of $60.0 million from open-end mutual funds were 2.2% lower than the $61.3 million recorded in the 2004 period. Our fees from GAMCO separate accounts, which are generally billed based on asset levels at the beginning of a quarter, decreased $1.1 million or 1.8% in the 2005 period as compared to the first nine months of 2004.

Commission revenues from our institutional research affiliate, Gabelli & Company, Inc., were $8.3 million in the first nine months of 2005, down 26.6% from $11.3 million in the same period a year earlier.

Revenues from distribution of mutual funds and other income were $15.5 million in the first nine months of 2005 versus $14.7 million in the first nine months of 2004. This increase was the result of increases in both underwriting revenue and distribution revenue. As previously discussed, several bills were introduced in the prior Congress that, if adopted, would, among other things, pose a risk to our future distribution fee revenue as Rule 12b-1 distribution fees may be limited or eliminated.

Total expenses, excluding management fee, were $117.2 million in the first nine months of 2005, a 15.1% increase from total expenses of $101.8 million reported in the first nine months of 2004. The increase in expenses included one-time charges of $4.4 million recorded during the first nine months of 2005.

Compensation and related costs, which are largely variable, increased $9.4 million to $81.7 million, 12.9% higher than the same period a year earlier. This increase was primarily due to higher revenues versus the prior's year's period, higher variable compensation costs for our separate accounts business, and accruals for variable compensation costs related to management fees on closed-end preferred shares and investment partnership incentive fees in the 2005 period. Revenues related to investment partnership incentive fees have higher variable compensation costs, as a percent of revenue, as compared to our other investment advisory fees. In addition, a one-time charge of $1.8 million relating to the accelerated vesting of stock options and higher fixed compensation costs contributed to the increase.

Distribution costs were $15.7 million, an increase of 10.5% from $14.2 million in the prior year's period. This increase was largely the result of one-time launch costs of $1.5 million for GGN, our new closed-end fund. These

launch costs included a $1.2 million structuring fee paid to one of the lead underwriters for GGN's initial public offering. Other operating expenses were higher by $4.5 million, a 29.8% increase to $19.8 million in the first nine months of 2005 from the prior year first nine months of $15.2 million. This increase included legal and accounting costs related to regulatory and corporate governance dynamics, including Sarbanes-Oxley compliance, and the incremental costs incurred due to the elimination of soft dollar usage, which took effect in the fourth quarter of 2004, for our mutual fund business. In addition, we recorded a $1.1 million charge for the impairment of goodwill related to our 80% owned fixed income subsidiary. Management fee expense, which is totally variable and based on pretax income, was $8.1 million in the first nine months of 2005 versus $7.6 million in the first nine months of 2004.

Other income, net of interest expense, was $10.3 million in the first nine months of 2005, higher by $13.9 million from the $3.6 million loss reported in the first nine months of 2004. We have benefited from a rise in short-term interest rates as interest and dividend income for the first nine months of 2005 was $12.8 million, $6.3 million or 97.3% higher than the $6.5 million reported in previous year's period. In addition, we recorded a total gain of $4.8 million on our investment in OXPS during the first nine months of 2005. The 2005 period also included the $3.3 million write down to fair value of certain securities held as available for sale as discussed above in Item 1. In accordance with SFAS No. 115, the available for sale securities were written down to fair value from their cost basis for declines which were considered to be other than temporary based on interpretive guidance provided by the SEC's Staff Accounting Bulletin No. 59. Of this amount, $3.1 million was previously recorded as comprehensive loss and resulted in a $1.8 million reduction, net of management fee and taxes, of stockholders' equity at the end of 2004.

Interest expense decreased to $10.5 million in the first nine months of 2005 from $12.1 million in the comparable prior year period. This decrease is a result of the April 1, 2005 repurchase of $50 million of the $100 million 5% convertible note and the remarketing of the senior notes in November 2004, which reduced the interest rate from 6.0% to 5.22%.

The estimated effective tax rate for the first nine months of 2005 increased to 37.5% from 36.4% for the first nine months of 2004 as we adjusted the tax rate to reflect our estimate of the current year end tax liability.

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:

	Nine Months Ended September 30,	
	2005	2004
Cash flows provided by (used in):	(in thousands)	
Operating activities	$(30,115)	$ 15,695
Investing activities	(1,185)	(34,902)
Financing activities	(20,686)	(29,474)

Decrease	(51,986)	(48,681)
Effect of exchange rates on cash and cash equivalents	(60)	-
Cash and cash equivalents at beginning of period	257,096	386,511
Cash and cash equivalents at end of period	$205,050	$337,830

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, our Board of Directors authorized a plan to file a "shelf" registration statement on Form S-3, which was filed on June 13th. If and when declared effective, the shelf process will provide us opportunistic 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 $400 million. This authorization is in addition to the remaining $120 million available under our "shelf" registration filed in 2001.

At September 30, 2005, we had total cash and cash equivalents of $205.1 million, a decrease of $52.0 million from December 31, 2004. Gabelli has established a collateral account, consisting of cash and cash equivalents and investments in securities totaling $54.2 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, which coincides with the date of a put option the note holder may exercise. Additionally, the principal of the convertible note was reduced to $50 million and limitations on the issuance of additional debt were removed. Cash and cash equivalents and investments in securities held in the collateral account are restricted from other uses until the date of expiration. Total debt at September 30, 2005 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. On February 17, 2005, we issued approximately 1,517,000 shares of class A common stock in settlement of the 2,822,700 purchase contracts issued pursuant to our mandatory convertible securities resulting in proceeds of $70.6 million. The settlement rate of 0.5376 was determined based on the average closing price per share of class A common stock for the twenty consecutive trading days ending February 14, 2005.

Cash used in operating activities was $30.1 million in the first nine months of 2005 principally resulting from a $93.0 million increase in investments in securities, a $3.2 million increase in receivable from brokers and a $3.3 million decrease in income taxes payable partially offset by $45.1 million in net income, a $7.6 million decrease in investment advisory fees receivable and a $13.4 million increase in compensation payable. Cash provided by operating activities was $15.7 million in the first nine months of 2004 principally from a $8.7 million increase in compensation payable and $43.0 million in net income partially offset by a $12.7 million increase in investments in securities and a $21.4 million increase in receivable from brokers.

Cash used in investing activities, related to investments in and distributions from partnerships and affiliates and purchases and sales of available for sale securities, was $1.2 million in the first nine months of 2005. Cash used in investing activities, related to investments in and distributions from partnerships and affiliates and purchases and sales of available for sale securities, was $34.9 million in the first nine months of 2004.

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 5% convertible note on April 1, 2005, $41.8 million in dividends paid and 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 $1.1 million received from the exercise of non-qualified stock options that further generated cash tax savings of $0.3 million.

Cash used in financing activities in the first nine months of 2004 was $29.5 million. The decrease in cash principally resulted from the repurchase of our Class A common stock and mandatory convertible securities under the respective Stock Repurchase Programs of $24.5 million, dividend payments of $4.2 million and the $50 per share dividend paid by our 92% owned subsidiary, Gabelli Securities, Inc., to its shareholders resulting in a payment to minority shareholders of $2.7 million and partially offset by the $1.9 million received from the exercise of non-qualified stock options that further generated cash tax savings of $0.6 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 $250,000. At September 30, 2005, Gabelli & Company had net capital, as defined, of approximately $14.6 million, exceeding the regulatory requirement by approximately $14.3 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 $391.5 million at September 30, 2005 were investments in Treasury Bills and Notes of $233.0 million, in mutual funds, largely invested in equity products, of $102.5 million, a selection of common and preferred stocks totaling $55.7 million and other investments of approximately $0.3 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 $55.7 million invested in common and preferred stocks at September 30, 2005, $20.2 million is related to our investment in Westwood Holdings Group Inc. and $16.1 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 $90.2 million at September 30, 2005, 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.

Our revenues are largely driven by the market value of our assets under management and are therefore exposed to fluctuations in market prices. Investment advisory fees for mutual funds are based on average daily asset values. Management fees earned on institutional and high net worth separate accounts, for any given quarter, are generally determined based on asset values on the last day of the preceding quarter. Any significant increases or decreases in market value of institutional and high net worth separate accounts assets managed which occur on the last day of the quarter will generally result in a relative increase or decrease in revenues for the following quarter.

Recent Accounting Developments

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.

In January 2003 the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" which was subsequently revised in December 2003 by FASB Interpretation No. 46(R) ("FIN46R"). FIN46R provides new criteria for determining whether or not consolidation accounting is required for off-balance sheet activities conducted through certain types of entities. This interpretation focuses on financial interests in entities (i.e., variable interests) that indicate control despite the absence of clear control through voting interest. It concludes that a company's exposure (variable interest) to the economic risks and rewards from the entity's assets and activities are the best evidence of control. The interpretation requires that these variable interest entities (VIEs) be subject to consolidation if the company holding the variable interest is subject to a majority of the expected losses or will receive a majority of the expected residual returns of the VIE (the "primary beneficiary"). As the primary beneficiary it would be required to include the variable interest entity's assets, liabilities and results of operations in its own financial statements.

In June 2005, the FASB ratified the consensus EITF 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights", which provides guidance in determining whether a general partner controls a limited partnership. The provisions of EITF 04-5 are not applicable to limited partnerships or similar entities accounted for as VIEs pursuant to FIN46R.

We have further reviewed the provisions of FIN46R and EITF 04-5 and

have determined that we will be required to consolidate the majority of our investment partnerships and offshore funds managed by our subsidiaries beginning on January 1, 2006. If consolidation of these investment partnerships and offshore funds were required as of September 30, 2005, the effect on our consolidated financial statements would have been as follows:

Consolidated Statement of Financial Condition
September 30, 2005

	Reported	Effects of consolidation	(Pro Forma) Post consolidation
Assets	$ 741,299	$ 405,196	$ 1,146,495
Liabilities	302,960	74,899	377,859
Minority Interest	5,981	330,298	336,279
Stockholders' Equity	$ 432,358	$ -	$ 432,358

Consolidated Income Statement
For the nine months ended September 30, 2005

	Reported	Effects of consolidation	(Pro Forma) Post consolidation
Revenues	$ 187,606	($ 5,046)	$ 182,560
Expenses	125,223	220	125,443
Other Income, net	10,262	21,466	31,728
Minority Interest	318	16,200	16,518
Net Income	$ 45,085	$ -	$ 45,085

We also serve as the Investment Manager of five offshore funds and one investment partnership that are classified as VIEs. The offshore funds seek to earn absolute returns for investors and are primarily focused within our event-driven long/short equity and sector-focused strategies. Our involvement with one of these offshore funds began in 1994 but the majority were launched between 1999 and 2002. The investment partnership, which was started in 2005, is a fund of hedge funds which is currently invested in four other investment partnerships managed by GAMCO.

The total net assets of the five offshore funds and one investment partnership classified as VIEs were approximately $39.5 million on September 30, 2005. However, we are not the primary beneficiary or a holder of a significant variable interest in these VIEs. Our maximum exposure to loss as result of our involvement with the offshore funds classified as VIEs is limited to our investment while we are contingently liable for all of the liabilities of the investment partnership that is classified as a VIE. On September 30, 2005, we did not have any investments in these VIEs.

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 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 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, 2005:

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
GBL				
7/01/05 - 7/31/05	-	$-	-	516,193
8/01/05 - 8/31/05	12,600	$42.82	12,600	1,003,593
9/01/05 - 9/30/05	94,000	$45.22	94,000	909,593
Totals	106,600		106,600	

In August 2005 we announced an increase of 500,000 shares of GBL available

to be repurchased under our stock repurchase program. Our stock repurchase programs are not subject to expiration dates.

Item 6. (a) Exhibits

3.0 Restated Certificate of Incorporation of GAMCO Investors, Inc.

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 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

The Company filed the following Current Reports on Form 8-K during the three months ended September 30, 2005.

1. Current Report on Form 8-K dated July 21, 2005 containing the press release disclosing the Company's operating results for the second quarter ended June 30, 2005.

2. Current Report on Form 8-K dated September 23, 2005 containing the press release disclosing the Company's initial update on the SEC's industry wide review of Closed-End Fund distribution notices.

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)

November 9, 2005
Date

/s/ Michael R. Anastasio
Michael R. Anastasio
Chief Financial Officer