

**GABELLI**  
ASSET MANAGEMENT INC.

*First Quarter Report*  
*March 31, 2004*

## ***To Our Shareholders:***

Gabelli Asset Management Inc. (NYSE: GBL) reported record revenues of \$63.5 million for the quarter ended March 31, 2004, up 38.0% from the \$46.1 million generated in the first quarter of 2003. Net income for the quarter was \$16.1 million or \$0.52 per diluted share versus \$9.3 million or \$0.31 per diluted share in the prior year's quarter.

Pre-tax profits surged 70% to \$25.5 million from \$15.0 million in the first quarter of 2003. This increase is traceable to higher revenues, improved returns from our corporate investment portfolio and lower variable expenses offset by compensation, stock option, interest and other operating expenses.

## ***Financial Results***

Assets under management rose to a record \$28.2 billion on March 31, 2004, up 2.4% from the December 31, 2003 level of \$27.6 billion and 40.7% from the \$20.1 billion on March 31, 2003. Average total assets under management were \$28.2 billion in the quarter, up 36.1% from average total assets of \$20.7 billion in the first quarter of 2003.

Our equity products generated positive net cash flows of \$317 million during the first quarter while our fixed income portfolios experienced outflows of \$137 million. Assets under management in our separately managed equity accounts were \$13.4 billion on March 31, 2004, up 2.7% from \$13.0 billion on December 31, 2003, and 44.7% higher than the \$9.2 billion at March 31, 2003. Our open-end equity mutual funds and closed-end funds had assets under management of \$11.8 billion at quarter end, an increase of 2.0% from year-end 2003 and 52.7% ahead of the \$7.8 billion at the end of the first quarter 2003. Our alternative investment assets increased to \$901 million, up 30.2% from December 31, 2003 assets of \$692 million.

Investment advisory fees totaled \$53.9 million during the quarter, an increase of 36.5% from the first quarter of 2003, driven by higher assets under management, which included the addition of our new closed-end fund, The Gabelli Dividend & Income Trust, during the fourth quarter of 2003. Commission revenues for Gabelli & Company, Inc., driven mostly by institutional research, increased \$1.9 million during the first quarter of 2004 to \$4.3 million from the depressed \$2.4 million in the comparable 2003 quarter. Distribution fees generated from our open-end mutual funds increased to \$5.3 million from \$4.1 million as a result of an increase in average assets under management from the prior year's quarter.

First quarter 2004 variable expenses decreased to 41.2% of revenues from 43.4% in the first quarter of 2003. Compensation costs and other operating expenses, as a percent of revenues, declined to 30.8% and 10.4% respectively in the 2004 quarter versus 32.4% and 11.0% in the first quarter of 2003. The decline in other operating expenses, as a percent of revenues, resulted from an increase in closed-end fund revenues and a decrease in distribution expenses since assets gathered through our direct sales channel represented a larger percentage of our assets at the end of the first quarter 2004 as compared to the prior year's quarter-end.

Expenses not directly tied to revenues increased 14.9% or \$1.2 million over the prior year's quarter with the majority of this increase attributable to higher accruals for incentive compensation of \$417,000, stock option expense of \$146,000 and other operating expenses including insurance, legal and accounting costs of

\$393,000. Management fee expense, a totally variable cost based on pre-tax profits, was \$2.8 million for the first quarter of 2004 versus \$1.7 million in the prior year's quarter.

Our net investment income was \$244,000 versus a loss of \$1.3 million in the 2003 quarter as the return on our portfolio of marketable securities rose to \$4.3 million from \$1.7 million the year earlier more than offsetting the \$1 million increase in interest expense. Interest expense rose to \$4.0 million during the quarter compared to \$3.0 million in the comparable prior year's quarter due mostly to the May 2003 issuance of \$100 million of 5.5% senior notes. This increase was offset in part by a one-percentage point decrease in the interest rate on our \$100 million convertible note from 6% to 5% in August 2003.

The effective tax rate for 2004 was 36.4% versus 37.6% in 2003. The increase in minority interest expense for the three months ended March 31, 2004 versus the prior year period is largely the result of increased earnings from our alternative investment products and income from our investments at Gabelli Securities, Inc.

### *Investment and Business Highlights*

- The Gabelli Dividend & Income Trust (NYSE: GDV), our new closed-end fund that invests primarily in dividend paying securities, which we launched in November 2003, raised an additional \$194 million in gross proceeds from the exercise of the underwriters' overallotment option in early January 2004, bringing total proceeds from the initial public offering to \$1.65 billion.

- The Gabelli Utilities Fund and The Gabelli Global Telecommunications Fund each received the 2004 Lipper Fund Award for their respective categories for consistent performance relative to their peers. The Lipper Fund Award is presented annually to the fund, within each Lipper classification, that has achieved the highest consistent return scores. A fund's consistent return score evaluates its risk-adjusted returns and the strength of its performance trend, relative to other funds in its category.

- The Gabelli ABC Fund re-opened to new investors on March 1, 2004. The Fund's investment strategy focuses on merger and acquisition arbitrage to achieve total returns that are attractive to investors seeking positive returns in various market conditions without excessive risk of capital loss. The Gabelli ABC Fund has achieved positive total returns each calendar year since its inception on May 14, 1993.

- During the first quarter, our alternative investment portfolios generated net cash inflows of over \$200 million.

- Our merger arbitrage portfolios benefited from increased investor interest and allocations to this strategy as the dollar volume of announced global merger transactions doubled versus the first quarter of 2003.

- Our US long/short equity strategy products experienced strong demand principally through our global distribution relationships with major European financial institutions.

### *Shareholder Initiatives*

We are overcapitalized. We are looking to add to our skill sets through acquisitions. In the absence of transactions, we would like to return our earnings to shareholders. During the first quarter of 2004, we bought back 29,927 shares at an average cost of \$39.57 per share. We intend to be more aggressive in our efforts to repurchase our stock as a

way of returning excess cash to our shareholders. We initiated a stock buyback program in March of 1999. Since that time, 1,207,276 Class A shares have been repurchased through March 2004 at an average cost of \$26.00 per share, including 29,927 shares in 2004. As of March 31, 2004, \$11.0 million remained available for future share purchases. During the second quarter of 2004, we repurchased 105,600 shares at an average price of \$39.12 per share through a Rule 10b5-1 Purchase Plan. We will also revisit our dividend policy during the year.

Gabelli Securities, Inc., our 92% owned subsidiary, paid a cash dividend of \$50 per share on March 15, 2004.

### *Financial Strength and Flexibility*

Our balance sheet strengthened again during the quarter. Overall, we ended the quarter with roughly \$626.3 million in cash and marketable securities and debt of \$283.8 million. Expressed another way, we had \$11.39 per share of net cash and marketable securities on March 31, 2004. Our debt consists of a \$100 million 5% convertible note, \$100 million of 5.5% senior notes, and \$83.8 million of mandatory convertible securities which will be exchanged in February 2005 for approximately two million Class A common shares.

### *Looking Ahead*

We continue to look for 4% U.S. real GDP growth, higher corporate profits and higher interest rates in 2004. Stock market gains are likely to moderate this year and be more in line with the 6-8% average annual increases we expect over the balance of this decade. Our stock selection process, for our value products, based on our proprietary Private Market Value (PMV) with a Catalyst research, is currently focused on new investment opportunities related to trade with China, industrial and agricultural commodities, human aging (such as dental care and orthopedics), and the rapidly growing U.S. Hispanic population.

We believe 2004 will be the Year of the Deal. Conditions supporting increased domestic and cross-border transactions, friendly and hostile – financing liquidity, low interest rates, cheaper to buy than build valuations, global competition, the elimination of goodwill amortization, and a cheap U.S. dollar – are in place. This will accelerate the surfacing of intrinsic value across a broad range of our clients' portfolio holdings. It will also benefit fund flow into our products, particularly our alternative investment products. The effect of unprecedented fiscal and monetary stimulus will begin to fade, so we are keeping an eye on the developing investment backdrop for 2005. Terrorism and high energy prices remain significant concerns.

To achieve our objective of enhancing client returns on a risk-adjusted basis, thereby increasing assets under management and profitability, our business strategy targets international growth of the Gabelli franchise through the leveraging of our corporate strengths including the Gabelli brand name, outstanding long-term investment performance, diverse product offerings and experienced portfolio, research and client service professionals.

In the first quarter of 2004, we have begun to realize the benefits of our strategy through increased revenues and improved operating margins. We look forward to the challenge of creating wealth for our clients and shareholders in today's complex financial markets.

Mario J. Gabelli  
Chairman & Chief Executive Officer

**GABELLI ASSET MANAGEMENT INC.**  
**UNAUDITED CONSOLIDATED CONDENSED**  
**STATEMENTS OF INCOME**  
*(in thousands, except per share data)*

	For the Three Months Ended March 31		
	2003	2004	% Inc. (dec.)
Revenues	\$ 46,053	\$ 63,539	38.0%
Expenses	<u>28,044</u>	<u>35,426</u>	26.3
Operating income before management fee	18,009	28,113	56.1
Investment income	1,690	4,290	153.8
Interest expense	<u>(3,011)</u>	<u>(4,046)</u>	34.4
Other expense, net	<u>(1,321)</u>	<u>244</u>	118.5
Income before management fee, income taxes and minority interest	16,688	28,357	69.9
Management fee	<u>1,669</u>	<u>2,836</u>	
Income before income taxes and minority interest	15,019	25,521	
Income taxes	5,647	9,296	
Minority interest	45	154	
Net income	<u>\$ 9,327</u>	<u>\$ 16,071</u>	72.3
Net income per share:			
Basic	<u>\$ 0.31</u>	<u>\$ 0.53</u>	71.0
Diluted	<u>\$ 0.31</u>	<u>\$ 0.52</u>	67.7
Weighted average shares outstanding:			
Basic	<u>29,918</u>	<u>30,064</u>	0.5
Diluted	<u>30,031</u>	<u>32,202</u>	7.2
Reconciliation of Non-GAAP Financial Measures to GAAP:			
Operating income before management fee	\$ 18,009	\$ 28,113	56.1
Deduct: management fee	<u>1,669</u>	<u>2,836</u>	
Operating income	<u>\$ 16,340</u>	<u>\$ 25,277</u>	54.7
Operating margin	<u>39.1%</u>	<u>44.2%</u>	
Operating margin after management fee	<u>35.5%</u>	<u>39.8%</u>	

**GABELLI ASSET MANAGEMENT INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
*(in thousands)*

	December 31,	March 31,	
	2003	2003	2004
<b>ASSETS</b>		<i>(unaudited)</i>	
Cash and cash equivalents	\$386,511	\$ 327,099	\$ 371,355
Investments	295,411	210,613	328,063
Receivables	39,667	28,533	46,370
Other assets	<u>14,922</u>	<u>15,607</u>	<u>16,022</u>
Total assets	<u>\$736,511</u>	<u>\$581,852</u>	<u>\$761,810</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Compensation payable	\$ 25,552	\$ 20,554	\$ 26,964
Income tax payable	12,323	8,457	15,688
Accrued expenses and other liabilities	<u>27,900</u>	<u>26,832</u>	<u>35,903</u>
Total liabilities	65,775	55,843	78,555
5.5% Senior notes	100,000	-	100,000
5% Convertible note	100,000	100,000	100,000
Mandatory convertible securities	84,030	84,163	83,825
Total liabilities	349,805	240,006	362,380
Minority interest	8,395	7,607	5,831
Stockholders' equity	<u>378,311</u>	<u>334,239</u>	<u>393,599</u>
Total liabilities and stockholders' equity	<u>\$736,511</u>	<u>\$581,852</u>	<u>\$761,810</u>

**GABELLI ASSET MANAGEMENT INC.**  
**ASSETS UNDER MANAGEMENT**  
*(in millions)*

						<u>% Inc./ (Dec.)</u>	
	<u>3/03</u>	<u>6/03</u>	<u>9/03</u>	<u>12/03</u>	<u>3/04</u>	<u>12/03</u>	<u>3/03</u>
Mutual Funds							
Open-end	\$6,213	\$ 7,118	\$ 7,280	\$ 8,088	\$ 8,106	0.2%	30.5%
Closed-end	1,545	1,646	1,761	3,530	3,739	5.9	142.0
Fixed income	<u>1,916</u>	<u>1,880</u>	<u>1,783</u>	<u>1,714</u>	<u>1,717</u>	0.2	(10.4)
Total Mutual Funds	<u>9,674</u>	<u>10,644</u>	<u>10,824</u>	<u>13,332</u>	<u>13,562</u>	1.7	40.2
Institutional & Separate Accounts							
Equities	9,247	10,820	11,304	13,031	13,383	2.7	44.7
Fixed Income	<u>547</u>	<u>404</u>	<u>391</u>	<u>504</u>	<u>369</u>	(26.8)	(32.5)
Total Institutional & Separate Accounts	<u>9,794</u>	<u>11,224</u>	<u>11,695</u>	<u>13,535</u>	<u>13,752</u>	1.6	40.4
Alternative Investments	<u>585</u>	<u>625</u>	<u>687</u>	<u>692</u>	<u>901</u>	30.2	54.0
Total Assets Under Management	<u>\$20,053</u>	<u>\$ 22,493</u>	<u>\$ 23,206</u>	<u>\$ 27,559</u>	<u>\$ 28,215</u>	2.4	40.7

**NOTES ON NON-GAAP FINANCIAL MEASURES**

NOTES ON NON-GAAP FINANCIAL MEASURES

A. Cash and investments as adjusted have been computed as follows (in millions):

	<u>12/31/03</u>	<u>3/31/03</u>	<u>3/31/04</u>
Cash and cash equivalents	\$386.5	\$327.1	\$371.4
Investments (marketable securities)	<u>228.0</u>	<u>204.5</u>	<u>260.7</u>
Total cash and investments (marketable securities)	614.5	531.6	632.1
Amounts payable to brokers	<u>(5.7)</u>	<u>(6.5)</u>	<u>(5.8)</u>
Adjusted cash and investments (marketable securities)	608.8	525.1	626.3
Investments (available for sale)	<u>67.4</u>	<u>6.1</u>	<u>67.3</u>
Total adjusted cash and investments	<u>\$676.2</u>	<u>\$531.2</u>	<u>\$693.6</u>

We believe cash and investments as adjusted is a more useful measure of the company's liquidity for analytical purposes.

Amounts payable to broker reflects cash payable for securities purchased and recorded on a trade date basis for which settlement occurs subsequent to period end.

B. Operating income before management fee expense is used by management for purposes of evaluating its business operations. We believe this measure is useful in illustrating the operating results of the Company as management fee expense is based on pre-tax income and includes non-operating items including investment gains and losses from the company's proprietary investment portfolio and interest expense. The reconciliation of operating income before management fee to operating income is provided in the unaudited consolidated condensed statements of income.

**GABELLI ASSET MANAGEMENT INC.**  
**UNAUDITED QUARTERLY CONSOLIDATED CONDENSED**  
**QUARTERLY FINANCIAL DATA**  
*(in thousands, except per share data)*

*Asset Profile at 3/31/04*

	2003					2004
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	1st Quarter
<b>Income Statement Data:</b>						
Revenues	\$ 46,053	\$ 47,956	\$ 51,823	\$ 61,605	\$ 207,437	\$ 63,539
Expenses	<u>28,044</u>	<u>29,454</u>	<u>30,227</u>	<u>35,996</u>	<u>123,721</u>	<u>35,426</u>
<b>Operating income before management fee</b>	18,009	18,502	21,596	25,609	83,716	28,113
Investment Income	1,690	6,079	4,508	8,863	21,140	4,290
Interest Expense	<u>(3,011)</u>	<u>(3,605)</u>	<u>(4,174)</u>	<u>(4,048)</u>	<u>(14,838)</u>	<u>(4,046)</u>
Other income (expense), net	<u>(1,321)</u>	<u>2,474</u>	<u>334</u>	<u>4,815</u>	<u>6,302</u>	<u>244</u>
<b>Income before management fee, income taxes and minority interest</b>	16,688	20,976	21,930	30,424	90,018	28,357
Management fee	<u>1,669</u>	<u>2,097</u>	<u>2,193</u>	<u>3,043</u>	<u>9,002</u>	<u>2,836</u>
<b>Income before income taxes and minority interest</b>	15,019	18,879	19,737	27,381	81,016	25,521
Income taxes	5,647	7,099	7,298	10,295	30,339	9,296
Minority interest	<u>45</u>	<u>223</u>	<u>137</u>	<u>428</u>	<u>833</u>	<u>154</u>
<b>Net Income</b>	<u>\$ 9,327</u>	<u>\$ 11,557</u>	<u>\$ 12,302</u>	<u>\$ 16,658</u>	<u>\$ 49,844</u>	<u>\$ 16,071</u>
<b>Net income pershare:</b>						
Basic	<u>\$ 0.31</u>	<u>\$ 0.38</u>	<u>\$ 0.41</u>	<u>\$ 0.55</u>	<u>\$ 1.66</u>	<u>\$ 0.53</u>
Diluted	<u>\$ 0.31</u>	<u>\$ 0.38</u>	<u>\$ 0.41</u>	<u>\$ 0.54</u>	<u>\$ 1.65</u>	<u>\$ 0.52</u>
<b>Weighted average shares outstanding:</b>						
Basic	<u>29,918</u>	<u>30,025</u>	<u>30,061</u>	<u>30,065</u>	<u>30,018</u>	<u>30,064</u>
Diluted	<u>30,031</u>	<u>30,139</u>	<u>32,170</u>	<u>32,155</u>	<u>32,081</u>	<u>32,202</u>
<b>Reconciliation of Non-GAAP</b>						
<b>Financial Measures to GAAP:</b>						
Operating income before management fee	\$ 18,009	\$ 18,502	\$ 21,596	\$ 25,609	\$ 83,716	\$ 28,113
Deduct: management fee	<u>1,669</u>	<u>2,097</u>	<u>2,193</u>	<u>3,043</u>	<u>9,002</u>	<u>2,836</u>
Operating income	<u>\$ 16,340</u>	<u>\$ 16,405</u>	<u>\$ 19,403</u>	<u>\$ 22,566</u>	<u>\$ 74,714</u>	<u>\$ 25,277</u>
Operating margin before management fee	<u>39.1%</u>	<u>38.6%</u>	<u>41.7%</u>	<u>41.6%</u>	<u>40.4%</u>	<u>44.2%</u>
Operating margin after management fee	<u>35.5%</u>	<u>34.2%</u>	<u>37.4%</u>	<u>36.6%</u>	<u>36.0%</u>	<u>39.8%</u>

*Geographic Mix*



■ United States    ■ International

*Asset Class*



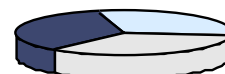
■ Equities    ■ Fixed Income

*Equities by Style*



■ Growth    ■ Value  
 ■ Alternative Investments

*Equities by Client Type*



■ Retail    ■ Institutional  
 ■ High Net Worth

### *Special Note Regarding 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.

***Gabelli Asset Management Inc.***  
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*For additional information throughout the year,  
visit our website at [www.gabelli.com](http://www.gabelli.com)*