

GABELLI
ASSET MANAGEMENT INC.

Second Quarter Report
June 30, 1999

To Our Shareholders:

Gabelli Asset Management Inc. reported record revenues and earnings for the second quarter ended June 30, 1999. We are pleased to bring you the highlights.

Financial Results

Total revenues for the three months ended June 30, 1999 rose 18% to \$42.6 million compared to \$36.0 million for the second quarter of 1998. Operating income for the quarter was \$16.8 million, 8% higher than the \$15.6 million recorded in the second quarter of 1998. Net income rose 66% to \$11.7 million versus \$7.0 million in the second quarter of 1998. On a per share basis, net income jumped 70% to \$0.39 per share versus \$0.23 per share in 1998 on a pro forma basis.

For the first six months of 1999 total revenues climbed to \$82.3 million up 21% over the \$68 million recorded in the first half of 1998. Operating income was \$33.6 million in the first half of 1999, an increase of 16% over the year earlier period. Net income rose 46% to \$20.9 million in 1999 as compared to \$14.4 million in the first half of 1998. On a per share basis, and excluding a first quarter nonrecurring charge, we earned \$0.70 per share, a 46% increase over net income of \$0.48 per share in the first half of 1998 on a pro forma basis. Including the nonrecurring charge of \$1.03 per share, the Company had a net loss per share of \$0.33 for the first six months of 1999.

Operating results were spearheaded by an increase in our open end funds to \$6.7 billion from \$5.9 billion, a gain of 14% during the quarter. On a year to year basis, this increase was 27%. Overall our assets under management rose to \$18.8 billion from \$17.0 billion at March 31, 1999 and \$15.8 billion at June 30, 1998. Also note the assets in our arbitrage partnerships rose to \$165 million from \$143 million at June 30, 1998. Our arbitrage fund is benefiting from increased investor interest as well as a large number

of merger transactions. Overall, our reported second quarter earnings benefited from investment gains in our proprietary portfolio where strong market performance, the harvesting of several venture capital investments and income on proceeds received from our initial public offering resulted in investment income of \$6.4 million in the second quarter of 1999 versus investment losses of \$2.2 million a year earlier.

Operating Highlights

We continued to lay the foundation for future growth as the professional staff was strengthened, a relationship center was opened in Palm Beach, Florida and mutual fund shareholders approved a multi class structure for our global series of mutual funds.

Barbara Marcin, CFA and Timothy O'Brien, CFA, joined us to run two new open end mutual funds, the Blue Chip Value Fund and Utilities Fund, respectively. In June we announced our plans to add the Chicago-based Mathers Fund to our Gabelli family of funds. The Mathers Fund will add \$100 million in assets and 5,000 new investors to our mutual fund family in a specialty fund category and brings Henry Van der Eb, CFA, Anne Morrissey, CFA and Robert J. Reynolds, CFA to our team of investment professionals. We will retain their Chicago office as our third relationship center outside of the New York area, joining our offices in Palm Beach, Florida and Reno, Nevada.

In addition to our new domestic relationship centers we are actively exploring opportunities in the international arena. A new offshore limited partnership with international flavor, Gabelli Global Partners, L.P. was opened to investors on July 1, 1999. Gabelli Securities, Inc. will be a general partner, and the fund will be managed by Marc Gabelli. Marc will continue to manage the highly successful Global Interactive Couch Potato[®] Fund, which carries a five star rating from Morningstar and which has been ranked the #1 global fund by Lipper

for the last three years. Under Marc's aegis this Global Growth product generated returns of 41.7% in 1997, 28.9% in 1998 and 38.4% for the six months ended June 30, 1999.

Balance Sheet

Cash and investments at June 30, 1999 was \$153 million. Our outstanding debt of \$50 million will be tax deductible when paid, reducing the net cost to the Company to \$30.9 million. Overall we have a strong and liquid balance sheet to capitalize on opportunities.

Share Repurchase Program

On March 8, 1999, the Board of Directors of the Company authorized the repurchase of up to \$3 million of Class A Common Stock in the open market. During the second quarter we purchased 129,800 shares at an average price of \$15.69 per share for an aggregate cost of \$2 million.

The total number of shares outstanding at June 30, 1999 was 29,870,200 comprised of 5,870,200 of Class A shares and 24,000,000 of Class B shares.

Gabelli Asset Management started trading on the New York Stock Exchange on February 9, with the sale of 6 million shares of its Class A Common Stock in its Initial Public Offering at \$17.50. The Offering was led by Merrill Lynch, Salomon Smith Barney and Gabelli & Company.

We want to thank our clients, our staff, and our professional staff for their support, confidence and encouragement as we build on our foundation to deliver on our growth objectives and enhance shareholder value. Along with second quarter financial statements, we include quarterly data for 1998 on an adjusted historical basis as well as on a "pro forma" basis.

Mario J. Gabelli
Chairman & Chief Executive Officer

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

	<u>For the Three Months Ended June 30,</u>			
	Adjusted Historical 1998 (a)	Pro Forma		% Increase (Decrease) from Pro Forma
	1998(b)	1999		
Revenues	\$36,031	\$36,031	\$42,623	18.3
Expenses	<u>20,477</u>	<u>20,477</u>	<u>25,801</u>	26.0
Operating income	15,554	15,554	16,822 (c)	8.2
Other income (expense),net	<u>(1,429)</u>	<u>(2,179)</u>	<u>6,355</u>	
Income before management fee, income taxes and minority interest	14,125	13,375	23,177	73.3
Management fee	<u>2,824</u>	<u>1,337</u>	<u>2,318</u>	
Income before income taxes and minority interest	11,301	12,038	20,859	73.3
Income taxes	4,479	4,771	8,260	
Minority interest	<u>247</u>	<u>247</u>	<u>944</u>	
Net income	<u>\$ 6,575</u>	<u>\$ 7,020</u>	<u>\$11,655</u>	66.0
<hr/>				
Net income per share:				
Basic and diluted	<u>\$ 0.27</u>	<u>\$ 0.23</u>	<u>\$ 0.39</u>	69.6
Weighted average shares outstanding:				
Basic and diluted	<u>24,000</u>	<u>30,000</u>	<u>29,949</u>	

	<u>For the Six Months Ended June 30,</u>			
	Adjusted Historical 1998 (a)	Pro Forma(d)		% Increase (Decrease) from Pro Forma
	1998	1999		
Revenues	\$67,959	\$67,959	\$82,314	21.1
Expenses	<u>38,907</u>	<u>38,907</u>	<u>48,738</u>	25.3
Operating income	29,052	29,052	33,576	15.6
Other income (expense),net	<u>46</u>	<u>(1,454)</u>	<u>8,452</u>	
Income before management fee, income taxes and minority interest	29,098	27,598	42,028	52.3
Management fee	<u>5,819</u>	<u>2,759</u>	<u>4,203</u>	
Income before income taxes and minority interest	23,279	24,839	37,825	52.3
Income taxes	9,232	9,846	15,233	
Minority interest	<u>639</u>	<u>639</u>	<u>1,658</u>	
Net income	<u>\$13,408</u>	<u>\$ 14,354</u>	<u>\$20,934</u>	45.8
<hr/>				
Net income per share:				
Basic and diluted	<u>\$ 0.56</u>	<u>\$ 0.48</u>	<u>\$.70(d)</u>	45.8
Weighted average shares outstanding:				
Basic and diluted	<u>24,000</u>	<u>30,000</u>	<u>29,974</u>	

(a) Adjusted historical financial information reflects the historical results of operations acquired as part of the Formation Transactions as if GAMI had existed as a separate enterprise during such periods and was treated as a "C" Corporation for Federal and state income tax purposes and as if the exchange of shares, as part of the Formation Transactions, had taken place.

(b) Pro forma financial information reflects the results of operations as if all of the following were in effect at January 1, 1998: the Formation Transactions; the \$50 million note payable; the reduction in management fee from 20% to 10% and the conversion from a Subchapter S Corporation to a "C" Corporation.

(c) After \$1.45 million of incremental costs principally associated with the swing in other income and included in operating expenses.

(d) Excludes a nonrecurring charge of \$50.7 million (\$30.9 million after-tax or \$1.03 per share) related to the note payable and charged in the first quarter of 1999. After giving effect to this charge the Company had a net loss of \$0.33 per share for the six months ended June 30, 1999.

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

	<u>6/98</u>	<u>9/98</u>	<u>12/98</u>	<u>3/99</u>	<u>6/99</u>	% Increase (decrease) from	
						<u>6/98</u>	<u>12/98</u>
Institutional & Separate Accounts							
Equities	\$ 7,260	\$ 6,187	\$ 7,133	\$ 7,573	\$ 8,387	15.5%	17.6%
Fixed income	<u>577</u>	<u>533</u>	<u>824</u>	<u>618</u>	<u>682</u>	18.2	(17.2)
Total Institutional & Separate Accounts	<u>7,837</u>	<u>6,720</u>	<u>7,957</u>	<u>8,191</u>	<u>9,069</u>	15.7	14.0
Mutual Funds							
Open end	5,320	4,577	5,533	5,903	6,735	26.6	21.7
Closed end	1,710	1,471	1,626	1,676	1,809	5.8	11.3
Fixed income	<u>765</u>	<u>986</u>	<u>1,038</u>	<u>1,061</u>	<u>1,025</u>	34.0	(1.3)
Total Mutual Funds	<u>7,795</u>	<u>7,034</u>	<u>8,197</u>	<u>8,640</u>	<u>9,569</u>	22.8	16.7
Partnerships	<u>143</u>	<u>147</u>	<u>146</u>	<u>151</u>	<u>165</u>	15.4	13.0
Total Assets Under Management	<u>\$15,775</u>	<u>\$13,901</u>	<u>\$16,300</u>	<u>\$16,982</u>	<u>\$18,803</u>	19.2%	15.4%

GABELLI ASSET MANAGEMENT INC.
UNAUDITED CONDENSED CONSOLIDATED
STATEMENTS OF FINANCIAL CONDITION
(in thousands)

	February 9 <u>1999 (a)</u>	June 30, <u>1999</u>
ASSETS		
Cash and cash equivalents	\$123,072	\$ 96,886
Investments	39,114	56,010
Receivables	15,178	40,009
Deferred tax asset	19,830	19,830
Other assets	<u>12,306</u>	<u>9,953</u>
Total assets	<u>\$209,500</u>	<u>\$222,688</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Debt	\$ 50,000	\$ 50,000
Compensation payable	6,668	16,059
Accrued expenses and other liabilities	<u>29,020</u>	<u>16,329</u>
Total liabilities	85,688	82,388
Minority interest	13,182	14,404
Stockholders' equity (shares outstanding; 29,870 and 30,000 respectively)	<u>110,630</u>	<u>125,896</u>
Total liabilities and stockholders' equity	<u>\$209,500</u>	<u>\$222,688</u>

(a) Opening balance sheet adjusted to reflect both the Formation Transactions and initial public offering.

Forward Looking Information

This Shareholders' Report contains certain forward looking information, including without limitation, business strategies and growth objectives, intrinsic value and the overall outlook for 1999 (including without limitation certain contemplated transactions). It should be recognized that such information are estimates or forecasts based upon various assumptions including those set forth herein as well as meeting the Company's internal operating performance assumptions, competitive conditions, and the expected performance of the economy and financial markets as they impact the Company's business. There may be other unknown risks, uncertainties or factors that may result in actual results, performance or achievements being materially different. There is no assurance that the forward-looking matters can be accomplished on terms acceptable to the Company or what the terms thereof may be. As a result of the foregoing and other factors, no assurance can be given as to future results and neither the Company nor any other person assumes responsibility for the accuracy or completeness of such information.

GABELLI ASSET MANAGEMENT INC.

One Corporate Center

Rye, New York 10580-1435

914-921-5100 • www.gabelli.com