

Condensed Financial Statements

Teton Advisors, Inc.

Quarterly Report for the Period Ended September 30, 2010

Teton Advisors, Inc.

Condensed Financial Statements

Quarterly Report for Period Ended September 30, 2010

**Contents**

Condensed Statements of Income.....	1
Condensed Statements of Financial Condition .....	3
Condensed Statements of Stockholders' Equity .....	4
Condensed Statements of Cash Flows.....	5
Notes to Condensed Financial Statements .....	6
Management's Discussion of Operations.....	9

Teton Advisors, Inc.  
Condensed Statements of Income  
(Unaudited)

	<b>Three months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>		
Investment advisory fees	\$ 1,411,816	\$ 1,122,479
Other income	223	213
Total revenues	<b>1,412,039</b>	1,122,692
<b>Expenses</b>		
Compensation	484,093	287,232
Marketing and administrative fees	296,350	244,143
Sub-advisory fees	131,265	161,592
Distribution costs and expense reimbursements	213,375	67,303
Other operating expenses	124,912	97,290
Total expenses	<b>1,249,995</b>	857,560
Income before income taxes	162,044	265,132
Income taxes	55,607	91,243
Net income	<b>\$ 106,437</b>	\$ 173,889
Net income per share:		
Basic	<b>\$ 0.10</b>	<b>\$ 0.17</b>
Diluted	<b>\$ 0.09</b>	<b>\$ 0.16</b>
Weighted average shares outstanding:		
Basic	<b>1,043,394</b>	<b>1,043,394</b>
Diluted	<b>1,197,893</b>	<b>1,085,207</b>

*See accompanying notes.*

Teton Advisors, Inc.  
Condensed Statements of Income  
(Unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>		
Investment advisory fees	\$ 4,108,127	\$ 3,030,478
Other income	555	1,799
Total revenues	4,108,682	3,032,277
<b>Expenses</b>		
Compensation	1,348,631	729,824
Marketing and administrative fees	862,885	629,634
Sub-advisory fees	431,958	462,014
Distribution costs and expense reimbursements	530,027	321,334
Other operating expenses	348,093	686,683
Total expenses	3,521,594	2,829,489
Income (loss) before income taxes	587,088	202,788
Income taxes	201,613	69,785
Net income (loss)	\$ 385,475	\$ 133,003
Net income (loss) per share:		
Basic	\$ 0.37	\$ 0.13
Diluted	\$ 0.32	\$ 0.13
Weighted average shares outstanding:		
Basic	1,043,394	1,043,394
Diluted	1,198,016	1,055,528

*See accompanying notes.*

Teton Advisors, Inc.

Condensed Statements of Financial Condition

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	(Unaudited)	(Audited)
<b>Assets</b>		
Cash and cash equivalents	\$ 1,054,840	\$ 436,412
Investment advisory fees receivable	448,360	395,968
Income tax receivable	28,117	47,166
Receivables from affiliates	-	6,580
Other assets (net of accumulated depreciation of \$5,004 and \$3,169, respectively)	65,445	90,591
Total assets	<u>\$ 1,596,762</u>	<u>\$ 976,717</u>
<b>Liabilities and stockholders' equity</b>		
Payables to affiliates	\$ 374,134	\$ 235,172
Deferred tax payable	111,737	154,678
Compensation payable	-	10,000
Distribution costs payable	71,878	44,090
Professional fees payable	23,435	33,259
Accrued expenses and other liabilities	22,550	16,750
Total liabilities	<u>603,734</u>	<u>493,949</u>
Stockholders' equity:		
Class A Common stock, \$.001 par value; 1,200,000 shares authorized: 962,335 and 945,776 shares issued and outstanding, respectively	698	685
Class B Common stock, \$.001 par value; 800,000 shares authorized; 341,907 and 358,466 issued and outstanding, respectively	353	366
Additional paid in capital – Class A	270,591	145,806
Treasury stock, class B, at cost (8,000 shares)	(8,120)	(8,120)
Retained earnings	729,506	344,031
Total stockholders' equity	<u>993,028</u>	<u>482,768</u>
Total liabilities and stockholders' equity	<u>\$ 1,596,762</u>	<u>\$ 976,717</u>

See accompanying notes.

Teton Advisors, Inc.

Condensed Statements of Stockholders' Equity

(Unaudited)

For the Nine Months Ended September 30, 2010

	<b>Common Stock</b>		<b>Additional Paid in Capital</b>	<b>Treasury Stock</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>Class A</b>	<b>Class B</b>	<b>- Class A</b>			
Balance at December 31, 2009	\$ 685	\$ 366	\$ 145,806	(\$ 8,120)	\$ 344,031	\$ 482,768
<b>Stock based compensation</b>	-	-	<b>124,785</b>	-	-	<b>124,785</b>
<b>Conversion from Class B to Class A</b>	<b>16</b>	<b>(16)</b>	-	-	-	-
<b>Net income</b>	-	-	-	-	<b>385,475</b>	<b>385,475</b>
<b>Balance at September 30, 2010</b>	<b>\$ 671</b>	<b>\$ 350</b>	<b>\$ 270,591</b>	<b>(\$ 8,120)</b>	<b>\$ 729,506</b>	<b>\$ 993,028</b>

*See accompanying notes.*

Teton Advisors, Inc.

Condensed Statements of Cash Flows

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 385,475	\$ 133,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,835	1,606
Deferred tax expense (benefit)	-	33,890
Stock based compensation	124,785	88,557
Amortization of identifiable intangible asset	-	146,400
(Increase) decrease in operating assets:		
Investment advisory fees receivable	(52,392)	(66,530)
Income tax receivable	19,049	(132,949)
Receivables from affiliates	6,580	4,592
Other assets	23,311	(31,214)
(Decrease) increase in operating liabilities:		
Payables to affiliates	138,962	(12,472)
Deferred tax payable	(42,941)	168,844
Compensation payable	(10,000)	-
Distribution costs payable	27,788	6,448
Professional fees payable	(9,824)	(257,963)
Accrued expenses and other liabilities	5,800	8,630
Total adjustments	<u>232,953</u>	<u>(42,161)</u>
Net cash provided by operating activities	<u>618,428</u>	<u>90,842</u>
<b>Cash flows from financing activities</b>		
Distributions paid	-	(730,375)
Net cash used in financing activities	<u>-</u>	<u>(730,375)</u>
Net increase (decrease) in cash and cash equivalents	618,428	(639,533)
Cash and cash equivalents at beginning of year	436,412	760,350
Cash and cash equivalents at end of year	<u>\$ 1,054,840</u>	<u>\$ 120,817</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for income taxes	<u>\$ 231,800</u>	<u>\$ -</u>

See accompanying notes.

# Teton Advisors, Inc.

## Notes to Condensed Financial Statements

September 30, 2010

### **A. Significant Accounting Policies**

#### *Basis of Presentation*

Teton Advisors, Inc. (“Teton” or the “Company”) was formed in Texas as Teton Advisers LLC in December 1994. On March 2, 1998, Teton Advisers LLC was renamed Gabelli Advisers LLC and, on the same date, merged into Gabelli Advisers, Inc., a Delaware corporation. On January 25, 2008, Gabelli Advisers, Inc. was renamed Teton Advisors, Inc. Prior to the March 20, 2009 spin-off, the Company was a 42%-owned subsidiary of GAMCO Investors, Inc. (“GAMCO”). The Company serves as the investment adviser for the GAMCO Westwood Funds (“Funds”, individually “Fund”). The Company’s capital structure consists of 1,200,000 shares authorized of Class A common stock with one vote per share and 800,000 shares authorized of Class B common stock with ten votes per share. At the date of incorporation, 200,000 shares of the Class A shares were issued to Westwood Management Corporation (“WMC”) and 800,000 shares of Class B shares were issued to GAMCO and its affiliates. In addition, certain shareholders exercised warrants to purchase 59,394 shares of the Class A common stock for \$5 per share on December 31, 2001.

#### *Use of Estimates*

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### *Nature of Operations*

Teton is a registered investment adviser under the Investment Advisers Act of 1940. Teton’s principal market is in the United States.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they are not audited and do not include all of the information and notes required for complete financial statements. These condensed financial statements and notes should be read in conjunction with Teton’s audited financial statements and notes thereto included in Teton’s Annual Report for the year ended December 31, 2009. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2010 are not necessarily indicative of the

## Teton Advisors, Inc.

### Notes to Condensed Financial Statements (continued)

#### **A. Significant Accounting Policies (continued)**

results that maybe expected for the year ending December 31, 2010.

#### **B. Related Party Transactions**

Teton has invested all of its cash equivalents in a money market mutual fund managed by Gabelli Funds, LLC, an affiliate. At September 30, 2010 and December 31, 2009, Teton had \$1,032,467 and \$436,309, respectively, in this money market fund and earned \$223 and \$213 for the three month periods ended September 30, 2010 and 2009, respectively, and \$555 and \$1,799 for the nine month periods ended September 30, 2010 and 2009, respectively, which comprises other income.

Gabelli & Company, Inc. ("Gabelli & Co."), an affiliate of the Company, serves as the principal distributor for the Funds. As distributor, Gabelli & Co. incurs certain promotional and distribution costs, which are expensed as incurred, related to the sale of Fund shares. Gabelli & Co. receives reimbursements from the Company in connection with these distribution activities to the extent such costs exceed distribution fees received from the Funds managed by the Company. Such amounts will be repaid to the Company if distribution fees are in excess of distribution expenses of the Funds. In connection with its role as principal distributor, the Company received from Gabelli & Co. \$14,348 and \$16,383 for the three months ended September 30, 2010 and 2009, respectively, of previously paid reimbursed distribution expenses which is included in distribution costs and expense reimbursements in the condensed statements of operations. The Company received from Gabelli & Co. \$74,942 and \$28,062 for the nine months ended September 30, 2010 and 2009, respectively, of previously paid reimbursed distribution expenses. As of September 30, 2010 and December 31, 2009, there was \$140,891 and \$215,833, respectively, contingently receivable by Teton from Gabelli & Co.

Teton paid GAMCO administration fees based on the average net assets of the Funds, amounting to \$296,350 and \$244,143 for the three month periods ended September 30, 2010 and 2009, respectively and \$862,885 and \$629,634 for the nine month periods ended September 30, 2010 and 2009, respectively. Teton also paid GAMCO reimbursement for compensation, which amounted to \$199,653 and \$110,713 for the three month periods ended September 30, 2010 and 2009, respectively, and \$493,633 and \$226,341 for the nine month periods ended September 30, 2010 and 2009, respectively.

## Teton Advisors, Inc.

### Notes to Condensed Financial Statements (continued)

#### **B. Related Party Transactions (continued)**

Teton pays Westwood Management Corp a sub-advisory fee of 35% of net revenues of Funds for which Westwood acts as the sub-advisor. The percentage of net revenues is defined as advisory fees less 20 basis points for administrative fees, after certain expenses are paid by Teton to the Funds. The fees amounted to \$131,265 and \$161,592 for the three month periods ended September 30, 2010 and 2009, respectively, and \$431,958 and \$462,014 for the nine month periods ended September 30, 2010 and 2009, respectively. Westwood Management Corporation is owned 100% by Westwood Holdings Group as of September 30, 2010.

The Company serves as the investment adviser for the Funds and a separate account and earns advisory fees based on predetermined percentages of the net average assets of the Funds and the net assets at the beginning of the quarter for the separate account. Advisory fees earned from the Funds and separate account were \$1,411,816 and \$1,122,479 for the three month periods ended September 30, 2010 and 2009, respectively, and \$4,108,127 and \$3,030,478 for the nine month periods ended September 30, 2010 and 2009, respectively. Advisory fees receivable from the Funds were \$448,360 and \$395,968 at September 30, 2010 and December 31, 2009, respectively.

The Company has receivables from the Funds of \$11,588 and \$45,823, which are included in other assets in the condensed statements of financial condition, at September 30, 2010 and December 31, 2009, respectively, relating to reimbursement of shareholder servicing costs associated with No Transaction Fee (“NTF”) programs.

Teton’s receivables and payables to affiliates at September 30, 2010 and December 31, 2009 are non-interest bearing and are receivable and payable on demand. At September 30, 2010 and December 31, 2009, the amount payable to GAMCO was \$181,745 and \$138,279, respectively, and the amount payable to Westwood Management Corporation was \$41,990 and \$55,169, respectively. At September 30, 2010, the amount payable to Gabelli & Company was \$1,517. At December 31, 2009, the amount receivable from Gabelli & Company was \$6,580.

#### **C. Indemnifications**

In the ordinary course of business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on its history and experience, the Company believes that the likelihood of any such event is remote.

## Teton Advisors, Inc.

### **MANAGEMENT'S DISCUSSION OF OPERATIONS**

The following discussion should be read in conjunction with the condensed financial statements and the notes thereto.

#### **Operating Results for the Quarter Ended September 30, 2010 as Compared to the Quarter Ended September 30, 2009**

##### ***Revenues***

Total revenues were \$1,412,039 in the third quarter of 2010, \$289,347 or 25.8% higher than the total revenues of \$1,122,692 in the third quarter of 2009. The change in total revenues by revenue component was as follows:

(unaudited)	<b>For the Three Months ended September 30,</b>		<b>Increase (decrease)</b>	
	<b>2010</b>	<b>2009</b>	<b>\$</b>	<b>%</b>
Investment advisory fees	\$ 1,411,816	\$ 1,122,479	\$ 289,337	25.8%
Other income	223	213	10	4.7
Total revenues	<u>\$ 1,412,039</u>	<u>\$ 1,122,692</u>	<u>\$ 289,347</u>	25.8%

***Investment Advisory Fees:*** Investment advisory fees are directly influenced by the level and mix of assets under management ("AUM"). Teton earns advisory fees based on the average AUM in the Funds and the AUM at the beginning of the quarter for the separate account.

Investment advisory fees were \$1,411,816 for the period ended September 30, 2010 compared to \$1,122,479 for the period ended September 30, 2009, an increase of \$289,337, or 25.8%.

AUM increased to \$666.9 million at September 30, 2010 from \$580.4 million at June 30, 2010. This increase was due to market appreciation of \$57.5 million and inflows of \$72.3 million, offset partially by outflows of \$43.3 million.

AUM increased to \$542.0 million at September 30, 2009 from \$442.8 million at June 30, 2009. This increase was due to market appreciation of \$60.4 million and inflows of \$78.6 million, offset partially by outflows of \$39.8 million.

## Teton Advisors, Inc.

*Other income:* Other income includes interest income earned from cash equivalents that were invested in a money market mutual fund managed by Gabelli Funds, LLC, a subsidiary of GAMCO. Other income for the third quarter of 2010 was \$223, slightly higher than the \$213 for 2009 due to higher average cash equivalent balances held in 2010, offset slightly by lower interest rates in 2010 versus 2009.

### *Expenses*

*Sub-advisory Fees:* Teton has currently retained a sub-adviser for three of the six Funds. Sub-advisory fees, which are 35% of the net investment advisory revenues of the sub-advised funds and are recognized as expenses as the related services are performed, were \$131,265 for the third quarter of 2010, decreasing from \$161,592 in the prior year period. This decrease was primarily due to the decrease of investment advisory revenue from the three Funds of 16.2%.

*Administrative Fees:* Administrative expenses, which are charges from GAMCO and paid by Teton for administration of the Fund activities performed by GAMCO on behalf of Teton, were \$296,350 for the three months ended September 30, 2010, a 21.4% increase from \$244,143 in the prior year period.

*Compensation:* Compensation costs, which include stock based compensation, salaries and portfolio manager compensation, was \$484,093 for the third quarter of 2010, a 68.5% increase from \$287,232 in the year ago period. Stock based compensation was \$41,595 in both the third quarter of 2010 and 2009. Fixed compensation costs increased to \$181,816 for the third quarter of 2010 from \$134,923 in the prior year period. The remainder of the compensation expenses represents variable portfolio manager compensation that fluctuates with net investment advisory revenues, which is defined as advisory fees less certain expenses. For the 2010 period, portfolio manager compensation was \$260,682, an increase of \$149,969 from the \$110,713 in the prior year period. The primary driver of this increase was an increase in average AUM, which generates investment advisory fees, for the Funds in which portfolio manager compensation is based.

*Distribution costs and expense reimbursements:* Distribution costs, which are principally related to the sale of shares of open-end mutual funds, and expense reimbursements were \$213,375 for the third quarter of 2010, increasing \$146,072 from \$67,303 in the prior year period.

## Teton Advisors, Inc.

Distribution costs are broken down into two categories, payments made to third party distributors for Funds sold through them, including their no transaction fee programs, and expenses either paid to or reimbursed from Gabelli & Company for distribution of the Funds. Expenses paid to third parties were \$163,562 during the 2010 period, an increase of \$129,805 from the prior year amount of \$33,757. The arrangement between Teton and Gabelli & Company is that Teton will reimburse Gabelli & Company for any distribution costs in excess of Gabelli & Company's distribution revenues. Conversely, if the distribution revenues of Gabelli & Company exceed the costs, such excess is reimbursed to Teton. For the three months ended September 30, 2010 and 2009, Gabelli & Company reimbursed Teton \$14,348 and \$16,383, respectively, a decrease of \$2,034. This decrease to Teton was due to one of the Funds ceasing reimbursements during the 2010 period as the cumulative amounts paid back by Gabelli & Company to Teton equaled the cumulative amounts previously reimbursed by Teton to Gabelli & Company.

Expense reimbursements to the Funds were \$64,161 for the third quarter of 2010, an increase of \$14,232 from the prior year period amount of \$49,929.

*Other:* General and administrative expenses, including those charged by GAMCO and incurred directly, were \$124,912 for the third quarter of 2010, an increase of \$27,622 from the year ago amount of \$97,290. The largest component of this increase was \$18,391 relating to travel and meeting expenses.

### ***Income Taxes***

The effective tax rate was 34.3% for the quarter ended September 30, 2010, versus 34.4% for the quarter ended September 30, 2009.

### ***Net Income***

Net income for the third quarter of 2010 was \$106,437 or \$0.09 per fully diluted share versus \$173,889 or \$0.16 per fully diluted share for the 2009 period.

Teton Advisors, Inc.

**Operating Results for the Nine months Ended September 30, 2010 as Compared to the Nine months Ended September 30, 2009**

***Revenues***

Total revenues were \$4,108,682 for the nine months ended September 30, 2010, \$1,076,405 or 35.5% higher than the total revenues of \$3,032,277 for the nine months ended September 30, 2009. The change in total revenues by revenue component was as follows:

(unaudited)	<b>For the Nine Months ended September 30,</b>		<b>Increase (decrease)</b>	
	<b>2010</b>	<b>2009</b>	<b>\$</b>	<b>%</b>
Investment advisory fees	\$ 4,108,127	\$ 3,030,478	\$ 1,077,649	35.6%
Other income	555	1,799	(1,244)	(69.1)
<b>Total revenues</b>	<b>\$ 4,108,682</b>	<b>\$ 3,032,277</b>	<b>\$ 1,076,405</b>	<b>35.5%</b>

***Investment Advisory Fees:*** Investment advisory fees are directly influenced by the level and mix of assets under management (“AUM”). Teton earns advisory fees based on the average AUM in the Funds and the AUM at the beginning of the quarter for the separate account.

Investment advisory fees were \$4,108,127 for the nine months ended September 30, 2010 compared to \$3,030,478 for the nine months ended September 30, 2009, an increase of \$1,077,649, or 35.6%.

AUM increased to \$666.9 million at September 30, 2010 from \$560.5 million at December 31, 2009. This increase was due to market appreciation of \$45.2 million and inflows of \$195.1 million, offset partially by outflows of \$133.9 million.

AUM increased to \$542.0 million at September 30, 2009 from \$449.8 million at December 31, 2008. This increase was due to market appreciation of \$59.4 million and inflows of \$150.9 million, offset partially by outflows of \$118.1 million.

## Teton Advisors, Inc.

Other income: Other income includes interest income earned from cash equivalents that were invested in a money market mutual fund managed by Gabelli Funds, LLC, a subsidiary of GAMCO. Other income for the nine months ended September 30, 2010 was \$555, down from the \$1,799 for 2009 due to lower average cash equivalent balances held in 2010 and lower interest rates in 2010 versus 2009.

### Expenses

Sub-advisory Fees: Teton has currently retained a sub-adviser for three of the six Funds. Sub-advisory fees, which are 35% of the net investment advisory revenues of the sub-advised funds and are recognized as expenses as the related services are performed, were \$431,958 for the nine months ended September 30, 2010, increasing from \$462,014 in the prior year period. This increase was primarily due to the increase of investment advisory revenue from the three Funds of 5.5%.

Administrative Fees: Administrative expenses, which are charges from GAMCO and paid by Teton for administration of the Fund activities performed by GAMCO on behalf of Teton, were \$862,885 for the nine months ended September 30, 2010, a 37.0% increase from \$629,634 in the prior year period.

Compensation: Compensation costs, which include stock based compensation, salaries and portfolio manager compensation, was \$1,348,631 for the nine months ended September 30, 2010, a 84.8% increase from \$729,824 in the year ago period. Stock based compensation was \$124,785 for the nine months ended September 30, 2010, increasing from \$88,557 for the nine months ended September 30, 2009. Fixed compensation costs increased to \$564,948 for the nine months ended September 30, 2010 from \$414,926 in the prior year period. The remainder of the compensation expenses represents variable portfolio manager compensation that fluctuates with net investment advisory revenues, which is defined as advisory fees less certain expenses. For the 2010 period, portfolio manager compensation was \$658,898, an increase of \$432,557 from the \$226,341 in the prior year period. The primary driver of this increase was an increase in average AUM, which generates investment advisory fees, for the Funds in which portfolio manager compensation is based.

Distribution costs and expense reimbursements: Distribution costs, which are principally related to the sale of shares of open-end mutual funds, and expense reimbursements were \$530,027 for the nine months ended September 30, 2010, increasing \$208,693 from \$321,334 in the prior year period.

## Teton Advisors, Inc.

Distribution costs are broken down into two categories, payments made to third party distributors for Funds sold through them, including their no transaction fee programs, and expenses either paid to or reimbursed from Gabelli & Company for distribution of the Funds. Expenses paid to third parties were \$424,989 during the 2010 period, an increase of \$326,540 from the prior year amount of \$98,449. The arrangement between Teton and Gabelli & Company is that Teton will reimburse Gabelli & Company for any distribution costs in excess of Gabelli & Company's distribution revenues. Conversely, if the distribution revenues of Gabelli & Company exceed the costs, such excess is reimbursed to Teton. For the nine months ended September 30, 2010 and 2009, Gabelli & Company reimbursed Teton \$74,942 and \$28,062, respectively, an increase of \$46,880. This increase to Teton was due to higher income earned by Gabelli & Company during the 2010 period as compared to the 2009 period.

Expense reimbursements to the Funds were \$179,980 for the nine months ended September 30, 2010, a decrease of \$70,967 from the prior year period amount of \$250,947.

*Other:* General and administrative expenses, including those charged by GAMCO and incurred directly, were \$348,093 for the nine months ended September 30, 2010, a decrease of \$338,590 from the year ago amount of \$686,683. The decrease primarily related to non recurring charges incurred for the nine months ended September 30, 2009 for the acquisition of the B.B. Micro Cap Growth Fund contract and the spin-off of \$363,669.

### ***Income Taxes***

The effective tax rate was 34.3% for the nine months ended September 30, 2010, versus 34.4% for the nine months ended September 30, 2009.

### ***Net Income (Loss)***

Net income for the first nine months of 2010 was \$385,475 or \$0.32 per fully diluted share versus \$133,003 or \$0.13 per fully diluted share for the 2009 period.