

Condensed Financial Statements  
Teton Advisors, Inc.  
Quarterly Report for the Period Ended September 30, 2012

Teton Advisors, Inc.

Condensed Financial Statements

Quarterly Report for Period Ended September 30, 2012

**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.....	10

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

	<b>Three months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Investment advisory fees	\$ 1,968,503	\$ 2,197,640
Distribution fees and other income	45,257	158,524
Other Income	112	-
Total revenues	<u>2,013,872</u>	<u>2,356,164</u>
<b>Expenses</b>		
Compensation	605,564	627,951
Marketing and administrative fees	318,604	345,556
Distribution costs and expense reimbursements	204,324	309,520
Advanced commissions	43,696	164,019
Sub-advisory fees	101,210	120,986
Other operating expenses	108,747	101,299
Total expenses	<u>1,382,145</u>	<u>1,669,331</u>
Income before income taxes	631,727	686,833
Income taxes	238,161	243,725
Net income	<u>\$ 393,566</u>	<u>\$ 443,108</u>
Net income per share:		
Basic	<u>\$ 0.39</u>	<u>\$ 0.40</u>
Diluted	<u>\$ 0.34</u>	<u>\$ 0.36</u>
Weighted average shares outstanding:		
Basic	<u>1,021,649</u>	<u>1,107,189</u>
Diluted	<u>1,147,798</u>	<u>1,235,964</u>

*See accompanying notes.*

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

	<b>Nine months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Investment advisory fees	\$ 6,004,448	\$ 6,626,070
Distribution fees and other income	230,072	376,522
Other income	168	1,634
Total revenues	<u>6,234,688</u>	<u>7,004,226</u>
<b>Expenses</b>		
Compensation	1,838,906	1,960,756
Marketing and administrative fees	972,192	1,039,836
Distribution costs and expense reimbursements	581,429	781,340
Advanced commissions	180,349	410,807
Sub-advisory fees	316,267	389,892
Other operating expenses	380,047	385,507
Total expenses	<u>4,269,190</u>	<u>4,968,138</u>
Income before income taxes	1,965,498	2,036,088
Income taxes	740,998	723,692
Net income	<u>\$ 1,224,500</u>	<u>\$ 1,312,396</u>
<b>Net income per share:</b>		
Basic	<u>\$ 1.15</u>	<u>\$ 1.23</u>
Diluted	<u>\$ 1.03</u>	<u>\$ 1.08</u>
<b>Weighted average shares outstanding:</b>		
Basic	<u>1,061,795</u>	<u>1,064,993</u>
Diluted	<u>1,186,174</u>	<u>1,220,006</u>

*See accompanying notes.*

Teton Advisors, Inc.

Condensed Statements of Financial Condition

	<b>September 30,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
ASSETS	(Unaudited)	(Audited)
Cash and cash equivalents	\$ 1,711,206	\$ 2,715,895
Investment advisory fees receivable	616,952	647,293
Deferred tax asset	6,723	9,380
Receivable from affiliates	14,903	40,844
Contingent deferred sales commission	79,602	132,939
Other assets (net of accumulated depreciation of \$12,648 and \$9,101, respectively)	83,199	126,325
Total assets	<u>2,512,585</u>	<u>3,672,676</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Payable to affiliates	411,586	373,188
Deferred tax liability	60,103	103,455
Income tax payable	36,138	673,925
Compensation payable	32,718	435
Dividends payable	220,135	1,005,289
Distribution costs payable	123,087	198,461
Professional fees payable	21,726	31,560
Accrued expenses and other liabilities	38,360	61,614
Total liabilities	943,853	2,447,927
Stockholders' equity:		
Class A Common stock, \$0.001 par value; 1,200,000 shares authorized; 971,347 and 971,315 issued, respectively; 871,347 and 971,315 outstanding, respectively	788	789
Class B Common stock, \$0.001 par value; 800,000 shares authorized; 792,000 shares issued; 332,895 and 332,927 shares outstanding, respectively	342	341
Additional paid-in capital	515,117	445,634
Treasury stock, at cost (108,000 shares and 8,000 shares, respectively)	(958,120)	(8,120)
Retained earnings	2,010,605	786,105
Total stockholders' equity	<u>1,568,732</u>	<u>1,224,749</u>
Total liabilities and stockholders' equity	<u>\$ 2,512,585</u>	<u>\$ 3,672,676</u>

*See accompanying notes.*

Teton Advisors, Inc.  
Condensed Statements of Stockholders' Equity  
(Unaudited)  
For the Nine Months Ended September 30, 2012

	<b>Common Stock Class A</b>	<b>Common Stock Class B</b>	<b>Additional Paid-in Capital</b>	<b>Treasury Stock</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at December 31, 2011	\$ 789	\$ 341	\$ 445,634	\$ (8,120)	\$ 786,105	\$ 1,224,749
Net income	-	-	-	-	1,224,500	1,224,500
Purchase of treasury stock	-	-	-	(950,000)	-	(950,000)
Conversion of Shares	(1)	1	-	-	-	-
Stock based compensation	-	-	69,483	-	-	69,483
Balance at September 30, 2012	<u>\$ 788</u>	<u>\$ 342</u>	<u>\$ 515,117</u>	<u>\$ (958,120)</u>	<u>\$ 2,010,605</u>	<u>\$ 1,568,732</u>

*See accompanying notes.*

Teton Advisors, Inc.  
Condensed Statements of Cash Flows  
(Unaudited)

	<b>ine months ended September 3</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Net income	\$ 1,224,500	\$ 1,312,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,548	2,330
Deferred income tax	2,657	(129,528)
Amortization of deferred sales commission	180,349	410,807
Stock based compensation expense	69,483	110,366
(Increase) decrease in operating assets:		
Investment advisory fees receivable	30,341	(29,980)
Income tax receivable	-	56,317
Receivable from affiliates	25,941	(27,834)
Contingent deferred sales commission	(127,012)	(484,113)
Other assets	39,578	(32,760)
Increase (decrease) in operating liabilities:		
Payable to affiliates	38,398	(207,285)
Income tax payable	(637,787)	539,101
Deferred tax liability	(43,352)	134,582
Compensation payable	32,283	112,782
Distribution costs payable	(75,374)	176,649
Professional fees payable	(9,834)	8,649
Accrued expenses and other liabilities	(23,254)	(1,430)
Total adjustments	(494,035)	638,653
Net cash provided by operating activities	730,465	1,951,049
<b>Cash flows from financing activities</b>		
Distribution paid	-	(39,565)
Net cash used in financing activities	-	(39,565)
Decrease in financing activities:		
Stock repurchased	(950,000)	-
Dividends paid	(785,154)	-
Net cash used in operating activities	(1,735,154)	-
Net (decrease) increase in cash and cash equivalents	(1,004,689)	1,911,484
Cash and cash equivalents at beginning of year	2,715,895	283,119
Cash and cash equivalents at end of the period	<u>\$ 1,711,206</u>	<u>\$ 2,194,603</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 1,395,701</u>	<u>\$ 101,250</u>
<i>See accompanying notes.</i>		

## Teton Advisors, Inc.

### Notes to Condensed Financial Statements

September 30, 2012

#### **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.

On April 20, 2012, the Board of Directors entered into a Stock Repurchase and Option agreement (“Agreement”), with Westwood Holdings Group, Inc. (“Westwood”). Under the terms of the Agreement, Teton repurchased 100,000 shares of its stock from Westwood at a price of \$9.50 per share. Further, Westwood has granted Teton the right (option) to purchase an additional 100,000 shares, held by Westwood, at a price of \$9.50 per share anytime on or before December 31, 2012.

##### *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

## Teton Advisors, Inc.

### Notes to Condensed Financial Statements (continued)

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

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, 2011. 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, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

#### **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, 2012 and December 31, 2011, Teton had \$1,710,283 and \$2,714,895, respectively, in this money market fund and earned \$112 and \$0 for the three month periods ended September 30, 2012 and September 30, 2011, respectively, and \$168 and \$243 for the nine month periods ended September 30, 2012 and 2011, respectively, which are included in other income.

Effective August 1, 2011, G.distributors, LLC ("G.distributors"), an affiliate of Teton, serves as the principal distributor for the Funds. As distributor, G.distributors incurs certain promotional and distribution costs, which are expensed as incurred, related to the sale of Fund shares. Gabelli & Company, Inc. ("Gabelli & Co."), also an affiliate of Teton, was the distributor for the Funds until July 31, 2011, received reimbursements from Teton in connection with these distribution activities to the extent such costs exceed distribution fees received from the Funds managed by Teton on a fund-by-fund basis. In connection with its role as distributor, Teton received from Gabelli & Co. \$42 and paid \$3,835 for the three months ended September 30, 2012 and September 30, 2011, 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. \$539 and paid \$2,288 for the nine months ended September 30, 2012 and 2011, respectively, of previously paid reimbursed distribution expenses. As of September 30, 2012 and December 31, 2011, there was \$0 and \$142,465, respectively, contingently receivable by Teton from Gabelli & Co., representing the net accumulated reimbursements paid by Teton to Gabelli & Co. since the inception of each of the Funds calculated on an individual Fund basis. The agreement ceased in July 2012 when the CDSC assets fully amortized.

Teton paid GAMCO administration fees based on the average net assets of the Funds, amounting to \$318,604 and \$345,557 for the three month periods ended September 30, 2012

## Teton Advisors, Inc.

### Notes to Condensed Financial Statements (continued)

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

and September 30, 2011, respectively, and \$972,192 and \$1,039,836 for the nine month periods ended September 30, 2012 and September 30, 2011, respectively. Teton also paid GAMCO reimbursement for compensation, which amounted to \$223,971 and \$205,628 for the three month periods ended September 30, 2012 and September 30, 2011, respectively, and \$873,918 and \$719,348 for the nine month periods ended September 30, 2012 and September 30, 2011, respectively.

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 \$101,210 and \$120,986 for the three month periods ended September 30, 2012 and September 30, 2011, respectively, and \$316,267 and \$389,892 for the nine month periods ended September 30, 2012 and September 30, 2011, respectively. Westwood Management Corporation is a wholly owned subsidiary of Westwood Holdings Group at September 30, 2012.

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 daily 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 \$1,968,503 and \$2,197,640 for the three month periods ended September 30, 2012 and September 30, 2011, respectively, and \$6,004,448 and \$6,626,070 for the nine month periods ended September 30, 2012 and September 30, 2011, respectively. Advisory fees receivable from the Funds were \$616,952 and \$647,293 at September 30, 2012 and December 31, 2011, respectively.

The Company has receivables from the Funds of \$0 and \$50,503 which are included in other assets in the condensed statements of financial condition, at September 30, 2012 and December 31, 2011, 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, 2012 and December 31, 2011 are non-interest bearing and are receivable and payable on demand. At September 30, 2012 and December 31, 2011, the amount payable to GAMCO was \$288,504 and \$277,546, respectively, and the amount payable to Westwood Management Corporation was \$33,114 and \$37,826, respectively.

## Teton Advisors, Inc.

### Notes to Condensed Financial Statements (continued)

#### **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.

#### **D. Subsequent Events**

On October 2, 2012 Teton Advisors, Inc. announced that effective October 1, 2012 the six GAMCO Westwood funds have been renamed the TETON Westwood Funds.

On October 15, 2012, Teton Advisors, Inc. added a Mid-Cap Equity Portfolio Management team. The team will be managing an initial portfolio of \$400 million.

On October 23, 2012 in accordance with the terms of the Agreement, Teton Advisors, Inc. purchased from Westwood the remaining 100,000 shares held by Westwood, at a price of \$9.50 per share.

## 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, 2012 as Compared to the Quarter Ended September 30, 2011**

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

Total revenues were \$2,013,872 in the third quarter of 2012, \$342,292 or 14.5% lower than the total revenues of \$2,356,164 in the third quarter of 2011. 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>2012</b>	<b>2011</b>	<b>\$</b>	<b>%</b>
Investment advisory fees	\$ 1,968,503	\$ 2,197,640	\$ (229,137)	-10.4%
Distribution fees and other income	45,257	158,524	(113,267)	-71.5%
Other Income	112	-	112	0.0%
<b>Total revenues</b>	<b>\$ 2,013,872</b>	<b>\$ 2,356,164</b>	<b>\$ (342,292)</b>	<b>-14.5%</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 accounts. Investment advisory fees were \$1,968,503 for the period ended September 30, 2012 compared to \$2,197,640 for the period ended September 30, 2011, a decrease of \$229,137 or 10.4%.

AUM increased to \$842.8 million at September 30, 2012 from \$836.4 million at June 30, 2012. This increase was due to inflows of \$30.4 million and market appreciation of \$38.9 million, partially offset by outflows of \$62.9 million. Average AUM was \$835.9 million for the third quarter 2012, a decrease of 9.3% from \$921.6 million in the third quarter 2011.

AUM decreased to \$803.7 million at September 30, 2011 from \$1,009.3 million at June 30, 2011. This decrease was due to market depreciation of \$157.4 and outflows of \$108.3million, offset partially by \$60.1 million of inflows.

## Teton Advisors, Inc.

Distribution fees: Teton earns a distribution fee on the Class C shares of Funds sold over the first twelve months after the sale. Distribution fees for the third quarter of 2012 and 2011 were \$45,257 and \$158,524, respectively.

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 2012 for interest earned from cash equivalents was \$112. There was no interest income in the third quarter of 2011.

### ***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 \$101,210 for the third quarter of 2012, decreasing from \$120,986 in the comparable prior year period. This decrease was primarily due to a 12.7% decline in investment advisory revenue from the three sub-advised Funds. Average AUM in the three sub-advised Funds, the key driver to investment advisory revenue, was \$195.2 million for the third quarter of 2012, 11.2% lower than the prior year period average of \$219.7 million.

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 \$318,604 for the three months ended September 30, 2012, a 7.8% decrease from \$345,557 in the comparable prior year period. Effective January 1, 2011, the Company and GAMCO renegotiated the sub-administration contract to be based on a tiered formula as opposed to a fixed rate. Based on the tiered formula administration fees were approximately 15.7 basis points of the average AUM for the third quarter 2012 versus 15.2 basis points of the average AUM for the third quarter 2011.

Compensation: Compensation costs, which include stock based compensation and salaries and portfolio manager compensation, was \$605,563 for the third quarter of 2012, a 3.6% decrease from \$627,951 in the year ago period. Stock based compensation was \$23,161 for the third quarter of 2012 and \$27,176 for the third quarter of 2011. Fixed compensation costs decreased to \$159,460 for the third quarter of 2012 from \$163,288 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 2012 period, portfolio manager compensation was \$422,942, a decrease of \$14,545 from the \$437,487 in the prior year period. The primary driver for this decrease was a decline in average AUM, which generates investment advisory fees, for the Funds in which portfolio manager compensation is based.

## Teton Advisors, Inc.

*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 \$204,324 for the third quarter of 2012, decreasing \$105,196 from \$309,520 in the prior year period.

Distribution costs are broken down into two categories, payments made to third party distributors for Funds sold through them, including 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 \$149,606 during the 2012 period, a decrease of \$108,521 from the prior year amount of \$258,127. 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, 2012 and September 30, 2011, Gabelli & Company reimbursed Teton \$42, and Teton reimbursed Gabelli & Company \$3,835 a decrease of \$3,877.

Expense reimbursements to the Funds were \$54,760 for the third quarter of 2012, an increase of \$7,202 from the prior year period amount of \$47,558.

*Other:* General and administrative expenses, including those charged by GAMCO and incurred directly, were \$108,748 for the third quarter of 2012, an increase of \$7,449 from the year ago amount of \$101,299.

### ***Income Taxes***

The effective tax rate was 37.7% for the quarter ended September 30, 2012, versus 35.5% for the quarter ended September 30, 2011.

### ***Net Income***

Net income for the third quarter of 2012 was \$393,566 or \$0.34 per fully diluted share versus \$443,108 or \$0.36 per fully diluted share for the 2011 period.

## 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 Nine months Ended September 30, 2012 as Compared to the Nine months Ended September 30, 2011**

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

Total revenues were \$6,234,688 for the nine months ended September 30, 2012, \$769,538 or 11% lower than the total revenues of \$7,004,226 for the nine months ended September 30, 2011. 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>2012</b>	<b>2011</b>	<b>\$</b>	<b>%</b>
Investment advisory fees	\$ 6,004,448	\$ 6,626,070	\$ (621,622)	-9.4%
Distribution fees and other income	230,072	376,522	(146,450)	-38.9%
Other Income	168	1,634	(1,466)	-89.7%
Total revenues	<u>\$ 6,234,688</u>	<u>\$ 7,004,226</u>	<u>\$ (769,538)</u>	-11.0%

***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 accounts. Investment advisory fees were \$6,004,448 for the period ended September 30, 2012 compared to \$6,626,070 for the period ended September 30, 2011, a decrease of \$621,622, or 9.4%.

AUM were \$842.8 million as of September 30, 2012, 4.9% more than September 30, 2011 AUM of \$803.7 million and 0.8% more than June 30, 2012 AUM of \$836.4 million. Average AUM were \$854.7 million as of September 30, 2012, 9.0% less than the \$939.3 million for the same period of 2011.

AUM was \$842.8 million at September 30, 2012 \$2.7 million below the AUM level of \$845.5 million at December 31, 2011. This decrease was due to outflows of \$238.1 million, partially offset by inflows of \$149.5 million and market appreciation of \$85.9 million.

## Teton Advisors, Inc.

Distribution fees: Teton earns a distribution fee on the Class C shares of Funds sold over the first twelve months after the sale. Distribution fees for the nine months ended September 30, of 2012 and 2011 were \$230,072 and \$376,522, respectively.

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 and interest received on an IRS refund. Other income for the nine months ended September 30, 2012 for interest earned from cash equivalents was \$168, slightly lower than the \$243 for 2011 due to lower interest rates in 2012 versus 2011. The remaining interest income for the 2011 period was \$1,391 from an IRS refund.

### 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 \$316,267 for the nine months ended September 30, 2012, down from \$389,892 in the comparable prior year period. This decrease was primarily due to a 16.7% decline in investment advisory revenue from the three sub-advised Funds. Average AUM in the three sub-advised Funds, the key driver to investment advisory revenue, was \$603.0 million for the nine months ended September 30, 2012, 15.6% lower than the prior year period average of \$714.2 million.

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 \$972,192 for the nine months ended September 30, 2012, a 6.5% decrease from \$1,039,836 in the comparable prior year period. Effective January 1, 2011, the Company and GAMCO renegotiated the sub-administration contract to be based on a tiered formula as opposed to a fixed rate. Based on the tiered formula administration fees were approximately 15.7 basis points of the average AUM for nine months ended September 30, 2012 versus 15.3 basis points of the average AUM for the nine months ended September 30, 2011.

Compensation: Compensation costs, which include stock based compensation and salaries and portfolio manager compensation, was \$1,838,906 for the nine months ended September 30, 2012, a 6.2% decrease from \$1,960,756 in the year ago period. Stock based compensation was \$69,483 for the nine months ended September 30, 2012 a decrease of \$40,884 from the \$110,366 for the nine months ended September 30, 2011. Fixed compensation costs decreased to \$494,176 for the nine months ended September 30, 2012 from \$487,495 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 2012 period, portfolio manager compensation was \$1,275,247, a decrease of \$87,647 from the \$1,362,895 in the prior year period. The primary driver of

## Teton Advisors, Inc.

Compensation (continued): this decrease was a decrease 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 \$581,429 for the nine months ended September 30, 2012, decreasing \$199,911 from \$781,340 in the prior year period.

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 \$429,559 during the 2012 period, a decrease of \$231,507 from the prior year amount of \$661,066. 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, 2012, Gabelli & Company reimbursed Teton \$539 and conversely for the nine months ended September 30, 2011 Teton reimbursed Gabelli & Company \$2,288 a decrease of \$2,827.

Expense reimbursements to the Funds were \$152,409 for the nine months ended September 30, 2012, an increase of \$34,423 from the prior year period amount of \$117,986.

Other: General and administrative expenses, including those charged by GAMCO and incurred directly, were \$380,047 for the nine months ended September 30, 2012, a decrease of \$5,460 from the year ago amount of \$385,507.

### ***Income Taxes***

The effective tax rate was 37.7% for the nine months ended September 30, 2012, versus 35.5% for the nine months ended September 30, 2011.

### ***Net Income***

Net income for the first nine months of 2012 was \$1,224,500 or \$1.03 per fully diluted share versus \$1,312,396 or \$1.08 per fully diluted share for the 2011 period.