



## **2015 ANNUAL REPORT**



April 1, 2016

## **Teton Advisors 2015 Shareholder Letter**

Dear Shareholders,

In 2015, Teton Advisors, Inc. (OTC Pink: TETAA) ended the year with \$1.5 billion in assets under management (AUM), compared to \$374 million in March 2009 when Teton was spun off from GAMCO Investors, Inc (NYSE: GBL). Teton generated revenue of \$17.2 million versus \$19.2 million in 2014, operating income of \$6.4 million (37% of gross revenue), versus \$6.7 million (35% of gross revenue) a year ago and net income of \$4.0 million compared to \$4.3 million in 2014. Diluted earnings per share were \$3.65 for 2015 versus \$3.87 a year ago. Since our spin off, we have returned significant capital to our shareholders with the payment of \$3.10 per share in dividends for \$3.6 million and the repurchase of 208,254 shares, an investment of \$2.3 million.

2015 was a most challenging year. Stocks had their worst performance since 2008. Amid a series of sharp selloffs and rallies focused around the Federal Reserve's interest rate actions, the S&P 500 ended the year up 1.4%. Small cap stocks were weak, with the Russell 2000 Index declining 4.4% for the year. European, Asian and emerging market bourses were hit hard as well, with the exception being the Japanese Nikkei which ended the year up 9.1%. As we entered 2016, global stock markets continued their declines amid worries over China, oil, the U.S. Economy and presidential politics.

The publicly traded equities of the traditional and alternative asset managers significantly underperformed the broader markets in 2015. A major headwind for traditional long only active managers is a shift toward passive investing and ETFs. According to the Investment Company Institute (ICI), domestic equity mutual funds experienced \$170 billion of net outflows in 2015. Domestic exchange traded funds (ETFs), meanwhile, garnered \$61 billion in net flows. The struggle of active managers to maintain relevance in an increasingly passive market is real. Financial advisors, with their fee based business models, seek the cheapest exposure to equities by promoting ETFs in their asset allocation portfolios. Asset management consultant Casey Quirk projects that over the next five years there will be \$2 trillion in outflows worldwide from traditional active investing, concurrent with a shift of \$1 trillion into passive strategies and \$4 trillion into new active strategies, such as multi-asset, unconstrained equity and real estate. Our goal is to remain ahead of this curve by focusing on the inefficient sectors of the market.

The extreme volatility of global markets posed formidable challenges for our industry in 2015. Since our spinoff from GAMCO, Teton has weathered a bear market brought on by 2008's financial crisis, a dramatic recovery in the ensuing years, and most recently, a severe stock market correction triggered by fears over a slowdown in China's growth. As a predominantly long-only equities asset manager, we understand the necessity of having an efficient platform and strong operating margins so that during periods of capital market weakness and declining assets under management (AUM), we avoid operating losses. Our business has not only persevered, but grown in challenging environments. We believe we are entering an opportune period where our unique focus on micro, small and mid cap equity strategies will create potential investment mandates from endowments, foundations, public and corporate plan sponsors.

Our long term goal for Teton is to build a multi-strategy asset management platform with emphasis on the capacity constrained, inefficiently priced sectors of the market. We continue to explore adding new special situation strategies to our product offerings. We are broadening retail distribution of our mutual funds, and have a focused effort to attract institutional mandates. Our family of seven TETON Westwood (TW) Mutual Funds has compiled solid long-term investment results and is well positioned to capture significant inflows as retail investors shift their focus back to equities.

Industry consolidation should continue apace given increasing regulations and higher distribution hurdles. Global regulators are shifting their focus from banks to asset managers. The U.S. Securities and Exchange Commission

(SEC) will extend the Department of Labor fiduciary standards to firms distributing retail mutual funds. While large asset managers seek bolt-ons, lift outs and smaller acquisitions, non-U.S. financial firms may enter the fray to gain a foothold in the U.S. market. There were \$23.5 billion in asset management transactions in 2015. Private equity accounted for the largest transactions. Given that the actively managed segment of the asset management industry is struggling with organic topline growth, M&A could be one path to addressing that challenge. Valuation multiples for asset managers are under pressure with nearly every firm trading below its long term average price to earnings multiple (P/E). Most of the group trades below the S&P 500 P/E. Despite the emergence of a few large firms in the last 20 years, asset management industry concentration is modest compared with other financial service industries. Blackrock, for example, the world's largest, manages just 5% of worldwide assets under management, and the top 20 asset managers control just 20% of total worldwide AUM.

Despite the many challenges, there are a multitude of reasons supporting a long term bullish thesis on the asset management industry. The U.S. economy expanded at just 0.7% in the fourth quarter, that follows a revised 2% annualized rate in the third quarter, and a 3.9% advance in the second quarter. The jobless rate has fallen to 5.0%, with average gains in non-farm payrolls at just under 200,000 on a rolling three-month basis. U.S. consumer sentiment is close to an all-time high as evidenced by robust new home sales and auto sales. Fundamentals such as an improving job market and low borrowing costs should help to extend the recovery. China's leadership has announced aggressive fiscal and monetary policy accommodation. Japanese and European Central Banks continue to pursue massive quantitative easing campaigns to help jump start their slow growth economies. Emerging markets policy makers hope that they have witnessed the worst of capital outflows now that the U.S. Federal Reserve has finally raised interest rates to end the era of near zero borrowing costs. Even with a gradual hike cycle, the Fed should still maintain a very accommodative monetary policy likely into 2017.

We remain optimistic about the longer term prospects for the equity markets. While building an asset manager presents many challenges, the long term strategic and consolidation opportunities, coupled with organic growth, should enable us to achieve scale over the next three years.

Sincerely,



Nicholas F. Galluccio  
President and Chief Executive Officer  
Teton Advisors, Inc.

**Returns represent past performance and do not guarantee future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so, upon redemption, shares may be worth more or less than their original cost. To obtain the most recent month end performance information and a prospectus, please call 800-WESTWOOD or visit [www.tetonadv.com](http://www.tetonadv.com). Bonds, if held to maturity, have the ability to return the principal investment while stocks make no such offer. Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. The prospectus, which contains more complete information about this and other matters, should be read carefully before investing. You can obtain a free prospectus by calling 1-800-WESTWOOD (1-800-937-966), or contacting your financial representative or by visiting <http://www.tetonadv.com>. Teton Advisors' Mutual Funds are distributed by G. distributors, LLC. One Corporate Center, Rye, NY 10580. The Teton Mutual Funds are distributed by G.distributors, LLC., a registered broker-dealer and member of FINRA.**

#### **SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

Our disclosure and analysis in this document and any documents that are incorporated by reference 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. 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.

## **Teton Advisors, Inc.**

### **Annual Report for the Fiscal Year Ended December 31, 2015**

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## Forward-Looking Statements

*Our disclosure and analysis in this document and any documents that are incorporated by reference 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 Item 1A below and in our other public filings or in documents incorporated by reference here or in prior filings or reports.*

*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.*

## BUSINESS

Unless we have indicated otherwise, or the context otherwise requires, references in this report to “Teton,” “we,” “us,” “the Company” and “our” or similar terms are to Teton Advisors, Inc. and its predecessors.

### Business Description

Teton 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. Teton’s principal executive office is located at One Corporate Center, Rye, New York 10580 and our website is [www.tetonadv.com](http://www.tetonadv.com).

Teton was spun-off from GAMCO Investors, Inc. (“GAMCO”), which had a 42% ownership stake, on March 20, 2009. Teton began trading on September 16, 2009 at \$2.75 per share.

Teton is a registered investment advisor and serves as the investment manager for the TETON Westwood Funds (“Funds”), seven funds with assets under management (“AUM”) of \$1.2 billion at December 31, 2015.

The TETON Westwood Funds consist of the following seven funds:

- TETON Westwood Mighty Mites<sup>SM</sup> Fund
- TETON Westwood SmallCap Equity Fund
- TETON Westwood Mid-Cap Equity Fund
- TETON Westwood Income Fund
- TETON Westwood Equity Fund
- TETON Westwood Balanced Fund
- TETON Westwood Intermediate Bond Fund

Teton has retained Westwood Management Corporation, (“WMC”) a subsidiary of Westwood Holdings Group, Inc., a NYSE listed company, to act as sub-advisor for the TETON Westwood Balanced Fund, the TETON Westwood Equity Fund and the TETON Westwood Intermediate Bond Fund. The remainder of the Funds are advised directly by Teton.

Teton also manages two separate accounts with AUM of \$236.7 million at December 31, 2015.

G.distributors, LLC ("G.distributors"), an affiliate of Teton and a subsidiary of GAMCO, distributes the Funds pursuant to distribution agreements with each fund.

## **Business Strategy**

Our business strategy targets global growth of the franchise through continued leveraging of our proven asset management strengths including our brand name and long-term performance record.

**Open-End Funds:** Teton provides advisory services to the TETON Westwood family of funds, consisting of seven open-end funds, four of which are managed on a day-to-day basis by Teton, and three of which are sub-advised by Westwood Management Corp. AUM in open-end Funds were approximately \$1.2 billion at December 31, 2015, 25.0% below the \$1.6 billion of AUM at December 31, 2014.

On December 31, 2015, of the AUM in open-end Funds having an overall rating from Morningstar, Inc. ("Morningstar"), 52.5% ranked "five stars" or "four stars" and 95.3% were ranked "three stars" or better on an overall basis (i.e., derived from a weighted average of the performance figures associated with their three-, five-, and ten-year Morningstar Rating metrics). There can be no assurance, however, that these Funds will be able to maintain such ratings or that past performance will be indicative of future results.

At December 31, 2015, approximately 8.2% of our AUM in open-end, equity Funds had been obtained through G.distributors's direct sales relationships. G.distributors also sells our open-end Funds through third-party distribution programs, notably No Transaction Fee ("NTF") Programs, and has developed additional classes of shares for all of our Funds for sale through additional third-party distribution channels on a commission basis. At December 31, 2015, Third Party registered investment advisors accounted for approximately 67.6% of all AUM in open-end Funds and NTF programs accounted for 24.2%.

**Separate Accounts:** Beginning in 2009, we provided investment management services to separate account clients. At December 31, 2015, we had \$236.7 million of AUM in our separate account business, a decrease of \$314.8 million, from the \$551.5 million at December 31, 2014. In general, our separate accounts will be managed to meet the specific needs and objectives of each client. The investment advisory agreement for our separate account clients are subject to termination by the client without penalty on 30 days' notice.

Shareholders of the open-end Funds are allowed to exchange shares among the same class of shares of the other open-end Funds as well as the Gabelli/GAMCO open-end funds as economic and market conditions and investor needs change at no additional cost. However, as noted below, certain open-end Funds impose a 2% redemption fee on shares redeemed in seven days or less after a purchase. We periodically introduce new funds designed to complement and expand our investment product offerings, respond to competitive developments in the financial marketplace and meet the changing needs of investors.

We provide investment advisory and management services pursuant to an investment management agreement with each Fund. The investment management agreements with the Funds generally provide that we are responsible for the overall investment and administrative services, subject to the oversight of each Fund's Board of Directors or Trustees and in accordance with each Fund's fundamental investment objectives and policies. The investment management agreements permit us to enter into separate agreements for administrative and accounting services on behalf of the respective Funds.

Teton provides the Funds with administrative services pursuant to the management contracts. Such services include, without limitation, supervision of the calculation of net asset value, preparation of financial reports for shareholders of the Funds, internal accounting, tax accounting and reporting, regulatory filings and other services. Most of these administrative services are provided through sub-contracts with unaffiliated third parties. Teton has contracted GAMCO to provide certain administration services on its behalf. Transfer agency and custodial services are provided directly to the Funds by unaffiliated third parties.

Our Fund investment management agreements may continue in effect from year to year only if specifically approved at least annually by (i) the Funds' Board of Directors or Trustees or (ii) the Funds' shareholders and, in either case, the vote of a majority of the Fund's directors or trustees who are not parties to the agreement or "interested persons" of any such party, within the meaning of the Investment Company Act of 1940 as amended (the "Investment Company Act"). Each Fund may terminate its investment management agreement at any time upon 60 days' written notice by (i) a vote of the majority of the Board of Directors or Trustees cast in person at a meeting called for the purpose of voting on such termination or (ii) a vote at a meeting of shareholders of the lesser of either 67% of the voting shares represented in person or by proxy or 50% of the outstanding voting shares of such Fund. Each investment management agreement automatically terminates in the event of its assignment, as defined in the Investment Company Act. We may terminate an investment management agreement without penalty on 60 days' written notice.

## Assets Under Management

The following table sets forth total AUM by product type as of the year ended shown:

Assets Under Management By Product Type (Dollars in millions)						% Inc (Dec) 2015 / 2014
	2015	2014	2013	2012	2011	
Equities	\$ 1,456	\$ 2,102	\$ 2,003	\$ 1,236	\$ 825	-30.7%
Fixed Income	19	21	22	26	21	-9.5%
Total Assets Under Management	<u>\$ 1,475</u>	<u>\$ 2,123</u>	<u>\$ 2,025</u>	<u>\$ 1,262</u>	<u>\$ 846</u>	-30.5%

## Distribution and Marketing

In an effort to increase AUM, the marketing team at Teton is focused on major mutual fund industry distribution channels, which include the direct, advisory, supermarket, retirement and institutional channels. In the direct channel, investors carry out transactions directly with mutual fund companies, in many cases calling in orders through a 1-800 telephone number. In all other mutual fund channels, individuals use intermediaries to purchase funds on their behalf. The advisory channel consists of financial intermediaries which provide ongoing investment advice and monitoring. These include full-service brokerage firms, banks, insurance companies and financial planners. Advisors are compensated through sales loads or fees. In the fund supermarket channels, which have NTF programs, Teton serves as a business development and relationship manager. Through a service agreement with GAMCO Investors, Inc., Teton utilizes the G.distributors wholesaler and internal marketing force to gather assets in these three channels. Teton is similarly targeting the defined contribution retirement and institutional channels, which consists of corporations, endowments and foundations. Teton believes it is capable of serving all of these channels because its mutual funds have multiple share classes.

Teton is pursuing non mutual fund opportunities mainly in the small and mid cap equity asset classes. The marketing effort is focused on subadvisory and traditional separate accounts. The target market consists of insurance companies, commercial banks and institutions that rely on consultant due diligence and recommendations. Teton seeks to build strategic relationships with institutions and wealth management providers with whom the Teton management team has developed long-term relationships.

G.distributors, a subsidiary of GAMCO, distributes the Funds pursuant to distribution agreements with each fund. Under the distribution agreements, G.distributors offers and sells the Funds' shares on a continuous basis and pays all of the costs of marketing and selling the shares, including printing and mailing prospectuses and sales literature, advertising and maintaining sales and customer service personnel and sales and services fulfillment systems, and payments to the sponsors of third-party distribution programs, financial intermediaries and G.distributors sales personnel. G.distributors receives fees for such services pursuant to distribution plans adopted under provisions of Rule 12b-1 of the Investment Company Act of 1940, as amended.

Under the distribution agreements, the no-load Class AAA shares of the Funds pay .25% per year on the average daily net assets of the fund to G.distributors and the Class A shares of the Funds pay .35% or .50% per year on the average daily net assets of the fund. Class B and Class C shares have a Rule 12b-1 distribution plan with a service and distribution fee totaling 1%.

Most of the Funds have traditionally been distributed by using a variety of direct response marketing techniques, including telemarketing and advertising, and as a result Teton and G.distributors maintain direct relationships with many of the no-load TETON Westwood Fund shareholders. Beginning in late 1995, Teton expanded its product distribution by offering several of the Funds through third-party distribution programs, including NTF Programs. Third-party distribution programs have become an increasingly important source of asset growth for Teton. Of the \$1.2 billion of AUM in the Funds as of December 31, 2015, approximately \$298.5 million, or 24.2%, were generated through NTF Programs. In addition, at December 31, 2015, approximately 91.1% of the NTF Program net assets in the Funds are attributable to two NTF Programs. The fee paid to the NTF programs and in fee based accounts range from 0.25% to 0.40% of the AUM held through these programs. G.distributors, as the distributor of the Funds, pays the first 0.25% of any fees with Teton paying a portion of the fees in excess of 0.25%. In 2015, 2014 and 2013, Teton paid \$429,891, \$688,872 and \$485,542, respectively, for their share of these NTF programs. Remaining assets are held through full service broker dealers in fee based accounts or through retail accounts.

G.distributors' distribution agreements with the Funds may continue in effect from year to year only if specifically approved at least annually by (i) the Funds' Board of Trustees ("Board of Trustees") or (ii) the Funds' shareholders and, in either case, the vote of a majority of the trustees who are not parties to the agreement or "interested persons" of any such party, within the meaning of the Investment Company Act. Each Westwood Fund may terminate its distribution agreement, or any agreement thereunder, at any time upon 60 days' written notice by (i) a vote of the majority of the trustees cast in person at a meeting called for the purpose of voting on such termination or (ii) a vote at a meeting of shareholders of the lesser of either 67% of the voting shares represented in person or by proxy or 50% of the outstanding voting shares of such Fund. Each distribution agreement automatically terminates in the event of its assignment, as defined in the Investment Company Act. G.distributors may terminate a distribution agreement without penalty upon 60 days' written notice.

### **Investment Management Agreements**

Teton provides investment advisory and management services pursuant to investment management agreements with the Funds. The investment management agreements with the Funds generally provide that Teton is responsible for the overall investment and administrative services, subject to the oversight of the Board of Trustees and in accordance with each fund's fundamental investment objectives and policies. The administrative services include, without limitation, supervision of the calculation of net asset value, preparation of financial reports for shareholders of the Funds, internal accounting, tax accounting and reporting, regulatory filings and other services. Most of these administrative services are provided through sub-contracts with unaffiliated third parties. Transfer agency and custodial services are provided directly to the Funds by unaffiliated third parties.

The Funds' investment management agreements may continue in effect from year to year only if specifically approved at least annually by (i) the Funds' Board of Trustees or (ii) the Fund's shareholders and, in either case, the vote of a majority of the trustees who are not parties to the agreement or "interested persons" of any such party, within the meaning of the Investment Company Act. Each Westwood Fund may terminate its investment management agreement at any time upon 60 days' written notice by (i) a vote of the majority of the Board of Trustees cast in person at a meeting called for the purpose of voting on such termination or (ii) a vote at a meeting of shareholders of the lesser of either 67% of the voting shares represented in person or by proxy or 50% of the outstanding voting shares of such Westwood Fund. Each investment management agreement automatically terminates in the event of its assignment, as defined in the Investment Company Act. Teton may terminate an investment management agreement without penalty on 60 days' written notice.

Pursuant to the terms of these investment management agreements, neither Teton nor its officers, directors, employees, agents or controlling persons ("Teton Persons") are liable to the Funds for any act or omission or for any loss sustained by the Funds in connection with the matters to which the advisory agreement relates. However, Teton Persons are liable to the Funds under these agreements with respect to a loss resulting from willful misfeasance, bad faith or gross negligence in the performance of its duties, or by reason of its reckless disregard of its obligation and duties under the agreement. The investment management agreements also set forth certain indemnification rights for Teton, its employees, officers, directors and agents.

### **Sub-advisory Agreements**

Teton pays Westwood Management Corporation a sub-advisory fee of 35% of net revenues for the Balanced, Equity and Intermediate Bond Funds. "Net revenues" are defined as management fees less twenty basis points for mutual fund administration expenses (which are paid to GAMCO) and less expense reimbursements to the funds for which it serves as a sub-advisor. For 2015, 2014 and 2013, the sub-advisory fee paid to Westwood Management Corporation by Teton amounted to \$327,040, \$360,277 and \$371,675, respectively. This agreement may be terminated by Westwood Management Corporation on 60 days' prior written notice and may be terminated by the Funds or Teton on 60 days' prior written notice, provided that termination by the Funds must be approved by a majority of the Board of Trustees or the holders of a "majority of the voting securities" of the Funds.

### **Competition**

We compete with other investment management firms and mutual fund companies, insurance companies, banks, brokerage firms and other financial institutions that offer products that have similar features and investment objectives to those offered by us. Many of the investment management firms with which we compete are subsidiaries of large diversified financial companies and many others are much larger in terms of AUM and revenues and, accordingly, have much larger sales organizations and marketing budgets. Historically, we have competed primarily on the basis of the long-term investment performance of many of our investment products.



## **Regulation**

Virtually all aspects of our business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to protect investment advisory clients and shareholders of registered investment companies. Under such laws and regulations, agencies that regulate investment advisors and broker-dealers have broad administrative powers, including the power to limit, restrict or prohibit such an advisor or broker-dealer from carrying on its business in the event that it fails to comply with such laws and regulations. In such an event, the possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of the investment advisor and other registrations, censures, and fines. We believe that we are in substantial compliance with all material laws and regulations.

Our business is subject to regulation at both the federal and state level by the United States Securities and Exchange Commission ("SEC") and other regulatory bodies. Teton is registered with the SEC under the Investment Advisers Act of 1940 ("Investment Advisers Act"), and the Funds are registered with the SEC under the Investment Company Act of 1940. The Investment Advisers Act imposes numerous obligations on registered investment advisors including fiduciary duties, disclosure obligations and record keeping, operational and marketing requirements. The Commission is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act, ranging from censure to termination of an investment advisor's registration. The failure of the Company to comply with the requirements of the SEC could have a material adverse effect on us. We believe that we are in substantial compliance with the requirements of the regulations under the Investment Advisers Act.

We derive a substantial majority of our revenues from investment advisory services through our various investment management agreements. Under the Investment Advisers Act, our investment management agreements terminate automatically if assigned without the client's consent. Under the Investment Company Act, advisory agreements with registered investment companies such as our Funds terminate automatically upon assignment. The term "assignment" is broadly defined and includes direct as well as assignments that may be deemed to occur, under certain circumstances, upon the transfer, directly or indirectly, of a controlling interest in Teton.

Investments by Teton on behalf of our Funds often represent a significant equity ownership position in an issuer's class of stock. This activity raises frequent regulatory, legal, and disclosure issues regarding our aggregate beneficial ownership level with respect to portfolio securities, including issues relating to issuers' shareholder rights plans or "poison pills," state gaming laws and regulations, federal communications laws and regulations, public utility holding company laws and regulations, federal proxy rules governing shareholder communications and federal laws and regulations regarding the reporting of beneficial ownership positions. Our failure to comply with these requirements could have a material adverse effect on us.

The USA Patriot Act of 2001 contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers, mutual funds and other financial services companies, including standards for verifying client identification at account opening, and obligations to monitor client transactions and report suspicious activities. Anti-money laundering laws outside of the U.S. contain some similar provisions. Our failure to comply with these requirements could have a material adverse effect on us.

We are subject to the laws of non-U.S. jurisdictions and non-U.S. regulatory agencies or bodies. In particular, we are subject to requirements in numerous jurisdictions regarding reporting of beneficial ownership positions in securities issued by companies whose securities are publicly-traded in those countries.

## **Regulatory Matters**

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. Although we have installed procedures and utilize the services of experienced administrators, accountants and lawyers to assist us in adhering to regulatory guidelines and satisfying these requirements, and maintain insurance to protect ourselves in the case of client losses, there can be no assurance that the precautions and procedures that we have instituted and installed, or the insurance that we maintain to protect ourselves in case of client losses, will protect us from all potential liabilities.

## **Personnel**

On March 31, 2016, we had a full-time staff of nine individuals: a portfolio manager and CEO, three additional portfolio managers, two marketing and shareholder servicing professionals, two research analysts and a research associate. We also have four individuals that are employees of both Teton and GAMCO who perform portfolio management services. Additionally, through our Administrative Agreement with GAMCO, we are provided additional services including but not limited to trading, research, senior executive functions and general corporate management services, including strategic planning, investment banking and financial advisory services, supervision of certain tax and other regulatory matters; Mutual fund administration services; Treasury services, including insurance and risk management services and administration of benefits; Operational and general administrative assistance including office space, office equipment, administrative personnel, payroll, and procurement services as needed; Accounting and related financial services, legal, regulatory and compliance advice; and Human resources functions, including the retention of a Chief Compliance Officer, sourcing of permanent and temporary employees as needed, recordkeeping, performance reviews and terminations.

## **RISK FACTORS**

### **Business Risks**

*You should carefully consider the risks described below and all of the other information in this report in evaluating Teton. Teton's business, financial condition, cash flows and/or results of operations could be materially adversely affected by any of these risks.*

*This report also contains forward-looking statements that involve risks and uncertainties. Teton's actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including the risks faced by Teton described below, elsewhere in this report as well as other potential risks which we cannot currently identify or describe.*

### **Risks Related to the Business**

*Certain of our directors and officers may have actual or potential conflicts of interest because of their positions in GAMCO.*

Howard F. Ward is a portfolio manager and CIO of Growth Equities at GAMCO and serves as Chairman of our Board. Our Chief Financial Officer also serves as an executive officer of GGCP, Inc. In addition, most of our executive officers and employees will be provided by GAMCO, pursuant to the Administrative Agreement with Teton. These common directors could create, or appear to create, potential conflicts of interest when our and GAMCO's management and directors face decisions that could have different implications for the two companies.

Also, some of our directors, executive officers, portfolio managers and employees own shares of GAMCO common stock, options to purchase shares of GAMCO Class A common stock or other equity awards. This ownership may create, or, may create the appearance of, conflicts of interest. Mario J. Gabelli is deemed to control Teton by his ownership in Teton shares as well as through GGCP's ownership in Teton. GGCP is a private company controlled by Mr. Gabelli. Mr. Gabelli is the controlling shareholder of both Teton and GAMCO.

For example, potential conflicts of interest could arise in connection with the resolution of any dispute that may arise between GAMCO and Teton regarding the terms of the agreements governing the separation and the relationship thereafter between the companies. The officers of GAMCO who serve as directors or executive management of Teton may interpret these agreements to the benefit of GAMCO that would adversely affect the business of Teton.

In addition, GAMCO and Teton are both in the investment management business. The officers and executive officers of GAMCO who also serve as directors or executive management of Teton may make decisions in their GAMCO capacity that would adversely affect the business of Teton.

*Concerns about our prospects as a stand-alone company could affect our ability to attract and retain employees or individuals whom we are attempting to recruit as employees.*

Our employees or individuals whom we are attempting to recruit as employees may have concerns about our prospects as a stand-alone company, including our ability to maintain our independence and our inability to rely on GAMCO's resources after the spin-off. If we are not successful in assuring our employees or individuals whom we are attempting to recruit as employees of our prospects as

an independent company, our employees or recruits may seek other employment, which could materially adversely affect our business and our results of operations.

*We may experience increased costs resulting from decreased purchasing power, which could decrease our overall profitability.*

Prior to the spin-off, we were able to take advantage of GAMCO's size and purchasing power in procuring goods, services and technology, such as management information services, health insurance, pension and other employee benefits, payroll administration, risk management, tax and other services. As a separate, stand-alone entity, we may be unable to obtain similar goods, services and technology at prices or on terms as favorable as those obtained prior to the spin-off.

*We may have been able to receive better terms from unaffiliated third parties than the terms provided in our agreements with GAMCO and G.distributors.*

The agreements related to our separation from GAMCO, including the Separation Agreement, the Administrative Agreement, the sub-lease and the Service Mark and Name License Agreement, were negotiated in the context of our separation from GAMCO while we were still majority-owned by GAMCO. Likewise, our agreement with G.distributors, a subsidiary of GAMCO, to distribute shares of the Funds was entered into when we were still affiliated with G.distributors. Accordingly, such agreements may not reflect terms that would have been reached between unaffiliated parties. The terms of the agreements we negotiated in the context of our separation related to, among other things, indemnities and other obligations between GAMCO and us. Had these agreements been negotiated with unaffiliated third parties, they might have been more favorable to us.

*In connection with the spin-off, GAMCO will indemnify us for certain liabilities. There can be no assurance that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that GAMCO's ability to satisfy its indemnification obligations will not be impaired in the future.*

Pursuant to the Separation Agreement between GAMCO and Teton, GAMCO has agreed to indemnify us from certain liabilities. Third parties could seek to hold us responsible for any of the liabilities that GAMCO has agreed to retain, and there can be no assurance that the indemnity from GAMCO will be sufficient to protect us against the full amount of such liabilities, or that GAMCO will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from GAMCO any amounts for which we are held liable, we will be temporarily required to bear those losses until such recovery. Each of these risks could adversely affect our business, results of operations and financial condition.

*Our management team is dependent upon GAMCO.*

Nicholas F. Galluccio, our President and Chief Executive Officer, is currently our sole executive officer. Individuals fulfilling other executive officer roles are provided to us pursuant to the Administrative Agreement between GAMCO and Teton. In addition, the individuals serving as portfolio managers for the Funds which are not sub-advised by Westwood Management Corporation provide investment management services as portfolio managers of Teton. Several of these individuals are dual employees of both GAMCO and Teton. Accordingly, they do not devote all of their time to Teton and may have a conflict regarding their employment with GAMCO. GAMCO will have the exclusive right to name the individuals providing services under this agreement or to terminate those individuals providing services under this agreement. We are largely dependent on the individuals providing services pursuant to this agreement until we can identify and retain qualified individuals to serve as executive officers. While the agreement is effective, the individuals providing services under this agreement have other responsibilities at GAMCO. These responsibilities can result in the inability of these individuals to provide the attention to us that we think appropriate. In addition, GAMCO has the right to terminate this agreement on 30 days prior notice, and in any event this agreement terminates on March 31, 2017. After March 31, 2017 the term of this agreement will be automatically extended for successive one-year periods, provided that any or all of the services may be terminated by either party at any time and for any reason on not less than 30 days prior written notice to the other party. There can be no assurance that by such termination date we will have identified or retained a sufficient number of individuals to serve as management on terms acceptable to Teton.

*To the extent we are forced to compete on the basis of price, we may not be able to maintain our current fee structure.*

The investment management business is highly competitive and has relatively low barriers to entry. To the extent we are forced to compete on the basis of price, we may not be able to maintain our current fee structure. Although our investment management fees vary from product to product, historically we have competed primarily on the performance of our products and not on the level of our investment management fees relative to those of our competitors. In recent years, however, there has been a trend toward lower fees in the investment management industry. In order to maintain our fee structure in a competitive environment, we must be able to continue to provide clients with investment returns and service that make investors willing to pay our fees. In addition, the Board of Trustees of

the Funds must make certain findings as to the reasonableness of our fees. We cannot be assured that we will succeed in providing investment returns and service that will allow us to maintain our current fee structure. Fee reductions on existing or future new business could have an adverse effect on our profit margins and results of operations.

*Substantially all of our revenues are from contracts that may be terminated on short notice.*

Substantially all of our revenues are derived from investment management agreements. Investment management agreements with the Funds are terminable without penalty on 60 days' notice (subject to certain additional procedural requirements in the case of termination by a Westwood Fund) and must be specifically approved at least annually, as required by law. Such annual renewal requires, among other things, approval by the disinterested members of the Funds' Board of Trustees. Investment advisory agreements with our separate account clients are terminable by the client without penalty on 30 days' notice. Any failure to renew or termination of these agreements or arrangements would have a material adverse effect on us.

*Investors in the Funds or Separate Accounts can redeem their investments at any time, which could adversely affect our earnings.*

Funds' investors may redeem their investments in those Funds at any time without prior notice. Separate account clients may also redeem their investments at any time. Investors may reduce the aggregate amount of AUM for any number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. In a declining stock market, the pace of mutual fund and separate accounts redemptions could accelerate. Poor performance relative to other asset management firms tends to result in decreased purchases of mutual fund shares and increased redemptions of mutual fund shares. The redemption of investments in Funds or separate accounts managed by us would adversely affect our revenues, which are substantially dependent upon the AUM in the Funds and separate accounts. If redemptions of investments in the Funds or separate accounts caused our revenues to decline, it could have a material adverse effect on our earnings.

*Certain changes in control of us would automatically terminate our investment management agreements with the Funds, unless the Funds' Board of Trustees and shareholders vote to continue the agreements, and could prevent us for a two-year period from increasing the investment advisory fees we are able to charge the Funds.*

Under the Investment Company Act, an investment management agreement with a fund must provide for its automatic termination in the event of its assignment. The fund's board and shareholders must vote to continue the agreement following its assignment, the cost of which ordinarily would be borne by Teton or the Funds.

Under the Investment Advisers Act, a client's investment management agreement may not be "assigned" by the investment adviser without the client's consent. An investment management agreement is considered under both acts to be assigned to another party when a controlling block of the adviser's securities is transferred. In our case, an assignment of our investment management agreements may occur if, among other things, we sell or issue a certain number of additional common shares in the future. We cannot be certain that the Funds will consent to assignments of its investment management agreements or approve new agreements with us if an assignment occurs. Under the Investment Company Act, if a fund's investment adviser engages in a transaction that results in the assignment of its investment management agreement with the fund, the adviser may not impose an "unfair burden" on that fund as a result of the transaction for a two-year period after the transaction is completed. The term "unfair burden" has been interpreted to include certain increases in investment advisory fees. This restriction may discourage potential purchasers from acquiring a controlling interest in us.

*A decline in the prices of securities would lead to a decline in our AUM, revenues and earnings.*

Substantially all of our revenues are determined by the amount of our AUM. Under our investment advisory contracts with the Funds, the investment advisory fees we receive are typically based on the market value of AUM. Accordingly, a decline in the prices of securities generally may cause our revenues and net income to decline by causing the value of our AUM to decrease, which would result in lower investment advisory fees, or causing the Funds' investors to withdraw funds in favor of investments they perceive to offer greater opportunity or lower risk, which would also result in lower fees. The securities markets are highly volatile, and securities prices may increase or decrease for many reasons, including economic and political events and acts of terrorism beyond our control. If a decline in securities prices caused our revenues to decline, this could have a material adverse effect on our earnings.

*Catastrophic and unpredictable events could have a material adverse effect on our business.*

A terrorist attack, war, power failure, cyber-attack, natural disaster or other catastrophic or unpredictable event could adversely affect our future revenues, expenses and earnings by: interrupting our normal business operations; sustaining employee casualties, including

loss of our key executives; requiring substantial expenditures and expenses to repair, replace and restore normal business operations; and reducing investor confidence.

We have a disaster recovery plan to address certain contingencies, but we cannot be assured that this plan will be sufficient in responding to or ameliorating the effects of all disaster scenarios. If our employees or vendors we rely upon for support in a catastrophic event are unable to respond adequately or in a timely manner, we may lose clients resulting in a decrease in AUM which may have a material adverse effect on revenues and net income.

*Control by Mr. Gabelli of a majority of the combined voting power of our common stock may give rise to conflicts of interests.*

Mr. Gabelli indirectly beneficially owns and controls a majority of our outstanding common stock. As long as Mr. Gabelli indirectly beneficially owns a majority of the combined voting power of our common stock, he will have the ability to elect all of the members of our board of directors and thereby control our management and affairs, including determinations with respect to acquisitions, dispositions, borrowings, issuances of common stock or other securities, and the declaration and payment of dividends on the common stock. In addition, Mr. Gabelli will be able to determine the outcome of matters submitted to a vote of shareholders for approval and will be able to cause or prevent a change in control of us. As a result of Mr. Gabelli's control, none of our agreements with Mr. Gabelli and other companies controlled by him have been arrived at through "arm's-length" negotiations, although we believe that the parties endeavor to implement market-based terms. There can be no assurance that we would not have received more favorable terms from an unaffiliated party.

*We depend on key personnel.*

Our future success depends to a substantial degree on our ability to retain and attract qualified personnel to conduct our investment management business. The market for qualified portfolio managers is extremely competitive and has grown more so in recent periods as the investment management industry has experienced growth. We anticipate that it will be necessary for us to add portfolio managers and investment analysts as we further diversify our investment products and strategies and operate on an independent basis. There can be no assurance, however, that we will be successful in our efforts to recruit and retain the required personnel. The loss of key management professionals or the inability to recruit and retain sufficient portfolio managers and marketing personnel could have a material adverse effect on our business.

*The termination of our subadvisory agreement with Westwood Management Corporation could adversely affect our business, results of operations and financial condition.*

Westwood Management Corporation acts as subadvisor to three of the Funds pursuant to a subadvisory agreement with us. We believe that many investors have invested money in these three funds because of solicitations by certain individuals at Westwood Management Corporation. If the subadvisory agreement was terminated, there can be no assurance we will be able to attract investors to invest in these funds at the same rate as those individuals at Westwood Management Corporation would have, or at all or retain current investors originally solicited by the individuals at Westwood Management Corporation. In addition, if the subadvisory agreement was terminated, we can make no assurance that investors will not redeem their investment from these funds as a result of such termination. The occurrence of either of these events could adversely affect our business, results of operations and financial condition.

*Potential adverse effects on our performance prospects may arise from a decline in the performance of the securities markets.*

Our results of operations are affected by many economic factors, including the performance of the securities markets. During the 1990s, unusually favorable and sustained performance of the U.S. securities markets, and the U.S. equity market in particular, attracted substantial inflows of new investments in these markets and has contributed to significant market appreciation which has, in turn, led to an increase in our AUM and revenues. At December 31, 2015, approximately 99% of our AUM were invested in portfolios consisting primarily of equity securities. More recently, the securities markets in general have experienced significant volatility. Any decline in the securities markets, in general, and the equity markets, in particular, could reduce our AUM and consequently reduce our revenues. In addition, any such decline in the equity markets, failure of these markets to sustain their prior levels of growth, or continued short-term volatility in these markets could result in investors withdrawing from the equity markets or decreasing their rate of investment, either of which would be likely to adversely affect us. From time to time, a relatively high proportion of the assets we manage may be concentrated in particular industry sectors. A general decline in the performance of securities in those industry sectors could have an adverse effect on our AUM and revenues.

*Future investment performance could reduce revenues and other income.*

Success in the investment management and mutual fund businesses is dependent on investment performance as well as distribution and client servicing. Good performance generally stimulates sales of our investment products and tends to keep withdrawals and redemptions low, which generates higher management fees (which are based on the amount of AUM). Conversely, relatively poor performance tends to result in decreased sales, increased withdrawals and redemptions in the case of the open-end Funds, and in the loss of sub-advised clients, with corresponding decreases in revenues to us. Many analysts of the mutual fund industry believe that investment performance is the most important factor for the growth of open-end funds, such as those we offer. Failure of our investment products to perform well or failure of the Funds to maintain ratings or rankings could, therefore, have a material adverse effect on us.

*We rely on third-party distribution programs.*

Since 1996, we have experienced significant growth in sales of the Funds through third-party distribution programs, which are programs sponsored by third-party intermediaries that offer their mutual fund customers a variety of competing products and administrative services. Approximately \$1.1 billion, or 91.8%, of our AUM in the Funds as of December 31, 2015 were obtained through third-party distribution programs which includes the Broker Dealer, No Transaction Fee and Bank Trust channels. The cost of participating in third-party distribution programs is higher than our direct distribution costs, and it is anticipated that the cost of third-party distribution programs will increase in the future. Any increase would be likely to have an adverse effect on our profit margins and results of operations. In addition, there can be no assurance that the third-party distribution programs will continue to distribute the Funds. The decision by these third-party distribution programs to discontinue distribution of the Funds, or a decision by us to withdraw one or more of the Funds from the programs, could have an adverse effect on our growth of AUM.

*Operational risks may disrupt our business, result in regulatory action against us or limit our growth.*

We face operational risk arising from errors made in the execution, confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted for. Our business is highly dependent on its ability to process, on a daily basis, transactions across markets in an efficient and accurate manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

*Dependence on information systems.*

We operate in an industry that is highly dependent on its information systems and technology. Teton outsources a significant portion of our information systems operations to third parties who are responsible for providing the management, maintenance and updating of such systems. There can be no assurance, however, that our information systems and technology will continue to be able to accommodate our growth or that the cost of maintaining such outsourcing arrangements will not increase from its current level. Such a failure to accommodate growth, or an increase in costs related to these information systems, could have a material adverse effect on us.

*We face exposure to litigation and arbitration claims within our business.*

The volume of litigation and arbitration claims against financial services firms and the amount of damages claimed has increased over the past several years. The types of claims that we may face are varied. For example, we may face claims against us for purchasing securities that are inconsistent with a client's investment objectives or guidelines, in connection with the operation of the Funds or arising from an employment dispute. The risk of litigation is difficult to assess or quantify, and may occur years after the activities or events at issue. Even if we prevail in a legal action brought against us, the costs alone of defending against the action could have a material adverse effect on us.

*Our reputation is critical to our success.*

Our reputation is critical to maintaining and developing relationships with our clients, the Fund shareholders and third-party intermediaries. In recent years, there have been a number of well-publicized cases involving fraud, conflicts of interest or other misconduct by individuals in the financial services industry. Misconduct by our staff, or even unsubstantiated allegations, could result not only in direct financial harm but also harm to our reputation, causing injury to the value of our brand and our ability to retain or attract AUM. In addition, in certain circumstances, misconduct on the part of our clients or other parties could damage our reputation. Harm to our reputation could have a material adverse effect on us.

*We face strong competition from numerous and sometimes larger companies.*

We compete with numerous investment management companies, stock brokerage and investment banking firms, insurance companies, banks, savings and loan associations and other financial institutions. Continuing consolidation in the financial services industry has created stronger competitors with greater financial resources and broader distribution channels than our own. Additionally, competing securities dealers whom we rely upon to distribute our mutual funds also sell their own proprietary funds and investment products, which could limit the distribution of our investment products. To the extent that existing or potential customers, including securities dealers, decide to invest in or distribute the products of our competitors, the sales of our products as well as our market share, revenues and net income could decline. Both GAMCO and Teton have as their principal businesses asset management and derive most of their revenues through that business and, as such, may compete with each other.

*Fee pressures could reduce our profit margins.*

There has been a trend toward lower fees in some segments of the investment management industry. In order for us to maintain our fee structure in a competitive environment, we must be able to provide clients with investment returns and service that will encourage them to be willing to pay such fees. Accordingly, there can be no assurance that we will be able to maintain our current fee structure. Fee reductions on existing or future new business could have an adverse impact on our profit margins and results of operations.

*We advance commissions on sales of Class C Fund shares.*

Class C shares have a distribution plan under which the distributor, G.distributor, will advance the first year's broker commission in exchange for collecting the first year's service and distribution fee totaling 1%. This fee, paid monthly, is based on the average daily AUM which may either increase or decrease during the month causing the distributor to either receive more or less than the amount advanced. The Company has agreed to reimburse the distributor for the amounts advanced and collect the first years' service and distribution fee which, if lower, will be less than the amount advanced. There is no assurance that we will collect the amounts advanced.

## **Risks Related to Our Common Stock**

*Our Class A common stock shares are subject to more volatility and more limited liquidity than shares traded on national exchanges.*

Our Class A common stock trades on the pink sheets. When fewer shares of a security are being traded in the pink sheets, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Due to low trading volumes in shares of our Class A common stock, there is a lower likelihood of one's orders for shares of our Class A common stock being executed, and current prices may differ significantly from the price one was quoted at the time of one's order entry.

Electronic processing of orders is not available for securities traded in the pink sheets and high order volume and communication risks may prevent or delay the execution of one's trading orders. This lack of automated order processing may affect the timeliness of order execution reporting and the availability of firm quotes for shares of our Class A common stock. Heavy market volume may lead to a delay in the processing of security orders for shares of our Class A common stock, due to the manual nature of these markets. Consequently, you may not be able to sell shares of our Class A common stock at the optimum trading prices.

*The disparity in the voting rights among the classes of shares may have a potential adverse effect on the price of our Class A Stock.*

The holders of Class A common stock and Class B common stock have identical rights except that (i) holders of Class A common stock are entitled to one vote per share, while holders of Class B common stock are entitled to ten votes per share on all matters to be voted on by shareholders in general, and (ii) holders of Class A common stock are not eligible to vote on matters relating exclusively to Class B common stock and vice versa. Since our spin-off in 2008, GGCP, Inc. has owned a majority of our outstanding Class B common stock, representing approximately 73% of voting control. As long as GGCP, Inc. owns a majority of the combined voting power of our common stock, they will have the ability to elect all of the members of our Board of Directors and thereby control our management and affairs, including among other things any determinations with respect to acquisitions, dispositions, borrowings, issuances of common stock or other securities, and the declaration and payment of dividends on the common stock. The differential in voting rights and the ability of our company to issue additional Class B common stock could adversely affect the value of the Class A common stock to the extent the investors, or any potential future purchaser of our company, view the superior voting rights of the Class B common stock to have value.

*Future sales of our Class A common stock in the public market or sales or distributions of our Class B common stock could lower our stock price, and any additional capital raised by us through the sale of equity or convertible securities may dilute our stockholders' ownership in us.*

We may sell additional shares of Class A common stock in subsequent public offerings. We also may issue additional shares of Class A common stock or convertible debt securities. In addition, sales by our current shareholders could be perceived negatively.

No prediction can be made as to the effect, if any, that future sales or distributions of Class B common stock owned by GGCP, Inc. will have on the market price of the Class A common stock from time to time. Sales or distributions of substantial amounts of Class A common stock or Class B common stock, or the perception that such sales or distributions are likely to occur, could adversely affect the prevailing market price for the Class A common stock.

*Due to the limited liquidity of our common stock, the price may fluctuate significantly.*

The market price of our Class A common stock may fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- our quarterly or annual earnings, or those of other companies in our industry;
- actual or anticipated reductions in our revenue, net earnings and cash flow resulting from actual or anticipated declines in AUM;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to cover our company after the spin-off or changes in financial estimates by analysts;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations; and
- general economic conditions.

In particular, the realization of any of the risks described in these “Risk Factors” could have a significant and adverse impact on the market price of our Class A common stock. In addition, the stock market in general has experienced extreme price and volume volatility that has often been unrelated to the operating performance of particular companies. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes can occur without regard to the operating performance of these companies. The price of our Class A common stock could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce our stock price.

### **Risks Related to Our Regulatory Environment**

*Changes in laws or regulations or in governmental policies could limit the sources and amounts of our revenues, increase our costs of doing business, decrease our profitability and materially and adversely affect our business.*

Our business is subject to extensive regulation in the United States, primarily at the federal level, including regulation by the SEC under the Investment Company Act and the Investment Advisers Act. We are registered with the SEC as an investment adviser. The Funds are registered with the SEC as investment companies under the Investment Company Act. The Investment Advisers Act imposes numerous obligations on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities. The Investment Company Act imposes similar obligations, as well as additional detailed operational requirements, on registered investment companies and investment advisers. Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser. Industry regulations are designed to protect investors in the Funds and other third parties who deal with us and to ensure the integrity of the financial markets. They are not designed to protect our shareholders. Our industry is frequently altered by new laws or regulations and by revisions to, and evolving interpretations of, existing laws and regulations. Changes in laws or regulations or in governmental policies could limit the sources and amounts of our revenues, increase our costs of doing business, decrease our profitability and materially and adversely affect our business.

In response to scandals in the financial services industry regarding late trading, market timing and selective disclosure of portfolio information, various legislative and regulatory proposals are pending in or before, or have been adopted by, the U.S. Congress and the various regulatory agencies that supervise our operations, including the SEC. These proposals, to the extent enacted or adopted, could have a substantial impact on the regulation and operation of registered funds and investment advisers and could adversely affect our AUM, revenues and net income. Additionally, the SEC, Financial Industry Regulatory Authority and other regulators, as well as



Congress, are investigating certain practices within the mutual fund industry. These investigations could lead to further legislative and regulatory proposals that, if enacted or adopted, could adversely affect our business.

The Funds' business involves compliance with numerous investment, asset valuation, distribution and tax requirements. A failure to adhere to or satisfy these requirements could result in losses that could be recovered by the Funds from us in certain circumstances. Although we have installed procedures and utilize the services of experienced administrators, accountants and lawyers to assist us in adhering to these guidelines and satisfying these requirements, and maintain insurance to protect us in the case of client losses, there can be no assurance that such precautions or insurance will protect us from potential liabilities.

## PROPERTIES

Teton owns no properties. Teton currently leases 1,642 square feet of office space at One Corporate Center in Rye, New York in accordance with a sub-lease with GAMCO, which expires on December 31, 2028. On September 1, 2014, an additional 485 square feet of office space at the same location was subleased from LICT Corporation in an agreement which expires on December 5, 2023.

## LEGAL PROCEEDINGS

None.

## MINE SAFETY DISCLOSURES

Not applicable.

## MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares of Class A common stock are traded on the Pink Sheets under the symbol TETAA.

In 2015, Teton Advisors, Inc. bought back 981 shares of Class A Common stock.

As of December 31, 2015, there were 18 Class A common stockholders of record and 153 Class B common stockholders of record.

	2015		2014	
	Dividend Declared		Dividend Declared	
	Regular	Special	Regular	Special
First Quarter	\$ 0.05	\$ -	\$ 0.05	\$ -
Second Quarter	0.05	-	0.05	-
Third Quarter	0.05	-	0.05	-
Fourth Quarter	0.05	-	0.05	-

The Board granted 5,000 shares of its Class A Common Stock to an employee on December 4, 2014 ("Grant Date"), which shares will vest and become transferable three years from Grant Date with respect to forty percent (40%) of the shares and five years from Grant date with respect to sixty percent (60%) of the shares, subject to the terms and conditions of the Corporations' Stock Award Agreement.

The Board granted 2,500 shares of its Class A Common Stock to an employee on December 2, 2013 ("Grant Date"), which shares will vest and become transferable three years from Grant Date with respect to forty percent (40%) of the shares and five years from Grant date with respect to sixty percent (60%) of the shares, subject to the terms and conditions of the Corporations' Stock Award Agreement.

As of December 31, 2015, there were 92,500 shares of common stock which remain available for future issuance under an equity compensation plan.

## SELECTED FINANCIAL DATA

### General

The selected historical financial data presented below has been derived in part from, and should be read in conjunction with Management's Discussion and Analysis and the audited Financial Statements of Teton Advisors, Inc. and related notes included in this report.

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
<b>Income Statement Data (audited)</b>					
Revenues:					
Investment advisory fees	\$ 16,834,629	\$ 18,356,525	\$ 13,758,658	\$ 8,478,028	\$ 8,641,242
Distribution fees	374,096	866,170	436,595	275,138	497,496
Other income	(2,603)	4,548	389	1,306	1,652
Total revenues	17,206,122	19,227,243	14,195,642	8,754,472	9,140,390
Expenses:					
Compensation	6,290,861	6,855,692	5,268,670	2,862,300	2,597,557
Marketing and administrative fees	1,934,852	2,032,807	1,593,530	1,289,190	1,365,053
Distribution costs and expense reimbursements	1,074,271	1,638,486	1,531,243	802,374	970,359
Advanced commissions	327,766	787,230	407,818	220,969	549,078
Sub-advisory fees	327,040	360,277	371,675	414,074	501,950
Other operating expenses	890,816	824,913	668,985	522,861	525,217
Total expenses	10,845,606	12,499,405	9,841,921	6,111,768	6,509,214
Income before income taxes	6,360,516	6,727,838	4,353,721	2,642,704	2,631,176
Income taxes	2,350,042	2,458,955	1,619,509	1,004,443	938,282
Net income	\$ 4,010,474	\$ 4,268,883	\$ 2,734,212	\$ 1,638,261	\$ 1,692,894
Net income per share:					
Basic	\$ 3.65	\$ 3.87	\$ 2.48	\$ 1.55	\$ 1.57
Fully diluted	\$ 3.65	\$ 3.87	\$ 2.48	\$ 1.41	\$ 1.38
Weighted average shares outstanding:					
Basic	1,097,550	1,101,929	1,104,173	1,054,528	1,079,198
Fully diluted	1,099,052	1,102,646	1,104,173	1,162,343	1,224,913
Actual shares outstanding at December 31st (a)	1,103,488	1,104,469	1,105,757	1,104,242	1,304,242
Dividends declared	\$ 0.20	\$ 0.20	\$ 0.05	\$ 0.60	\$ 0.70

(a) Includes 7,500, 7,500, 2,500, 182,594 and 260,849 of unvested RSAs for the five years ended December, 2015, 2014, 2013, 2012 and 2011, respectively

	December 31,				
	2015	2014	2013	2012	2011
<b>Balance Sheet Data (audited)</b>					
Total assets	\$ 12,292,255	\$ 8,908,820	\$ 5,112,226	\$ 1,606,631	\$ 3,672,676
Total liabilities	1,613,816	2,055,258	2,016,350	1,162,718	2,447,927
Total stockholders' equity	10,678,439	6,853,562	3,095,876	443,913	1,224,749

	December 31,				
	2015	2014	2013	2012	2011
<b>Assets Under Management (unaudited)</b>					
(at year end, in millions):					
Mutual Funds:					
Equities	\$ 1,219	\$ 1,550	\$ 1,465	\$ 798	\$ 798
Fixed income	19	21	22	26	21
Separate accounts	237	552	538	438	27
Total	\$ 1,475	\$ 2,123	\$ 2,025	\$ 1,262	\$ 846

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is unaudited and should be read in conjunction with the Financial Statements and the notes thereto included in this report.

### Introduction

Our revenues are highly correlated to the level of assets under management ("AUM") and fees associated with our various investment products, rather than our own corporate assets. AUM, which are directly influenced by the level and changes of the overall equity markets, 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 AUM and hence, revenues.

### Overview

#### *Statements of Income*

Investment advisory fees, which are based on the amount and composition of AUM in our Funds and separate accounts, represent our largest source of revenues. In addition to the general level and trends of the stock market, growth in revenues depends on good investment performance, which influences the value of existing AUM as well as contributes to higher investment and lower redemption rates and facilitates the ability to attract additional investors while maintaining current fee levels. Growth in AUM is also dependent on being able to access various distribution channels, which is usually based on several factors, including performance and service. Historically, we have depended primarily on direct distribution of our products and services but since 1995 have participated in third-party distribution programs, including No Transaction Fee, Broker Dealer and Bank Trust Programs. A majority of our cash inflows to mutual fund products have come through these channels. The effects of this on our future financial results cannot be determined at this time but could be material.

Advisory fees from the open-end mutual funds are computed daily based on average net assets. Advisory fees from separate account clients are generally computed quarterly based on account values as of the end of the preceding quarter. These revenues are highly correlated to the stock market and can vary in direct proportion to movements in the stock market and the level of sales compared with redemptions, financial market conditions and the fee structure for AUM. Revenues derived from the equity-oriented portfolios generally have higher management fee rates than fixed income portfolios.

Distribution fees include distribution fees paid to the Company by G.distributors on the Class C shares sold. Class C shares have a 12b-1 distribution plan with a service and distribution fee totaling 1%. The distributor will advance the first year's commission at the time of the sale and collect the distribution fee monthly based on the daily average AUM during the first year. The Company has agreed to reimburse the distributor for the commissions advanced and receives the monthly service and distribution fee in return. Amounts paid to the distributor are recorded as contingent deferred sales commissions in the statement of financial condition and amortized over twelve months as advanced commissions in the statement of income. Fees collected may be higher or lower than the amounts advanced as AUM increases or decreases during the period based on the Fund's performance.

Other income primarily includes interest income earned from cash and cash equivalents and net gain or loss from investments.

#### *Statements of Financial Condition*

We ended the year with \$10,255,698 in cash and cash equivalents, the majority of which were invested in The Gabelli U.S. Treasury Money Market Fund, managed by a subsidiary of GAMCO.

Stockholders' equity was \$10,678,439 on December 31, 2015 compared to \$6,853,562 on December 31, 2014. The increase in stockholders' equity from the end of 2014 was largely the result of net income of \$4,010,474 offset by the declaration of dividends of \$220,442 and the repurchase of stock of \$49,356.

## Assets Under Management Highlights (unaudited)

We reported assets under management as follows

(dollars in millions):

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>% Inc. (Dec.) 2015 / 2014</b>
Equities	\$ 1,456	\$ 2,102	\$ 2,003	\$ 1,236	\$ 825	-30.7%
Fixed Income	19	21	22	26	21	-9.5%
Total Assets Under Management	<u>\$ 1,475</u>	<u>\$ 2,123</u>	<u>\$ 2,025</u>	<u>\$ 1,262</u>	<u>\$ 846</u>	-30.5%

For the five years ended December 31, 2015 our net cash inflows or outflows by product line were as follows (in millions):

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Mutual Funds					
Equities	\$ (244)	\$ 66	\$ 345	\$ (118)	\$ 78
Fixed income	(2)	-	(3)	3	1
Separate accounts	(311)	(28)	-	400	1
Total net inflows (outflows)	<u>\$ (557)</u>	<u>\$ 38</u>	<u>\$ 342</u>	<u>\$ 285</u>	<u>\$ 80</u>

For the five years ended December 31, 2015 our net appreciation and depreciation by product line were as follows (in millions):

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Mutual Funds					
Equities	\$ (87)	\$ 19	\$ 324	\$ 117	\$ (56)
Fixed income	-	-	(2)	2	3
Separate accounts	(4)	42	99	12	(1)
Total net appreciation (depreciation)	<u>\$ (91)</u>	<u>\$ 61</u>	<u>\$ 421</u>	<u>\$ 131</u>	<u>\$ (54)</u>

## Operating Results for the Year Ended December 31, 2015 as Compared to the Year Ended December 31, 2014

### Revenues

Total revenues were \$17,206,122 in 2015, \$2,021,121, or 10.5% less than the total revenues of \$19,227,243 in 2014. The change in total revenues by revenue component was as follows:

(unaudited)			Increase (decrease)	
	2015	2014	\$	%
Investment advisory fees	\$ 16,834,629	\$ 18,356,525	\$ (1,521,896)	-8.3%
Distribution fees	374,096	866,170	(492,074)	-56.8%
Other income, net	(2,603)	4,548	(7,151)	-157.2%
Total revenues	<u>\$ 17,206,122</u>	<u>\$ 19,227,243</u>	<u>\$ (2,021,121)</u>	-10.5%

**Investment Advisory Fees:** Investment advisory fees are directly influenced by the level and mix of AUM. Teton earns advisory fees based on the average daily AUM in the Funds and for separate accounts based on the average of the ending account values for each month of the quarter or the account value as of the end of the preceding quarter.

Investment advisory fees were \$16,834,629 for the year ended December 31, 2015 compared to \$18,356,525 for the year ended December 31, 2014, a decrease of \$1,521,896 or 8.3%. This decrease is directly correlated to the decrease in average AUM from \$2.1 billion in 2014 to \$1.9 billion in 2015, a decrease of \$0.2 billion, or 9.5%.

Total AUM decreased to \$1.5 billion at December 31, 2015 from \$2.1 billion at December 31, 2014. This decrease was primarily due to gross outflows of \$788 million and a decrease in the market value of the portfolios of \$91 million, partially offset by gross inflows of \$231 million.

**Distribution fees:** Distribution fees include distribution fees paid to the Company by G.distributors on the Class C Fund shares sold. Distribution fees for 2015 were \$374,096, a decrease of \$492,074 from the \$866,170 in 2014 due to a significant decline in sales of this share class.

**Other income, net:** Other income, net includes net gains from investments and 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 cash held at a bank. Other income, net decreased in 2015 versus 2014 due to net losses from investments partially offset by higher interest rates and higher average balances of cash and cash equivalents held during the year.

### Expenses

**Compensation:** Compensation costs, which are largely variable and include portfolio manager compensation, staff salaries and bonuses, stock based compensation and benefits, were \$6,290,861 for 2015 versus \$6,855,692 in 2014. This decrease was substantially the result of decreased portfolio management compensation, impacted by the 9.5% year over year decrease in average AUM.

Portfolio manager compensation was \$5,104,841 in 2015 as compared to \$5,822,033 in the prior year. Other compensation costs, principally staff salaries, bonuses, RSAs and benefits increased \$152,361 from the prior year.

**Marketing and Administrative Fees:** Marketing and administrative fees, which are charges from GAMCO and paid by Teton for administration of the mutual fund activities performed by GAMCO on behalf of Teton, and based on the average AUM in the Funds, were \$1,934,852 for 2015, a 4.8% decrease from \$2,032,807 in the prior year. Average AUM in the Funds was \$1.4 billion in 2015, a decrease of 6.7% from the 2014 average of \$1.5 billion. These expenses are based on a tiered formula which declines from 20 basis points to 10 basis points of average AUM as average AUM increases. During 2015 and 2014, the effective rate was 13.4 basis points and 13.2 basis points, respectively.

**Distribution costs and expense reimbursements:** Distribution costs, which are principally related to the sale of shares of open-end mutual funds (exclusive of C shares), and expense reimbursements, were \$1,074,271 for 2015, a decrease of \$564,215 from \$1,638,486 in the prior year.

Distribution costs are payments made to third party distributors for the Funds sold through them, including their NTF programs. Expenses paid to third party distributors, including wholesaling payouts, were \$796,567 during 2015, a decrease of \$574,811 from the prior year amount of \$1,371,378. NTF salesmen payouts for 2015 and 2014 were \$30,178 and \$20,558, respectively.

Expense reimbursements to the Funds were \$247,526 for 2015, an increase of \$976 from the prior year amount of \$246,550.

**Advanced Commissions:** Advanced commission expense decreased \$459,464 to \$327,766 in 2015 from \$787,230 in 2014. This decrease is directly related to the decrease in sales of Class C shares of the Funds from 2014 to 2015.

**Sub-advisory Fees:** Teton has currently retained a sub-adviser for three of the seven 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 \$327,040 for 2015, down from \$360,277 in the prior year. This decrease was primarily due to a 9.2% 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 \$158.9 million in 2015, 9.6% lower than the prior year average of \$175.8 million.

**Other:** General and administrative expenses, including those charged by GAMCO, were \$890,816 for 2015, an increase of \$65,904 from the year ago amount of \$824,913.

### **Income Taxes**

The effective tax rate was 36.9% for the year ended December 31, 2015, versus 36.5% for the year ended December 31, 2014.

### **Net Income**

Net income for 2015 was \$4,010,474 or \$3.65 per fully diluted share versus \$4,268,883 or \$3.87 per fully diluted share for 2014.

## **Operating Results for the Year Ended December 31, 2014 as Compared to the Year Ended December 31, 2013**

### **Revenues**

Total revenues were \$19,227,243 in 2014, \$5,031,601, or 35.4% more than the total revenues of \$14,195,642 in 2013. The change in total revenues by revenue component was as follows:

(unaudited)			<b>Increase (decrease)</b>	
	<b>2014</b>	<b>2013</b>	<b>\$</b>	<b>%</b>
Investment advisory fees	\$ 18,356,525	\$ 13,758,658	\$ 4,597,867	33.4%
Distribution fees	866,170	436,595	429,575	98.4%
Other income, net	4,548	389	4,159	1069.2%
Total revenues	<u>\$ 19,227,243</u>	<u>\$ 14,195,642</u>	<u>\$ 5,031,601</u>	35.4%

**Investment Advisory Fees:** Investment advisory fees are directly influenced by the level and mix of AUM. Teton earns advisory fees based on the average daily AUM in the Funds and for separate accounts based on the average of the ending account values for each month of the quarter or the account value as of the end of the preceding quarter.

Investment advisory fees were \$18,356,525 for the year ended December 31, 2014 compared to \$13,758,658 for the year ended December 31, 2013, an increase of \$4,597,867 or 33.4%. This increase is directly correlated to the increase in average AUM from \$1.6 billion in 2013 to \$2.1 billion in 2014, an increase of \$0.5 billion, or 31.3%.

Total AUM increased to \$2.1 billion at December 31, 2014 from \$2.0 billion at December 31, 2013. This increase was primarily due to gross inflows of \$578 million and an increase in the market value of the portfolios of \$61 million, partially offset by gross outflows of \$540 million.

**Distribution fees:** Distribution fees include distribution fees paid to the Company by G.distributors on the Class C Fund shares sold. Distribution fees for 2014 were \$866,170, an increase of \$429,575 from the \$436,595 in 2013.

**Other income:** Other income includes net gains from investments and 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 cash held at a bank. Other income increased in 2014 versus 2013 due to net gains from investments partially offset by lower interest rates despite higher average balances of cash and cash equivalents held during the year.

### **Expenses**

**Compensation:** Compensation costs, which are largely variable and include staff salaries and bonuses, portfolio manager compensation, stock based compensation and benefits, were \$6,855,692 for 2014 versus \$5,268,670 in 2013. This increase was

substantially the result of increased portfolio management compensation, impacted by the 31.3% year over year increase in average AUM.

Portfolio manager compensation was \$5,822,033 in 2014 as compared to \$4,452,576 in the prior year. Other compensation costs, principally staff salaries, bonuses, RSAs and benefits increased \$217,565 from the prior year.

**Marketing and Administrative Fees:** Marketing and administrative expenses, which are charges from GAMCO and paid by Teton for administration of the mutual fund activities performed by GAMCO on behalf of Teton, and based on the average AUM in the Funds, were \$2,032,807 for 2014, a 27.6% increase from \$1,593,530 in the prior year. Average AUM in the Funds was \$1.5 billion in 2014, an increase of 36.4% from the 2013 average of \$1.1 billion. These expenses are based on a tiered formula which declines from 20 basis points to 10 basis points of average AUM as average AUM increases. During 2014 and 2013, the effective rate was 13.2 basis points and 14.4 basis points, respectively.

**Distribution costs and expense reimbursements:** Distribution costs, which are principally related to the sale of shares of open-end mutual funds (exclusive of C shares), and expense reimbursements, were \$1,638,486 for 2014, an increase of \$107,243 from \$1,531,243 in the prior year.

Distribution costs are payments made to third party distributors for the Funds sold through them, including their NTF programs. Expenses paid to third party distributors, including wholesaling payouts, were \$1,371,378 during 2014, an increase of \$71,278 from the prior year amount of \$1,300,100. NTF salesmen payout for 2014 was \$20,558. There was no NTF salesmen payout in 2013.

Expense reimbursements to the Funds were \$246,550 for 2014, an increase of \$15,407 from the prior year amount of \$231,143.

**Advanced Commissions:** Advanced commission expense increased \$379,412 to \$787,230 in 2014 from \$407,818 in 2013. This increase is directly related to the increase in sales of class C shares of the Funds from 2013 to 2014.

**Sub-advisory Fees:** Teton has currently retained a sub-adviser for three of the seven 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 \$360,277 for 2014, down from \$371,675 in the prior year. This decrease was primarily due to a 3.7% 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 \$175.8 million in 2014, 4.4% lower than the prior year average of \$183.8 million.

**Other:** General and administrative expenses, including those charged by GAMCO, were \$824,913 for 2014, an increase of \$155,928 from the year ago amount of \$668,985.

#### ***Income Taxes***

The effective tax rate was 36.5% for the year ended December 31, 2014, versus 37.2% for the year ended December 31, 2013.

#### ***Net Income***

Net income for 2014 was \$4,268,883 or \$3.87 per fully diluted share versus \$2,734,212 or \$2.48 per fully diluted share for 2013.

## Liquidity and Capital Resources

Teton's current liquidity and capital needs largely consist of compensation to our employees and other operating expenses such as rent and the service agreement with GAMCO. Our principal assets are highly liquid in nature and consist of cash and cash equivalents, and investment advisory fee receivable. Cash and cash equivalents are comprised of 100% U.S. Treasury money market funds managed by Gabelli Funds, LLC, a subsidiary of GAMCO.

Summary cash flow data derived from our audited financial statements is as follows:

(unaudited)	2015	2014	2013
Cash flows provided by (used in):			
Operating activities	\$ 4,268,729	\$ 4,286,562	\$ 2,318,958
Financing activities	(323,525)	(478,919)	(83,777)
Increase in cash and cash equivalents	3,945,204	3,807,643	2,235,181
Cash and cash equivalents at beginning of year	6,310,494	2,502,851	267,670
Cash and cash equivalents at end of year	\$ 10,255,698	\$ 6,310,494	\$ 2,502,851

Cash and liquidity requirements have historically been met through cash generated by Teton's operating activities. On December 26, 2012, the Company borrowed, under a short term demand note, \$300,000 from an affiliate which was repaid on February 28, 2013. Interest on the demand note was charged at 1% per annum. During 2013, the Company entered into a \$1.5 million line of credit with a bank. Interest on the line of credit is based on the prime rate as disclosed in the Wall Street Journal plus 1.125%. No amounts were borrowed under the line of credit in 2014 or 2015. At December 31, 2015, we had cash and cash equivalents of \$10,255,698, an increase of \$3,945,204 from the prior year-end.

Net cash provided by operating activities was \$4,268,729 for the year ended December 31, 2015. Net income of \$4,010,474 was the most significant contributor to cash provided by operating activities in 2015. The largest components of cash usage were the increased funding of the deferred sales commission of \$219,908 and a decrease in payables to affiliates of \$286,100. In 2014 net cash provided by operating activities was \$4,286,562 for the year ended December 31, 2014. Net income of \$4,268,883 was the most significant contributor to cash provided by operating activities in 2014. The largest components of cash usage were the increased funding of the deferred sales commission of \$540,200 and a decrease in income tax payable of \$147,162.

Net cash used in financing activities was \$323,525 for 2015, consisting of dividends paid to shareholders of \$274,169 and the purchase of 981 shares of our class A Common Stock for \$49,356. In 2014, net cash used in financing activities was \$478,919 for 2014, consisting of dividends paid to shareholders of \$165,424 and the purchase of 6,288 shares of our class A Common Stock for \$313,495.

Teton pays the up-front sales commission to broker-dealers in connection with the sale of certain classes of open-end Funds. For 2015 and 2014, Teton paid out \$219,908 and \$540,200, respectively, in these up-front fees from its operating activities. These fees are typically reimbursed over the first twelve months subject to fluctuation in AUM which may increase or decrease the reimbursement. It is anticipated that the amount of these payments will continue in approximately the same magnitude for the near future and that Teton will be able to continue to fund these payments from its operating activities.

## Market Risk

### Equity Price Risk

The Company earns substantially all of its revenue as advisory fees from our Mutual Fund assets and advisory fees from separate accounts. Such fees represent a percentage of AUM and the majority of these assets are in equity investments. Accordingly, since revenues are proportionate to the value of those investments, a substantial increase or decrease in equity markets overall will have a corresponding effect on the Company's revenues. Based on December 31, 2015 AUM of \$1.5 billion, a 5% change, up or down, in the equity markets would increase or decrease our advisory revenues by approximately \$650,000 on an annualized basis.

### Interest Rate Risk

Our exposure to interest rate risk results, principally, from reinvestment risk associated with our investment of excess cash in the Gabelli U.S. Treasury Money Market Fund, which invests 100% in U.S. treasury bills. This investment is primarily short term in



nature, and the fair value of this investment generally approximates market value. The Company does not have any other significant investments aside from its investment in the Gabelli U.S. Treasury Money Market Fund. Based on December 31, 2015 cash and cash equivalents balance of \$10,255,698, a 1% increase in interest rates would increase our interest income by approximately \$100,000 annually. Given that our current return on this cash equivalent investment is 0.13% annually, an analysis of a 1% decrease is not meaningful.

### **Contractual Obligations**

The Company rents office space pursuant to a sublease with GAMCO, which expires on December 31, 2028. On September 1, 2014, an additional 485 square feet of office space at the same location was subleased from LICT Corporation in an agreement that expires on December 5, 2023.

### **Critical Accounting Policies**

The preparation of the financial statements included in this document requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and, as Teton's operating environment changes. Actual results could differ from estimates.

Teton believes the following are the most critical accounting policies used in the preparation of Teton's financial statements as well as the significant judgments and uncertainties affecting the application of these policies.

#### ***Revenue Recognition – Investment Advisory Fees***

Investment advisory fees are directly influenced by the level and mix of AUM as fees are derived from a contractually-determined percentage of AUM for each open-end fund and separate account. Advisory fees from the open-end mutual funds are computed daily based on average net assets and amounts receivable are included in investment advisory fees receivable in the statements of financial condition. Advisory fees from separate account clients are either computed quarterly based on account values as of the end of the preceding quarter or are computed quarterly based on the average of the ending account values for each month of the quarter. The amounts receivable are included in investment advisory fees receivable in the statements of financial condition. These revenues vary depending upon the level of sales compared with redemptions, financial market conditions and the fee structure for AUM. Revenues derived from the equity-oriented portfolios generally have higher management fee rates than fixed income portfolios.

#### ***Revenue Recognition – Distribution Fees***

Distribution fees include distribution fees paid to the Company by G.distributors on the Class C shares sold. Class C shares have a 12b-1 distribution plan with a service and distribution fee totaling 1%. The distributor will advance the first year's commission at the time of the sale and collect the distribution fee monthly based on the daily average AUM during the first year. The Company has agreed to reimburse the distributor for the commissions advanced and receives the monthly service and distribution fee in return. Fees collected may be higher or lower than the amounts advanced as AUM increases or decreases during the period based on the Fund's performance.

#### ***Distribution Costs***

The Company incurs certain promotion and distribution costs, which are expensed as incurred, principally related to the sale of shares of open-end mutual funds and are included in distribution costs payable in the statements of financial condition.

#### ***Sub-advisory fees***

Sub-advisory fees are based on predetermined percentages of net revenues (after certain expenses) of the individual funds and are recognized as expenses as the related services are performed. The sub-advisory fees are paid in the month following when they are earned and are included in payable to affiliates in the statements of financial condition.

#### ***Income Taxes***

Income tax expense is based on pre-tax financial accounting income, including adjustments made for the recognition or derecognition related to uncertain tax positions. The recognition or derecognition of income tax expense related to uncertain tax positions is determined under the guidance as prescribed by U.S. generally accepted accounting principles. Deferred tax assets and liabilities are

recognized for the future tax attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or concluded. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company records uncertain tax positions in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes” on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company recognizes the accrual of interest on uncertain tax positions and penalties in income tax expense on the statements of income. Accrued interest and penalties on uncertain tax positions are included within accrued expenses and other liabilities in the statements of financial condition.

### ***Stock Based Compensation***

We use a fair value based method of accounting for stock-based compensation provided to our employees. The estimated fair value of our RSA grants were determined based on the value of the shares on the date of the grant. We determined the value based on a market comparable approach. The total expense is recognized over the vesting period for these awards. For the 2008 grant, the vesting was 30% over three years from the date of employment, which was July 18, 2008, and 70% over five years from the date of employment, which was accelerated to be fully vested in November 2012. For the 2013 grant, the vesting is 40% over three years from the date of grant, which was December 2, 2013, and 60% over five years from the date of grant. For the 2014 grant, the vesting is 40% over three years from the date of grant, which was December 4, 2014, and 60% over five years from the date of grant.

### ***Contingent Deferred Sales Commissions***

Sales commissions paid to broker-dealers in connection with the sale of certain classes of shares of open-end Funds are generally capitalized and amortized over a period of 1 year, based upon the period of time during which deferred sales commissions are expected to be recovered from distribution plan payments received from those Funds and from contingent deferred sales charges received from shareholders of those Funds upon redemption of their shares. Distribution plan payments received from these Funds are recorded in revenue as earned. Contingent deferred sales charges and early withdrawal charges received from redeeming shareholders of these funds are generally applied to reduce the Company’s unamortized deferred sales commission assets. Should the Company lose its ability to recover such sales commissions through distribution plan payments and contingent deferred sales charges, the value of these assets would immediately decline, as would future cash flows. The amortization of these charges are included in advanced commissions and amounted to \$327,766, \$787,230 and \$407,818 for the years ended December 31, 2015, 2014 and 2013, respectively.

### **Recent Accounting Developments**

See Footnote A. Significant Accounting Policies – Recent Accounting Developments.

### **Seasonality and Inflation**

We do not believe our operations are subject to significant seasonal fluctuations. We do not believe inflation will significantly affect our compensation costs, as they are substantially variable in nature. However, the rate of inflation may affect our expenses such as information technology and occupancy costs. To the extent inflation results in rising interest rates and has other effects upon the securities markets, it may adversely affect our financial position and results of operations by reducing our AUM, and related investment advisory fees.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Reference is made to the information contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Market Risk."

## FINANCIAL STATEMENTS

### TETON ADVISORS, INC.

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
Teton Advisors, Inc.

We have audited the accompanying financial statements of Teton Advisors, Inc., which comprise the statements of financial condition as of December 31, 2015 and 2014, and the related statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Teton Advisors, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with U.S. generally accepted accounting principles.

*BerryDunn McNeil & Parker (NY), LLC*

Portland, Maine  
March 31, 2016

**TETON ADVISORS, INC.**  
**STATEMENTS OF INCOME**

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>			
Investment advisory fees	\$ 16,834,629	\$ 18,356,525	\$ 13,758,658
Distribution fees	374,096	866,170	436,595
Other income, net	(2,603)	4,548	389
<b>Total revenues</b>	<b>17,206,122</b>	<b>19,227,243</b>	<b>14,195,642</b>
<b>Expenses</b>			
Compensation	6,290,861	6,855,692	5,268,670
Marketing and administrative fees	1,934,852	2,032,807	1,593,530
Distribution costs and expense reimbursements	1,074,271	1,638,486	1,531,243
Advanced commissions	327,766	787,230	407,818
Sub-advisory fees	327,040	360,277	371,675
Other operating expenses	890,816	824,913	668,985
<b>Total expenses</b>	<b>10,845,606</b>	<b>12,499,405</b>	<b>9,841,921</b>
Income before income taxes	6,360,516	6,727,838	4,353,721
Income taxes	2,350,042	2,458,955	1,619,509
<b>Net income</b>	<b>\$ 4,010,474</b>	<b>\$ 4,268,883</b>	<b>\$ 2,734,212</b>
<b>Net income per share:</b>			
Basic	\$ 3.65	\$ 3.87	\$ 2.48
Fully diluted	\$ 3.65	\$ 3.87	\$ 2.48
<b>Weighted average shares outstanding:</b>			
Basic	1,097,550	1,101,929	1,104,173
Fully diluted	1,099,052	1,102,646	1,104,173
<b>Dividends declared</b>	<b>\$ 0.20</b>	<b>\$ 0.20</b>	<b>\$ 0.05</b>

See accompanying notes.

**TETON ADVISORS, INC.**  
**STATEMENTS OF FINANCIAL CONDITION**

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,255,698	\$ 6,310,494
Investment advisory fees receivable	1,573,398	2,041,623
Investment in securities	102,928	106,647
Deferred taxes receivable	63,999	63,848
Income tax receivable	52,808	-
Receivable from affiliates	19,809	51,162
Contingent deferred sales commission	94,615	202,473
Other assets (net of accumulated depreciation of \$36,505 and \$27,059, respectively)	129,000	132,573
Total assets	<u>\$ 12,292,255</u>	<u>\$ 8,908,820</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Payable to affiliates	\$ 618,208	\$ 904,308
Deferred taxes payable	46,452	90,885
Income tax payable	-	64,317
Dividends payable	2,375	56,102
Compensation payable	182,177	260,978
Distribution costs payable	177,339	254,300
Accrued expenses and other liabilities	587,265	424,368
Total liabilities	<u>1,613,816</u>	<u>2,055,258</u>
Commitments and contingencies (Notes F and I)		
Stockholders' equity:		
Class A Common stock, \$0.001 par value; 1,200,000 shares authorized; 980,152 and 979,993 shares issued, respectively; 771,898 and 772,720 outstanding, respectively	973	971
Class B Common stock, \$0.001 par value; 800,000 shares authorized; 792,000 shares issued; 331,590 and 331,749 shares outstanding, respectively	340	342
Additional paid-in capital	698,452	614,251
Treasury stock, at cost (208,254 class A shares and 8,000 class B shares and 207,273 class A shares and 8,000 class B shares, respectively)	(2,299,567)	(2,250,211)
Retained earnings	12,278,241	8,488,209
Total stockholders' equity	<u>10,678,439</u>	<u>6,853,562</u>
Total liabilities and stockholders' equity	<u>\$ 12,292,255</u>	<u>\$ 8,908,820</u>

See accompanying notes.

**TETON ADVISORS, INC.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	<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, 2012	\$ 971	\$ 342	\$ 588,899	\$ (1,908,120)	\$ 1,761,821	\$ 443,913
Net income	-	-	-	-	2,734,212	2,734,212
Stock based compensation	-	-	1,528	-	-	1,528
Stock buyback	-	-	-	(28,596)	-	(28,596)
Dividends declared	-	-	-	-	(55,181)	(55,181)
Balance at December 31, 2013	971	342	590,427	(1,936,716)	4,440,852	3,095,876
Net income	-	-	-	-	4,268,883	4,268,883
Stock based compensation	-	-	23,824	-	-	23,824
Stock buyback	-	-	-	(313,495)	-	(313,495)
Dividends declared	-	-	-	-	(221,526)	(221,526)
Balance at December 31, 2014	971	342	614,251	(2,250,211)	8,488,209	6,853,562
Net income	-	-	-	-	4,010,474	4,010,474
Stock based compensation	-	-	84,201	-	-	84,201
Conversion of shares	2	(2)	-	-	-	-
Stock buyback	-	-	-	(49,356)	-	(49,356)
Dividends declared	-	-	-	-	(220,442)	(220,442)
Balance at December 31, 2015	\$ 973	\$ 340	\$ 698,452	\$ (2,299,567)	\$ 12,278,241	\$ 10,678,439

See accompanying notes.

**TETON ADVISORS, INC.**  
**STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Operating activities</b>			
Net income	\$ 4,010,474	\$ 4,268,883	\$ 2,734,212
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,446	7,090	5,932
Deferred taxes	(44,584)	(87,385)	86,116
Amortization of contingent deferred sales commission	327,766	787,230	407,818
Stock based compensation expense	84,201	23,824	1,528
(Increase) decrease in operating assets:			
Investment advisory fees receivable	468,225	(90,465)	(796,225)
Investment in securities	3,719	(106,647)	-
Income tax receivable	(52,808)	-	-
Receivable from affiliates	31,353	19,177	(53,108)
Contingent deferred sales commission	(219,908)	(540,200)	(779,912)
Other assets	(5,873)	(58,322)	(4,228)
Increase (decrease) in operating liabilities:			
Payable to affiliates	(286,100)	(14,524)	206,067
Income tax payable	(64,317)	(147,162)	174,036
Compensation payable	(78,801)	(71,338)	232,065
Distribution costs payable	(76,961)	165,559	(31,350)
Accrued expenses and other liabilities	162,897	130,842	136,007
Total adjustments	<u>258,255</u>	<u>17,679</u>	<u>(415,254)</u>
Net cash provided by operating activities	4,268,729	4,286,562	2,318,958
<b>Financing activities</b>			
Dividends paid	(274,169)	(165,424)	(55,181)
Stock repurchase	(49,356)	(313,495)	(28,596)
Net cash used in financing activities	<u>(323,525)</u>	<u>(478,919)</u>	<u>(83,777)</u>
Net increase in cash and cash equivalents	3,945,204	3,807,643	2,235,181
Cash and cash equivalents at beginning of year	6,310,494	2,502,851	267,670
Cash and cash equivalents at end of year	<u>\$ 10,255,698</u>	<u>\$ 6,310,494</u>	<u>\$ 2,502,851</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for income taxes	<u>\$ 2,352,859</u>	<u>\$ 2,575,282</u>	<u>\$ 1,269,886</u>
Cash paid for interest	<u>\$ 7,500</u>	<u>\$ -</u>	<u>\$ 485</u>

See accompanying notes.



## **A. Significant Accounting Policies**

### *Basis of Presentation*

Teton Advisors, Inc. (“Teton” or the “Company”) was formed in Texas as Teton Advisors LLC in December 1994. On March 2, 1998, Teton Advisors LLC was renamed Gabelli Advisors LLC and, on the same date, merged into Gabelli Advisors, Inc., a Delaware corporation. On January 25, 2008, Gabelli Advisors, Inc. was renamed Teton Advisors, Inc. On March 20, 2009, GAMCO Investors, Inc. (“GAMCO”) spun-off their ownership interest in Teton to its stockholders. Prior to the March 20, 2009 spin-off, the Company was a 42%-owned subsidiary of GAMCO. The Company serves as the investment advisor of the TETON 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.

### *Use of Estimates*

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

### *Nature of Operations*

Teton is a registered investment adviser under the Investment Advisers Act of 1940. Teton serves as the investment manager for seven funds with assets under management (“AUM”) of \$1.2 billion and \$1.6 billion at December 31, 2015 and 2014, respectively, and as the investment manager to certain separate accounts with aggregate assets of \$236.7 million and \$551.5 million at December 31, 2015 and 2014, respectively. The Company’s principal market is in the United States.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash held at banks and an affiliated money market mutual fund, which is highly liquid.

### *Securities Transactions*

Investments in securities are accounted for as “trading securities” and are stated at fair value, with any unrealized gains or losses reported in current period earnings in other income in the statements of income. Management determines the appropriate classification of debt and equity securities at the time of purchase. Securities that are not readily marketable are stated at their estimated fair values in accordance with GAAP. Securities transactions and any related gains and losses are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the specific identified cost basis and are included in other income in the statements of income.

### *Revenue Recognition*

The Company’s revenues are derived primarily from investment advisory fees.

Investment advisory fees are directly influenced by the level and mix of AUM as fees are derived from a contractually-determined percentage of AUM for each open-end fund and separate account. Advisory fees from the open-end mutual funds are computed daily based on average net assets and amounts receivable are included in investment advisory fees receivable in the statements of financial condition. Advisory fees from separate account clients are computed quarterly based on account values as of the end of the preceding quarter and amounts receivable are included in investment advisory fees receivable in the statements of financial condition. These revenues vary depending upon the level of sales compared with redemptions, financial market conditions and the fee structure for AUM. Revenues derived from the equity-oriented portfolios generally have higher management fee rates than fixed income portfolios. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management believes that all accounts receivable are collectible; accordingly, an allowance for doubtful accounts has not been established.

Distribution fees include distribution fees paid to the Company by G.distributors, LLC (“G.distributors”) on the Class C Fund shares sold. Class C shares have a 12b-1 distribution plan with a service and distribution fee totaling 1%. The distributor will advance the first year’s commission at the time of the sale and collect the distribution fee monthly based on the daily average AUM over the first year. The Company has agreed to reimburse the distributor for the commissions advanced and receives the monthly service and distribution fee in return. Fees collected may be higher or lower than the amounts advanced as AUM increases or decreases during the period based on the Fund’s performance.

### *Distribution Costs*

The Company incurs certain promotion and distribution costs, which are expensed as incurred, principally related to the sale of shares of open-end mutual funds, other than Class C shares, and are included in distribution costs payable in the statements of financial condition.

### *Sub-advisory Fees*

Sub-advisory fees are based on predetermined percentages of net revenues (after certain expenses) of the individual funds and are recognized as expenses as the related services are performed. The sub-advisory fees are paid in the month following when they are earned and are included in accrued expenses and other liabilities in the statements of financial condition.

### *Depreciation*

Fixed assets, with net book value of \$47,629 and \$57,075 at December 31, 2015 and 2014, respectively, which are included in other assets, are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

### *Income Taxes*

Income tax expense is based on pre-tax financial accounting income, including adjustments made for the recognition or derecognition related to uncertain tax positions. The recognition or derecognition of income tax expense related to uncertain tax positions is determined under the guidance as prescribed by GAAP. Deferred tax assets and liabilities are recognized for the future tax attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or concluded. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company records uncertain tax positions in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes”, on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company recognizes the accrual of interest on uncertain tax positions and penalties in income tax expense on the statements of income. Accrued interest and penalties on uncertain tax positions are included within accrued expenses and other liabilities in the statements of financial condition.

### *Fair Value Measurement*

The Company’s assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the Financial Accounting Standards Board’s (“FASB”) guidance on fair value measurement. The levels of the fair value hierarchy and their applicability to the Company are described below:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly-quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Cash Equivalents – Cash equivalents primarily consist of an affiliated money market mutual fund which is invested solely in U.S. Treasuries and valued based on the net asset value of the fund. Cash equivalents are valued using unadjusted quoted market prices.

Investments in Securities – Investments in securities are accounted for as “trading securities” and are stated at fair value.

### *Earnings Per Share*

Basic earnings per share is based on the weighted-average number of common shares outstanding during each period less unvested restricted stock. Fully diluted earnings per share is based on basic shares plus the incremental shares from the unvested restricted stock using the treasury stock method.

### *Stock Based Compensation*

The Company uses a fair value based method of accounting for stock-based compensation provided to employees. The estimated fair value of the restricted stock award ("RSA") grants was determined based on the value of the shares on the date of the grant. The Company determined the value based on a market comparable approach. The total expense is recognized over the vesting period for these awards. For the 2008 grant, the vesting was 30% over three years from the date of employment, which was July 18, 2008, and 70% over five years from the date of employment, which was accelerated to be fully vested in November 2012. For the 2013 grant, the vesting is 40% over three years from the date of grant, which was December 2, 2013, and 60% over five years from the date of grant. For the 2014 grant, the vesting is 40% over three years from the date of grant, which was December 4, 2014, and 60% over five years from the date of grant.

### *Contingent Deferred Sales Commissions*

Sales commissions paid to broker-dealers in connection with the sale of certain classes of shares of open-end Funds are generally capitalized and amortized over a period of one year, based upon the period of time during which deferred sales commissions are expected to be recovered from distribution plan payments received from those Funds and from contingent deferred sales charges received from shareholders of those Funds upon redemption of their shares. Distribution plan payments received from these Funds are recorded in revenue as earned. Contingent deferred sales charges and early withdrawal charges received from redeeming shareholders of these funds are generally applied to reduce the Company's unamortized deferred sales commission assets. Should the Company lose its ability to recover such sales commissions through distribution plan payments and contingent deferred sales charges, the value of these assets would immediately decline, as would future cash flows. The amortization of these charges are included in advanced commissions and amounted to \$327,766, \$787,230 and \$407,818 for the years ended December 31, 2015, 2014 and 2013, respectively.

### *Concentration of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents held. The Company maintains cash equivalents in the Gabelli U.S. Treasury Money Market Fund, which invests fully in instruments issued by the U.S. government. The concentration of credit risk with respect to advisory fees receivable is generally limited due to the short payment terms extended to clients by the Company.

### *Business Segments*

The Company operates predominantly in one business segment, the investment advisory and asset management business.

### *Recent Accounting Developments*

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in the ASC Topic 605, "Revenue Recognition", and most industry-specific guidance throughout the industry topics of the codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. The ASU was amended to delay its effective date to annual reporting periods beginning after December 15, 2017, including interim periods and is to be retrospectively applied. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's financial statements.

In June 2014, the FASB issued an accounting update clarifying that entities should treat performance targets that could be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date) for an award where transfer to the employee is contingent upon satisfaction of the performance target until it becomes probable that the performance target will be met. The guidance is effective for the Company beginning January 1, 2016. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's financial statements.

In February 2015, the FASB issued an accounting update amending the consolidation requirements under GAAP. This guidance is effective for the Company beginning January 1, 2016. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's financial statements.

In January 2016, the FASB issued an accounting update amending the guidance on the classification and measurement of financial instruments. This amended guidance significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. This guidance is effective for the Company beginning January 1, 2018. The Company is currently evaluating this guidance and the impact it will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires a lessee to recognize assets and liabilities arising from most operating leases in the consolidated statement of financial position. ASU 2016-02 is effective beginning January 1, 2019. The Company is currently evaluating this guidance and the impact it will have on its financial statements.

## B. Fair Value Measurement

The following table presents information about the Company's assets by major categories measured at fair value on a recurring basis as of December 31, 2015 and 2014 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

### Assets Measured at Fair Value on a Recurring Basis as of December 31, 2015

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2015
Cash equivalents	\$ 10,154,489	\$ -	\$ -	\$ 10,154,489
Investment securities	102,928	-	-	102,928
<b>Total assets at fair value</b>	<b>\$ 10,257,417</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,257,417</b>

### Assets Measured at Fair Value on a Recurring Basis as of December 31, 2014

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2014
Cash equivalents	\$ 6,209,996	\$ -	\$ -	\$ 6,209,996
Investment securities	106,647	-	-	106,647
<b>Total assets at fair value</b>	<b>\$ 6,316,643</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,316,643</b>

There were no transfers between any levels during the years ended December 31, 2015 or 2014.

### C. Income Taxes

The provision for (benefit from) income taxes for the years ended December 31, 2015, 2014 and 2013 consisted of the following:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Federal:			
Current	\$ 2,189,910	\$ 2,338,565	\$ 1,382,528
Deferred	(39,981)	(76,228)	74,901
State and local:			
Current	204,716	207,775	150,865
Deferred	(4,603)	(11,157)	11,215
<b>Total</b>	<b><u>\$ 2,350,042</u></b>	<b><u>\$ 2,458,955</u></b>	<b><u>\$ 1,619,509</u></b>

A reconciliation of the Federal statutory income tax rate to the effective tax rate is set forth below:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Statutory Federal income tax rate	34.0%	34.0%	34.0%
State income tax, net of Federal benefit	2.9%	2.5%	3.2%
<b>Effective income tax rate</b>	<b><u>36.9%</u></b>	<b><u>36.5%</u></b>	<b><u>37.2%</u></b>

Significant components of the Company's deferred tax assets and liabilities are as follows:

	<b>2015</b>	<b>2014</b>
Deferred tax assets:		
Deferred compensation	\$ 62,399	\$ 63,848
Other	1,600	-
<b>Total deferred tax assets</b>	<b>63,999</b>	<b>63,848</b>
Deferred tax liabilities:		
Contingent deferred sales commission	(34,328)	(74,147)
Fixed assets	(12,124)	(15,437)
Other	-	(1,301)
<b>Total deferred tax liabilities</b>	<b>(46,452)</b>	<b>(90,885)</b>
<b>Net deferred tax assets (liabilities)</b>	<b><u>\$ 17,547</u></b>	<b><u>\$ (27,037)</u></b>

The Company's Federal and State income tax returns are subject to future audit for all years after 2011.

As of December 31, 2015 and 2014, the Company's gross unrecognized tax benefits were \$613,113 and \$430,302, respectively, of which \$404,655 and \$283,999, if recognized, would affect the Company's effective tax rate.

Balance at January 1, 2013	\$ 154,613
Additions based on tax positions related to the current year	126,805
Balance at December 31, 2013	281,418
Additions based on tax positions related to the current year	190,158
Reductions for tax positions of prior years	(41,274)
Balance at December 31, 2014	430,302
Additions based on tax positions related to the current year	182,811
Balance at December 31, 2015	<u>\$ 613,113</u>

As of December 31, 2015 and 2014, the net liability for unrecognized tax benefits related to uncertain tax positions was \$488,115 and \$329,222, respectively, and is included in accrued expenses and other liabilities in the statements of financial condition.

The Company recognizes both interest and penalties with respect to unrecognized tax benefits as income tax expense. As of December 31, 2015 and 2014, the Company had accrued a gross liability of \$100,947 and \$53,574, respectively, related to interest and penalties. For the years ended December 31, 2015, 2014, and 2013, the Company recorded income tax expenses related to an increase in its liability for interest and penalties of \$38,237, \$19,956 and \$13,297, respectively. The amount is included in accrued expenses and other liabilities in the statements of financial condition.

As of December 31, 2015, management has not identified any potential material subsequent events that could have a significant impact on unrecognized tax benefits within the next twelve months.

#### **D. Net Income per Share**

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

	<b>For the Years Ending December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Basic:			
Net income	<u>\$ 4,010,474</u>	<u>\$ 4,268,883</u>	<u>\$ 2,734,212</u>
Weighted average shares outstanding	<u>1,097,550</u>	<u>1,101,929</u>	<u>1,104,173</u>
Basic net income per share	<u>\$ 3.65</u>	<u>\$ 3.87</u>	<u>\$ 2.48</u>
Fully diluted:			
Net income	<u>\$ 4,010,474</u>	<u>\$ 4,268,883</u>	<u>\$ 2,734,212</u>
Weighted average shares outstanding	<u>1,097,550</u>	<u>1,101,929</u>	<u>1,104,173</u>
Dilutive RSAs	<u>1,502</u>	<u>717</u>	<u>-</u>
Total	<u>1,099,052</u>	<u>1,102,646</u>	<u>1,104,173</u>
Fully diluted net income per share	<u>\$ 3.65</u>	<u>\$ 3.87</u>	<u>\$ 2.48</u>

## E. Stockholders' Equity

Teton has two classes of common stock: Class A and Class B.

### *Voting Rights*

The holders of Class A common stock and Class B common stock have identical rights except that (i) holders of Class A common stock are entitled to one vote per share, while holders of Class B common stock are entitled to ten votes per share on all matters to be voted on by stockholders in general, and (ii) holders of Class A common stock are not eligible to vote on matters relating exclusively to Class B common stock and vice versa. Class B holders are entitled to convert their shares into Class A shares on a one-for-one basis.

### *Stock Based Compensation*

During 2014, the Company issued 5,000 RSAs at a grant date fair value of \$52.00 per share.

During 2015, the Company did not issue any RSAs.

As of December 31, 2015 and 2014, there were 7,500 RSAs outstanding at an average grant price of \$44.32 per share.

For the years ended December 31, 2015, 2014 and 2013, the Company recorded \$84,201, \$23,824 and \$1,528, respectively, in stock based compensation expense which resulted in tax benefits of \$30,548, \$8,181 and \$505, respectively.

The total compensation costs related to non-vested awards not yet recognized is \$222,821 as of December 31, 2015. This will be recognized as expense in the following periods:

<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
\$ 83,397	\$ 71,663	\$ 39,161	\$ 28,600

No restricted stock awards vested during 2015, 2014 and 2013.

### *Dividends*

During 2015, 2014 and 2013, the Company declared dividends of \$0.20, \$0.20 and \$0.05, respectively, per share to Class A and Class B stockholders totaling \$220,442, \$221,526 and \$55,181, respectively.

## F. Commitments

The Company rents office space pursuant to a sublease with GAMCO, which expires on December 31, 2028. On September 1, 2014, an additional 485 square feet of office space at the same location was subleased from LICT Corporation in an agreement which expires on December 5, 2023.

Future minimum lease payments under these agreements at December 31, 2015 are as follows:

2016	\$ 86,675
2017	86,675
2018	86,675
2019	86,675
2020	86,675
Thereafter	594,579
Total	<u>\$ 1,027,954</u>

Occupancy expense amounted to \$89,418, \$82,961 and \$75,958 in 2015, 2014 and 2013, respectively.

The Company established a \$1.5 million line of credit with a bank in October 2013. Interest under the line is computed based on the then existing prime rate as disclosed in the Wall Street Journal plus a margin of 1.125% per annum. The facility is subject to certain covenants including the maintenance of a minimum Interest Coverage Ratio of no less than 2.0x, tested quarterly. On January 1, 2015 an unused line fee to accrue at 0.50% per annum, payable quarterly in arrears, was added. During 2015 and 2014, the Company did not have any borrowings under the facility.

## **G. Related Party Transactions**

The following is a summary of certain related party transactions.

Mario J. Gabelli ("Mr. Gabelli") is the controlling shareholder of Teton through his control of E3M 2014 LLC and GGCP Holdings LLC, a wholly owned subsidiary of GGCP, Inc.

E3M 2014 LLC Inc. owned approximately 27.1% of Teton's Class A and B shares and GGCP Holdings LLC owned approximately 27.1% of Teton's Class A and B shares as of December 31, 2015.

Teton invests the majority of its cash equivalents in a money market mutual fund managed by Gabelli Funds, LLC ("Gabelli Funds"). Gabelli Funds is owned 100% by GAMCO Investors, Inc. ("GAMCO"), a majority-owned subsidiary of GGCP, Inc. At December 31, 2015 and 2014, Teton had \$10,154,489 and \$6,209,996, respectively, in this money market fund and earned \$1,066, \$78 and \$97 for the years ended December 31, 2015, 2014 and 2013, respectively. In addition, Investment Securities is comprised of an investment in the TETON Westwood Mid-Cap Equity Fund. At December 31, 2015 and 2014, Teton had \$102,928 and \$106,647, respectively, in this mutual fund.

G.distributors, a subsidiary of GAMCO, 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.

Teton paid GAMCO marketing and administrative fees based on the average net assets of the Funds, amounting to \$1,934,852, \$2,032,807 and \$1,593,530 for the years ended December 31, 2015, 2014 and 2013, respectively. Effective January 1, 2011, Teton and GAMCO renegotiated the sub-administration contract to be based on a tiered formula as opposed to a fixed rate. Under the new contract, Teton pays 20 basis points annually on the first \$370 million of average AUM in the Funds, 12 basis points annually on the next \$630 million of average AUM in the Funds and 10 basis points annually on the average AUM in the Funds in excess of \$1 billion. As a result, the effective rate for 2015, 2014 and 2013 was 13.4 basis points, 13.2 basis and 14.4 basis points, respectively. Teton also paid GAMCO reimbursement for compensation, which amounted to \$1,871,117, \$2,007,279 and \$1,318,328 for the years ended December 31, 2015, 2014 and 2013, respectively. Teton and GAMCO have also entered into an administrative and management services agreement. Under the agreement, Teton paid GAMCO \$300,000, \$270,000 and \$180,000 for the years ended December 31, 2015, 2014 and 2013.

Teton is charged or incurs certain overhead expenses that are also paid by other affiliates. These overhead expenses are allocated to the Company by GAMCO, if general and administrative related, and by Gabelli Securities, Inc., if payroll related, as the expenses are incurred, based upon methodologies periodically reviewed by the management of the Company and the affiliates for reasonableness. The methodologies of the allocation are based on usage of shared services, whether personnel, administrative or other. Each service is analyzed by management as to the users of the service and is allocated in proportion to that usage at the cost of the particular service.

Teton's receivables and payables to affiliates at December 31, 2015 and 2014 are non-interest bearing and are receivable and payable on demand. At December 31, 2015 and 2014, the amount payable to GAMCO was \$493,385 and \$580,734, respectively, and the amount payable relating to wholesaler payouts was \$120,375 and \$319,198, respectively. The amount receivable from G.distributors at December 31, 2015 and 2014 was \$19,809 and \$51,162, respectively. The amount payable to Gabelli Funds at December 31, 2015 and 2014 was \$4,448 and \$4,376, respectively.



## H. Quarterly Financial Information (Unaudited)

Quarterly financial information for the years ended December 31, 2015 and 2014 is presented below.

	2015				
	1st	2nd	3rd	4th	Full Year
Revenues	\$4,539,534	\$4,558,642	\$4,240,301	\$3,867,645	\$17,206,122
Income before income taxes	1,606,175	1,715,557	1,563,615	1,475,169	6,360,516
Net income	1,011,890	1,080,801	985,077	932,706	4,010,474
Net income per share:					
Basic	\$ 0.92	\$ 0.99	\$ 0.90	\$ 0.85	\$ 3.65
Fully diluted	\$ 0.92	\$ 0.99	\$ 0.90	\$ 0.85	\$ 3.65

	2014				
	1st	2nd	3rd	4th	Full Year
Revenues	4,700,320	4,881,483	4,884,058	4,761,382	19,227,243
Income before income taxes	1,608,328	1,686,667	1,776,588	1,656,255	6,727,838
Net income	1,001,988	1,050,794	1,106,814	1,109,287	4,268,883
Net income per share:					
Basic	\$ 0.91	\$ 0.95	\$ 1.00	\$ 1.01	\$ 3.87
Fully diluted	\$ 0.91	\$ 0.95	\$ 1.00	\$ 1.01	\$ 3.87

## I. Other Matters

The Company has entered into arrangements with various third parties many of which provide for indemnification of the third parties against losses, costs, claims and liabilities arising from the performance of obligations under the agreements. The Company has had no claims or payments pursuant to these or prior agreements, and believes the likelihood of a claim being made is remote. The Company's estimate of the value of such agreements is de minimis, and therefore an accrual has not been made in the financial statements.

## J. Subsequent Events

On February 17, 2016, Teton announced that its Board of Directors declared a regular quarterly dividend of \$0.05 per share on its Class A and Class B Common Stock payable on March 29, 2016 to its Class A and Class B shareholders of record on March 15, 2016.

The Company has evaluated events and transactions through March 31, 2016, the date that the financial statements were issued, for potential recognition or disclosure in the financial statements, as required by GAAP.

**TETON ADVISORS, INC.**  
**DIRECTORS, OFFICERS, AND OTHER INFORMATION**

**Board of Directors**

**Howard F. Ward, CFA**

*Chairman of Teton Advisors, Inc.  
Director of Growth Equities  
Portfolio Manager - GAMCO Growth Fund  
Portfolio Manager - GAMCO Global Growth Fund  
GAMCO Investors, Inc.*

**Vincent J. Amabile**

*Founder  
Amabile Partners*

**Nicholas F. Galluccio**

*President and Chief Executive Officer  
Portfolio Manager - TETON Westwood SmallCap  
Equity Fund and Teton Small Cap Value Equity Strategy  
Teton Advisors, Inc.*

**John M. Tesoro**

*Audit Committee Chair of Teton Advisors, Inc.  
Retired Partner, KPMG LLP  
Independent Trustee of The Bridge Builder Trust  
and BBH Trust  
Independent Director of Siena Capital Finance LLC*

**Officers**

**Nicholas F. Galluccio**

*President and Chief Executive Officer*

**Michael Mancuso**

*Chief Financial Officer*

**David M. Goldman**

*General Counsel & Chief Compliance Officer*

**Corporate and Shareholder Information**

**Investor Relations**

For our Annual Report and other shareholder information, visit our website at **www.tetonadv.com** or write to:

One Corporate Center  
401 Theodore Fremd Avenue  
Rye, New York 10580-1422  
914-457-1077  
email: [info@tetonadv.com](mailto:info@tetonadv.com)

**Transfer Agent**

American Stock Transfer & Trust Company  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219  
800-937-5449

**Trading Information**

OTC Markets Group  
Class A Common Stock  
Symbol: TETAA

**Website**

[www.tetonadv.com](http://www.tetonadv.com)

**Investment Services Information**

Mutual Funds  
800-WESTWOOD  
email: [info@gabelli.com](mailto:info@gabelli.com)

**Institutional Accounts**

914-457-1070  
email: [info@tetonadv.com](mailto:info@tetonadv.com)

**Annual Meeting**

Our 2016 Annual Meeting of Shareholders will be held at 4:00 p.m., Eastern Time, on May 25, 2016 at our offices at 401 Theodore Fremd Avenue, Rye, NY 10580.



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