



**2017 ANNUAL REPORT**





April 2, 2018

## **Teton Advisors 2017 Shareholder Letter**

Dear Shareholders,

Teton Advisors, Inc. (OTC Pink: TETAA) has crossed a major milestone with the one year anniversary of its acquisition of Keeley Asset Management Corp. (KAMCO). I believe that this transaction was a transformational event for Teton. The resulting combination of two well-established, active asset managers into a scalable micro, small and mid-cap focused investment firm has been accretive to Teton's earnings and cash flow since the date of closing. In addition, our product suite nearly doubled and is now comprised of twelve mutual funds and five separate account strategies. The coming year will be our first full year of operation as a combined firm, and we will strive to use these collective resources to enhance shareholder value.

Assets under management (AUM) were \$3.4 billion as of December 31, 2017. This represented a \$2.0 billion increase from the \$1.4 billion in AUM as of a year ago. For the year ended December 31, 2017, Teton generated revenue of \$30 million, which represented an increase of \$16.6 million from the \$13.4 million for the prior year. Over the same period, earnings before interest, taxes, depreciation & amortization (EBITDA) were \$9.9 million (33% of gross revenue) versus \$4.2 million (31% of gross revenue) for the prior year. Fully diluted earnings per share were \$2.63, which represented an increase of \$0.24 from the \$2.39 in the prior year. Cash Earnings Per Share, a non-GAAP measure, were \$4.94 for 2017. In addition to the earnings increases presented above, we continue to return capital to shareholders. Since our March 2009 spinoff from GAMCO Investors, Inc. (NYSE: GBL), we have paid \$3.50 per share in common dividends, totaling \$4.0 million, and repurchased 214,859 common shares, an investment of \$2.5 million.

Despite these positives attributable to our firm, the industry is changing, and we expect it to become more difficult and competitive in the years ahead. Specifically, the case for active portfolio management has been under attack as global quantitative easing coupled with synchronized economic growth, led to a protracted period of low volatility and upward trending markets. This backdrop gave rise to a proliferation of index and exchange traded funds which have attracted assets at a feverish pace. When index-based funds gather more assets, they purchase all names in their index in order to match the security specific weightings within the given index. This across-the-board buying activity has the effect of driving up the prices of all the underlying securities within the index. Conversely, in a more difficult market environment, investor sales of index and exchange traded funds could drive down the prices of all the underlying securities within the index. This trend reversal became apparent in February's multiple sharp market declines of 4%. In essence, the fear and liquidity needs of investors in passive index vehicles could cause a potential "rush for the exits" resulting in short-term price moves that don't necessarily

reflect a security's intrinsic value. We believe these price distortions will be more prevalent in micro, small and mid-cap securities where we focus our research, and we expect to capitalize accordingly. We further believe that active management allows portfolio managers to continuously evaluate the overall market, specific stocks and underlying risks to take advantage of investment opportunities. Passive investment vehicles are just that, passive. While index funds have benefitted from rising markets, they cannot protect investors when these investment products move as a herd.

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. In essence, the areas where the threat of passive investment competition is minimized. Our family of seven TETON Westwood Funds has compiled solid long-term investment results, and we believe it is well positioned to capture significant inflows. The TETON Westwood Funds, along with the five KEELEY Funds and separate account strategies, have enabled us to accelerate our marketing efforts, and we have seen positive flows in our best performing products. Our growth strategy is multi-dimensional: organic growth is the major thrust with a heavy retail mutual fund mix to our product offerings and distribution channels. Toward that goal, we rely on the expertise of G.distributors, LLC, a wholly-owned subsidiary of GAMCO Investors, Inc. to distribute both the TETON Westwood Funds and the KEELEY Funds. On the separate account side of our business, we have adopted a similar structure through the recent signing of a marketing agreement with Tessera Capital Partners, LLC. It is our expectation that this relationship will enhance our marketing efforts in the endowment, foundation and institutional space.

Despite the headwinds discussed earlier, we remain bullish on the growth potential of the asset management industry. In the U.S., stock market gains can be attributed to improving corporate profitability driven by economic data that is setting six year records. Listed companies, for example, are at their most profitable on record after a banner year of earnings growth. The earnings per share of a Factset index of more than 20,000 global listed companies showed a 19% increase in profits over the past year, the strongest year over year rise since 2011.

Following an extended period of rising markets, driven by global quantitative easing, the quarter saw a return of volatility, with sharp declines in February and March. The market corrections appeared to be triggered by concerns over Federal Reserve monetary tightening, rising LIBOR rates, and retaliation over trade tariffs imposed by President Trump. Another cause of market turbulence has been the shift of fund flows to computer driven passive investing. Exchange traded funds accounted for as much as 40 percent of total stock trading on market decline days. Against this backdrop, stock pickers are entering an environment where they can demonstrate their ability to add value. Small cap stocks had their best January performance since 2013, with a gain of 2.6 percent and held steady in March, while larger multinationals stumbled given their greater sensitivity to trade and protectionism. Investors fear that the Trump administration's tariffs on steel and aluminum imports could crimp profits for large manufacturers whose products rely heavily on those materials. They worry that retaliatory trade measures, from China, in particular, could more broadly impact profits of U.S. multinationals. The small cap Russell 2000 companies, for example, get 19% of revenue from overseas, compared with 39% in the large cap Russell 1000.

The current bull market marked its ninth anniversary in March. While some valuations appear stretched, many companies have been left behind as value stocks have underperformed growth stocks

for the past decade. Given the outlook for an improving economy, accompanied by near record low unemployment, we remain constructive on the outlook for continued market gains, as we seek to uncover the mispriced equities of excellent companies selling at a discount to intrinsic value. At Teton, we focus on underfollowed and misunderstood companies. We employ fundamental research and bottom up analysis to identify catalysts that unlock value.

While building an asset manager presents many challenges, we believe that the successful integration of our recent acquisition, the potential for organic growth in our expanded product suite, and other strategic opportunities will enable us to achieve even greater scale over the next three years. As a fellow shareholder, please know that I am fully committed to building value for us together.

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-GABELLI or visit [www.tetonadv.com](http://www.tetonadv.com) or [www.keeleyfunds.com](http://www.keeleyfunds.com). 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-GABELLI, or contacting your financial representative or by visiting [www.tetonadv.com](http://www.tetonadv.com) or [www.keeleyfunds.com](http://www.keeleyfunds.com).**

***Bonds, if held to maturity, have the ability to return the principal investment while stocks make no such offer. The TETON Westwood Funds and KEELEY Funds are distributed by G. distributors, LLC. One Corporate Center, Rye, NY 10580, 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, 2017**

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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., a Delaware corporation, and its consolidated subsidiary taken as a whole.

### 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. (OTC PINK: TETAA). Teton’s principal executive office is located at One Corporate Center, Rye, New York 10580.

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

On February 28, 2017, Teton acquired the assets of Keeley Asset Management Corp. (“KAMCO”) in a newly formed, wholly-owned subsidiary, Keeley-Teton Advisors, LLC (“Keeley-Teton”). Keeley-Teton serves as the investment advisor for the KEELEY Funds and separately managed accounts. The acquisition expanded Teton’s product suite to twelve mutual funds under the TETON Westwood and KEELEY Funds Brands (collectively referred to herein as the “Funds”), along with various separately managed account strategies.

Teton is a registered investment advisor and serves as the investment manager for the TETON Westwood Funds, seven funds with assets under management (“AUM”) of \$1.6 billion at December 31, 2017. Teton’s website is [www.tetonadv.com](http://www.tetonadv.com).

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 Convertible Securities Fund
- TETON Westwood Equity Fund
- TETON Westwood Balanced Fund
- TETON Westwood Intermediate Bond Fund

Keeley-Teton is a registered investment advisor and serves as the investment manager for the KEELEY Funds, five funds with assets under management (“AUM”) of \$1.2 billion at December 31, 2017. Keeley-Teton’s website is [www.keeleyteton.com](http://www.keeleyteton.com).

The KEELEY Funds consist of the following five funds:

- KEELEY Small Cap Value Fund
- KEELEY Small Cap Dividend Fund
- KEELEY Small-Mid Cap Fund
- KEELEY Mid Cap Dividend Value Fund
- KEELEY All Cap Value Fund

Teton has retained Gabelli Funds, LLC, a subsidiary of GAMCO Investors, Inc., a NYSE listed company, to act as sub-advisor for the TETON Westwood Mighty Mites Fund and the TETON Convertible Securities Fund. Teton has also retained Westwood Management Corporation, (“WMC”) a subsidiary of Westwood Holdings Group, Inc. (NYSE: WHG) to act as sub-advisor for the TETON Westwood Balanced Fund and the TETON Westwood Equity Fund. The remainder of the TETON Westwood funds are advised directly by Teton, and all of the KEELEY Funds are advised by Keeley-Teton.

In addition to the Funds, the Company acts as investment adviser to various separately managed and wrap product accounts. The total assets under management of these accounts were \$0.6 billion at December 31, 2017.

G.distributors, LLC (“G.distributors”), an affiliate of Teton and a subsidiary of GAMCO, distributes both the TETON Westwood and KEELEY Funds pursuant to distribution agreements with each fund.

### **Business Strategy**

Our business strategy targets global growth of the franchise through continued leveraging of our asset management capabilities, including our brand name and long-term investment performance records.

**Open-End Funds:** Teton provides advisory services to the Funds, consisting of twelve open-end funds, eight of which are managed on a day-to-day basis by Teton, two of which are sub-advised by Gabelli Funds, LLC, and two of which are sub-advised by Westwood Management Corp. AUM in open-end Funds was approximately \$2.8 billion at December 31, 2017, an increase of 115% from the \$1.3 billion of AUM at December 31, 2016.

We market our open-end funds primarily through third party distribution programs, including no-transaction fee (“NTF”) programs, and have developed additional share classes for many of our funds for distribution through additional third party distribution channels. At December 31, 2017, third party distribution programs accounted for approximately 93% of all assets in TETON Westwood open-end funds, and 99% of all assets in KEELEY Funds. At December 31, 2017, approximately 7% of TETON Westwood Fund AUM and 1% of KEELEY Funds AUM in open-end funds were sourced through G.distributors direct sales relationships.

**Separate, Private Client and Wrap Accounts:** Beginning in 2009, we provided investment management services to separate account clients. In connection with our acquisition of KAMCO in 2017, we expanded our investment advisory service offerings to include private client and wrap accounts. At December 31, 2017, we had \$625.6 million of AUM in these product offerings, an increase of \$587.5 million, from the \$38.0 million in this segment at December 31, 2016. In general, our separate, private client and wrap accounts will be managed to meet the specific needs and objectives of each client. The investment advisory agreements for our separate, private client and wrap account clients are subject to termination by the client without penalty on 30 days’ notice.

Shareholders of the open-end TETON Westwood Funds are allowed to exchange shares among the same class of shares of the other open-end TETON Westwood Funds as well as the Gabelli/GAMCO open-end funds as economic and market conditions and investor needs change at no additional cost. Shareholders of the KEELEY Funds are allowed to exchange shares among the same class of shares of the other open-end KEELEY 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 may 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.

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 contracts or sub-contracts with 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 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.

Hereafter, 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., a Delaware corporation, and its consolidated subsidiary taken as a whole.

## 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.)
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2017 / 2016</u>
Equities	\$ 3,356	\$ 1,361	\$ 1,456	\$ 2,102	\$ 2,003	146.6%
Fixed Income	23	19	19	21	22	21.1%
Total Assets Under Management	<u>\$ 3,379</u>	<u>\$ 1,380</u>	<u>\$ 1,475</u>	<u>\$ 2,123</u>	<u>\$ 2,025</u>	144.9%

## Distribution, Marketing and Shareholder Servicing

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. Through a service agreement with GAMCO Investors, Inc., Teton utilizes the G.distributors wholesaler and internal marketing force to gather assets in these 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, small-mid (SMID) and mid cap equity asset classes. The marketing effort is focused on sub-advisory and traditional separate accounts, as well as private client and wrap accounts. The target market consists of insurance companies, commercial banks, institutions and charitable organizations 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 and financial intermediaries programs for the Funds, 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, certain share classes of the Funds are subject to 12b-1 distribution plans (the "12b-1 Plans"). Pursuant to the 12b-1 Plans, the Class AAA shares of the TETON Westwood Funds and the Class A shares of the KEELEY Funds pay 0.25% per year on the average daily net assets of the fund, the Class A shares of the TETON Westwood Funds pay 0.35% or 0.50% per year on the average daily net assets of the fund, and the Class C and Class T shares of the TETON Westwood Funds pay 1.00% per year on the average daily net assets of the fund. The payments are made to G.distributors and other third-party broker-dealers.

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 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.

Keeley-Teton serves as the shareholder servicing agent of the KEELEY Funds pursuant to a shareholder servicing plan and agreement. Under the shareholder servicing agreement, Keeley Teton is responsible for providing non-distribution, shareholder support services to certain shareholders of the KEELEY Funds. Pursuant to the shareholder service plan, all share classes of the KEELEY Funds pay Keeley-Teton 0.05% per year on the average daily net assets of each Fund. The payments are made to Keeley-Teton by the Funds, and Keeley-Teton in turn remits such payments to various third-party intermediaries. The shareholder servicing agreement and plan may continue in effect from year to year only if specifically approved at least annually by the Funds' Board of Trustees, 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 Fund may terminate its shareholder servicing agreement and plan, or any agreement thereunder, at any time by a vote of the majority of the trustees cast in person at a meeting called for the purpose of voting on such termination.

### **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 contracts or sub-contracts with 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 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 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 with the TETON Westwood Funds 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 and Equity Funds, and Teton paid Westwood Management Corporation a sub-advisory fee at the same rate on the net revenues of the Intermediate Bond Funds for a portion of the year. "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 2017, 2016 and 2015, the sub-advisory fee paid to Westwood Management Corporation by Teton amounted to \$300,560, \$303,013 and \$327,404, 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. On August 31, 2017, Teton terminated the sub-advisory fee agreement with Westwood Management Corporation on the TETON Westwood Intermediate Bond Fund. This fund is now managed in-house. On February 27, 2017, Teton entered into a sub-advisory agreement whereby Gabelli Funds, LLC became the sub-advisor to the TETON Westwood Mighty Mites Fund and the TETON Convertible Securities Fund. Pursuant to this agreement, Teton pays Gabelli Funds, LLC 32% of the revenue generated by the Mighty Mites and Convertible Securities Funds. For 2017, the sub-advisory fees paid to Gabelli Funds, LLC by Teton amounted to \$3,433,741. This agreement may be terminated by Gabelli Funds, LLC 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 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.

The market for providing investment management services to institutional, private wealth management and wrap clients is also highly competitive. Approximately 17% of our investment advisory fee revenue for the year ended December 31, 2017 was derived from our institutional, private wealth management and wrap businesses. Selection of investment advisors by U.S. institutional investors is often subject to a screening process and to favorable recommendations by investment industry consultants. Many of these investors require their investment advisors to have a successful and sustained performance record, often five years or longer with focus also on one-year and three-year performance records.

## **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. As of the date of this report, 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. Both Teton and Keeley-Teton are registered with the SEC under the Investment Advisers Act of 1940 ("Investment Advisers Act"), and the respective 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 may 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 the Company.

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 the Company.

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 on our business and results. 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**

Following the KAMCO acquisition, as of December 31, 2017, we had a total of 28 full time staff, of whom 16 served in the portfolio management, portfolio management support and trading areas, 2 served in the marketing and shareholder servicing areas, and 10 served in the administration area. Additionally, through our Administrative Services Agreement with GAMCO, we are provided additional services including, but not limited to, trading, and administration services, operational and general administrative assistance, including office space, and office equipment services, and legal, regulatory and compliance advice as needed.

## **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 may have actual or potential conflicts of interest because of their ownership in GAMCO.*

One of our directors owns shares of GAMCO common stock. 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 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 may make decisions in their GAMCO capacity that could 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 Services 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.

*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.

*We derive a substantial portion of our revenues from investment advisory contracts that may be terminated on short notice or may not be renewed by clients.*

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, private client or wrap 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, private client or wrap 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, rebalancing decisions, 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 us. 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 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.

*There may be adverse effects on our on our business 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. The securities markets in general have experienced significant volatility, and such volatility may continue or increase in the future. At December 31, 2017, approximately 99% of our AUM was invested in portfolios consisting primarily of equity securities. 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 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 \$1.5 billion, or 93%, of our TETON Westwood AUM, and approximately 99% of KEELEY Funds AUM in the Funds as of December 31, 2017 were obtained through third-party distribution programs which includes the Broker Dealer, NTF 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.

*Cybersecurity*

Like all companies, we may be susceptible to operational and information security risks. Cybersecurity failures or breaches of the company or its service providers have the ability to cause disruptions and impact our business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs. The Company could be negatively impacted as a result.

*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, in many instances, larger companies.*

The asset management business is intensely competitive. 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.distributors, will advance the first year's broker commission in exchange for collecting the first years' 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 fully 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 under the symbol: TETAA. 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 72% of voting control. As long as GGCP, Inc. owns a majority of the combined voting power of our common stock, it 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, preferred 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. As well as other securities laws, by the Department of Labor, under ERISA and regulation by FINRA and other state regulators. The Funds managed by Funds Advisor are registered with the SEC as investment companies under the Investment Company Act. The Investment Advisers Act imposes numerous obligations on investment advisors, including recordkeeping, advertising and operating requirements, fiduciary and disclosure obligations, custodial requirements 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 advisors. In addition, our businesses are also subject to regulation by the Financial Services Authority in the United Kingdom, and we are also subject to the laws of other non-U.S. jurisdictions and non-U.S. regulatory agencies or bodies. Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our subsidiaries’ registrations as an investment advisor or broker-dealer. Industry regulations are designed to protect our clients and investors in our funds and other third parties who deal with us and to ensure the integrity of the financial markets. Our industry is frequently altered by new laws or regulations and by revisions to, and evolving interpretations of, existing laws and regulations, both in the U.S. and in other nations. Changes in laws or regulations or in governmental policies could limit the sources and amounts of our revenues including but not limited to distribution revenue under the Company Act, increase our costs of doing business, decrease our profitability and materially and adversely affect our business.

### **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 contiguous office space at the same location was subleased from LICT Corporation in an agreement which expires on December 5, 2023. We also lease 8,775 square feet of space in Chicago, Illinois with a lease expiration date of August 31, 2019.

### **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 2017, Teton Advisors, Inc. bought back 6,384 shares of Class A Common stock.

As of December 31, 2017, there were 22 Class A common stockholders of record and 139 Class B common stockholders of record.

	2017		2016	
	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 were to 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 entire 5,000 share grant was forfeited on December 31, 2016 prior to any shares vesting

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, 2017, 1,000 shares are no longer restricted.

The Board granted 10,000 shares of its Class A Common Stock to an employee on August 28, 2017 (“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, 2017, there were 87,500 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 Consolidated Financial Statements of Teton Advisors, Inc. and related notes included in this report.

	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
<b>Income Statement Data (audited)</b>					
Revenues:					
Investment advisory fees	\$ 29,673,008	\$ 13,208,229	\$ 16,834,629	\$ 18,356,525	\$ 13,758,658
Distribution fees	216,119	179,581	374,096	866,170	436,595
Other income, net	74,157	44,757	(2,603)	4,548	389
Total revenues	<u>29,963,284</u>	<u>13,432,567</u>	<u>17,206,122</u>	<u>19,227,243</u>	<u>14,195,642</u>
Expenses:					
Compensation	8,571,309	4,796,860	6,290,861	6,855,692	5,268,670
Marketing and administrative fees	1,936,662	1,701,098	1,934,852	2,032,807	1,593,530
Distribution costs and expense reimbursements	3,363,672	1,066,585	1,074,271	1,638,486	1,531,243
Advanced commissions	197,419	146,566	327,766	787,230	407,818
Sub-advisory fees	3,734,300	303,013	327,040	360,277	371,675
Other operating expenses	2,213,927	1,259,745	881,369	817,824	663,053
Total operating expenses	<u>20,017,289</u>	<u>9,273,867</u>	<u>10,836,159</u>	<u>12,492,316</u>	<u>9,835,989</u>
Income before interest, depreciation and amortization	9,945,995	4,158,700	6,369,963	6,734,927	4,359,653
Interest expense	854,817	-	-	-	-
Depreciation and amortization expense	908,036	7,506	9,447	7,089	5,932
Income before income taxes	8,183,142	4,151,194	6,360,516	6,727,838	4,353,721
Income tax provision	3,314,454	1,527,267	2,350,042	2,458,955	1,619,509
Net income	<u>\$ 4,868,688</u>	<u>\$ 2,623,927</u>	<u>\$ 4,010,474</u>	<u>\$ 4,268,883</u>	<u>\$ 2,734,212</u>
Net income per share:					
Basic	<u>\$ 2.83</u>	<u>\$ 2.39</u>	<u>\$ 3.65</u>	<u>\$ 3.87</u>	<u>\$ 2.48</u>
Fully diluted	<u>\$ 2.63</u>	<u>\$ 2.39</u>	<u>\$ 3.65</u>	<u>\$ 3.87</u>	<u>\$ 2.48</u>
Weighted average shares outstanding:					
Basic	<u>1,157,272</u>	<u>1,095,994</u>	<u>1,097,550</u>	<u>1,101,929</u>	<u>1,104,173</u>
Fully diluted	<u>1,244,306</u>	<u>1,099,264</u>	<u>1,099,052</u>	<u>1,102,646</u>	<u>1,104,173</u>
Actual shares outstanding at December 31st (a)	<u>1,176,883</u>	<u>1,098,267</u>	<u>1,103,488</u>	<u>1,104,469</u>	<u>1,105,757</u>
Dividends declared	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.05</u>

(a) Includes 11,500, 1,500, 7,500, 7,500 and 2,500 of unvested RSAs for the five years ended December, 2017, 2016, 2015, 2014 and 2013, respectively

	December 31,				
	2017	2016	2015	2014	2013
<b>Balance Sheet Data (audited)</b>					
Total assets	\$ 31,921,960	\$ 15,073,592	\$ 12,292,255	\$ 8,908,820	\$ 5,112,226
Total liabilities and preferred stock	11,004,769	2,052,747	1,613,816	2,055,258	2,016,350
Total stockholders' equity	20,917,191	13,020,845	10,678,439	6,853,562	3,095,876

**December 31,**

	2017	2016	2015	2014	2013
<b>Assets Under Management (unaudited)</b>					
(at year end, in millions):					
<b>Mutual Funds:</b>					
Equities	\$ 2,730	\$ 1,323	\$ 1,219	\$ 1,550	\$ 1,465
Fixed income	23	19	19	21	22
Separate accounts	297	38	237	552	538
Private clients	200	-	-	-	-
Wrap	129	-	-	-	-
<b>Total</b>	<b>\$ 3,379</b>	<b>\$ 1,380</b>	<b>\$ 1,475</b>	<b>\$ 2,123</b>	<b>\$ 2,025</b>

## 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 Consolidated 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 is directly influenced by the level and changes of the overall equity markets, can 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, private client and wrap 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, private client and wrap account clients are generally computed quarterly based on account values as of the end of the preceding or current quarter in accordance with the terms of each client’s investment advisory agreement. 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 \$6,570,913 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 \$20,917,191 on December 31, 2017 compared to \$13,020,845 on December 31, 2016. The increase in stockholders' equity from the end of 2016 was largely the result of the financing and acquisition of KAMCO assets on February 28, 2017, as well as net income of \$4,868,688, offset by the declaration of common and preferred dividends of \$400,500 and the repurchase of stock of \$241,496.

**Assets Under Management Highlights** (unaudited)

We reported assets under management as follows

(dollars in millions):

	<u>2017 (a)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<b>% Inc. (Dec.) 2017 / 2016</b>
Equities	\$ 3,356	\$ 1,361	\$ 1,456	\$ 2,102	\$ 2,003	146.6%
Fixed Income	23	19	19	21	22	21.1%
Total Assets Under Management	<u>\$ 3,379</u>	<u>\$ 1,380</u>	<u>\$ 1,475</u>	<u>\$ 2,123</u>	<u>\$ 2,025</u>	144.9%

(a) Includes \$1,764 million of AUM acquired in connection with the KAMCO acquisition.

For the five years ended December 31, 2017, our net cash inflows or outflows by product line were as follows (in millions):

	<u>2017 (a)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Mutual Funds</b>					
Equities	\$ (243)	\$ (107)	\$ (244)	\$ 66	\$ 345
Fixed income	(5)	(3)	(2)	-	(3)
Separate accounts	(411)	(211)	(311)	(28)	-
Private clients	9	-	-	-	-
Wrap	(56)	-	-	-	-
Total net (outflows) inflows	<u>\$ (706)</u>	<u>\$ (321)</u>	<u>\$ (557)</u>	<u>\$ 38</u>	<u>\$ 342</u>

(a) Excludes the impact of \$2,396 million in equity AUM acquired in connection with the KAMCO acquisition on February 28, 2017.

For the five years ended December 31, 2017, our net appreciation and depreciation by product line were as follows (in millions):

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Mutual Funds</b>					
Equities	\$ 247	\$ 211	\$ (87)	\$ 19	\$ 324
Fixed income	2	3	-	-	(2)
Separate accounts	36	12	(4)	42	99
Private clients	17	-	-	-	-
Wrap	11	-	-	-	-
Total net appreciation (depreciation)	<u>\$ 313</u>	<u>\$ 226</u>	<u>\$ (91)</u>	<u>\$ 61</u>	<u>\$ 421</u>

## Operating Results for the Year Ended December 31, 2017 as Compared to the Year Ended December 31, 2016

### Revenues

Total revenues were \$29,963,284 in 2017, \$16,530,717 or 123.1% greater than the total revenues of \$13,432,567 in 2016. The change in total revenues by revenue component was as follows:

(unaudited)			Increase (decrease)	
	2017	2016	\$	%
<b>Investment advisory fees</b>				
Open-end mutual funds	\$ 24,684,739	\$ 11,741,989	\$ 12,942,750	110.2%
Separate accounts	3,338,305	1,466,240	1,872,065	127.7%
Private clients	920,621	-	920,621	n/a
Wrap	729,343	-	729,343	n/a
Total investment advisory fees	29,673,008	13,208,229	16,464,779	124.7%
Distribution fees	216,119	179,581	36,538	20.3%
Other income, net	74,157	44,757	29,400	65.7%
Total revenues	\$ 29,963,284	\$ 13,432,567	\$ 16,530,717	123.1%

**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 \$29,673,008 for the year ended December 31, 2017 compared to \$13,208,229 for the year ended December 31, 2016, an increase of \$16,464,779 or 124.7%. This increase is directly correlated to the increase in average AUM from \$1.4 billion in 2016 to \$3.4 billion in 2017, an increase of \$2.0 billion, or 142.9%.

Total AUM increased to \$3.4 billion at December 31, 2017 from \$1.4 billion at December 31, 2016. This increase was primarily related to the acquisition of the KAMCO business of \$2.4 billion, as well as gross inflows of \$0.5 billion and an increase in the market value of the portfolios of \$0.3 billion, partially offset by gross outflows of \$1.2 billion.

**Distribution fees:** Distribution fees include distribution fees paid to the Company by G.distributors on the Class C Fund shares sold. Distribution fees for 2017 were \$216,119, an increase of \$36,538 from the \$179,581 in 2016 due to an increase in sales of this share class.

**Other income, net:** Other income, net includes net gains, (losses) 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 increased in 2017 versus 2016 due to net gains from investments and by higher interest rates and higher average balances of cash and cash equivalents held during the year.

### Expenses

**Compensation:** Compensation costs included staff salaries, portfolio manager compensation, revenue share and incentive compensation, stock based compensation and benefits, were \$8,571,309 for 2017 versus \$4,796,860 in 2016. This increase was primarily related to the acquisition of the KAMCO business.

Fixed compensation costs, which include salary, taxes and benefits, were \$5,255,179 in 2017, versus \$1,123,875 in the prior year period. This increase was due to the KAMCO acquisition. Stock based compensation was \$41,196 for 2017 versus \$21,051 in 2016. The remainder of the compensation expenses represents variable compensation that fluctuates with net investment advisory revenues, and annual incentive compensation. For 2017, variable compensation was \$3,274,933, versus \$3,276,900 in 2016. This small decrease in variable portfolio manager compensation was primarily the result of the TETON Westwood Mighty Mites fund moving to a sub-advisory relationship effective March 1, 2017, offset by increased variable compensation related to the acquisition of KAMCO.

**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 the TETON Westwood funds, and based on the average AUM in the Funds, were \$1,936,662 for 2017, a 13.8% increase from \$1,701,098 in the prior year. Average AUM in the



Funds was \$1.4 billion in 2017, an increase of 19.7% from the 2016 average of \$1.2 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 2017 and 2016, the effective rate was 13.4 basis points and 14.1 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 \$3,363,672 for 2017, an increase of \$2,297,087 from \$1,066,585 in the prior year.

Distribution, intermediary and shareholder services 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 \$2,034,476 during 2017, an increase of \$1,297,628 from the prior year amount of \$739,848. NTF salesman payouts for 2017 and 2016 were \$163,251 and \$31,507, respectively. This increase was primarily related to the acquisition of the KAMCO business.

Expense reimbursements to the Funds were \$1,162,945 for 2017, an increase of \$867,715 from the prior year amount of \$295,230. This increase was primarily related to the acquisition of the KAMCO business.

*Advanced Commissions:* Advanced commission expense increased \$50,853 to \$197,419 in 2017 from \$146,566 in 2016. This increase is directly related to the increase in sales of Class C shares of the Funds from 2016 to 2017.

*Sub-advisory Fees:* Teton has currently retained two sub-advisers for four of the twelve Funds. Sub-advisory fees are recognized as expenses as the related services are performed. Under the first arrangement, sub-advisory fees, which are 35% of the net investment advisory revenues of the sub-advised funds, were \$300,559 for 2017, down from \$303,013 in the prior year due to lower average AUM. Under the second arrangement, the sub-advisory fees, which are 32% of the gross investment advisory revenues of the sub-advised funds, were \$3,433,741. This arrangement began in March 2017.

Average AUM in the four sub-advised funds, the key driver to investment advisory revenue, was \$1.2 billion in 2017, 711% higher than the prior year average of \$149.4 million, as a result of Teton's entering into a subadvisory agreement with GAMCO in March 2017.

*Other operating expenses:* Other operating expenses, including those charged by GAMCO, were \$2,213,927 for 2017, an increase of \$954,182 from the year ago amount of \$1,259,745. This increase was primarily related to the acquisition of the KAMCO business.

### ***Income Taxes***

The effective tax rate was 40.5% for the year ended December 31, 2017, versus 36.8% for the year ended December 31, 2016. The 2017 effective tax rate was impacted by a one-time expense related to the revaluing of our ending net deferred tax assets and other tax balances in connection with the adoption of the Tax Reform Act which was signed into law on December 22, 2017. Going forward, we expect our effective tax rate to be substantially lower.

### ***Net Income***

Net income for 2017 was \$4,868,688 or \$2.63 per fully diluted share, versus \$2,623,927 or \$2.39 per fully diluted share for 2016. Cash Earnings, a non-GAAP measure explained below, was \$6,338,362 or \$4.94 per fully diluted share, versus \$2.39 per fully diluted share for 2016.

### **Supplemental Financial Information**

As supplemental information, we provide a non-U.S. generally accepted accounting principles on ("non-GAAP") performance measure that we refer to as Cash Earnings. We provide this measure in addition to, but not as a substitute for, net income reported on a U.S. generally accepted accounting principles ("GAAP") basis. Our management and the Board of Directors review Cash Earnings to evaluate our ongoing performance, allocate resources and review our dividend policy. We believe that this non-GAAP performance measure, is useful for management and investors when evaluating our underlying operating and financial performance and our available resources. We do not advocate that investors consider this non-GAAP measure without considering financial information prepared in accordance with GAAP.

In calculating Cash Earnings, we add back to net income the non-cash expense associated with the amortization of debt discount and intangible amortization expense incurred in connection with the KAMCO acquisition. Although depreciation on property & equipment and amortization of leaseholds are also non-cash expenses, we do not add these back when calculating Cash Earnings because those charges represent a decline in the value of the related assets that will ultimately require replacement.

The following table provides a reconciliation of net income to Cash Earnings for the years presented:

	<b>For the Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 4,868,688	\$ 2,623,927	\$ 4,010,474
Add: Debt discount amortization	586,193	-	-
Add: Intangible amortization	883,481	-	-
Cash Earnings	<u>\$ 6,338,362</u>	<u>\$ 2,623,927</u>	<u>\$ 4,010,474</u>
Cash Earnings Per Fully Diluted Share (a)	<u>\$ 4.94</u>	<u>\$ 2.39</u>	<u>\$ 3.65</u>

(a) - Cash Earnings Per Fully Diluted Share reflects a reduction for cash dividends paid on Series A Preferred Stock totaling \$188,683 in 2017. It does not exclude non-cash constructive dividends paid on the Series A Preferred Stock totaling \$1,403,442 in 2017. See footnote G for further discussion.

### Operating Results for the Year Ended December 31, 2016 as Compared to the Year Ended December 31, 2015

#### Revenues

Total revenues were \$13,432,567 in 2016, \$3,773,555, or 21.9% less than the total revenues of \$17,206,122 in 2015. The change in total revenues by revenue component was as follows:

(unaudited)	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>	
			<b>\$</b>	<b>%</b>
Investment advisory fees				
Open-end mutual funds	\$ 11,741,989	\$ 13,500,832	\$ (1,758,843)	-13.0%
Separate accounts	1,466,240	3,333,797	(1,867,557)	-56.0%
Total investment advisory fees	13,208,229	16,834,629	(3,626,400)	-21.5%
Distribution fees	179,581	374,096	(194,515)	-52.0%
Other income, net	44,757	(2,603)	47,360	1819.2%
Total revenues	<u>\$ 13,432,567</u>	<u>\$ 17,206,122</u>	<u>\$ (3,773,555)</u>	<u>-21.9%</u>

**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 \$13,208,229 for the year ended December 31, 2016 compared to \$16,834,629 for the year ended December 31, 2015, a decrease of \$3,626,400 or 21.5%. This decrease is directly correlated to the decrease in average AUM from \$1.9 billion in 2015 to \$1.4 billion in 2016, a decrease of \$0.5 billion, or 24.3%.

Total AUM decreased to \$1.4 billion at December 31, 2016 from \$1.5 billion at December 31, 2015. This decrease was primarily due to gross outflows of \$537 million partially offset by gross inflows of \$216 million and an increase in the market value of portfolios of \$226 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 2016 were \$179,581, a decrease of \$194,515 from the \$374,096 in 2015 due to a significant decline in sales of the share class.

**Other income, net:** Other income, net includes net gains and losses 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 increased in 2016 versus 2015 due to net gains from investments and 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 \$4,796,860 for 2016 versus \$6,290,861 in 2015. This decrease was substantially the result of decreased portfolio management compensation, impacted by the 24.3% year over year decrease in average AUM.

Portfolio manager compensation was \$3,572,400 in 2016 as compared to \$5,104,841 in the prior year. Other compensation costs, principally staff salaries, bonuses, RSAs and benefits increased \$38,440 from the prior year. The decrease includes a contra-expense of \$131,733 related to RSA grant forfeitures.

**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 \$1,701,098 for 2016, a 12.1% decrease from \$1,934,852 in the prior year. Average AUM in the Funds was \$1.2 billion in 2016, a decrease of 16.7% from the 2015 average of \$1.4 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 2016 and 2015, the effective rate was 14.1 basis points and 13.4 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 \$1,066,585 for 2016, a decrease of \$7,686 from \$1,074,271 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 \$739,848 during 2016, a decrease of \$56,719 from the prior year amount of \$796,567. NTF salesman payouts for 2016 and 2015 were \$31,507 and \$30,178, respectively.

Expense reimbursements to the Funds were \$295,230 for 2016, an increase of \$47,704 from the prior year amount of \$247,526.

**Advanced Commissions:** Advanced commission expense decreased \$181,200 to \$146,566 in 2016 from \$327,766 in 2015. This decrease is directly related to the decrease in sales of class C shares of the Funds from 2015 to 2016.

**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 \$303,013 for 2016, down from \$327,040 in the prior year. This decrease was primarily due to a 6.1% 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 \$149.4 million in 2016, 6.0% lower than the prior year average of \$158.9 million.

**Other operating expenses:** Other operating expenses, including those charged by GAMCO, were \$1,259,745 for 2016, an increase of \$378,376 from the year ago amount of \$881,369. The increase was due to one-time items incurred in 2016, including acquisition related costs which were \$306,000.

## **Income Taxes**

The effective tax rate was 36.8% for the year ended December 31, 2016, versus 36.9% for the year ended December 31, 2015.

## **Net Income**

Net income for 2016 was \$2,623,927 or \$2.39 per fully diluted share versus \$4,010,474 or \$3.65 per fully diluted share for 2015.

## **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. In the future, Teton will require liquidity to redeem our preferred stock and pay off our long-term debt financing.

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

(unaudited)	2017	2016	2015
Cash flows provided by (used in):			
Operating activities	\$ 5,511,388	\$ 3,188,857	\$ 4,268,729
Investing activities	(23,000,000)	-	-
Financing activities	10,789,224	(174,254)	(323,525)
(Decrease) / Increase in cash and cash equivalents	(6,699,388)	3,014,603	3,945,204
Cash and cash equivalents at beginning of year	13,270,301	10,255,698	6,310,494
Cash and cash equivalents at end of year	\$ 6,570,913	\$ 13,270,301	\$ 10,255,698

Cash and liquidity requirements have historically been met through cash generated by Teton's operating activities. 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 2015, 2016 or 2017. In November 2017, the Company allowed the credit line to expire, and a replacement liquidity source was not implemented. At December 31, 2017, we had cash and cash equivalents of \$6,570,913, a decrease of \$6,699,388 from the prior year-end. The decrease was primarily attributable to the usage of a portion of cash and cash equivalents to fund the KAMCO acquisition.

Net cash provided by operating activities was \$5,511,388 for the year ended December 31, 2017. Net income of \$4,868,688 was the most significant contributor to cash provided by operating activities in 2017. The largest component of cash usage was the increase of advisory fees receivable of \$1,307,179. In 2016, net cash provided by operating activities was \$3,188,857. Net income of \$2,623,927 was the most significant contributor to cash provided by operating activities in 2016. The largest components of cash usage were the funding of the deferred sales commission of \$131,829 and a decrease in payables to affiliates of \$115,969.

Net cash used by investing activities was \$23,000,000 for the year ended December 31, 2017. This entire \$23,000,000 amount was used to complete the purchase of assets from KAMCO on February 28, 2017.

Net cash provided by financing activities was \$10,789,224 for 2017, consisting of proceeds from the issuance of preferred and common stock, as well as, proceeds from the issuance of long-term debt and warrants, \$7,500,065 and \$5,000,000, respectively. Dividends paid to shareholders of \$350,345 and the purchase of 6,384 shares of our class A Common Stock for \$241,496. In 2016, net cash used in financing activities was \$174,254, consisting of dividends paid to shareholders of \$164,991 and the purchase of 221 shares of our class A Common Stock for \$9,263.

Teton pays the up-front sales commission to broker-dealers in connection with the sale of certain classes of open-end Funds. For 2017 and 2016, Teton paid out \$215,301 and \$131,829, 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, private client and wrap 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.

### *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, 2017 cash and cash equivalents balance of \$6,570,913, a 1% increase in interest rates would increase our interest income by approximately \$65,700 annually. Given that our current return on this cash equivalent investment is 1.15% annually, an analysis of a 1% decrease is not meaningful.

## Contractual Obligations

We are obligated to make future payments under various contracts such as our debt and redeemable preferred stock agreements, as well as operating leases. The following table sets forth our significant contractual cash obligations as of December 31, 2017.

	<b>Total</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Thereafter</b>
<b>Contractual Obligations:</b>							
<b>Series A Redeemable</b>							
Preferred Stock	\$ 6,000,000	\$ -	\$ 6,000,000	\$ -	\$ -	\$ -	\$ -
<b>Dividends on Series A</b>							
Redeemable Preferred Stock	206,630	180,000	26,630	-	-	-	-
GGCP 6% Note	5,000,000	-	1,666,667	1,666,667	1,666,666	-	-
Interest on GGCP 6% Note	787,500	300,000	262,500	162,500	62,500	-	-
<b>Non-cancellable</b>							
operating lease obligations	1,293,246	349,817	262,175	86,675	86,675	86,675	421,229
<b>Total</b>	<b>\$ 13,287,376</b>	<b>\$ 829,817</b>	<b>\$ 8,217,972</b>	<b>\$ 1,915,842</b>	<b>\$ 1,815,841</b>	<b>\$ 86,675</b>	<b>\$ 421,229</b>

## 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, private client and wrap account clients are generally computed quarterly based on account values as of the end of the preceding or current quarter in accordance with the terms of each client's investment advisory agreement. 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 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 RSAs is determined by using the closing price of Class A Common Stock (“Class A Stock”) on the date of the grant. The total expense is recognized over the vesting period for these awards. 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 2017 grant, the vesting is 40% over three years from the date of grant, which was August 28, 2017, 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 \$197,419, \$146,566 and \$327,766 for the years ended December 31, 2017, 2016 and 2015, 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."

## CONSOLIDATED FINANCIAL STATEMENTS

### TETON ADVISORS, INC. AND SUBSIDIARY INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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**Independent Auditor's Report**

RSM US LLP

To the Board of Directors  
Teton Advisors, Inc.

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Teton Advisors, Inc. and its subsidiary (the Company), which comprise the consolidated statement of financial condition as of December 31, 2017, the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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 accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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. and its subsidiary as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of the Company, as of December 31, 2016 and for the years ended December 31, 2016, and December 31, 2015 were audited by other auditors, whose reports, dated March 31, 2017, and March 31, 2016, respectively expressed unmodified opinions on those statements.

*RSM US LLP*

Chicago, Illinois  
April 5, 2018

**TETON ADVISORS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Revenues</b>			
Investment advisory fees	\$ 29,673,008	\$ 13,208,229	\$ 16,834,629
Distribution fees	216,119	179,581	374,096
Other income, net	74,157	44,757	(2,603)
Total revenues	<u>29,963,284</u>	<u>13,432,567</u>	<u>17,206,122</u>
<b>Operating expenses</b>			
Compensation	8,571,309	4,796,860	6,290,861
Marketing and administrative fees	1,936,662	1,701,098	1,934,852
Distribution costs and expense reimbursements	3,363,672	1,066,585	1,074,271
Advanced commissions	197,419	146,566	327,766
Sub-advisory fees	3,734,300	303,013	327,040
Other operating expenses	2,213,927	1,259,745	881,370
Total operating expenses	<u>20,017,289</u>	<u>9,273,867</u>	<u>10,836,160</u>
Income before interest, taxes, depreciation and amortization	9,945,995	4,158,700	6,369,962
Interest expense	854,817	-	-
Depreciation and amortization expense	908,036	7,506	9,446
Income before income taxes	8,183,142	4,151,194	6,360,516
Income tax provision	3,314,454	1,527,267	2,350,042
Net income	<u>\$ 4,868,688</u>	<u>\$ 2,623,927</u>	<u>\$ 4,010,474</u>
Net income per share:			
Basic	<u>\$ 2.83</u>	<u>\$ 2.39</u>	<u>\$ 3.65</u>
Fully diluted	<u>\$ 2.63</u>	<u>\$ 2.39</u>	<u>\$ 3.65</u>
Weighted average shares outstanding:			
Basic	<u>1,157,272</u>	<u>1,095,994</u>	<u>1,097,550</u>
Fully diluted	<u>1,244,306</u>	<u>1,099,264</u>	<u>1,099,052</u>
Dividends declared - per share	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.20</u>

The accompanying notes are an integral part of these financial statements.

**TETON ADVISORS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**As of December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,570,913	\$ 13,270,301
Investment advisory fees receivable	2,620,591	1,313,412
Investment in securities	138,298	110,146
Deferred taxes receivable, net	-	97,091
Distribution and shareholder service expense reimbursement receivable	119,381	-
Income tax receivable	-	60,767
Receivable from affiliates	20,453	17,072
Goodwill and other identifiable intangible assets, net (Note B)	21,961,358	-
Contingent deferred sales commissions	97,759	79,878
Other assets (net of accumulated depreciation of \$41,862 and \$44,012, respectively)	393,207	124,925
<b>Total assets</b>	<u><u>\$ 31,921,960</u></u>	<u><u>\$ 15,073,592</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Payable to affiliates	\$ 732,491	\$ 502,239
Deferred taxes payable, net	35,569	-
Income tax payable	35,449	-
Dividends payable	105,953	55,818
Compensation payable	69,000	306,801
Distribution costs payable	456,863	159,186
Accrued expenses and other liabilities	1,230,623	1,028,703
<b>Sub total</b>	<u><u>2,665,948</u></u>	<u><u>2,052,747</u></u>
Long-term debt, net of discount (Note C)	3,183,733	-
<b>Total liabilities</b>	<u><u>5,849,681</u></u>	<u><u>2,052,747</u></u>
Commitments and contingencies (Notes D, I and L)		
Series A redeemable preferred stock, \$0.001 par value;		
75,000 shares authorized; 75,000 shares issued,		
60,000 shares outstanding (Liquidation preference of \$6,360,000), net of discount		
	5,155,088	-
Stockholders' equity:		
Class A common stock, \$0.001 par value; 1,700,000 shares authorized;		
985,825 and 975,403 shares issued, respectively;		
845,966 and 766,928 outstanding, respectively		
	974	974
Class B common stock, \$0.001 par value; 800,000 shares authorized;		
792,000 shares issued; 330,917 and 331,339 shares outstanding, respectively		
	339	339
Additional paid-in capital		
	5,005,224	644,628
Treasury stock, at cost (139,859 class A shares and 8,000 class B shares		
and 208,475 class A shares and 8,000 class B shares, respectively)		
	(1,837,826)	(2,308,830)
Retained earnings		
	17,748,480	14,683,734
<b>Total stockholders' equity</b>		
	<u><u>20,917,191</u></u>	<u><u>13,020,845</u></u>
<b>Total liabilities and stockholders' equity</b>		
	<u><u>\$ 31,921,960</u></u>	<u><u>\$ 15,073,592</u></u>

The accompanying notes are an integral part of these financial statements.

**TETON ADVISORS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2017, 2016 and 2015**

	<u>Common Stock Class A</u>	<u>Common Stock Class B</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
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
Stock buyback	-	-	-	(49,356)	-	(49,356)
Conversion of shares	2	(2)	-	-	-	-
Dividends declared	-	-	-	-	(220,442)	(220,442)
Balance at December 31, 2015	973	340	698,452	(2,299,567)	12,278,241	10,678,439
Net income	-	-	-	-	2,623,927	2,623,927
Stock based compensation	-	-	(53,824)	-	-	(53,824)
Conversion of shares	1	(1)	-	-	-	-
Stock buyback	-	-	-	(9,263)	-	(9,263)
Dividends declared	-	-	-	-	(218,434)	(218,434)
Balance at December 31, 2016	\$ 974	\$ 339	\$ 644,628	\$ (2,308,830)	\$ 14,683,734	\$ 13,020,845
Net income	-	-	-	-	4,868,688	4,868,688
Stock based compensation	-	-	41,197	-	-	41,197
Proceeds from reissuance of treasury stock	-	-	365,000	95,000	-	460,000
Issuance of preferred stock and common stock	-	-	1,551,939	617,500	-	2,169,439
Issuance of long-term debt and warrants	-	-	2,402,460	-	-	2,402,460
Amortization of discount - preferred stock	-	-	-	-	(1,171,462)	(1,171,462)
Accretion of stock value - preferred stock	-	-	-	-	(231,980)	(231,980)
Stock buyback	-	-	-	(241,496)	-	(241,496)
Dividends declared	-	-	-	-	(400,500)	(400,500)
Balance at December 31, 2017	\$ 974	\$ 339	\$ 5,005,224	\$ (1,837,826)	\$ 17,748,480	\$ 20,917,191

The accompanying notes are an integral part of these financial statements.

**TETON ADVISORS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2017, 2016 and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Operating activities</b>			
Net income	\$ 4,868,688	\$ 2,623,927	\$ 4,010,474
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, other	24,555	7,506	9,446
Deferred taxes	132,659	(79,544)	(44,584)
Amortization of contingent deferred sales commission	197,419	146,566	327,766
Amortization of intangible assets	681,481	-	-
Amortization of debt discount	586,193	-	-
Intangible asset impairment	202,000	-	-
Stock based compensation expense	41,197	(53,824)	84,201
(Increase) decrease in operating assets:			
Investment advisory fees receivable	(1,307,179)	259,986	468,225
Investment in securities	(28,152)	(7,218)	3,719
Distribution and shareholder service expense reimbursement receivable	(119,381)	-	-
Income tax receivable	60,767	(7,959)	(52,808)
Receivable from affiliates	(3,381)	2,737	31,353
Contingent deferred sales commission	(215,301)	(131,829)	(219,908)
Other assets	(137,674)	(3,431)	(5,873)
Increase (decrease) in operating liabilities:			
Payable to affiliates	230,252	(115,969)	(286,100)
Income tax payable	35,449	-	(64,317)
Compensation payable	(237,801)	124,624	(78,801)
Distribution costs payable	297,677	(18,153)	(76,961)
Accrued expenses and other liabilities	201,920	441,438	162,897
Total adjustments	<u>642,700</u>	<u>564,930</u>	<u>258,255</u>
Net cash provided by operating activities	5,511,388	3,188,857	4,268,729
<b>Investing activities</b>			
Acquisition of Keeley Asset Management Corp. assets	(23,000,000)	-	-
Net cash used in operating activities	<u>(23,000,000)</u>	<u>-</u>	<u>-</u>
<b>Financing activities</b>			
Proceeds from issuance of preferred and common stock	7,500,065	-	-
Proceeds from issuance of long-term debt and warrants	5,000,000	-	-
Proceeds from reissuance of treasury stock	460,000	-	-
Payment on preferred stock redemption	(1,579,000)	-	-
Dividends paid	(350,345)	(164,991)	(274,169)
Stock repurchase	(241,496)	(9,263)	(49,356)
Net cash provided by / (used in) financing activities	<u>10,789,224</u>	<u>(174,254)</u>	<u>(323,525)</u>
Net (decrease) increase in cash and cash equivalents	(6,699,388)	3,014,603	3,945,204
Cash and cash equivalents at beginning of year	<u>13,270,301</u>	<u>10,255,698</u>	<u>6,310,494</u>
Cash and cash equivalents at end of year	<u>\$ 6,570,913</u>	<u>\$ 13,270,301</u>	<u>\$ 10,255,698</u>
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	<u>\$ 2,806,000</u>	<u>\$ 1,485,400</u>	<u>\$ 2,352,859</u>
Cash paid for interest	<u>\$ 268,624</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

## **A. Significant Accounting Policies**

### *Basis of Presentation and Principles of Consolidation*

Teton Advisors, Inc. (“Teton” or the “Company”) (OTC PINK: TETAA) 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. 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. On February 28, 2017, Teton acquired the assets of Keeley Asset Management Corp. (“KAMCO”) in a newly formed, wholly-owned subsidiary, Keeley-Teton Advisors, LLC (“Keeley-Teton”). Keeley-Teton serves as the investment advisor for the KEELEY Funds and separately managed accounts. The acquisition expanded Teton’s product suite to twelve mutual funds under the TETON Westwood and KEELEY Funds brands (collectively referred to herein as the “Funds”), along with various separately managed account strategies. Unless we have indicated otherwise, or the context otherwise requires, references in this report to “the Company,” “we” or “us” collectively refer to Teton and Keeley-Teton. The Company’s capital structure consists of 1,700,000 shares authorized of Class A common stock with one vote per share, 800,000 shares authorized of Class B common stock with ten votes per share, and 80,000 shares authorized of preferred stock, including 75,000 shares authorized of Series A Preferred Stock with 0.1333 votes per share.

The accompanying Consolidated Financial Statements include the accounts of Teton Advisors, Inc. and its subsidiary. All intercompany accounts and transactions have been eliminated upon consolidation.

### *Reclassifications*

Certain amounts in prior periods may have been reclassified to conform to the current period presentation.

### *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 and Keeley-Teton are both registered investment advisers under the Investment Advisers Act of 1940. Teton serves as the investment manager for seven mutual funds with assets under management (“AUM”) of \$1.6 billion and \$1.3 billion at December 31, 2017 and 2016, respectively, and as the investment manager to certain separate accounts with aggregate assets of \$44.3 million and \$38.0 million at December 31, 2017 and 2016, respectively. Keeley-Teton serves as the investment manager for five mutual funds with AUM of \$1.2 billion at December 31, 2017, and as the investment manager to certain separate, private client and wrap accounts with aggregate AUM of \$581.2 million at December 31, 2017. The Company’s principal market is 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. U.S. Treasury Bills and Notes with maturities of three months or less at the time of purchase are also considered equivalents.

### *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, separate, private client and wrap 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, private client and wrap account clients are generally computed quarterly based on account values as of the end of the preceding or current quarter in accordance with the terms of each client's investment advisory agreement. Client agreements provide for such fees to be billed in arrears or advance. Fees billed in arrears are included in investment advisory fees receivable in the statements of financial condition. Fees billed in advance are recognized as income over the quarter as the investment advisory services are performed. The Company derived approximately 99%, 98% and 98% of its total revenue from advisory fees for the periods ended December 31, 2017, 2016 and 2015, respectively. 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 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 revenues (in some cases, net of 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 \$95,343 and \$41,137 at December 31, 2017 and 2016, 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 are based on the weighted-average number of common shares outstanding during each period less unvested restricted stock. Fully diluted earnings per share are based on basic shares plus the effect of any dilutive shares from the unvested restricted stock using the treasury stock method. Basic earnings per share and fully diluted earnings per share reflects the deduction of cash dividends and non-cash constructive dividends associated with the Series A Preferred Stock. Fully diluted earnings per share also reflect the impact of the issuance of common stock in connection with the exercise of outstanding stock warrants.

### *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 by using the closing price of Class A Common Stock on the date of the grant. The total expense is recognized over the vesting period for these awards. 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 2017 grant, the vesting is 40% over three years from the date of grant, which was August 28, 2017, 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 \$197,419, \$146,566 and \$327,766 for the years ended December 31, 2017, 2016 and 2015, 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 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. In March 2016, the FASB issued revised guidance which clarifies the guidance related to (a) determining the appropriate unit of account under the revenue standard’s principal versus agent guidance and (b) applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard’s control principle. In April 2016, the FASB issued an amendment to provide more detailed guidance including additional implementation guidance and examples related to a) identifying performance obligations and b) licenses of intellectual property. In May 2016, the FASB amended the standard to clarify the guidance on assessing collectability, presenting sales taxes, measuring noncash consideration, and certain transition matters. This new guidance will be effective for the Company’s first quarter of 2018 and requires either a full retrospective or a modified retrospective approach to adoption. We will adopt the new standard on its effective date, January 1, 2018. The adoption of the new standard will not have a material impact on the timing of the Company’s revenue recognition, but will affect the presentation of certain operating expenses, which will now be shown net against related revenues. In addition, the adoption of the standard will require additional disclosures in 2018.

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 impact of the adoption of this standard is not material.

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 statement of financial position. It requires these operating leases to be recorded on the balance sheet as right of use assets and offsetting lease liability obligations. This new guidance will be effective for the Company’s first quarter of 2019. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. For public companies, the ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. The Company adopted this guidance on January 1, 2017 without a material impact to the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 to simplify the process used to test for goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This new guidance will be effective for the Company’s first quarter of 2020. The Company is currently evaluating the potential effect of this new guidance on its consolidated financial statements and related disclosures.

## B. Acquisition, Goodwill and Other Intangible Assets

### Acquisition

On February 28, 2017, Teton, through Keeley-Teton, completed the acquisition of the assets of KAMCO, a privately held active asset management organization headquartered in Chicago, IL. The Company had combined AUM of \$3.8 billion at March 1, 2017. The transaction was accounted for as a business combination pursuant to ASC 805, Business Combinations. The purchase price was allocated to KAMCO's net tangible and intangible assets based upon their relative fair values as of February 28, 2017. The excess purchase price over the value of net tangible and identifiable intangible assets was recorded as goodwill. Goodwill represents the excess of the purchase price over the fair value of the underlying acquired tangible and intangible assets. The primary contributor to the recognition of goodwill was the acquired workforce.

The \$23 million purchase price was allocated as follows: i) \$7.4 million was attributed to a customer relationship intangible asset, which will be amortized over 9 years; ii) \$12.6 million was attributed to an indefinite lived mutual fund management contract intangible asset; iii) \$1.5 million was attributed to an indefinite lived trade name intangible asset; iv) \$0.1 million was attributed to tangible fixed and prepaid assets; and v) the remaining \$1.4 million was allocated to goodwill. These amounts were updated and finalized during the second quarter of 2017. In accordance with ASC 350, Intangibles – Goodwill and Other, goodwill and other intangible assets determined to have indefinite useful lives are not amortized. Instead, impairment tests are conducted on our goodwill, management contract and trademarks annually, and when circumstances indicate that the carrying value may not be recoverable. If it is determined that impairment exists, the carrying value will be reduced accordingly. For tax purposes, all intangible assets, including goodwill, will be amortized over 15 years.

In connection with this acquisition, Teton entered into separate financing agreements with John L. Keeley, Jr. Enterprises (“Keeley Enterprises”) and with Teton's controlling shareholder, GGCP, Inc. (“GGCP”). Both financing agreements are discussed in detail below.

Transaction expenses totaled approximately \$375,000.

The following unaudited pro forma financial information presents the consolidated results of the operations of Teton and the acquired business assets of KAMCO as if the acquisition had occurred as of January 1, 2016. It also includes the impact of discount amortization as well as the impact of the amortization of intangible assets acquired in the transaction, shown on a pro forma basis. The pro forma information has been included for comparative purposes and is not necessarily indicative of what the results of operations actually would have been had the acquisition been completed as of January 1, 2016. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future operating results of the Company.

	Unaudited Pro Forma - Year Ended	
	December 31, 2017	December 31, 2016
Revenues	\$ 28,700,000	\$ 28,100,000
Income before interest, taxes, depreciation and amortization	\$ 9,300,000	\$ 8,700,000
Net income	\$ 4,650,000	\$ 4,200,000

From the inception date on February 28, 2017 through December 31, 2017, the acquired operations of KAMCO contributed revenue and net income of approximately \$15,280,000 and \$2,770,000, respectively.

## Goodwill

Goodwill represents the excess of the cost of the acquired assets over the fair value of the underlying identifiable assets at the date of acquisition. Changes in goodwill are as follows:

	<u>As of December 31,</u>	
	<u>2017</u>	<u>2016</u>
Beginning balance	\$ -	\$ -
Acquired goodwill	1,364,839	-
Ending balance	<u>\$ 1,364,839</u>	<u>\$ -</u>

Goodwill is not amortized, but is tested for impairment at least annually. We completed our annual goodwill impairment assessment during the fourth quarter of 2017 and determined that no impairment loss was required.

## Other Intangible Assets

Our intangible assets represent the acquisition date fair value of acquired client relationships, mutual fund contracts and trade names, and are reflected net of amortization, where applicable. In the fourth quarter, we performed our annual review and determined that there was an impairment associated with the trade name intangible. As a result, we took an impairment charge of \$202,000 in the fourth quarter which is reflected in the depreciation and amortization line in our consolidated statement of income. The following is a summary of the other intangible assets at December 31, 2017.

	<u>For the Years Ending December 31, 2017</u>			
	<u>Weighted Average Amortization Period (years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Customer relationships	9	\$ 7,360,000	\$ (681,481)	\$ 6,678,519
Mutual fund management contract	-	12,600,000	-	12,600,000
Trade name	-	1,520,000	(202,000)	1,318,000
		<u>\$ 21,480,000</u>	<u>\$ (883,481)</u>	<u>\$ 20,596,519</u>

Amortization expense was \$883,481, \$0 and \$0 for the years ended December 31, 2017, 2016 and 2015. This expense includes the impairment charge described above.

Estimated amortization expense for the intangible assets over the next five years is as follows:

	<u>Estimated Amortization Expense</u>
For the year ended December 31,	
2018	\$ 817,778
2019	817,778
2020	817,778
2021	817,778
2022	817,778
Thereafter	2,589,630
Total	<u>\$ 6,678,520</u>

### **C. Long-Term Debt and Warrants**

On February 23, 2017, in connection with the acquisition of the business of KAMCO, Teton issued a \$5,000,000 promissory note (the "GGCP Note") payable to its controlling shareholder, GGCP. The GGCP Note bears interest at 6% per annum, payable quarterly. The effective interest rate on the debt at inception was 19.84%. The original principal amount has a maturity date of February 23, 2022. For the first two years of the loan, the Company is only obligated to pay interest. During the third through fifth years of the term of the loan, in addition to quarterly interest payments, the Company will make payments to amortize the principal of the loan on a straight line basis at a rate of \$416,667 per quarter. The Company may prepay the loan at any time without penalty. In connection with the financing, the Company issued GGCP a warrant to purchase 100,000 shares of Teton Class A Common Stock at a purchase price of \$0.01 per share. The term of the warrant is ten years, expiring on February 23, 2027, and may be exercised at any time in whole or in part. A discount of \$2,402,460 was recorded against the stated value of the loan at the date of issuance. The discount was determined based upon the relative fair value allocation of the proceeds. The discount is amortized as interest expense over the term of the loan. Unamortized discount as of December 31, 2017 was \$1,816,267. The interest expense related to the amortization of the debt discount for the twelve month period ended December 31, 2017 was \$586,193. For the twelve month period ended December 31, 2017, the company incurred and paid cash interest of \$254,167. As of December 31, 2017, no part of the warrant had been exercised.

### **D. Preferred Stock**

On February 23, 2017, in connection with the acquisition of the business of KAMCO, Teton entered into a financing agreement with Keeley Enterprises, whereby Keeley Enterprises provided \$7,500,000 in financing in exchange for 75,000 shares of Teton Series A Preferred Stock ("Preferred Stock"), par value \$.001 per share, and 65,000 shares of Teton Class A Common Stock, par value \$0.001 per share. The Preferred Stock, which is cumulative, has an annual dividend of 3% which is payable quarterly. Each share of Preferred Stock has voting rights equal to 0.1333 shares of Teton Class A Common Stock and participates in common dividends at that same rate. The Preferred Stock includes a redemption feature whereby each share of Preferred Stock is redeemable for \$100 per share plus the then fair market value of 0.1333 shares of Teton's Class A Common Stock. At issuance, the full redemption value was \$7,951,500. The Preferred Stock is redeemable by the Company in whole or in part at any time, and may be redeemed by the holder at any time after February 23, 2019. The Company determined that the Preferred Stock was a hybrid financial instrument and that a cash-settled forward on the Company's Common Stock should be bifurcated from the Preferred Stock and accounted for as a non-option derivative. The strike price of the forward was determined such that the forward had no fair value at the date of issuance of the Preferred Stock. Any changes in the fair value of the derivative since issuance will be recognized currently in income.

The Preferred Stock, excluding the bifurcated forward, is classified as mezzanine equity since the shares are redeemable at the option of the holder beginning February 23, 2019. A discount of \$2,609,913 was recorded against the full redemption value of the Preferred Stock at the date of issuance. The discount was determined based upon the relative fair value allocation of the proceeds. The discount is being amortized to retained earnings (as well as being treated as a preferred stock dividend for purposes of computing earnings available to common stockholder when computing earnings per share) over the two-year term of the Preferred Stock to its full redemption value since the Preferred Stock is considered outstanding shares.

On October 17, 2017, the Company redeemed 15,000 shares (principal amount equals \$1,500,000) of the Series A Preferred Stock pursuant to terms of the stock agreement. In connection with the redemption, the company paid a redemption premium equal to the then fair value of \$39.50 per share on 2,000 shares of the company's Class A Common Stock (0.1333 shares of common per preferred share redeemed). The premium totaled \$78,980. In connection with the redemption, the company accelerated the amortization of discount associated with the partial redemption. The accelerated discount and stock accretion, which was charged to retained earnings (and treated as a reduction of earnings available to common stockholders for purposes of computing earnings per share), amounted to \$347,594.

As of December 31, 2017, the full redemption value of the Preferred Stock was \$6,360,000.

## E. 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, 2017 and 2016 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, 2017

<b>Assets</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance as of December 31, 2017</b>
Cash equivalents	\$ 5,944,959	\$ -	\$ -	\$ 5,944,959
Investment in securities	138,298	-	-	138,298
<b>Total assets at fair value</b>	<b>\$ 6,083,257</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,083,257</b>

### Assets Measured at Fair Value on a Recurring Basis as of December 31, 2016

<b>Assets</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance as of December 31, 2016</b>
Cash equivalents	\$ 13,169,468	\$ -	\$ -	\$ 13,169,468
Investment in securities	110,146	-	-	110,146
<b>Total assets at fair value</b>	<b>\$ 13,279,614</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,279,614</b>

There were no transfers between any levels during the years ended December 31, 2017 or 2016.

## F. Income Taxes

On December 22, 2017, the Tax Reform Act was signed into law. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates. The Tax Reform Act reduces the U.S. Corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. As a result of the decrease in the corporate income tax rates, we revalued our ending net deferred tax assets and other tax balances at December 31, 2017 and recognized an incremental \$65,000 income tax expense in 2017.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Federal:			
Current	\$ 2,541,714	\$ 1,453,726	\$ 2,189,910
Deferred	96,338	(71,522)	(39,981)
State and local:			
Current	640,082	153,085	204,716
Deferred	36,320	(8,022)	(4,603)
Total	<u>\$ 3,314,454</u>	<u>\$ 1,527,267</u>	<u>\$ 2,350,042</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutory Federal income tax rate	34.0%	34.0%	34.0%
State income tax, net of Federal benefit	4.5%	2.8%	2.9%
Other	2.0%	0.0%	0.0%
Effective income tax rate	<u>40.5%</u>	<u>36.8%</u>	<u>36.9%</u>

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

	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Deferred compensation	\$ 23,353	\$ 23,228
Capitalized acquisition costs	89,051	113,426
Total deferred tax assets	112,404	136,654
Deferred tax liabilities:		
Contingent deferred sales commission	(23,554)	(29,075)
Fixed assets	(6,979)	(9,937)
Amortization of intangible assets	(112,941)	-
Other	(4,499)	(551)
Total deferred tax liabilities	(147,973)	(39,563)
Net deferred tax (liability) / asset	<u>\$ (35,569)</u>	<u>\$ 97,091</u>

The Company's Federal and State income tax returns are subject to future audit for all years after 2013.

As of December 31, 2017 and 2016, the Company's gross unrecognized tax benefits were \$871,141 and \$742,403, respectively, of which \$688,202 and \$489,986, if recognized, would affect the Company's effective tax rate.

Balance at January 1, 2015	\$ 430,302
Additions based on tax positions related to the current year	<u>182,811</u>
Balance at December 31, 2015	613,113
Additions based on tax positions related to the current year	<u>129,290</u>
Balance at December 31, 2016	742,403
Additions based on tax positions related to the current year	180,415
Reductions for tax positions of prior years	<u>(51,677)</u>
Balance at December 31, 2017	<u>\$ 871,141</u>

As of December 31, 2017 and 2016, the net liability for unrecognized tax benefits related to uncertain tax positions was \$862,667 and \$617,483, 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, 2017 and 2016, the Company had accrued a gross liability of \$202,157 and \$157,888, respectively, related to interest and penalties. For the years ended December 31, 2017, 2016 and 2015, the Company recorded income tax expenses related to an increase in its liability for interest and penalties of \$46,638, \$44,038 and \$38,237, respectively. The amount is included in accrued expenses and other liabilities in the statements of financial condition.

As of December 31, 2017, management has not identified any potential material subsequent events that could have a significant impact on unrecognized tax benefits within the next twelve months.

## G. Net Income per Share

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

	For the Years Ending December 31,		
	2017	2016	2015
Basic:			
Net income	\$ 4,868,688	\$ 2,623,927	\$ 4,010,474
Deduct preferred stock - cash dividends	(188,683)	-	-
Deduct preferred stock - constructive dividends (a)	(1,403,442)	-	-
Income attributable to Teton shareholders	<u>\$ 3,276,563</u>	<u>\$ 2,623,927</u>	<u>\$ 4,010,474</u>
Weighted average shares outstanding	1,157,272	1,095,994	1,097,550
Basic net income per share	<u>\$ 2.83</u>	<u>\$ 2.39</u>	<u>\$ 3.65</u>
Fully diluted:			
Net income	\$ 4,868,688	\$ 2,623,927	\$ 4,010,474
Deduct preferred stock - cash dividends	(188,683)	-	-
Deduct preferred stock - constructive dividends (a)	(1,403,442)	-	-
Income attributable to Teton shareholders	<u>\$ 3,276,563</u>	<u>\$ 2,623,927</u>	<u>\$ 4,010,474</u>
Weighted average shares outstanding	1,157,272	1,095,994	1,097,550
Assumed conversion of common stock warrants	85,459	-	-
Dilutive restricted stock awards	1,575	3,270	1,502
Total	<u>1,244,306</u>	<u>1,099,264</u>	<u>1,099,052</u>
Fully diluted net income per share	<u>\$ 2.63</u>	<u>\$ 2.39</u>	<u>\$ 3.65</u>

(a) - Constructive dividends reflect the preferred stock discount amortization and stock value accretion associated with the Series A Preferred Stock. See footnote D for further discussion.

## H. 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. The entire 5,000 share grant was forfeited on December 31, 2016 prior to any shares vesting. On December 31, 2016, the Company reversed out \$131,733 of expense related to the 2014 grant.

During 2015 and 2016, the Company did not issue any RSAs. During 2017, the Company issued 10,000 RSAs at a grant date fair value of \$38.50 per share, 40% will vest in three years and 60% in five years.



As of December 31, 2017 and 2016, there were 11,500 and 1,500 RSAs outstanding at an average grant price of \$38.50 and \$28.95 per share, respectively.

For the years ended December 31, 2017, 2016 and 2015, the Company recorded \$41,196, (\$53,824) and \$84,201, respectively, in stock based compensation expense which resulted in a tax expense of \$23,353 and tax benefits of \$19,646 and \$30,548, respectively.

The total compensation costs related to non-vested awards not yet recognized is \$360,450 as of December 31, 2017. This will be recognized as expense in the following periods:

2018	\$	105,495
2019		97,533
2020		80,422
2021		46,200
2022		30,800
Total	\$	<u>360,450</u>

During the year ended December 31, 2016, 1,000 restricted stock awards vested with a fair value of \$41,000 on the vesting date. No restricted stock awards vested during 2017 and 2015.

#### *Dividends*

During 2017, 2016 and 2015, the Company declared dividends of \$0.20, \$0.20 and \$0.20, respectively, per share to Class A and Class B common stockholders totaling \$230,207, \$218,434 and \$220,442 respectively. During 2017, the Company declared dividends of \$2.25 per share to Series A Redeemable Preferred shareholders.

#### **I. Commitments**

The Company rents two office spaces, one in Rye, NY and the other in Chicago, IL. The office space in Rye is 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. The office space in Chicago expires on August 31, 2019.

Future minimum lease payments under these agreements at December 31, 2017 are as follows:

2018	\$	349,817
2019		262,175
2020		86,675
2021		86,675
2022		86,675
Thereafter		421,229
Total	\$	<u>1,293,246</u>

Occupancy expense amounted to \$310,404, \$93,273 and \$89,418 in 2017, 2016 and 2015, 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 2017 and 2016, the Company did not have any borrowings under the facility. In November 2017, the Company allowed the credit line to expire and it is no longer in-place.

The Company has a standby letter of credit totaling \$120,892 that matures on July 21, 2018, which was issued as the security deposit for the Company's Chicago office lease agreement.

The Company has established a stock buyback program which authorizes the Company to repurchase up to 50,000 shares of Class A Common Stock. Teton entered into a Stock Repurchase Plan in compliance with Rule 10b5-1 and 10b-18 as of March 5, 2018 for the purpose of establishing a systematic trading program under which a brokerage firm will use its reasonable efforts, consistent with ordinary principles of best execution, to repurchase on behalf of Teton Advisors from time to time shares of common stock of Teton Advisors. As of December 31, 2017, the remaining share repurchase authorization under the program totaled 35,141 shares.

## **J. Related Party Transactions**

The following is a summary of certain related party transactions.

Mario J. Gabelli (“Mr. Gabelli”) is the controlling stockholder of Teton through the shares he owns in his name and through his control of GGCP Holdings LLC, a wholly owned subsidiary of GGCP, Inc.

Mr. Gabelli owned approximately 25.7% of Teton’s Class A and B shares and GGCP Holdings LLC owned approximately 25.4% of Teton’s Class A and B shares as of December 31, 2017.

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, 2017 and 2016, Teton had \$5,944,959 and \$13,169,468, respectively, in this money market fund and earned investment income of \$54,297, \$20,048 and \$1,066 for the years ended December 31, 2017, 2016 and 2015, respectively. In addition, Investment Securities is comprised of investments in the TETON Westwood Mid-Cap Equity Fund, TETON Westwood Mighty Mites Fund and TETON Westwood Small Cap Equity Fund. At December 31, 2017 and 2016, Teton had \$138,298, \$110,146, respectively, in these mutual funds.

G.distributors, a subsidiary of GAMCO, serves as the principal distributor for the Funds. Distribution fees are paid to the Company by G.distributors on the Class C Fund shares sold. For the year ended December 31, 2017, 2016 and 2015 distribution fees were \$216,119, \$179,581, and \$374,096, respectively. The decrease in distribution fees from 2015 to 2016 was due to a significant decline in sales of this share class. As distributor, G.distributors also 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 TETON Westwood Funds, amounting to \$1,936,662, \$1,701,098 and \$1,934,852 for the years ended December 31, 2017, 2016 and 2015, 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 2017, 2016 and 2015 was 13.4 basis points, 14.1 basis and 13.4 basis points, respectively. Teton also paid GAMCO reimbursement for compensation, which amounted to \$549,670, \$1,545,648 and \$1,871,117 for the years ended December 31, 2017, 2016 and 2015. Teton and GAMCO have also entered into an administrative and management services agreement. Under the agreement, Teton paid GAMCO \$122,917, \$281,250 and \$300,000 for the years ended December 31, 2017, 2016 and 2015.

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 & Company Investment Advisers, Inc. (“GCIA” f/k/a 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, 2017 and 2016 are non-interest bearing and are receivable and payable on demand. At December 31, 2017 and 2016, the amount payable to GAMCO was \$732,491 and \$358,266, respectively, and includes the amount payable relating to wholesaler payouts which was \$125,295 and \$143,563, respectively. The amount payable to Gabelli Funds at December 31, 2017 and 2016 was \$0 and \$410, respectively. The amount receivable from GAMCO Asset Management Inc. and subsidiary, a wholly owned subsidiary of GAMCO Investors, Inc., at December 31, 2017 and 2016 was \$20,453 and \$11,983, respectively. The amount receivable from GCIA at December 31, 2017 and 2016 was \$0 and \$5,089, respectively.

## K. Quarterly Financial Information (Unaudited)

Quarterly financial information for the years ended December 31, 2017 and 2016 is presented below.

	2017				
	1st	2nd	3rd	4th	Full Year
Revenues	\$ 5,191,160	\$ 8,397,076	\$ 8,250,296	\$ 8,124,752	\$ 29,963,284
Income before interest, taxes, depreciation and amortization	1,604,706	2,696,048	2,930,026	2,715,215	9,945,995
Income before income taxes	1,354,279	2,333,432	2,466,518	2,028,913	8,183,142
Net income	833,595	1,412,305	1,520,839	1,101,949	4,868,688
Net income per share:					
Basic	\$ 0.63	\$ 0.88	\$ 0.98	\$ 0.34	\$ 2.83
Fully diluted	\$ 0.60	\$ 0.81	\$ 0.91	\$ 0.31	\$ 2.63
	2016				
	1st	2nd	3rd	4th	Full Year
Revenues	3,204,206	3,328,645	3,460,573	3,439,143	13,432,567
Income before interest, taxes, depreciation and amortization	1,064,285	1,124,265	1,059,092	911,058	4,158,700
Income before income taxes	1,062,337	1,122,317	1,059,092	907,448	4,151,194
Net income	669,272	707,060	667,228	580,367	2,623,927
Net income per share:					
Basic	\$ 0.61	\$ 0.65	\$ 0.61	\$ 0.53	\$ 2.39
Fully diluted	\$ 0.61	\$ 0.64	\$ 0.61	\$ 0.53	\$ 2.39

Note: The unaudited quarterly earnings per share for the first, second and third quarters of 2017 have been restated to reflect constructive dividends associated with the preferred stock discount amortization and stock value accretion related to the Series A Preferred Stock. See footnote D for further discussion.

## L. 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.

## M. Subsequent Events

On February 23, 2018, Teton announced that its Board of Directors declared a regular quarterly dividend of \$0.05 per share to all common shareholders payable on March 27, 2018 to shareholders of record on February 23, 2018, and \$0.75 per share on Series A Preferred Stock payable on March 27, 2017 to shareholders of record on February 23, 2018.

On April 5, 2018, the Company prepaid \$1,500,000 of the GGCP Note. The total amount paid was \$1,501,233, including accrued interest.

The Company has evaluated events and transactions through April 5, 2018, 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**

**Vincent J. Amabile**

*Founder  
Amabile Partners*

**Nicholas F. Galluccio**

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

**Stephen G. Bondi, CPA**

*Chief Compliance Officer and Chief Financial Officer  
Mittleman Brothers, LLC*

**John M. Tesoro, CPA**

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

**Officers**

**Nicholas F. Galluccio**

*President and Chief Executive Officer*

**Michael Mancuso, CPA**

*Chief Financial Officer*

**Deanna B. Marotz**

*Chief Compliance Officer*

**Corporate and Shareholder Information**

**Investor Relations**

For our Annual Report and other shareholder information, visit our website at [www.tetonadv.com](http://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)

**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)

**Transfer Agent**

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

**Annual Meeting**

Our 2018 Annual Meeting of Shareholders will be held at 4:00 p.m., Eastern Time, on May 17, 2018 at our offices at 401 Theodore Fremd Avenue, Rye, NY 10580.

**Trading Information**

OTC Markets Group  
Class A Common Stock  
Symbol: TETAA



One Corporate Center, Rye, New York 10580-1422  
[www.tetonadv.com](http://www.tetonadv.com) • 914-457-1070 • [info@tetonadv.com](mailto:info@tetonadv.com)