



**2009 ANNUAL REPORT**





April 20, 2010

Dear Shareholders:

Twelve months ago, we became a separate public company following the distribution of Teton Advisors, Inc.'s Class B Shares by GAMCO Investors, Inc. "GBL" on March 20, 2009. At that time, we were in the depths of the stock market bottom and our assets under management were \$374 million. Driven by the housing bust, global credit markets and the banking system virtually shut down in early 2009, while the equities of many excellent companies dropped to prices well below their intrinsic value. Teton's Class A Shares began trading on the Pink Sheets® on September 16, 2009. Teton's debut as a public company coincided with the early stages of recovery from the worst economic contraction and stock market decline since the Great Depression. Given that our shares, "TETAA," are thinly traded, the price movement has gyrated wildly, partially attributable to short covering.

We ended 2009 on a positive note, with Teton Advisors, Inc. assets at \$561 million, up 3.4% from September and up 24.6% for the year. For the year ended December 2009, Teton generated gross operating revenues of \$4.3 million versus \$3.8 million for 2008. For 2009, operating income declined to \$462,000 versus \$834,000, largely attributable to higher legal fees incurred in the adoption of the Bjurman, Barry Micro-Cap Growth Fund and other non-cash items such as restricted stock (RSA) compensation expense. Net income for 2009, was \$303,000 versus \$576,000 in 2008. Our net income was crimped by the amortization of the RSA expense. Without this, net income would have been \$85,000 higher in 2009. Earnings per share for 2009 were \$0.28 (\$0.36 per share ex-RSA expense) versus \$0.55 in 2008. (See pages 41 and 42 in accompanying financial statements.) During 2009, Teton declared a distribution of \$0.70 per share on its Class A Common Stock and Class B Common Stock that was paid on June 12, 2009 to its shareholders of record on June 5, 2009.

Our long range goal for Teton is to build a multi strategy asset management platform with emphasis on small and micro cap, long only, equity strategies. We have two mutual funds with this emphasis: Morningstar five-star rated GAMCO Westwood Mighty Mites Fund (WEMMX), managed by Mario Gabelli, Laura Linehan and Walter Walsh, and the GAMCO Westwood SmallCap Equity Fund (WESCX), with a two-star Morningstar rating, but with excellent recent performance. I became President and CEO of Teton Advisors, as well as portfolio manager for the GAMCO Westwood SmallCap Equity Fund on July 2008, following a 25-year career at Trust Company of the West (TCW), most recently as Group Managing Director. While at TCW, I managed substantial small and mid cap equity portfolios and led our investment team. Given their attractive valuations and growth characteristics, small cap equities afford investors excellent risk adjusted returns as we enter this next market recovery cycle. In the small cap strategy, we are positioning Teton across multiple distribution sleeves in separately managed equity portfolios: sub-advisory, institutional and retail channels. In addition, we are receptive to mutual fund mergers or adoptions, as evidenced by the successful merger of the Bjurman, Barry Micro-Cap Growth Fund into the Mighty Mites (WEMMX), mentioned above and consummated on March 27, 2009.

At the core of our investment offerings are three funds, sub-advised by Westwood Holdings Group. We wish to express our thanks to Susan Byrne and Mark Freeman for their stewardship of these assets. The GAMCO Westwood Equity Fund is a large cap value strategy, the GAMCO Westwood Balanced Fund is a blend of value equity and fixed income and the GAMCO Westwood Intermediate Bond Fund is a bond fund. The two equity funds are rated four-star by Morningstar, and the bond fund, three-star. Rounding out our current offerings is the two-star GAMCO Westwood Income Fund which holds higher yielding equities with a portion of fixed income securities. Let me underscore that all six funds have solid ten-year track records.

Our annual meeting is scheduled to be held at the Greenwich Library, 101 West Putnam Ave, Greenwich, CT 06830 on Monday, May 10, 2010 at 5:30 p.m., Eastern time. I would like to thank Teton's constituents - our clients, shareholders and directors for supporting Teton as we successfully emerge from the depths of the economic crisis. We look forward to the many opportunities of being a public company and building upon Teton's existing franchise.

Thank you for your confidence and trust.

Sincerely,

A handwritten signature in black ink, appearing to read "N. Galluccio". The signature is written in a cursive, flowing style.

Nicholas F. Galluccio  
President and Chief Executive Officer

TETON ADVISORS, INC.

2009 ANNUAL REPORT

**Teton Advisors, Inc.**

**Annual Report for the Fiscal Year Ended December 31, 2009**

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## Forward-Looking Statements

*Our disclosure and analysis in this report and in documents that are incorporated by reference contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements because they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words and terms of similar meaning. They also appear in any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance of our products, expenses, the outcome of any legal proceedings, and financial results.*

*Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ from our expectations or beliefs include, without limitation: the adverse effect from a decline in the securities markets; a decline in the performance of our products; a general downturn in the economy; changes in government policy or regulation; changes in our ability to attract or retain key employees; and unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations. We also direct your attention to any more specific discussions of risk contained in Item 1A below and in our other public filings or in documents incorporated by reference here or in prior filings or reports.*

*We are providing these statements as permitted by the Private Litigation Reform Act of 1995. We do not undertake to update publicly any forward-looking statements if we subsequently learn that we are unlikely to achieve our expectations or if we receive any additional information relating to the subject matters of our forward-looking statements.*

## BUSINESS

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

### 2009 Selected Dynamics

During November 2008, the B.B. Micro Cap Growth Fund selected Teton as the interim investment adviser which was subsequently approved by shareholders in March 2009 and merged into our GAMCO Westwood Mighty Mites<sup>SM</sup> Fund.

During 2009, we started managing our first sub-advised account. The account was funded with \$20 million and follows our small cap equity strategy.

### Overview

Teton was spun-off from GAMCO Investors, Inc. (“GAMCO”) on March 20, 2009. The board of directors and management of both Teton and GAMCO decided to pursue the separation primarily for the following reasons:

- The senior management and board of directors of each company will be able to more fully focus on its business with a resulting increase in accountability for decisions;
- Create a class of publicly traded equity securities, including restricted stock units, for Teton which should enable it to provide incentive compensation arrangements for its key employees which are directly related to the performance of Teton. Teton believes such equity-based compensation arrangements should provide enhanced incentives for performance, and improve the ability for Teton to attract, retain and motivate qualified personnel.
- Separate trading of Teton’s stock should increase the flexibility for it to issue its equity as consideration in future acquisitions and alliances;
- Increase transparency and clarity into the businesses of GAMCO and Teton and allow investors to more appropriately value the merits, performance and future prospects of each company; and
- Reduce brand confusion between the “Gabelli” and “GAMCO” funds, on the one hand, and the “Westwood” funds, on the other hand.

Teton serves as the investment manager for the Westwood Funds (“Funds”), six funds with aggregate assets of \$537.5 million at December 31, 2009.

The Westwood Funds consist of the following six funds:

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

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

Teton is also the sub-advisor to one separate account with assets under management (“AUM”) of \$23.1 million at December 31, 2009.

Gabelli & Company, Inc. (“Gabelli & Company”), an affiliate of Teton and a subsidiary of GAMCO, distributes the Westwood Funds pursuant to distribution agreements with each fund.

### **Business Strategy**

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

### **Business Description**

Teton acts as investment advisor to the Westwood Funds. 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 Advisers, Inc. Teton’s principal executive office is located at One Corporate Center, Rye, New York 10580 and our website is [www.tetonadv.com](http://www.tetonadv.com).

**Open-End Funds:** Teton provides advisory services to the GAMCO Westwood family of funds, consisting of six open-end funds, three of which are managed on a day-to-day basis by Teton, and three of which are sub-advised by Westwood Management Corp., a wholly-owned subsidiary of Westwood Holdings Group, Inc. (NYSE: WHG). Teton was the interim advisor to the B.B. Micro Cap Growth Fund. The assets of this fund were merged into the GAMCO Westwood Mighty Mites<sup>SM</sup> Fund in March of 2009. AUM in open-end Funds were \$537.5 million at December 31, 2009, 19.5% above the \$449.8 million at December 31, 2008.

On December 31, 2009, of the AUM in open-end Funds having an overall rating from Morningstar, Inc. (“Morningstar”), 96.5% were ranked “three stars” or better, with 93.4% ranked “five stars” or “four stars” on an overall basis (i.e., derived from a weighted average of the performance figures associated with their three-, five-, and ten-year Morningstar Rating metrics). There can be no assurance, however, that these Funds will be able to maintain such ratings or that past performance will be indicative of future results.

At December 31, 2009, approximately 17% of our AUM in open-end, equity Funds had been obtained through Gabelli & Company’s direct sales relationships. Gabelli & Company also sells our open-end Funds through third-party distribution programs, particularly No Transaction Fee (“NTF”) Programs, and has developed additional classes of shares for many of our Funds for sale through additional third-party distribution channels on a commission basis. At December 31, 2009, Third Party Distribution Programs accounted for approximately 83% of all assets in open-end Funds.

**Separate Accounts:** Beginning in 2009, we provided investment management services to a separate account client. At December 31, 2009, we had \$23.1 million of AUM in our separate account business. In general, our separate accounts will be managed to meet the specific needs and objectives of each client. The investment advisory agreement for our separate account clients are subject to termination by the client without penalty on 30 days’ notice.



The following table lists the Funds, together with the December 31, 2009 Morningstar overall rating and provides a description of the primary investment objective, fund characteristics, fees, the date that the fund was initially offered to investors, and the AUM in the Funds as of December 31, 2009.

<b>Fund</b> <b>(Morningstar</b>	<b>Primary Investment</b>	<b>Fund</b>	<b>Advisory</b>	<b>12b-1</b>	<b>Initial</b>	<b>Net Assets</b>
<b>Overall</b>	<b>Objective</b>	<b>Characteristics</b>	<b>Fees</b>	<b>Fees</b>	<b>Offer</b>	<b>as of</b>
<b>Rating) (1)</b>			<b>(%)</b>	<b>(%)</b>	<b>Date</b>	<b>December</b>
						<b>31,</b>
						<b>2009</b>
						<b>(all</b>
						<b>classes)</b>
						<b>(\$ in</b>
						<b>millions)</b>
<b>EQUITY INCOME:</b>						
GAMCO Westwood Balanced Fund ★★★★	Both capital appreciation and current income using portfolios containing stocks, bonds, and cash as appropriate in light of current economic and business conditions.	Class AAA, No-load, Open-end, Diversified, Multi-class shares (2)	.75	.25	10/01/91	\$ 134
GAMCO Westwood Income Fund ★★	High level of current income as well as long-term capital appreciation by investing primarily in income producing equity and fixed income securities.	Class AAA, No-load, Open-end, Diversified, Multi-class shares (2)	1.00 (3)	.25	09/30/97	\$ 5
<b>VALUE:</b>						
GAMCO Westwood Equity Fund ★★★★	Capital appreciation through a diversified portfolio of equity securities using bottom-up fundamental research with a focus on identifying well-seasoned companies.	Class AAA, No-load, Open-end, Diversified, Multi-class shares (2)	1.00	.25	01/02/87	\$ 138

						Net Assets as of December 31, 2009 (all classes) (\$ in millions)
Fund (Morningstar Overall Rating) (1)	Primary Investment Objective	Fund Characteristics	Advisory Fees (%)	12b-1 Fees (%)	Initial Offer Date	
<b>SMALL CAP VALUE:</b>						
GAMCO Westwood SmallCap Equity Fund ★★	Long-term capital appreciation, investing at least 80% of its assets in equity securities of companies with market capitalizations of \$2.5 billion or less at the time of purchase.	Class AAA, No-load, Open-end, Diversified, Multi-class shares (2)	1.00 (3)	.25	04/15/97	\$ 14
<b>MICRO-CAP:</b>						
GAMCO Westwood Mighty Mites <sup>SM</sup> Fund ★★★★★	Long-term capital appreciation by investing primarily in equity securities with market capitalization of \$300 million or less at the time of purchase.	Class AAA, No-load, Open-end, Diversified, Multi-class shares (2)	1.00	.25	05/11/98	\$ 230
<b>FIXED INCOME:</b>						
GAMCO Westwood Intermediate Bond Fund ★★★	Total return and current income, while limiting risk to principal. Pursues higher yields than shorter maturity funds and has more price stability than generally higher yielding long-term funds.	Class AAA, No-load, Open-end, Diversified, Multi-class shares (2)	0.60 (3)	.25	10/01/91	\$ 17

- (1) Morningstar Rating™ as of December 31, 2009 is provided if available for open-end funds only. Morningstar ratings are not an indication of absolute performance. Call 800-GABELLI for performance results through the most recent month end. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees) placing more emphasis on downward variations and rewarding consistent performance. The top 10% of the funds in an investment category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three, five, and ten-year (if applicable) Morningstar Rating metrics. Morningstar Ratings are shown for the respective class shown; other classes may have different performance characteristics. There were 1,757 Large Blend funds rated for three years, 1,376 funds for five years and 710 funds for ten years (GAMCO Westwood Equity Fund). There were 566 Small Blend funds rated for three years, 467 funds for five years and 243 funds for ten years (GAMCO Westwood Mighty Mites<sup>SM</sup> Fund, GAMCO Westwood SmallCap Equity Fund). There were 953 Moderate Allocation funds rated for three years, 786 funds for five years and 441 funds for ten years (GAMCO Westwood Balanced Fund, GAMCO Westwood Income Fund). There were 978 Intermediate-Term Bond funds rated for three years, 866 funds for five years and 496 funds for ten years (GAMCO Westwood Intermediate Bond Fund). (a) 2009 Morningstar, Inc. All Rights reserved. This information is (1) proprietary to Morningstar and/or its content providers (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.
- (2) These funds have multi-classes of shares available. Multi-class shares include Class A shares which have a front-end sales charge, Class B shares which are subject to a back-end contingent deferred sales charge for up to 6 years and Class C which shares are subject to a 1% back-end contingent deferred sales charge for up to two years. However, Class B shares are no longer offered for new purchases as of July 2004. Class I shares are available to institutional accounts. Net assets include all share classes.
- (3) Teton has agreements in place to waive its advisory fee or reimburse expenses of the Fund to maintain fund expenses at a specified level for Class AAA shares; Multi-class shares have separate limits as described in the Fund's prospectus. (GAMCO Westwood Income Fund – 1.50%; GAMCO Westwood SmallCap Equity Fund – 1.50%; GAMCO Westwood Intermediate Bond Fund – 1.00%. Such agreements are renewable annually).

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

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

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

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

## Assets Under Management

The following table sets forth total AUM by product type as of the dates shown and their compound annual growth rates ("CAGR"):

Assets Under Management  
By Product Type  
(Dollars in millions)

	2005	2006	2007	2008	2009	% Inc (Dec)	
						2009 / 2008	CAGR (a)
Equities	\$ 405	\$ 401	\$ 429	\$ 436	\$ 544	24.8 %	5.6 %
Fixed income	11	10	11	14	17	21.4	9.1
<b>Total Assets Under Management</b>	<b>\$ 416</b>	<b>\$ 411</b>	<b>\$ 440</b>	<b>\$ 450</b>	<b>\$ 561</b>	<b>24.7 %</b>	<b>5.7 %</b>

(a) Compound annual growth rate from January 1, 2005 to December 31, 2009.

## Distribution and Marketing

In an effort to increase AUM, the marketing team at Teton is focused on major mutual fund industry distribution channels, which include the direct, advisory, supermarket, retirement and institutional channels. In the direct channel, investors carry out transactions directly with mutual fund companies, in many cases calling in orders through a 1-800 telephone number. In all other mutual fund channels, individuals use intermediaries to purchase funds on their behalf. The advisory channel consists of financial intermediaries which provide on going 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 Gabelli & Company wholesaler and internal marketing force to gather assets in these two channels. In the fund supermarket channels, which have no transaction fee "NTF" programs, Teton serves as a business development and relationship manager. Teton is similarly targeting the defined contribution retirement channel and institutional, 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 cap equity asset class. The marketing effort is focused on subadvisory and traditional separate accounts. The target market consists of insurance companies, commercial banks and institutions that rely on consultant due diligence and recommendations. Teton seeks to build strategic relationships with institutions and wealth management providers with whom the Teton management team has developed long-term relationships.

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

Under the distribution agreements, the no-load Class AAA shares of the Westwood Funds pay .25% per year on the average daily net assets of the fund to Gabelli & Company and the Class A shares of the Westwood Funds pay .35% or .50% per year on the average daily net assets of the fund. Class B and Class C shares have a Rule 12b-1 distribution plan with a service and distribution fee totaling 1%. If Gabelli & Company expends more than the distribution fees received on a fund-by-fund basis, it is reimbursed by Teton. If Gabelli & Company expends less than the distribution fees received on a fund-by-fund basis, it will reimburse Teton for any previously reimbursed distribution expenses. For 2009 and 2008, Gabelli & Company paid Teton approximately \$45,000 and \$42,000, respectively, and for 2007 Teton paid Gabelli & Company approximately \$12,000.

Most of the Westwood Funds have traditionally been distributed by using a variety of direct response marketing techniques, including telemarketing and advertising, and as a result Teton and Gabelli & Company maintain direct relationships with many of the no-load Westwood Fund shareholders. Beginning in late 1995, Teton expanded its product distribution by offering several of the Westwood Funds through third-party distribution programs, including NTF Programs. Third-party distribution programs have become an increasingly important source of asset growth for Teton. Of the \$537.5 million of AUM in the Westwood Funds as of December 31, 2009, approximately \$264.8 million, or 49.3%, were generated through NTF Programs. In addition, at December 31, 2009, approximately 89% of the NTF Program net assets in the Westwood Funds are attributable to two NTF Programs. The fee paid to the NTF programs and in fee based accounts range from 0.25% to 0.40% of the AUM held through these programs. Gabelli & Company, as the distributor of the Westwood Funds, pays the first 0.25% of any fees with Teton paying any fee in excess of 0.25% subject to partial reimbursement by the Funds under certain circumstances. In 2009, 2008 and 2007, Teton paid approximately \$142,000, \$156,000 and \$185,000, respectively, for their share of these NTF programs. Remaining assets are held through full service broker dealers in fee based accounts or through retail accounts.

Gabelli & Company's distribution agreements with the Westwood Funds may continue in effect from year to year only if specifically approved at least annually by (i) the Board of Trustees or (ii) the fund's shareholders and, in either case, the vote of a majority of the trustees who are not parties to the agreement or "interested persons" of any such party, within the meaning of the Investment Company Act. Each Westwood Fund may terminate its 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. Gabelli & Company may terminate a distribution agreement without penalty upon 60 days' written notice.

### **Investment Management Agreements**

Teton provides investment advisory and management services pursuant to investment management agreements with the Westwood Funds. The investment management agreements with the Westwood Funds generally provide that Teton is responsible for the overall investment and administrative services, subject to the oversight of the Westwood Funds' Board of Trustees ("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 Westwood Funds, internal accounting, tax accounting and reporting, regulatory filings and other services. Most of these administrative services are provided through sub-contracts with unaffiliated third parties. Transfer agency and custodial services are provided directly to the Westwood Funds by unaffiliated third parties.

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

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

## **Sub-advisory Agreements**

Teton pays Westwood Management Corporation a sub-advisory fee of 35% of net revenues for the Balanced, Equity and Intermediate Bond Funds. "Net revenues" are defined as management fees less twenty basis points for mutual fund administration expenses (which are paid to GAMCO) and less expense reimbursements to the funds for which it serves as a sub-advisor. For 2009, 2008 and 2007, the sub-advisory fee paid to Westwood Management Corporation by Teton amounted to approximately \$627,000, \$767,000 and \$840,000, respectively. This agreement may be terminated by Westwood Management Corporation on 60 days' prior written notice and may be terminated by the Westwood Funds or Teton on 60 days' prior written notice, provided that termination by the Westwood Funds must be approved by a majority of the Trustees of the Westwood Funds or the holders of a "majority of the voting securities" of the Funds.

## **Competition**

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

## **Regulation**

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

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

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

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

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

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

### **Regulatory matters**

The investment management industry is likely to continue facing a high level of regulatory scrutiny and become subject to additional rules designed to increase disclosure, tighten controls and reduce potential conflicts of interest. In addition, the Commission 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.

### **Personnel**

On February 28, 2010, we had a full-time staff of 5 individuals, a portfolio manager and CEO, another portfolio manager, a marketing and shareholder servicing professional, a research analyst and an administrative person. We also have three individuals that are employees of both Teton and GAMCO who perform portfolio management services. Additionally, through our Administrative Agreement with GAMCO, we are provided additional services including but not limited to senior executive functions and strategic planning and general corporate management services, including strategic planning, investment banking and financial advisory services, supervision of certain tax and other regulatory matters; Mutual fund administration services; Treasury services, including insurance and risk management services and administration of benefits; Operational and general administrative assistance including office space, office equipment, administrative personnel, payroll, and procurement services as needed; Accounting and related financial services, including Mr. Jeffrey M. Farber's service as Chief Financial Officer; Legal, regulatory and compliance advice; and Human resources functions, including the retention of a Chief Compliance Officer, sourcing of permanent and temporary employees as needed, recordkeeping, performance reviews and terminations.

## **RISK FACTORS**

### **Business Risks**

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

*This report also contains forward-looking statements that involve risks and uncertainties. Teton's actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including the risks faced by Teton described below and elsewhere in this report.*

### **Risks Related to the Business of Teton following the Spin-Off**

*We may not achieve the benefits expected from our spin-off from GAMCO.*

Teton was spun-off from GAMCO on March 20, 2009. We expect that, as a company independent from GAMCO, we will be able to grow internally and through acquisitions. Nonetheless, we may not be able to achieve any of these benefits. Furthermore, by separating from GAMCO there is a risk that we may be more susceptible to adverse events than we would have otherwise experienced as a subsidiary of GAMCO. As a subsidiary of GAMCO, we enjoyed certain benefits, including economies of scope and scale in costs, employees and business relationships. These benefits may not be as readily achievable as a smaller, stand-alone company.

*Our management team is dependent upon GAMCO.*

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

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

Bruce N. Alpert and Douglas R. Jamieson serve as members of our board. Messrs. Alpert and Jamieson also serve as executive officers of GAMCO. In addition, most of our executive officers and employees will be provided pursuant to the Administrative Agreement with GAMCO and will be officers or employees of GAMCO. These common directors could create, or appear to create, potential conflicts of interest when our and GAMCO's management and directors face decisions that could have different implications for the two companies.

Also, some of our directors, executive officers, portfolio managers and employees own shares of GAMCO common stock, options to purchase shares of GAMCO Class A common stock or other equity awards. This ownership may create, or, may create the appearance of, conflicts of interest. Mario J. Gabelli is deemed to control Teton by his ownership and control of GGCP, a private company that Mr. Gabelli controls and his control as a general partner of MJG IV Partnership, a partnership of certain of his family members. Mr. Gabelli is the controlling shareholder of both Teton and GAMCO.

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



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

*The separation from GAMCO may adversely affect the level of our AUM.*

Our revenues are dependent on the amount of assets under our management. Many investors may have invested money in the Westwood Funds in part because Teton was a subsidiary of GAMCO. There can be no assurance that we will be able to attract investors to the Westwood Funds at the same rate as in prior years. In addition, we can make no assurance that current investors will not redeem their investments from the Westwood Funds as a result of our changed relationship with GAMCO. The occurrence of either of these events could adversely affect our business, results of operations and financial condition.

*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 Gabelli & Company.*

The agreements related to our separation from GAMCO, including the Separation Agreement, the Administrative Agreement, the sub-lease and the Service Mark and Name License Agreement, were negotiated in the context of our separation from GAMCO while we were still majority-owned by GAMCO. Likewise, our agreement with Gabelli & Company, a subsidiary of GAMCO, to distribute shares of the Westwood Funds was entered into when we were still affiliated with Gabelli & Company. 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.

## **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.*

Six months (180 days) following the spin-off our Class A common stock began trading on the pink sheets. When fewer shares of a security are being traded in the pink sheets, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Due to low trading volumes in shares of our Class A common stock, there is a lower likelihood of one's orders for shares of our Class A common stock being executed, and current prices may differ significantly from the price one was quoted at the time of one's order entry.

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

In addition, if the trading price of our Class A common stock is less than \$5.00 per share, our Class A common stock will become subject to the SEC's penny stock rules. Before a broker-dealer can sell a penny stock, the penny stock rules require the firm to first approve the customer for the transaction and receive from the customer a written agreement to the transaction. The firm must furnish the customer a document describing the risks of investing in penny stocks. The broker-dealer must tell the customer the current market quotation, if any, for the penny stock and the compensation the firm and its broker will receive for the trade. Finally, the firm must send monthly account statements showing the market value of each penny stock held in the customer's account. These disclosure requirements tend to make it more difficult for a broker-dealer to make a market in penny stocks, and could, therefore, reduce the level of trading activity in a stock that is subject to the penny stock rules. Consequently, if our Class A common stock becomes subject to the penny stock rules, our shareholders may find it difficult to sell their shares.

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

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

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

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

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

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

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

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

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

## **Risks Related to the Business**

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

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

Substantially all of our revenues are derived from investment management agreements. Investment management agreements with the Westwood 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 Westwood Funds can redeem their investments in these Funds at any time without prior notice, which could adversely affect our earnings.*

Westwood Funds' investors may redeem their investments in those Funds at any time without prior notice. Investors may reduce the aggregate amount of AUM for any number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. In a declining stock market, the pace of mutual fund 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 managed by us would adversely affect our revenues, which are substantially dependent upon the AUM in the Westwood Funds. If redemptions of investments in the Westwood Funds 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 Westwood 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 Westwood 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 or the Westwood Funds.

Under the Investment Advisers Act, a client's investment management agreement may not be "assigned" by the investment adviser without the client's consent. An investment management agreement is considered under both acts to be assigned to another party when a controlling block of the adviser's securities is transferred. In our case, an assignment of our investment management agreements may occur if, among other things, we sell or issue a certain number of additional common shares in the future. We cannot be certain that the Westwood 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 Westwood 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 Westwood 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. There can be no assurance that we would not have received more favorable terms from an unaffiliated party.

*We depend on key personnel.*

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

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

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

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

Our results of operations are affected by many economic factors, including the performance of the securities markets. During the 1990s, unusually favorable and sustained performance of the U.S. securities markets, and the U.S. equity market, in particular, attracted substantial inflows of new investments in these markets and has contributed to significant market appreciation which has, in turn, led to an increase in our AUM and revenues. At December 31, 2009, approximately 97% of our AUM were invested in equity securities. More recently, the securities markets in general have experienced significant volatility. Any decline in the securities markets, in general, and the equity markets, in particular, could reduce our AUM and consequently reduce our revenues. In addition, any such decline in the equity markets, failure of these markets to sustain their prior levels of growth, or continued short-term volatility in these markets could result in investors withdrawing from the equity markets or decreasing their rate of investment, either of which would be likely to adversely affect us. From time to time, a relatively high proportion of the assets we manage may be concentrated in particular industry sectors. A general decline in the performance of securities in those industry sectors could have an adverse effect on our AUM and revenues.

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

Success in the investment management and mutual fund businesses is dependent on investment performance as well as distribution and client servicing. Good performance generally stimulates sales of our investment products and tends to keep withdrawals and redemptions low, which generates higher management fees (which are based on the amount of AUM). Conversely, relatively poor performance tends to result in decreased sales, increased withdrawals and redemptions in the Westwood Funds, 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 the Westwood Funds. Failure of our investment products to perform well could, therefore, have a material adverse effect on us.

*We rely on third-party distribution programs.*

We have since 1996 experienced significant growth in sales of the Westwood Funds through third-party distribution programs, which are programs sponsored by third-party intermediaries that offer their customers a variety of competing products and administrative services. Most of the sales growth from our third-party distribution programs is from NTF programs with no transaction fees payable by the customer. Approximately \$264.8 million, or 49.3%, of our AUM in the Westwood Funds as of December 31, 2009 were obtained through NTF Programs. 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 Westwood Funds. At December 31, 2009, approximately 89% of the NTF Program net assets in the Westwood Funds are attributable to two NTF Programs. The decision by these third-party distribution programs to discontinue distribution of the Westwood Funds, or a decision by Teton to withdraw one or more of the Westwood Funds from the programs, could have an adverse effect on our growth of AUM.

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

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

*Dependence on information systems.*

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

*We face exposure to litigation within our business.*

The volume of litigation 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 Westwood 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 Westwood 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 brands and our ability to retain or attract AUM. In addition, in certain circumstances, misconduct on the part of our clients or other parties could damage our reputation. Harm to our reputation could have a material adverse effect on us.

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

We compete with numerous investment management companies, stock brokerage and investment banking firms, insurance companies, banks, savings and loan associations and other financial institutions. Continuing consolidation in the financial services industry has created stronger competitors with greater financial resources and broader distribution channels than our own. 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.

## **PROPERTIES**

Teton owns no properties. Teton currently leases 1,642 square feet of office space at 401 Theodore Fremd Avenue in Rye, New York in accordance with a sub-lease with GAMCO. We believe our office provides adequate capacity for our current needs.

## **LEGAL PROCEEDINGS**

None.

## **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Reserved.

## **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.

As of March 11, 2010, there were 58 Class A common stockholders of record and 220 Class B common stockholders of record.

In 2007, Teton paid dividends of \$1.30 per share and \$0.45 per share on January 4, 2007 and July 30, 2007 to all of its shareholders of record as of December 15, 2006 and July 23, 2007, respectively.

On July 15, 2008, Teton paid a dividend of \$1.00 per share to all of its shareholders of record as of July 1, 2008.

On June 12, 2009, Teton paid a dividend of \$0.70 per share to all of its shareholders of record as of June 5, 2009.

In connection with the spin-off on March 20, 2009, and under the terms of Mr. Nicholas F. Galluccio's ("Mr. Galluccio") employment and restricted stock grant agreements, Teton has issued 260,849 Class A shares of Teton restricted stock to Mr. Galluccio. These shares will cliff vest 30% at the end of three years from the date of employment and the remaining 70% will cliff vest at the end of five years from the date of employment.

There are currently no securities remaining available for future issuance under equity compensation plans other than those disclosed for Mr. Galluccio.

## SELECTED FINANCIAL DATA

### General

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

	For the Years Ended December 31,				
	2009	2008	2007	2006	2005
<b>Income Statement Data (unaudited)</b>					
<b>Revenues:</b>					
Investment advisory fees	\$ 4,293,635	\$ 3,792,716	\$ 3,841,410	\$ 3,676,139	\$ 3,682,140
Other income	1,953	35,318	114,315	230,806	116,592
Total revenues	4,295,588	3,828,034	3,955,725	3,906,945	3,798,732
<b>Expenses:</b>					
Marketing and administrative fees	896,670	830,802	854,003	819,296	819,697
Sub-advisory fees	627,272	767,116	840,065	843,628	758,485
Distribution costs and expense reimbursements	407,351	425,799	366,882	130,368	437,613
Compensation	1,096,359	567,358	278,772	307,332	213,873
Management fee	-	-	-	-	1,479,227
Other operating expenses	805,483	402,618	108,487	78,632	92,467
Total expenses	3,833,135	2,993,693	2,448,209	2,179,256	3,801,362
Income/(loss) before income taxes	462,453	834,341	1,507,516	1,727,689	(2,630)
Income tax expense/(benefit)	159,308	258,651	520,802	596,688	(1,394)
Net income/(loss)	\$ 303,145	\$ 575,690	\$ 986,714	\$ 1,131,001	\$ (1,236)
<b>Weighted average shares outstanding:</b>					
Basic	1,043,394	1,043,394	1,050,715	1,051,394	1,051,394
Diluted	1,093,749	1,043,394	1,050,715	1,051,394	1,051,394
<b>Net income per share:</b>					
Basic	\$ 0.29	\$ 0.55	\$ 0.94	\$ 1.08	\$ (0.00)
Diluted	\$ 0.28	\$ 0.55	\$ 0.94	\$ 1.08	\$ (0.00)
Actual shares outstanding at December 31st	1,304,242 (a)	1,043,394	1,043,394	1,051,394	1,051,394
Dividends declared	\$ 0.70	\$ 1.00	\$ 0.45	\$ 1.30	\$ -

(a) Includes 260,849 unvested RSAs.



	December 31,				
	2009	2008	2007	2006	2005
<b>Balance Sheet Data</b> (unaudited)					
Total assets	\$ 976,717	\$ 1,328,960	\$ 2,066,336	\$ 2,972,229	\$ 4,844,592
Total liabilities	493,949	549,114	818,786	2,230,144	3,866,697
Total stockholders' equity	\$ 482,768	\$ 779,846	\$ 1,247,550	\$ 742,085	\$ 977,895

	December 31,				
	2009	2008	2007	2006	2005
<b>Assets Under Management</b> (unaudited)					
(at year end, in millions):					
<b>Mutual Funds:</b>					
Equities	\$ 521	\$ 436	\$ 429	\$ 401	\$ 405
Fixed income	17	14	11	10	11
Separate accounts	23	-	-	-	-
<b>Total</b>	<b>\$ 561</b>	<b>\$ 450</b>	<b>\$ 440</b>	<b>\$ 411</b>	<b>\$ 416</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 Financial Statements and the notes thereto included in this report.

### Introduction

Our revenues are highly correlated to the level of AUM and fees associated with our various investment products, rather than our own corporate assets. AUM, which are directly influenced by the level and changes of the overall equity markets, can also fluctuate through acquisitions, the creation of new products, the addition of new accounts or the loss of existing accounts. Since various equity products have different fees, changes in our business mix may also affect revenues. At times, the performance of our equity products may differ markedly from popular market indices, and this can also impact our revenues. It is our belief that general stock market trends will have the greatest impact on our level of AUM and hence, revenues.

### Overview

#### *Statements of Income*

Investment advisory fees, which are based on the amount and composition of AUM in our Funds and separate accounts, represent our largest source of revenues. In addition to the general level and trends of the stock market, growth in revenues depends on good investment performance, which influences the value of existing AUM as well as contributes to higher investment and lower redemption rates and facilitates the ability to attract additional investors while maintaining current fee levels. Growth in AUM is also dependent on being able to access various distribution channels, which is usually based on several factors, including performance and service. Historically, we have depended primarily on direct distribution of our products and services but since 1995 have participated in third-party distribution programs, including NTF Programs. A majority of our cash inflows to mutual fund products have come through these channels since 1998. The effects of this on our future financial results cannot be determined at this time but could be material.

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

Other income primarily includes interest income earned from cash equivalents.

#### *Statements of Financial Condition*

We ended the year with \$436,412 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 \$482,768 on December 31, 2009 compared to \$779,846 on December 31, 2008. The decrease in stockholder's equity from the end of 2008 was related to the payment of dividends of \$730,375 during 2009 partially offset by \$303,145 of net income and \$130,152 from the amortization of RSA compensation.

## Assets Highlights (unaudited)

The following table sets forth total AUM by product type as of the dates shown and their CAGR:

### Assets Under Management By Product Type (Dollars in millions)

	2005	2006	2007	2008	2009	% Inc (Dec) 2009 / 2008	CAGR (a)
Equities	\$ 405	\$ 401	\$ 429	\$ 436	\$ 544	24.8%	5.6%
Fixed income	11	10	11	14	17	21.4	9.1
<b>Total Assets Under Management</b>	<b>\$ 416</b>	<b>\$ 411</b>	<b>\$ 440</b>	<b>\$ 450</b>	<b>\$ 561</b>	<b>24.7%</b>	<b>5.7%</b>

(a) CAGR from January 1, 2005 to December 31, 2009.

During 2008, the Board of Directors of the B.B. Micro Cap Growth Fund selected Teton as its interim investment adviser. At the time of selection the AUM in the B.B. Micro Cap Growth Fund was approximately \$75.4 million. This amount is not shown as an inflow in the tables below.

Net inflows in 2009 and 2008 totaled approximately \$30 million and \$57 million, respectively, compared with net outflows of approximately \$7 million in 2007.

Net inflows from equities products were approximately \$27 million in 2009, and net inflows from fixed income products were \$3 million in 2009.

For the three years ended December 31, 2009, 2008, and 2007 our net cash inflows or outflows by product line were as follows (in millions):

(unaudited)	2009	2008	2007
Mutual Funds			
Equities	\$ 7	\$ 59	\$ (8)
Fixed income	3	(2)	1
Separate Accounts	20	-	-
Total Net Cash (Out) In Flows	<u>\$ 30</u>	<u>\$ 57</u>	<u>\$ (7)</u>

For the three years ended December 31, 2009, 2008, and 2007 our net appreciation and depreciation by product line were as follows (in millions):

(unaudited)	2009	2008	2007
Mutual Funds			
Equities	\$ 78	\$ (127)	\$ 36
Fixed income	-	5	-
Separate Accounts	3	-	-
Total Net Appreciation/(Depreciation)	<u>\$ 81</u>	<u>\$ (122)</u>	<u>\$ 36</u>

## Operating Results for the Year Ended December 31, 2009 as Compared to the Year Ended December 31, 2008

### Revenues

Total revenues were \$4,295,588 in 2009, \$467,554 or 12.2% higher than the total revenues of \$3,828,034 in 2008. The change in total revenues by revenue component was as follows:

(unaudited)			Increase (decrease)	
	2009	2008	\$	%
Investment advisory fees	\$ 4,293,635	\$ 3,792,716	\$ 500,919	13.2 %
Other income	1,953	35,318	(33,365)	(94.5)
Total revenues	\$ 4,295,588	\$ 3,828,034	\$ 467,554	12.2 %

**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 on the separate accounts based on the AUM at the end of the preceding quarter.

Investment advisory fees were \$4,293,635 for the period ended December 31, 2009 compared to \$3,792,716 for the period ended December 31, 2008, an increase of \$500,919, or 13.2%. This increase is directly correlated to the increase in average AUM from \$420.7 million in 2008 to \$468.2 million in 2009, an increase of \$47.5 million, or 11.3%.

Our AUM increased from \$449.8 million at December 31, 2008 to \$560.5 million at December 31, 2009. This increase was primarily due to gross inflows of \$201.5 million and an increase in the market value of \$81.0 million, offset slightly by gross outflows of \$171.8 million.

Our AUM increased from \$440.5 million at December 31, 2007 to \$449.8 million at December 31, 2008. This increase was primarily due to the addition of the advisory contract for the B.B. Micro Cap Growth Fund, which had AUM of \$75.4 million at the time of the appointment and gross inflows of \$192.4 million, offset slightly by gross outflows of \$135.6 million and the decline in the market value of the Funds of \$122.9 million.

**Other income:** Other income includes interest income earned from cash equivalents that were invested in a money market mutual fund managed by Gabelli Funds, LLC, a subsidiary of GAMCO. Other income for 2009 was \$1,953, down from the \$35,318 for 2008 due to lower average cash equivalent balances held in 2009 and lower interest rates in 2009 versus 2008.

### Expenses

**Sub-advisory Fees:** Teton has currently retained a sub-adviser for three of the six Funds. Sub-advisory fees, which are 35% of the net investment advisory revenues of the sub-advised funds and are recognized as expenses as the related services are performed, were \$627,272 for 2009, down from \$767,116 in the prior year period. This decrease was primarily due to the decrease of investment advisory revenue from the three funds.

**Administrative Fees:** Administrative expenses, which are charges from GAMCO and paid by Teton for administration of the mutual fund activities performed by GAMCO on behalf of Teton, were \$896,670 for 2009, a 7.9% increase from \$830,802 in the prior year period. These expenses are tied directly to the level of AUM and currently are approximately 21% of investment advisory revenues in 2009.

**Compensation:** Compensation costs, which include salaries and benefits, portfolio manager compensation and stock based compensation was \$1,096,359 for 2009, a 93.2% increase from \$567,358 in the year ago period. Fixed compensation costs, which includes salary, bonus and benefits, increased to approximately \$564,199 for 2009 from \$372,106 in the prior year period due primarily to the full year impact of the three full time employees who were hired in July 2008 in anticipation of the spin-off. For 2009, portfolio manager compensation was \$402,008, an increase of \$206,756 from the \$195,252 in the prior year period. The primary driver of this increase was an increase in average AUM, which generates investment advisory fees, for the funds in which portfolio manager compensation is based. For 2009, the variable portfolio manager compensation was approximately 9% of investment advisory revenues. Stock based compensation relating to the granting of RSAs on the date of the spin-off was \$130,152 in 2009. There was no stock based compensation expense in 2008.

Distribution costs and expense reimbursements: Distribution costs, which are principally related to the sale of shares of open-end mutual funds, and expense reimbursements were \$407,351 for 2009, decreasing \$18,448 from \$425,799 in the prior year period.

Distribution costs are broken down into two categories, payments made to third party distributors for Funds sold through them, including their NTF programs, and expenses either paid to or reimbursed from Gabelli & Company for distribution of the Funds. Expenses paid to third party distributors were \$141,775 during the 2009 period, a decrease of \$14,676 from the prior year amount of \$156,451. The arrangement between Teton and Gabelli & Company is that Teton will reimburse Gabelli & Company for any distribution costs in excess of Gabelli & Company's distribution revenues on a fund-by-fund basis. Conversely, if the distribution revenues of Gabelli & Company exceed the costs, such excess is reimbursed to Teton on a fund-by-fund basis. For 2009, Gabelli & Company reimbursed Teton \$44,526, an increase of \$2,181, from the \$42,345 in 2008. This increase was due to higher distribution fee revenue received by Gabelli & Company during the 2009 period as compared to the 2008 period.

Expense reimbursements to the Funds were \$310,102 for 2009, a decrease of \$1,592 from the prior year period amount of \$311,694. For 2009 and 2008, expense reimbursement represented approximately 7% of investment advisory revenues.

Other: General and administrative expenses, including those charged by GAMCO, were \$805,483 for 2009, an increase of \$402,865 from the year ago amount of \$402,618. This increase was primarily due to \$372,450 in expenses related to the acquisition of the B.B. Micro Cap Growth Fund advisory contract and the spin-off.

#### **Income Taxes**

The effective tax rate was 34.4% for the year ended December 31, 2009, versus 31.0% for the year ended December 31, 2008.

#### **Net Income**

Net income for 2009 was \$303,145 or \$0.28 per fully diluted share versus \$575,690 or \$0.55 per fully diluted share for 2008.

### **Operating Results for the Year Ended December 31, 2008 as Compared to the Year Ended December 31, 2007**

#### **Revenues**

Total revenues were \$3,828,034 in 2008, \$127,691 or 3.2% lower than the total revenues of \$3,955,725 in 2007. The change in total revenues by revenue component was as follows:

(unaudited)			Increase (decrease)	
	2008	2007	\$	%
Investment advisory fees	\$ 3,792,716	\$ 3,841,410	\$ (48,694)	(1.3 %)
Other income	35,318	114,315	(78,997)	(69.1)
Total revenues	\$ 3,828,034	\$ 3,955,725	\$ (127,691)	(3.2 %)

Investment Advisory Fees: Investment advisory fees, which comprised 99.1% of total revenues in 2008, are directly influenced by the level and mix of AUM. Teton earns advisory fees based on the average AUM in the Funds.

Investment advisory fees were \$3,792,716 for the period ended December 31, 2008 compared to \$3,841,410 for the period ended December 31, 2007, a decrease of \$48,694, or 1.3%. This decrease is directly correlated to the decrease in average AUM from \$427.3 million in 2007 to \$420.7 million in 2008, a decrease of \$6.6 million, or 1.5%.

Our AUM increased from \$440.5 million at December 31, 2007 to \$449.8 million at December 31, 2008. This increase was primarily due to the addition of the advisory contract for the B.B. Micro Cap Growth Fund, which had AUM of \$75.4 million at the time of the appointment and gross inflows of \$192.4 million, offset slightly by gross outflows of \$135.6 million and the decline in the market value of the Funds of \$122.9 million.

Our AUM increased from \$410.9 million at December 31, 2006 to \$440.5 million at December 31, 2007. This increase was primarily due to a 9.0%, or \$37.0 million, increase in the market value of the Funds and gross contributions of \$108.0 million, offset slightly by gross withdrawals of \$115.4 million.

Other income: Other income includes interest income earned from cash equivalents that were invested in a money market mutual fund managed by Gabelli Funds, LLC, a subsidiary of GAMCO. Other income for 2008 was \$35,318, down from the \$114,315 for 2007 due to lower average cash equivalent balances held in 2008 and lower interest rates in 2008 versus 2007.

## ***Expenses***

**Sub-advisory Fees:** Teton has currently retained a sub-adviser for three of the six Funds. Prior to July 1, 2007 Teton had also retained the same sub-advisor on two additional 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 \$767,116 for 2008, down from \$840,065 in the prior year period. This decrease was primarily due to the decrease of investment advisory revenue from the three funds and the termination of the sub-advisory relationship for two of the five funds effective July 1, 2007.

**Administrative Fees:** Administrative expenses, which are charges from GAMCO and paid by Teton for administration of the mutual fund activities performed by GAMCO on behalf of Teton, were \$830,802 for 2008, a 2.7% decrease from \$854,003 in the prior year period. These expenses are tied directly to the level of AUM and currently are approximately 22% of investment advisory revenues in 2008.

**Compensation:** Compensation costs, which include both direct employees of Teton, portfolio manager compensation and the salary and bonus allocated to Teton by GAMCO based upon the allocation percentage of employee work performed that affects Teton, was \$567,358 for 2008, a 103.5% increase from \$278,772 in the year ago period. Fixed compensation costs, which include both direct and allocated salary and bonus, increased to approximately \$372,106 for 2008 from \$136,896 in the prior year period due primarily to the hiring of three full time employees in anticipation of the spin-off. The remainder of the compensation expenses represents variable portfolio manager compensation that fluctuates with net investment advisory revenues, which is defined as advisory fees less certain expenses. For 2008, portfolio manager compensation was \$195,252, an increase of \$53,376 from the \$141,876 in the prior year period. The primary driver of this increase was an increase in average AUM, which generates investment advisory fees, for the funds in which portfolio manager compensation is based. For 2008 the variable portfolio manager compensation was approximately 5% of investment advisory revenues.

**Distribution costs and expense reimbursements:** Distribution costs, which are principally related to the sale of shares of open-end mutual funds, and expense reimbursements were \$425,799 for 2008, increasing \$58,917 from \$366,882 in the prior year period.

Distribution costs are broken down into two categories, payments made to third party distributors for Funds sold through them, including their no transaction fee programs, and expenses either paid to or reimbursed from Gabelli & Company for distribution of the Funds. Expenses paid to third parties were \$156,451 during the 2008 period, a decrease of \$28,317 from the prior year amount of \$184,768. The arrangement between Teton and Gabelli & Company is that Teton will reimburse Gabelli & Company for any distribution costs in excess of Gabelli & Company's distribution revenues. Conversely, if the distribution revenues of Gabelli & Company exceed the costs, such excess is reimbursed to Teton. For 2008 Gabelli & Company reimbursed Teton \$42,345 while during the 2007 period Teton paid Gabelli & Company \$12,123, a decrease of \$54,468. This decrease was due to lower expenses incurred by Gabelli & Company during the 2008 period as compared to the 2007 period.

Expense reimbursements to the Funds were \$311,694 for 2008, an increase of \$141,703 from the prior year period amount of \$169,991. The primary driver of this increase has been lower AUM in the Funds with expense reimbursements during 2008 as compared to 2007, which in turn leads to the Fund being able to cover less of the Fund expenses and Teton having to pay more to maintain the Fund's expense limitations. For 2008, expense reimbursement represented approximately 8% of investment advisory revenues, up from approximately 4% in 2007.

**Other:** General and administrative expenses, including those charged by GAMCO and incurred directly, were \$402,618 for 2008, an increase of \$294,131 from the year ago amount of \$108,487. This increase was primarily due to expenses related to the spin-off which include the rental of office space in a building being leased by GAMCO, legal expense relating to preparing, reviewing and filing documents, accounting fees related to the preparation of SEC forms and amortization of the intangible asset.

## ***Income Taxes***

The effective tax rate was 31.0% for the year ended December 31, 2008, versus 34.5% for the year ended December 31, 2007.

## ***Net Income***

Net income for 2008 was \$575,690 or \$0.55 per fully diluted share versus \$986,714 or \$0.94 per fully diluted share for 2007.

## Liquidity and Capital Resources

Teton's current liquidity and capital needs include the costs of compensation to our employees and other operating expenses such as rent and the service agreement with GAMCO. Our principal assets consist of cash equivalents, a U.S. Treasury money market mutual fund that is invested 100% in U.S. Treasuries managed by Gabelli Funds, LLC, a subsidiary of GAMCO.

Summary cash flow data is as follows:  
(unaudited)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows (used in) provided by:			
Operating activities	\$ 406,437	\$ 78,283	\$ 1,012,441
Financing activities	(730,375)	(1,043,394)	(1,848,060)
Decrease in cash and cash equivalents	(323,938)	(965,111)	(835,619)
Cash and cash equivalents at beginning of year	<u>760,350</u>	<u>1,725,461</u>	<u>2,561,080</u>
Cash and cash equivalents at end of year	<u>\$ 436,412</u>	<u>\$ 760,350</u>	<u>\$ 1,725,461</u>

Cash and liquidity requirements have historically been met through Teton's operating activities. Additionally, the Company's financing activities represent payments of dividends to shareholders of excess cash. The dividends were paid out after analysis by management and the board of directors of the Company's operating cash needs and were only paid out when it was determined that there were sufficient resources to fund the dividend without impinging on the Company's operations. The Company does not currently have any debt. At December 31, 2009, we had cash and cash equivalents of \$436,412, a decrease of \$323,938 from the prior year-end.

Net cash provided by operating activities was \$406,437 for the year ended December 31, 2009. The most significant contributors to the higher cash provided by operating activities for 2009 as compared to 2008 was the settlement of payables to affiliates in 2008. The most significant contributors to the lower cash provided by operating activities for 2008 as compared to 2007 were the payable to affiliates and net income.

Net cash used in financing activities was \$730,375 for 2009, from the payment of the \$0.70 per share dividend to the Company's shareholders. Net cash used in financing activities was \$1,043,394 for 2008, from the payment of \$1.00 per share in dividends to the Company's shareholders.

## Market Risk

### Equity Price Risk

The Company earns substantially all of its revenue as advisory fees from our Mutual Fund assets. 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 investments aside from its investment in the Gabelli U.S. Treasury Money Market Fund.

### Commitments and Contingencies

We are obligated to make future payments under various contracts such as operating lease agreements. The following table sets forth our significant contractual cash obligations as of December 31, 2009:

(unaudited)	<u>Total</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Thereafter</u>
Contractual Obligations:						
Non-cancelable operating lease obligation	\$ 223,037	\$ 66,911	\$ 66,911	\$ 66,911	\$ 22,304	\$ -
Total	<u>\$ 223,037</u>	<u>\$ 66,911</u>	<u>\$ 66,911</u>	<u>\$ 66,911</u>	<u>\$ 22,304</u>	<u>\$ -</u>

## **Off-Balance Sheet Arrangements**

Gabelli & Company, a subsidiary of GAMCO, distributes the Westwood Funds pursuant to distribution agreements with each fund. Under the distribution agreements, Teton reimburses Gabelli & Company for any expenses incurred by Gabelli & Company for acting as a distributor of the Westwood Funds that exceed the 12b-1 fees earned by Gabelli & Company on a fund-by-fund basis. These payments can then be recovered from Gabelli & Company to the extent that they were previously paid to Gabelli & Company. At December 31, 2009 and December 31, 2008, the amounts receivable from Gabelli & Company were \$215,834 and \$260,360, respectively.

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

### ***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 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.

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

We use a fair value based method of accounting for stock-based compensation provided to our employees. The estimated fair value of our one RSA grant was determined based on the value of the shares on the date of the grant. We determined the value based on a market comparable approach. The total expense is recognized over the vesting period for these awards which is 30% over three years from the date of employment, which is July 18, 2008, and 70% over five years from the date of employment.



## **Recent Accounting Developments**

In April 2008, the Financial Accounting Standards Board (“FASB”) issued guidance which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The Company adopted this guidance on January 1, 2009 without a material impact to the financial statements.

In April 2009, the FASB issued three FASB Staff Positions (“FSP”) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities by making the disclosures more consistent with previous fair value guidance, increasing the frequency of fair value disclosures and create greater clarity and consistency in accounting for and presenting impairment losses on securities. The application and adoption in the second quarter of these FSPs was not material to the financial statements.

In May 2009, the FASB issued guidance to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although the guidance did not change the recognition and disclosure requirements for type I and type II subsequent events it does refer to them as recognized (type I) and nonrecognized (type II) subsequent events. Management is required to disclose the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued or were available to be issued. The Company adopted this guidance prospectively for the quarter ended June 30, 2009 and the adoption impacted only the Company's disclosure of subsequent events in the second and third quarters of 2009. In February 2010, the FASB issued revised guidance on the disclosure of subsequent events to remove the requirement for an SEC filer to disclose the date through which subsequent events were evaluated. This guidance was effective immediately upon issuance, was adopted by the Company upon issuance and did not have a material effect on the financial statements.

In June 2009, the FASB approved The FASB Accounting Standards Codification<sup>TM</sup> as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (“GAAP”), effective for interim and annual periods ending after September 15, 2009. All existing accounting standard documents are superseded. All other accounting literature not included in the Codification will be considered nonauthoritative. The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. It also includes relevant Securities and Exchange Commission guidance that follows the same topical structure in separate sections in the Codification. While the Codification does not change GAAP, it introduces a new structure - one that is organized in an easily accessible, user-friendly online research system. The FASB expects that the new system will reduce the amount of time and effort required to research an accounting issue, mitigate the risk of noncompliance with standards through improved usability of the literature, provide accurate information with real-time updates as new standards are released, and assist the FASB with the research efforts required during the standard-setting process. While the Codification does not change the U.S. GAAP used by the Company, it will change how U.S. GAAP is referenced in the financial statements. All references to U.S. GAAP are organized by topic, subtopic, section and paragraph and are preceded by FASB ASC, where ASC stands for Accounting Standards Codification. The Company adopted this guidance during the third quarter of 2009 and the application of this guidance was not material to the financial statements.

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance effects all entities that are required to make disclosures about recurring and nonrecurring fair value measurements. The guidance requires new disclosures regarding transfers in and out of Level 1 and 2 fair value measurements and activity related to Level 3 fair value measurements. In addition, the guidance clarifies existing fair value disclosure requirements related to the level of disaggregation of assets and liabilities and the valuation techniques and inputs used. This update will be effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance to the financial statements.

## **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, revenues or otherwise.

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

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

## FINANCIAL STATEMENTS

The financial statements are included herein, commencing on Page 33 of this report.

### TETON ADVISORS, INC.

#### INDEX TO FINANCIAL STATEMENTS

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
Teton Advisors, Inc.

We have audited the accompanying statement of financial condition of Teton Advisors, Inc. ("Teton") as of December 31, 2009, and the related statements of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of Teton's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Teton Advisors, Inc. as of December 31, 2008 and for the years ended December 31, 2008 and 2007, were audited by other auditors whose report thereon dated March 31, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Teton Advisors, Inc. at December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**BERRY, DUNN, McNEIL & PARKER**

Portland, Maine  
March 31, 2010

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

	Year ended December 31,		
	2009	2008	2007
<b>Revenues</b>			
Investment advisory fees	\$ 4,293,635	\$ 3,792,716	\$ 3,841,410
Other income	1,953	35,318	114,315
Total revenues	<u>4,295,588</u>	<u>3,828,034</u>	<u>3,955,725</u>
<b>Expenses</b>			
Marketing and administrative fees	896,670	830,802	854,003
Sub-advisory fees	627,272	767,116	840,065
Distribution costs and expense reimbursements	407,351	425,799	366,882
Compensation	1,096,359	567,358	278,772
Other operating expenses	805,483	402,618	108,487
Total expenses	<u>3,833,135</u>	<u>2,993,693</u>	<u>2,448,209</u>
Income before income taxes	462,453	834,341	1,507,516
Income taxes	159,308	258,651	520,802
Net income	<u>\$ 303,145</u>	<u>\$ 575,690</u>	<u>\$ 986,714</u>
<b>Net income per share:</b>			
Basic	<u>\$ 0.29</u>	<u>\$ 0.55</u>	<u>\$ 0.94</u>
Diluted	<u>\$ 0.28</u>	<u>\$ 0.55</u>	<u>\$ 0.94</u>
<b>Weighted average shares outstanding:</b>			
Basic	<u>1,043,394</u>	<u>1,043,394</u>	<u>1,050,715</u>
Diluted	<u>1,093,749</u>	<u>1,043,394</u>	<u>1,050,715</u>
Dividends declared	<u>\$ 0.70</u>	<u>\$ 1.00</u>	<u>\$ 0.45</u>

See accompanying notes.

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

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 436,412	\$ 760,350
Investment advisory fees receivable	395,968	316,985
Deferred tax asset	-	33,890
Income tax receivable	47,166	17,906
Receivable from affiliates	6,580	4,592
Identifiable intangible asset	-	146,400
Other assets (net of accumulated depreciation of \$3,169 and \$1,028, respectively)	90,591	48,837
Total assets	<u>\$ 976,717</u>	<u>\$ 1,328,960</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Payable to affiliates	\$ 235,172	\$ 227,855
Deferred tax payable	154,678	-
Compensation payable	10,000	-
Distribution costs payable	44,090	35,186
Professional fees payable	33,259	282,626
Accrued expenses and other liabilities	16,750	3,447
Total liabilities	493,949	549,114
Stockholders' equity:		
Class A Common Stock, \$.001 par value; 1,200,000 shares authorized; 945,776 and 259,394 shares issued and outstanding, respectively	685	259
Class B Common Stock, \$.001 par value; 800,000 shares authorized; 792,000 shares issued; 358,466 and 784,000 shares outstanding, respectively	366	792
Additional paid-in capital	145,806	296,911
Treasury stock, Class B, at cost (8,000 shares)	(8,120)	(8,120)
Retained earnings	344,031	490,004
Total stockholders' equity	<u>482,768</u>	<u>779,846</u>
Total liabilities and stockholders' equity	<u>\$ 976,717</u>	<u>\$ 1,328,960</u>

See accompanying notes.

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

	<b>Common Stock Class A</b>	<b>Common Stock Class B</b>	<b>Additional Paid-in Capital</b>	<b>Treasury Stock</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at December 31, 2006	\$ 259	\$ 792	\$ 296,911	\$ -	\$ 444,123	\$ 742,085
Net income	-	-	-	-	986,714	986,714
Dividends declared	-	-	-	-	(473,129)	(473,129)
Stock buyback	-	-	-	(8,120)	-	(8,120)
Balance at December 31, 2007	<u>\$ 259</u>	<u>\$ 792</u>	<u>\$ 296,911</u>	<u>\$ (8,120)</u>	<u>\$ 957,708</u>	<u>\$ 1,247,550</u>
Net income	-	-	-	-	575,690	575,690
Dividends declared and paid	-	-	-	-	(1,043,394)	(1,043,394)
Balance at December 31, 2008	<u>\$ 259</u>	<u>\$ 792</u>	<u>\$ 296,911</u>	<u>\$ (8,120)</u>	<u>\$ 490,004</u>	<u>\$ 779,846</u>
Net income	-	-	-	-	303,145	303,145
Stock based compensation	-	-	130,152	-	-	130,152
Conversion of shares	426	(426)	-	-	-	-
Dividends declared and paid	-	-	(281,257)	-	(449,118)	(730,375)
Balance at December 31, 2009	<u>\$ 685</u>	<u>\$ 366</u>	<u>\$ 145,806</u>	<u>\$ (8,120)</u>	<u>\$ 344,031</u>	<u>\$ 482,768</u>

See accompanying notes.

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

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>			
Net income	\$ 303,145	\$ 575,690	\$ 986,714
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,141	1,028	-
Deferred income tax	(44,784)	(33,890)	13,648
Acquisition of identifiable intangible asset	-	(183,000)	-
Stock based compensation expense	130,152	-	-
Amortization of identifiable intangible asset	146,400	36,600	-
(Increase) decrease in operating assets:			
Investment advisory fees receivable	(78,983)	4,264	(20,229)
Income taxes receivable	49,414	(17,906)	-
Receivable from affiliates	(1,988)	(4,592)	40,582
Other assets	(43,895)	(30,239)	20,248
Increase (decrease) in operating liabilities:			
Payable to affiliates	7,317	(441,512)	142,114
Income taxes payable	154,678	(13,629)	29,654
Compensation payable	10,000	(36,681)	(6,892)
Distribution costs payable	8,904	(13,131)	(224,072)
Professional fees payable	(249,367)	241,938	22,188
Accrued expenses and other liabilities	13,303	(6,657)	8,486
Total adjustments	<u>103,292</u>	<u>(497,407)</u>	<u>25,727</u>
Net cash provided by operating activities	406,437	78,283	1,012,441
<b>Financing activities</b>			
Dividends paid	(730,375)	(1,043,394)	(1,839,940)
Stock buyback	-	-	(8,120)
Net cash used in financing activities	<u>(730,375)</u>	<u>(1,043,394)</u>	<u>(1,848,060)</u>
Net decrease in cash and cash equivalents	(323,938)	(965,111)	(835,619)
Cash and cash equivalents at beginning of year	<u>760,350</u>	<u>1,725,461</u>	<u>2,561,080</u>
Cash and cash equivalents at end of year	<u>\$ 436,412</u>	<u>\$ 760,350</u>	<u>\$ 1,725,461</u>
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 379,151</u>	<u>\$ 477,500</u>

See accompanying notes.



## **A. Significant Accounting Policies**

### *Basis of Presentation*

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

### *Use of Estimates*

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

### *Nature of Operations*

Teton is a registered investment adviser under the Investment Advisers Act of 1940. Refer to Revenue Recognition section within Note A for additional discussion of Teton’s business. The Company’s principal market is in the United States.

### *Cash and Cash Equivalents*

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

### *Revenue Recognition*

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

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

Additionally, Teton also has interest income from investments in an U.S. Treasury money market mutual fund, which is included in other income in the statements of income.

### *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 on the statements of financial condition.

### *Depreciation*

Fixed assets, with net book value of \$11,765 and \$13,906 at December 31, 2009 and 2008, 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.

### *Fair Values of Financial Instruments*

Effective January 1, 2008, the Company adopted "Fair Value Measurements", which provides a framework for measuring fair value under GAAP. The Company did not adopt "The Fair Value Option for Financial Assets and Financial Liabilities".

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. Cash equivalents are valued using quoted market prices.

### *Earnings Per Share*

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

### *Stock Based Compensation*

The Company uses a fair value based method of accounting for stock-based compensation provided to employees. The estimated fair value of the restricted stock award ("RSA") grant was determined based on the value of the shares on the date of the grant. The Company determined the value based on a market comparable approach. The total expense is recognized over the vesting period for this award which is 30% over three years from the date of employment, which is July 18, 2008, and 70% over five years from the date of employment.

### *Concentration of Credit Risk*

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

### *Business Segments*

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

### *Recent Accounting Developments*

In April 2008, the FASB issued guidance which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The Company adopted this guidance on January 1, 2009 without a material impact to the financial statements.

In April 2009, the FASB issued three FASB Staff Positions (“FSP”) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities by making the disclosures more consistent with previous fair value guidance, increasing the frequency of fair value disclosures and creating greater clarity and consistency in accounting for and presenting impairment losses on securities. The application and adoption in the second quarter of these FSPs was not material to the financial statements.

In May 2009, the FASB issued guidance to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although the guidance did not change the recognition and disclosure requirements for type I and type II subsequent events it does refer to them as recognized (type I) and nonrecognized (type II) subsequent events. Management is required to disclose the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued or were available to be issued. The Company adopted this guidance prospectively for the quarter ended June 30, 2009 and the adoption impacted only the Company's disclosure of subsequent events in the second and third quarters of 2009. In February 2010, the FASB issued revised guidance on the disclosure of subsequent events to remove the requirement for a Securities and Exchange Commission (“SEC”) filer to disclose the date through which subsequent events were evaluated. This guidance was effective immediately upon issuance, was adopted by the Company upon issuance and did not have a material effect on the financial statements.

In June 2009, the FASB approved The FASB Accounting Standards Codification<sup>TM</sup> as the single source of authoritative nongovernmental U.S. GAAP, effective for interim and annual periods ending after September 15, 2009. All existing accounting standard documents are superseded. All other accounting literature not included in the Codification will be considered nonauthoritative. The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. It also includes relevant SEC guidance that follows the same topical structure in separate sections in the Codification. While the Codification does not change GAAP, it introduces a new structure - one that is organized in an easily accessible, user-friendly online research system. The FASB expects that the new system will reduce the amount of time and effort required to research an accounting issue, mitigate the risk of noncompliance with standards through improved usability of the literature, provide accurate information with real-time updates as new standards are released, and assist the FASB with the research efforts required during the standard-setting process. While the Codification does not change the U.S. GAAP used by the Company, it will change how U.S. GAAP is referenced in the financial statements. All references to U.S. GAAP are organized by topic, subtopic, section and paragraph and are preceded by FASB ASC, where ASC stands for Accounting Standards Codification. The Company adopted this guidance during the third quarter of 2009 and the application of this guidance was not material to the financial statements.

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance effects all entities that are required to make disclosures about recurring and nonrecurring fair value measurements. The guidance requires new disclosures regarding transfers in and out of Level 1 and 2 fair value measurements and activity related to Level 3 fair value measurements. In addition, the guidance clarifies existing fair value disclosure requirements related to the level of disaggregation of assets and liabilities and the valuation techniques and inputs used. This update will be effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance to the financial statements.

## B. Fair Value of Financial Instruments

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, 2009 and 2008 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, 2009

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2009
Cash equivalents	\$ 436,309	\$ -	\$ -	\$ 436,309
<b>Total</b>	<b>\$ 436,309</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 436,309</b>

### Assets Measured at Fair Value on a Recurring Basis as of December 31, 2008

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
Cash equivalents	\$ 760,350	\$ -	\$ -	\$ 760,350
<b>Total</b>	<b>\$ 760,350</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 760,350</b>

## C. Income Taxes

The provision for (benefit from) income taxes for the years ended December 31, 2009, 2008 and 2007 consisted of the following:

	2009	2008	2007
Federal:			
Current	\$ 201,138	\$ 286,788	\$ 494,476
Deferred	(44,135)	(33,271)	13,307
State and local:			
Current	2,954	5,753	12,678
Deferred	(649)	(619)	341
	<b>\$ 159,308</b>	<b>\$ 258,651</b>	<b>\$ 520,802</b>

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

	2009	2008	2007
Statutory Federal income tax rate	34.0 %	34.0 %	34.0 %
State income tax, net of Federal benefit	0.4	0.4	0.5
Other	-	(3.4)	-
Effective income tax rate	<b>34.4 %</b>	<b>31.0 %</b>	<b>34.5 %</b>

Significant components of our deferred tax assets and liabilities are as follows:

	<b>2009</b>	<b>2008</b>
Deferred tax assets:		
Capitalized expenditures for spin-off	\$ -	\$ 36,474
Total deferred tax assets	-	36,474
Deferred tax liabilities:		
Fixed assets	(2,473)	(2,584)
Stock based compensation expense	(152,205)	-
Total deferred tax liabilities	(154,678)	(2,584)
Net deferred tax (liabilities) assets	<u>\$ (154,678)</u>	<u>\$ 33,890</u>

The Company's Federal and State income tax returns are subject to future audit for all years after 2005.

#### **D. Earnings per Share**

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

	<b>For the Years Ending December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Basic:			
Net income	\$ 303,145	\$ 575,690	\$ 986,714
Weighted average shares outstanding	1,043,394	1,043,394	1,050,715
Basic net income per share	<u>\$ 0.29</u>	<u>\$ 0.55</u>	<u>\$ 0.94</u>
Diluted:			
Net income	\$ 303,145	\$ 575,690	\$ 986,714
Weighted average shares outstanding	1,043,394	1,043,394	1,050,715
Dilutive RSAs	50,355	-	-
Total	<u>1,093,749</u>	<u>1,043,394</u>	<u>1,050,715</u>
Diluted net income per share	<u>\$ 0.28</u>	<u>\$ 0.55</u>	<u>\$ 0.94</u>

#### **E. Stockholders' Equity**

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

##### *Voting Rights*

The holders of Class A common stock and Class B common stock have identical rights except that (i) holders of Class A common stock are entitled to one vote per share, while holders of Class B common stock are entitled to ten votes per share on all matters to be voted on by 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. Class B holders are entitled to convert their shares into Class A shares on a one-for-one basis.

##### *Stock Based Compensation*

During 2009, the Company issued 260,849 RSAs at a grant date fair value of \$2.20 per share. As of December 31, 2009, there are 260,849 RSA shares outstanding at an average grant price of \$2.20 per share. This expense is recognized over the vesting period for the award which is 30% over three years from the date of employment, of July 18, 2008, and 70% over five years from the date of employment.

The total compensation costs related to non-vested awards not yet recognized is \$443,355 as of December 31, 2009. This will be recognized as expense in the following periods:

2010	2011	2012	2013
\$ 166,380	\$ 133,527	\$ 92,643	\$ 50,805

For the year ended December 31, 2009, the Company recorded \$130,152 in stock based compensation expense which resulted in a tax benefit of \$44,694.

#### *Dividends*

During 2009, the Company declared and paid dividends of \$0.70 per share to Class A and Class B shareholders totaling \$730,375. During 2008, the Company declared and paid dividends of \$1.00 per share to Class A and Class B shareholders totaling \$1,043,394. During 2007, the Company declared dividends of \$0.45 per share to Class A and Class B shareholders totaling \$473,129, and paid dividends of \$1.75 per share to Class A and Class B shareholders totaling \$1,839,940.

#### *Stock repurchase*

During 2007, the Company repurchased 8,000 shares of Class A common stock for \$8,120. There were no repurchases made during 2009 or 2008.

#### **F. Commitments**

The Company rents office space under a sub-lease with GAMCO which expires at April 2013. GAMCO has the right to terminate this sub-lease on December 31, 2011, provided that GAMCO gives no less than six months notice to Teton. Future minimum lease commitments under this operating lease as of December 31, 2009 are as follows:

2010	\$	66,911
2011		66,911
2012		66,911
2013		22,304
Thereafter		-
	\$	<u>223,037</u>

Occupancy expense amounted to \$66,911 and \$33,456 in 2009 and 2008, respectively. The Company did not incur occupancy costs prior to 2008.

#### **G. Related Party Transactions**

The following is a summary of certain related party transactions.

Effective with the spin-off on March 20, 2009, GAMCO does not have an ownership interest in Teton. GAMCO owned approximately 11.9% of Teton's Class A shares and approximately 52.1% of Teton's Class B shares as of December 31, 2008.

GGCP, Inc. ("GGCP") owned approximately 95% of the combined voting power of the outstanding common stock of GAMCO and approximately 72% of the equity interest of GAMCO. Mr. Mario J. Gabelli ("Mr. Gabelli") owned approximately 75% of the shares of GGCP. The ownership percentages set forth in this paragraph are as of December 31, 2008.

MJG IV Partnership owned approximately 31.8% of Teton's Class A shares as of December 31, 2009. Mr. Gabelli is the general partner of MJG IV Partnership and the limited partners of MJG IV Partnership are family members of Mr. Gabelli.

As of December 31, 2009, Westwood Management Corporation owned approximately 21.1% of Teton's Class A shares. Westwood Holdings Group owns 100% of Westwood Management Corporation.

In 2007, the Company repurchased 8,000 shares of Class A common stock from a former employee of GAMCO.

GAMCO has historically performed many corporate functions for Teton. In connection with the spin-off, which occurred on March 20, 2009, Teton has entered into certain other agreements with GAMCO to define Teton's ongoing relationship with GAMCO after the spin-off. These other agreements define responsibility for obligations arising before and after the spin-off date, including obligations relating to Teton's employees, certain transitional services, and taxes.

Teton invests all of its cash equivalents in a money market mutual fund managed by Gabelli Funds, LLC ("Gabelli Funds"). Gabelli Funds is owned 100% by GAMCO. At December 31, 2009 and 2008, Teton had \$436,309 and \$760,350, respectively, in this money market fund and earned \$1,953, \$35,318 and \$114,315 for the years ended December 31, 2009, 2008 and 2007, respectively.

Gabelli & Company, Inc. ("Gabelli & Company"), a subsidiary of GAMCO, serves as the principal distributor for the Funds. As distributor, Gabelli & Company incurs certain promotional and distribution costs, which are expensed as incurred, related to the sale of Fund shares. Gabelli & Company receives reimbursements from the Company in connection with these distribution activities to the extent such costs exceed distribution fees received from the Funds managed by the Company on a fund-by-fund basis. Such amounts are repaid to the Company if distribution fees are in excess of distribution expenses of the Funds. In connection with its role as principal distributor, the Company received from Gabelli & Company \$44,526 and \$42,345 of previously paid reimbursed distribution expenses in 2009 and 2008, respectively, and reimbursed to Gabelli & Company distribution expenses of \$12,123 in 2007. As of December 31, 2009 and 2008, there was \$215,834 and \$260,360, respectively, contingently payable to the Company from Gabelli & Company, representing the net accumulated reimbursements paid by the Company to Gabelli & Company since the inception of each of the Funds calculated on an individual Fund basis. Gabelli & Company is owned 100% by Gabelli Securities, Inc., which in turn is owned 93% by GAMCO as of December 31, 2009.

Teton paid GAMCO administration fees based on the average net assets of the Funds, amounting to \$896,670, \$830,802 and \$854,003 for the years ended December 31, 2009, 2008 and 2007, respectively. Teton also paid GAMCO reimbursement for compensation, which amounted to \$381,503, \$567,358 and \$278,772 for the years ended December 31, 2009, 2008 and 2007, respectively. Teton pays Westwood Management Corporation a sub-advisory fee of 35% of net revenues for funds which Westwood Management Corporation acts as the sub-advisor. Net revenues is defined as advisory fees less 20 basis points for administrative fees, after certain expenses are paid by Teton to the Westwood Funds. The fees amounted to approximately \$627,272, \$767,116 and \$840,065 for the years ended December 31, 2009, 2008 and 2007, respectively. Westwood Management Corporation is owned 100% by Westwood Holdings Group as of December 31, 2009.

The Company serves as the investment adviser for the Funds and earns advisory fees based on predetermined percentages of the net average assets of the Funds. Advisory fees earned from the Funds were \$4,244,502, \$3,792,716 and \$3,841,410 for the years ended December 31, 2009, 2008 and 2007, respectively. Advisory fees receivable from the Funds were \$395,968 and \$316,985 at December 31, 2009 and 2008, respectively.

The Company has receivables from the Funds of \$45,823 and \$25,353, which are included in other assets in the statements of financial condition, at December 31, 2009 and 2008, respectively, relating to reimbursement of shareholder servicing costs associated with No Transaction Fee ("NTF") programs.

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, if payroll or expense reimbursement related, as the expenses are incurred, based upon methodologies periodically reviewed by the management of the Company and the affiliates for reasonableness. During 2009, 2008 and 2007, GAMCO allocated \$1,638,271, \$1,386,270 and \$1,147,258, respectively, and Gabelli & Company allocated (\$12,376), \$525,012 and \$290,895, respectively, of overhead expenses to Teton. 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, 2009 and 2008 are non-interest bearing and are receivable and payable on demand. At December 31, 2009 and 2008, the amount payable to GAMCO was \$174,930 and \$173,068, respectively, and the amount payable to Westwood Management Corporation was \$55,169 and \$54,787, respectively. The amount receivable from Gabelli & Company at December 31, 2009 and 2008 was \$6,580 and \$4,592, respectively.

## H. Quarterly Financial Information (Unaudited)

Quarterly financial information for the years ended December 31, 2009 and 2008 is presented below.

	2009				
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Full Year
Revenues	\$ 947,987	\$ 961,598	\$ 1,122,692	\$ 1,263,311	\$ 4,295,588
Income (loss) before taxes	(117,066)	54,722	265,132	259,665	462,453
Net income (loss)	(76,866)	35,980	173,889	170,142	303,145
Net income (loss) per share:					
Basic	(0.07)	0.03	0.17	0.16	0.29
Diluted	\$ (0.07)	\$ 0.03	\$ 0.16	\$ 0.14	\$ 0.28

	2008				
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Full Year
Revenues	\$ 960,518	\$ 1,015,229	\$ 977,526	\$ 874,761	\$ 3,828,034
Income before taxes	352,584	325,375	117,040	39,342	834,341
Net income	230,766	212,901	76,596	55,427	575,690
Net income per share:					
Basic	0.22	0.20	0.07	0.06	0.55
Diluted	\$ 0.22	\$ 0.20	\$ 0.07	\$ 0.06	\$ 0.55

## I. Identifiable Intangible Asset

The Company assesses the recoverability of identifiable intangible assets at least annually, or more often should events warrant, using a present value cash flow method. At a Board Meeting on November 11, 2008, the Board of Trustees of the B.B. Micro Cap Growth Fund assigned, on an interim basis for 150 days, the advisory contract to Teton as the investment adviser, effective with the close of business on November 28, 2008. Although there was no additional payment for the assignment of the advisory contract, the Company has incurred costs of \$183,000 relating to legal and accounting work performed relating to the arrangement and to obtain shareholder approval for the merger with an existing fund managed by Teton. As a result of becoming the adviser to the B.B. Micro Cap Growth Fund, the Company recorded an identifiable intangible asset of \$183,000. The Company amortized the acquisition costs over the estimated life of the interim contract. In accordance with this policy, the Company amortized \$36,600 of the identifiable intangible asset during 2008 and the remaining amount of \$146,400 during 2009 and as a result does not have an identifiable intangible asset on the statement of financial condition at December 31, 2009.

## J. 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.

## K. Subsequent Events

The subsequent events have been evaluated through March 31, 2010, the date the financial statements were available to be issued.



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

**Board of Directors**

**Bruce N. Alpert**

*Chairman of Teton Advisors, Inc.  
Senior Vice President  
GAMCO Investors, Inc.*

**Alfred W. Fiore**

*Business Consultant*

**Nicholas F. Galluccio**

*President and Chief Executive Officer  
Teton Advisors, Inc.*

**Douglas R. Jamieson**

*President, Chief Operating Officer  
GAMCO Investors, Inc.*

**Edward T. Tokar**

*Senior Managing Director  
Beacon Trust Company*

**Howard F. Ward**

*Senior Vice President  
Portfolio Manager - GAMCO Growth Fund  
Portfolio Manager - GAMCO Global Growth Fund  
GAMCO Investors, Inc.*

**Robert S. Zuccaro**

*Managing Director and Chief Financial Officer  
Commonwealth Management Partners LLLP*

**Officers**

**Nicholas F. Galluccio**

*President and Chief Executive Officer*

**Jeffrey M. Farber**

*Chief Financial Officer*

**Corporate and Shareholder Information**

**Investor Relations**

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

One Corporate Center  
Rye, New York 10580-1422  
914-457-1070  
email: info@tetonadv.com

**Transfer Agent**

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038  
(800) 937-5449

**Trading Information**

Pink Sheets ®  
Class A Common Stock  
Symbol: TETAA

**Website**

www.tetonadv.com

**Investment Services Information**

Mutual Funds  
800-WESTWOOD  
email: info@gabelli.com

**Institutional Accounts**

914-457-1070  
email: info@tetonadv.com

**Annual Meeting**

Our 2010 Annual Meeting of Shareholders will be held at 5:30 p.m., Eastern time, on May 10, 2010 at the Greenwich Library, 101 W. Putnam Avenue, Greenwich, CT 06830



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