Condensed Consolidated Financial Statements

Teton Advisors, Inc.

Quarterly Report for the Period Ended March 31, 2018

Teton Advisors, Inc. and Subsidiary

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

	Three months ended March 31, 2018	2017
Revenues		
Investment advisory fees - mutual funds, net	$ 6,319,236	$ 4,461,479
Investment advisory fees - separate accounts	968,437	657,670
Distribution fees and other income	38,342	72,011
Total revenues	7,326,015	5,191,160
Operating expenses		
Compensation	1,942,627	1,654,181
Sub-advisory fees	1,179,139	399,788
Distribution costs	608,162	618,922
Marketing and administrative fees	510,235	458,862
Advanced commissions	51,943	44,911
Other operating expenses	524,094	409,790
Total operating expenses	4,816,200	3,586,454
Income before interest, taxes, depreciation and amortization	2,509,815	1,604,706
Depreciation and amortization	211,689	158,017
Interest expense	42,533	92,410
Income before income taxes	2,255,593	1,354,279
Income taxes	568,181	520,684
Net income	$ 1,687,412	$ 833,595
Net income per share:		
Basic	$ 1.27	$ 0.63
Fully diluted	$ 1.17	$ 0.60
Weighted average shares outstanding:		
Basic	1,165,383	1,128,833
Fully diluted	1,270,069	1,171,084

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

Teton Advisors, Inc. and Subsidiary
Condensed Consolidated Statements of Financial Condition

	(Unaudited) March 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 9,131,082	$ 6,570,913
Investment advisory fees receivable	2,441,584	2,620,591
Investment in securities	142,627	138,298
Distribution and shareholder service expense reimbursement receivable	109,949	119,381
Goodwill and other identifiable intangible assets (Note B)	21,756,914	21,961,358
Contingent deferred sales commissions	105,701	97,759
Receivable from affiliates	21,299	20,453
Other assets (net of accumulated depreciation of $49,106 and $41,862 respectively)	382,084	393,207
Total assets	$ 34,091,240	$ 31,921,960
LIABILITIES AND STOCKHOLDERS' EQUITY		
Compensation payable	$ 294,000	$ 69,000
Payable to affiliates	777,306	732,491
Distribution costs payable	343,167	456,863
Income tax payable	538,553	35,449
Dividends payable	2,275	105,953
Deferred taxes payable, net	85,104	35,569
Accrued expenses and other liabilities	1,216,992	1,230,623
Subtotal liabilities	3,257,397	2,665,948
Long - term debt	3,151,266	3,183,733
Total liabilities	6,408,663	5,849,681
Commitments and contingencies (Note D)		
Series A redeemable preferred stock, $0.001 par value;		
75,000 shares authorized; 75,000 shares issued,		
60,000 shares outstanding (Liquidation preference of $6,409,600)	5,316,821	5,155,088
Stockholders' equity:		
Class A Common stock, $0.001 par value; 1,700,000 shares authorized;		
985,856 and 985,825 shares issued, respectively;		
845,997 and 845,966 outstanding, respectively	974	974
Class B Common stock, $0.001 par value; 800,000 shares authorized;		
792,000 shares issued; 330,886 and 330,917 shares outstanding, respectively	339	339
Additional paid-in capital	5,031,778	5,005,224
Treasury stock, at cost (139,859 class A shares and 8,000 class B shares		
and 139,859 class A shares and 8,000 class B shares, respectively)	(1,837,826)	(1,837,826)
Retained earnings	19,170,491	17,748,480
Total stockholders' equity	22,365,756	20,917,191
Total liabilities and stockholders' equity	$ 34,091,240	$ 31,921,960

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

Teton Advisors, Inc. and Subsidiary
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

For the Three Months March 31, 2018

	Common Stock Class A	Common Stock Class B	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
Balance at December 31, 2017	$ 974	$ 339	$ 5,005,224	$ (1,837,826)	$ 17,748,480	$ 20,917,191
Net income	-	-	-	-	1,687,412	1,687,412
Stock based compensation	-	-	26,554	-	-	26,554
Amortization of discount - preferred stock	-	-	-	-	(133,897)	(133,897)
Accretion of stock - preferred stock	-	-	-	-	(27,835)	(27,835)
Dividends declared	-	-	-	-	(103,669)	(103,669)
Balance at March 31, 2018 (unaudited)	$ 974	$ 339	$ 5,031,778	$ (1,837,826)	$ 19,170,491	$ 22,365,756

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

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

	Three months ended March 31, 2018	2017
Cash Flow from Operating Activities		
Net income	$ 1,687,412	$ 833,595
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Amortization of intangible assets	204,444	154,583
Amortization of deferred sales commission	51,943	44,911
Amortization of debt discount	(32,467)	63,243
Depreciation and amortization - other	7,245	3,434
Mark-to-market - forward contract	47,373	-
Deferred taxes	49,535	(23,938)
Stock based compensation expense	26,555	2,172
(Increase) decrease in operating assets:		
Investment advisory fees receivable	179,007	(1,885,432)
Investment in securities	(4,329)	(12,590)
Distribution and shareholder service expense reimbursement receivable	9,432	-
Income tax receivable	-	60,767
Contingent deferred sales commission	(59,885)	(71,540)
Receivable from affiliates	(846)	7,069
Other assets	3,878	(302,322)
Increase (decrease) in operating liabilities:		
Compensation payable	225,000	(10,051)
Payable to affiliates	44,815	205,085
Distribution costs payable	(113,696)	501,846
Income tax payable	503,104	460,090
Accrued expenses and other liabilities	(61,004)	(68,048)
Total adjustments	1,080,104	(870,721)
Net cash provided by (used in) operating activities	2,767,516	(37,126)
Cash Flows from Investing Activities		
Acquisition of KAMCO assets	-	(23,000,000)
Net cash used in investing activities	-	(23,000,000)
Cash Flows from Financing Activities		
Proceeds from issuance of preferred and common stock	-	7,500,065
Proceeds from issuance of long - term debt and warrants	-	5,000,000
Proceeds from reissuance of treasury stock	-	460,000
Dividends paid	(207,347)	(113,391)
Stock repurchase	-	(58,513)
Net cash provided by (used in) financing activities	(207,347)	12,788,161
Net increase (decrease) in cash and cash equivalents	2,560,169	(10,248,965)
Cash and cash equivalents:		
Beginning of year	6,570,913	13,270,301
End of period	$ 9,131,082	$ 3,021,336
Supplemental disclosures of cash flow information:		
Interest payments	$ 75,000	$ -
Federal and State income tax payments	$ 6,325	$ -

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

Teton Advisors, Inc. and Subsidiary
Notes to Condensed Consolidated Financial Statements
March 31, 2018

A. Significant Accounting Policies

Basis of Presentation

Teton Advisors, Inc. ("Teton") was formed in Texas as Teton Advisors, LLC in December 1994. Teton currently serves as the investment adviser for the TETON Westwood Funds and separately managed accounts. On February 28, 2017, Teton acquired the assets of Keeley Asset Management Corp. ("KAMCO") in a newly formed, wholly-owned subsidiary, Keeley-Teton Advisors, LLC ("Keeley-Teton"). Keeley-Teton serves as the investment advisor for the KEELEY Funds and separately managed accounts. The acquisition expanded Teton's product suite to twelve mutual funds under the TETON Westwood and KEELEY Funds brands (collectively referred to herein as the "Funds"), along with various separately managed account strategies. Unless we have indicated otherwise, or the context otherwise requires, references in this report to "the Company," "we" or "us" collectively refer to Teton and Keeley-Teton. The Company's capital structure consists of 1,700,000 shares authorized of Class A common stock with one vote per share, 800,000 shares authorized of Class B common stock with ten votes per share, and 80,000 shares of Preferred Stock, including 75,000 shares of Series A Preferred Stock with 0.1333 votes per share.

The unaudited interim condensed consolidated financial statements of the Company included herein have been prepared in conformity with generally accepted accounting principles ("GAAP") in the United States for interim financial information. Accordingly, they do not include all the information and footnotes required by U.S. Generally Accepted Accounting Principles ("GAAP") for complete financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position, results of operations and cash flows of Teton for the interim periods presented and are not necessarily indicative of a full year's results. The interim condensed consolidated financial statements include the accounts of Teton and Keeley-Teton (beginning March 1, 2017). Intercompany accounts and transactions have been eliminated. Operating results for the three month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. Additionally, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in Teton's Annual Report for the year ended December 31, 2017.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

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

Nature of Operations

Teton and Keeley-Teton are both SEC registered investment advisors under the Investment Advisers Act of 1940. Their principal markets of operations are the United States.

Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in the Accounting Standards Codification ("Codification") Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled to receive in exchange for those goods or services. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. In March 2016, the FASB issued revised guidance which clarifies the guidance related to (a) determining the appropriate unit of account under the revenue standard's principal versus agent guidance and (b) applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard's control principle. In April 2016, the FASB issued an amendment to provide more detailed guidance including additional implementation guidance and examples related to (a) identifying performance obligations and (b) licenses of intellectual property. In May 2016, the FASB amended the standard to clarify the guidance on (a) assessing collectability, (b) presenting sales taxes, (c) measuring noncash consideration, and (d) certain transition matters. The Company adopted this guidance on January 1, 2018 and adopted the modified retrospective approach. The Company's implementation analysis has been completed, and we have identified similar performance obligations under this guidance as compared with deliverables and separate units of account previously identified under Topic 605. As a result, the timing of the recognition of our revenue remains the same as under Topic 605, and therefore the adoption does not have any effect on the timing of the recognition of revenue. See Note G. Revenue for the disclosures required by ASU 2014-09.

In February 2016, the FASB issued ASU 2016-02, which amends the guidance in U.S. GAAP for the accounting for leases. ASU 2016-02 requires a lessee to recognize assets and liabilities arising from most operating leases in the condensed consolidated statement of financial position. It requires these operating leases to be recorded on the balance sheet as right of use assets and offsetting lease liability obligations. This new guidance will be effective for the Company's first quarter of 2019. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements and related disclosures.

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

B. Acquisition

On February 28, 2017, Teton, through Keeley-Teton, completed the acquisition of the assets of KAMCO, a privately held active asset management organization headquartered in Chicago, IL. The Company had combined AUM of $3.8 billion at March 31, 2017. The transaction was accounted for as a business combination pursuant to ASC 805, Business Combinations. The purchase price was allocated to KAMCO's net tangible and intangible assets based upon their relative fair values as of February 28, 2017. The excess purchase price over the value of net tangible and identifiable intangible assets was recorded as goodwill. The primary contributor to the recognition of goodwill was the acquired workforce.

The $23 million purchase price was allocated as follows: i) $7.4 million was attributed to a customer relationship intangible asset, which will be amortized over 9 years; ii) $12.6 million was attributed to an indefinite lived mutual fund management contract intangible asset; iii) $1.3 million was attributed to an indefinite lived trade name intangible asset; iv) $0.3 million was attributed to tangible fixed and prepaid assets; and v) the remaining $1.4 million was allocated to goodwill. These amounts were updated and finalized during the second quarter of 2017. In accordance with ASC 350, Intangibles – Goodwill and Other, goodwill and other intangible assets determined to have indefinite useful lives are not amortized. Instead, impairment tests will be conducted on our goodwill, management contracts and trademarks annually, and when circumstances indicate that the carrying value may not be recoverable. If it is determined that an impairment exists, the carrying value will be reduced accordingly. There were no indicators of impairment for the three months ended March 31, 2018, and as such, there was no impairment analysis performed or charge recorded. For tax purposes, all intangible assets, including goodwill, will be amortized over 15 years.

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

Transaction expenses totaled approximately $375,000.

The following unaudited pro forma quarterly financial information presents the consolidated results of the operations of Teton and the acquired business assets of KAMCO as if the acquisition had occurred as of January 1, 2017. It also includes the impact of discount amortization as well as the impact of the amortization of intangible assets acquired in the transaction, shown on a pro forma basis. The pro forma information has been included for comparative purposes and is not necessarily indicative of what the results of operations actually would have been had the acquisition been completed as of January 1, 2017. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future operating results of the Company.

	Unaudited Pro Forma Quarter ended March 31, 2017
Revenues	$ 8,240,000
Income before interest, taxes, depreciation and amortization	$ 2,850,000
Net income	$ 1,275,000

C. Long-Term Debt and Warrants

On February 23, 2017, in connection with the acquisition of the business of KAMCO, Teton issued a $5,000,000 promissory note (the "GGCP Note") payable to its controlling shareholder, GGCP. The GGCP Note bears interest at 6% per annum, payable quarterly. The original principal amount has a maturity date of February 23, 2022. For the first two years of the loan, the Company is only obligated to pay interest. During the third through fifth year of the term of the loan, in addition to quarterly interest payments, the Company will make payments to amortize the principal of the loan on a straight line basis at a rate of $416,667 per quarter. The Company may prepay the loan at any time without penalty. In connection with the financing, the Company issued GGCP a warrant to purchase 100,000 shares of Teton Class A Common Stock at a purchase price of $0.01 per share. The term of the warrant is ten years, expiring on February 23, 2027, and may be exercised at any time in whole or in part. The relative fair value of the warrant of $2,402,460 was recorded as a discount against the stated value of the loan at the date of issuance. The discount was determined based upon the relative fair value of the proceeds. The discount is amortized as interest expense over the life of the loan. Unamortized discount as of March 31, 2018 was $1,848,734. The interest expense related to the amortization of the debt discount for the three month period ended March 31, 2018 was a credit of $32,467. This was due to a correction in the calculation of discount amortization. For the three period ended March 31, 2018, the company incurred and paid cash interest of $75,000. As of March 31, 2018, no part of the warrant has been exercised.

D. Preferred Stock

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

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

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

As of March 31, 2018, the full redemption value of the remaining Series A Preferred Stock was $6,409,600.

E. Related Party Transactions

The Company invests the majority of its cash equivalents in a U.S. Treasury money market mutual fund managed by Gabelli Funds, LLC. At March 31, 2018 and December 31, 2017, Teton had $8,407,622 and $5,944,959, respectively, in this money market fund.

The Company pays GAMCO marketing and administration fees based on the average net assets of the TETON Westwood Funds. Marketing and administration fees were $510,235 and $458,862, respectively, for the quarters-ended ended March 31, 2018 and March 31, 2017.

The Company pays GAMCO a fixed administrative and management services fee pursuant to a contractual agreement. The amounts paid were $12,500 and $56,250, respectively, for the quarters ended March 31, 2018 and March 31, 2017.

The Company pays GAMCO a sub-advisory fee at an annualized rate of between 0.32% and 0.35% of the average net assets of the TETON Westwood Mighty Mites Fund and the TETON Westwood Convertible Securities Fund. The sub-advisory fees were $1,103,919 and $399,788, respectively, for the quarters ended March 31, 2018 and March 31, 2017.

The Company paid GAMCO a reimbursement for compensation which amounted to $0 and $549,670, respectively, for the quarters ended March 31, 2018 and March 31, 2017.

At March 31, 2018 and December 31, 2017, the amounts payable to GAMCO for the services described above were $558,359 and $556,034, respectively. The amounts are included in the payable to affiliates on the Condensed Consolidated Statement of Financial Condition.

Distribution costs include certain amounts paid to G.distributors for wholesaler and platform commissions, 3rd party distribution costs, certain expense reimbursements, and a fixed administrative services charge based on a contractual agreement with Keeley-Teton. The costs were $407,562 and $364,574, respectively, for the three-month periods ended March 31, 2018 and March 31, 2017.

At March 31, 2018 and December 31, 2017, the amounts payable to G.distributors for the items described above were $257,735 and $189,993, respectively. The amounts are included in the payable to affiliates on the Condensed Consolidated Statement of Financial Condition. The Company's receivables and payables to affiliates are non-interest bearing and are receivable and payable on demand.

The Company made interest payments to GGCP of $75,000 during the three month period ended March 31, 2018 in connection with the GGCP Note discussed above in Long-Term Debt and Warrants.

F. Earnings Per Share

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

	Three Months Ended March 31, 2018	2017
Basic:		
Net income	$ 1,687,412	$ 833,595
Deduct preferred stock - cash dividends	45,400	23,125
Deduct preferred stock - constructive dividends (a)	161,932	104,204
Income attributable to Teton shareholders	$ 1,480,080	$ 706,266
Weighted average shares outstanding	1,165,383	1,128,833
Basic net income per share	$ 1.27	$ 0.63
Fully diluted:		
Net income	$ 1,687,412	$ 833,595
Deduct preferred stock - cash dividends	45,400	23,125
Deduct preferred stock - constructive dividends (a)	161,932	104,204
Income attributable to Teton shareholders	$ 1,480,080	$ 706,266
Weighted average shares outstanding	1,165,383	1,128,833
Assumed conversion of common stock warrants	99,980	41,102
Dilutive restricted stock awards	4,706	1,149
Total	1,270,069	1,171,084
Fully diluted net income per share	$ 1.17	$ 0.60

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

G. Revenue

Adoption of ASC 2014-09 Revenue from Contracts with Customers (Topic 606)

On January 1, 2018, we adopted ASU 2016-10 using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606 while prior period amounts continue to be reported in accordance with our historic accounting under Topic 605.

We analyzed the revenue from prior periods and determined no material adjustments to opening retained earnings were necessary as the updated guidance is consistent with our historical revenue recognition methodology.

Revenue Recognition

Revenues are recognized when the performance obligation (the investment management and advisory services provided to the client) defined by the investment advisory agreement is satisfied. For each performance obligation, we determine at contract inception whether the revenue satisfies over time or at a point in time. We derive our revenues from investment advisory fees, distribution fees and other income. Advisory fees are calculated based on a percentage of assets under management and the performance obligation is realized over the current calendar quarter. Once clients receive our investment advisory services we have an enforceable right to payment.

Advisory Fee Revenues

Our advisory fees are generated by Teton Advisors and Keeley-Teton Advisors, which manage client accounts under investment advisory agreements. Advisory fees are typically calculated based on a percentage of assets under management and are paid in accordance with the terms of the agreements. For mutual fund, advisory fees are accrued daily based upon each mutual fund's daily net assets. For other accounts, advisory fees are paid either quarterly in advance based on assets under management on the last day of the preceding quarter, or quarterly in arrears based on assets under management on the last day of the quarter just ended, subject to adjustment. We recognize advisory fee revenues as services are rendered. Since our advance paying clients' billing periods coincide with the calendar quarter to which such payments relate, revenue is recognized within the quarter and our condensed consolidated financial statements contain no deferred advisory fee revenues. Advisory clients typically consist of institutional and mutual fund accounts.

Institutional investor accounts typically consist of corporate pension and profit sharing plans, public employee retirement funds, Taft Hartley plans, endowments, foundations and individuals. Mutual funds include the TETON Westwood Funds, a family of mutual funds for which Teton Advisors serves as advisor, and the KEELEY Funds, a family of mutual funds for which Keeley-Teton Advisors serves as advisor. These funds are available to individual investors, as well as offered as part of our investment strategies for institutional investors and private wealth accounts.

Revenue Disaggregated

The following table presents our revenue disaggregated by account type:

	For the Three Months ended March 31, 2018	2017	Increase (decrease) $	%
Investment advisory fees				
Open-end mutual funds	$ 6,319,236	$ 4,461,479	$ 1,857,757	41.6%
Institutional	453,629	480,764	(27,135)	-5.6%
Private client	323,591	86,203	237,388	275.4%
Wrap	191,217	90,703	100,514	110.8%
Total separate accounts	968,437	657,670	310,767	47.3%
Total investment advisory fees	7,287,673	5,119,149	2,168,524	42.4%
Distribution fees	56,031	47,317	8,714	18.4%
Other income, net	(17,689)	24,694	(42,383)	-171.6%
Total revenues	$ 7,326,015	$ 5,191,160	$ 2,134,855	41.1%

Note: Reflects the acquisition of KAMCO on February 28, 2017.

H. Indemnifications

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

I. Subsequent Events

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

On April 27, 2018, GGCP exercised its warrant for the purchase of 100,000 shares of Teton Class A common stock. Proceeds received totaled $1,000. See footnote C for further discussion of the warrant.

On May 17, 2018, the Board of Directors declared its regular quarterly dividend of $0.05 per share to all common shareholders payable on June 26, 2018 to shareholders of record on June 12, 2018, and $0.75 per share on Series A Preferred Stock payable on June 26, 2018 to shareholders of record on May 23, 2018.

MANAGEMENT'S DISCUSSION OF OPERATIONS

The following discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and the notes thereto included in this report. The results below include the contribution associated with the KAMCO acquisition beginning March 1, 2017.

Introduction

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

Asset Under Management Highlights

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

($ in millions)	3/17	6/17	9/17	12/17	3/18	% Δ From 3/17	% Δ From 12/17
Mutual Funds							
Equities	$ 2,743 *(a)*	$ 2,661	$ 2,774	$ 2,730	$ 2,618	-4.6%	-4.1%
Fixed Income	19	24	8	23	25	31.6%	8.7%
Institutional, Private Client & Wrap	1,012 *(b)*	999	802	626	608	-39.9%	-2.9%
Total Assets Under Management	$ 3,774	$ 3,684	$ 3,584	$ 3,379	$ 3,251	-13.9%	-3.8%
Average Assets Under Management	$ 2,220	$ 3,712	$ 3,602	$ 3,482	$ 3,283	47.9%	-5.7%

(a) Includes $1,410 from the acquisition of KAMCO on February 28, 2017
(b) Includes $982 from the acquisition of KAMCO on February 28, 2017

AUM was $3.25 billion at March 31, 2018 down from $3.4 billion at December 31, 2017. This decrease was primarily due to outflows of $205 million and market depreciation of $62 million, off-set by inflows of $139 million. This compares to the first quarter of 2017 outflows of $176 million, offset by inflows of $138 million and market appreciation of $41 million. Also in the first quarter of 2017, Teton assets under management increased by $2.39 billion due to the acquisition of KAMCO on February 28, 2017. Average AUM was $3.28 billion for the first quarter 2018, an increase of 47.9% from $2.22 billion in the first quarter 2017.

The following table sets forth asset appreciation and flows for the period shown:

($ in millions)	January 1, 2018	Appreciation / (depreciation)	Net flows	March 31, 2018
Mutual Funds				
Equities	$ 2,745	$ (53)	$ (57)	$ 2,635
Fixed Income	8	-	-	8
Institutional, Private Client & Wrap	626	(9)	(9)	608
	$ 3,379	$ (62)	$ (66)	$ 3,251

Operating Results for the Three Months Ended March 31, 2018 as Compared to the Three Months Ended March 31, 2017

Revenues

Total revenues were $7,373,388 in the first quarter of 2018, an increase of 42.0% from the total revenues of $5,191,160 for the same period in the prior year. The change in total revenues by revenue component was as follows:

	For the Three Months ended March 31,		Increase (decrease)	
	2018	2017	$	%
Investment advisory fees				
Open-end mutual funds	$ 6,319,236	$ 4,461,479	$ 1,857,757	41.6%
Institutional	453,629	480,764	(27,135)	-5.6%
Private client	323,591	86,203	237,388	275.4%
Wrap	191,217	90,703	100,514	110.8%
Total separate accounts	968,437	657,670	310,767	47.3%
Total investment advisory fees	7,287,673	5,119,149	2,168,524	42.4%
Distribution fees	56,031	47,317	8,714	18.4%
Other income, net	(17,689)	24,694	(42,383)	-171.6%
Total revenues	$ 7,326,015	$ 5,191,160	$ 2,134,855	41.1%

Investment Advisory Fees: Investment advisory fees are directly influenced by the level and mix of AUM. The Company earns advisory fees based on the average daily AUM in the Funds and the account value as of the end of the preceding quarter for institutional, private clients and wrap accounts. Average AUM for the Funds were $2.66 billion for the first quarter ended March 31, 2018 compared to $1.84 billion for the quarter ended March 31, 2017, an increase of 44.6%. This increase was primarily related to the acquisition of the KAMCO business.

Average billable AUM for institutional, private clients and wrap accounts were $621.0 million for the period ended March 31, 2018 compared to $375.2 million for the period ended March 31, 2017, an increase of 65.5%. This increase was primarily related to the acquisition of the KAMCO business.

Distribution Fees: The Company earns a distribution fee on the Class C shares of Funds sold over the first twelve months after the sale. Distribution fees for the three months ended March 31, 2018 and 2017 were $63,934 and $69,891, respectively. Total sales of class C shares were $19.9 million for the trailing twelve months ending March 31, 2018 and $21.4 million for the trailing twelve months ending March 31, 2017.

Other Income, Net: Other income, net includes net gains, (losses) from investments and interest income earned from cash equivalents that were invested in a money market mutual fund managed by Gabelli Funds, LLC, a subsidiary of GAMCO, and cash held at a bank. Other income, net for the three months ended March 31, 2018 and March 31, 2017 were $29,684 and $24,694, respectively. The increase is was due to net gains from investments and by higher interest rates and higher average balances of cash and cash equivalents held during the year.

Expenses

Compensation: Compensation costs, which include salaries and benefits, portfolio manager compensation and stock based compensation, were $1,942,627 for the first quarter of 2018, an increase of 17% from $1,654,181 in the prior year period. Fixed compensation costs, which include salary, bonus and benefits, were $1,655,055 for the first quarter of 2018, an increase of 40% from $1,065,310 in the prior year period. This increase was due to the KAMCO acquisition. Stock based compensation was $26,555 for the first quarter of 2018, an increase of $24,383 from $2,172 for in the prior year period. The remainder of the compensation expenses represents variable compensation that fluctuates with net investment advisory revenues. For the first quarter of 2018, variable compensation was $261,017, a decrease of 56% from $586,699 the prior year period. This decline in variable portfolio manager compensation was primarily the result of the TETON Westwood Mighty Mites fund moving to a sub-advisory relationship effective March 1, 2017. Average AUM is the primary driver of investment advisory fees on which portfolio manager compensation is based.

Sub-advisory Fees: The Company has currently retained a sub-adviser for four of the seven TETON Westwood Funds. All of the Keeley-Teton funds are managed in-house. Sub-advisory fees, which range from 32% to 35% of the net investment advisory revenues of the sub-advised funds, are recognized as expenses as the related services are performed, were $1,179,139 for the first quarter of 2018, up $779,351 from $399,788 in the prior year period. This increase was primarily due to new sub-advisory agreements between the Company and GAMCO for the TETON Convertible Securities Fund commencing on February 1, 2017 and the TETON Westwood Mighty Mites Fund commencing on March 1, 2017. Average AUM in sub-advised Funds was $1.529 billion for the first quarter of 2018, an increase of 172.6% from $560.7 million in the prior year period.

Distribution Costs: Distribution, intermediary and shareholder service costs, which are primarily related to the sale of shares of the Funds, net of related reimbursements, were $608,162 for the first quarter of 2018, a decrease of 2% from $618,922 in the prior year period.

Distribution costs include wholesaler payouts and payments made to third party distributors for Funds sold through them, including their no transaction fee programs. Distribution costs were $536,566 during the first quarter of 2018, an increase of $148,964 from the prior year amount of $387,602. This increase was primarily related to the acquisition of the KAMCO business.

Marketing and Administrative Fees: Marketing and administrative fees, which are charges from GAMCO and paid by Teton for administration of certain activities performed by GAMCO for the TETON Westwood Funds on behalf of Teton, were $510,235 for the three months ended March 31, 2018, a 11.2% increase from $458,862 in the prior year period. Marketing and administrative fees are calculated on a tiered formula and are based on average AUM. Based on the tiered formula administration fees were approximately 13.4 basis points of the average AUM of the TETON Westwood Funds for the first quarter 2018 versus 13.5 basis points of such average AUM for the first quarter 2017. As the AUM of the TETON Westwood Funds grows these fees will decline as a percentage of average AUM.

Advanced Commissions: Advanced commission expense was $51,943 for the first quarter of 2017, an increase of $7,032 from $44,911 in the prior year period.

Other Operating Expenses: Other operating expenses, including those charged by GAMCO and incurred directly, were $571,467 for the first quarter of 2018, an increase of $161,677 from $409,790 in the prior year period. This increase is primarily due to the additional operating costs related to the acquisition of the KAMCO business.

Depreciation and amortization: Depreciation and amortization expense was $211,689 for the first quarter of 2018, an increase of $53,672 from $158,017 in the prior year period. The increase is primarily due to increased intangible asset amortization related to the acquisition of the KAMCO business.

Interest expense: Interest expense was $42,533 for the first quarter of 2018, a decrease of $49,877 from $92,410 in the prior year period. Interest expense includes cash interest paid on the GGCP debt, as well as the amortization of debt discount associated with the debt issuance. The decrease in interest expense is attributable to a correction to the calculation of debt discount amortization during the first quarter.

Income Taxes

The effective tax rate was 25.2% for the quarter ended March 31, 2018, and 38.4% for the quarter ended March 31, 2017. The reduction is due to the passage of the Tax Cut and Jobs Act which was signed into law on December 22, 2017.

Net Income

Net income for the first quarter of 2018 was $1,687,412, or $1.17 per fully diluted share, versus $833,595, or $0.60 per fully diluted share, for the comparable period in 2017. The first quarter 2017 results include one month of operations from the assets acquired in the transaction with Keeley Asset Management Corp. which closed on February 28, 2017.

Supplemental Financial Information

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

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

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

	For the Quarter Ended	
	March 31, 2018	**March 31, 2017**
Net income	$ 1,687,412	$ 833,594
Add: Debt discount amortization	(32,467)	63,242
Add: Intangible amortization	204,444	154,583
Cash earnings	$ 1,859,389	$ 1,051,419
Cash earnings per fully diluted share (a)	$ 1.43	$ 0.88

(a) - Cash Earnings Per Fully Diluted Share reflects reductions for cash dividends paid on Series A Preferred Stock totaling $45,400 and $23,125 in the first quarter 2018 and in the prior year quarter, respectively. It does not include reductions for non-cash constructive dividends totaling $161,932 and $104,204 the first quarter 2018 and in the prior year quarter, respectively .