Condensed Consolidated Financial Statements

Teton Advisors, Inc.

Quarterly Report for the Period Ended June 30, 2020

Teton Advisors, Inc. and Subsidiary

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

	Three months ended June 30, 2020	2019
Revenues		
Investment advisory fees - mutual funds, net	$ 2,489,053	$ 4,689,929
Investment advisory fees - separate accounts	504,177	719,211
Distribution fees and other income	28,836	61,758
Total revenues	3,022,066	5,470,898
Operating expenses		
Compensation	1,122,995	1,430,751
Sub-advisory fees	573,668	964,496
Distribution costs	469,802	534,419
Marketing and administrative fees	306,244	445,307
Advanced commissions	11,189	27,107
Other operating expenses	412,113	512,110
Total operating expenses	2,896,011	3,914,190
Income before interest, taxes, depreciation and amortization	126,055	1,556,708
Depreciation and amortization	198,087	223,080
Income (loss) before income taxes	(72,032)	1,333,628
Income tax provision (benefit)	(21,381)	338,056
Net income (loss)	$ (50,651)	$ 995,572
Net income (loss) per share:		
Basic	$ (0.04)	$ 0.79
Fully diluted	$ (0.04)	$ 0.79
Weighted average shares outstanding:		
Basic	1,260,988	1,262,431
Fully diluted	1,260,988	1,262,638

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

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenues		
Investment advisory fees - mutual funds, net	$ 6,067,941	$ 9,495,978
Investment advisory fees - separate accounts	1,143,098	1,374,480
Distribution fees and other income	74,171	132,608
Total revenues	7,285,210	11,003,066
Operating expenses		
Compensation	2,430,725	2,879,986
Sub-advisory fees	1,370,048	1,965,786
Distribution costs	941,699	1,162,016
Marketing and administrative fees	693,767	900,916
Advanced commissions	28,720	54,577
Other operating expenses	827,001	1,011,766
Total operating expenses	6,291,960	7,975,047
Income before interest, taxes, depreciation, amortization and impairment	993,250	3,028,019
Depreciation and amortization	396,175	433,280
Impairment of intangible assets	800,000	-
Interest expense	-	426,822
Income (loss) before income taxes	(202,925)	2,167,917
Income tax provision (benefit)	(220,956)	497,897
Net income	$ 18,031	$ 1,670,020
Net income per share:		
Basic	$ 0.01	$ 1.32
Fully diluted	$ 0.01	$ 1.32
Weighted average shares outstanding:		
Basic	1,260,988	1,262,679
Fully diluted	1,267,263	1,262,783

See Notes to Condensed Consolidated Financial Statements.

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

	(Unaudited) June 30, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	$ 8,932,510	$ 7,866,308
Investment advisory fees receivable	995,914	1,554,134
Deferred tax asset	2,800,805	2,591,958
Distribution and shareholder service expense reimbursement receivable	41,212	61,801
Intangible assets, net (Note B)	9,162,885	10,349,963
Right-of-use assets	1,170,670	1,283,618
Contingent deferred sales commissions	21,262	32,266
Receivable from affiliates	4,400	11,429
Other assets (net of accumulated depreciation of $54,453 and $45,357 respectively)	224,736	437,315
Total assets	$ 23,354,394	$ 24,188,792
LIABILITIES AND STOCKHOLDERS' EQUITY		
Compensation payable	$ 72,814	$ 635,928
Payable to affiliates	397,524	551,170
Distribution costs payable	233,996	282,220
Income tax payable	60,310	15,699
Lease liabilities	1,264,945	1,386,911
Accrued expenses and other liabilities	1,100,003	1,291,405
Total liabilities	3,129,592	4,163,333
Stockholders' equity:		
Class A Common stock, $0.001 par value; 1,700,000 shares authorized;		
1,019,171 and 1,019,145 shares issued, respectively;		
973,860 and 974,843 outstanding, respectively	974	974
Class B Common stock, $0.001 par value; 800,000 shares authorized;		
792,000 shares issued; 329,628 and 329,954 shares outstanding, respectively	339	339
Additional paid-in capital	4,538,903	4,290,228
Treasury stock, at cost (45,311 class A shares and 143 class B shares		
and 44,311 class A shares and 143 class B shares, respectively)	(1,185,409)	(1,185,409)
Retained earnings	16,869,995	16,919,327
Total stockholders' equity	20,224,802	20,025,459
Total liabilities and stockholders' equity	$ 23,354,394	$ 24,188,792

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

Teton Advisors, Inc. and Subsidiary
Condensed Consolidated Statements of Stockholders' Equity
For the Six Months Ended June 30, 2020
(Unaudited)

	Common Stock Class A	Common Stock Class B	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
Balance at December 31, 2019	$ 974	$ 339	$ 4,290,228	$ (1,185,409)	$ 16,919,327	$ 20,025,459
Net income	-	-	-	-	18,031	18,031
Stock based compensation	-	-	248,675	-	-	248,675
Dividends declared	-	-	-	-	(67,363)	(67,363)
Balance at June 30, 2020 (unaudited)	$ 974	$ 339	$ 4,538,903	$ (1,185,409)	$ 16,869,995	$ 20,224,802

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

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

	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash Flow from Operating Activities		
Net income	$ 18,031	$ 1,670,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	387,078	408,889
Amortization of deferred sales commission	28,720	54,577
Amortization of debt discount	-	425,589
Depreciation and amortization - other	9,097	24,391
Deferred taxes	(208,847)	115,225
Unrealized gain on investments	-	(2,569)
Realized gain on investments	-	25,031
Stock based compensation expense	248,675	37,919
Intangible asset impairments	800,000	-
(Increase) decrease in operating assets:		
Investment advisory fees receivable	558,220	189,641
Distribution and shareholder service expense reimbursement receivable	20,589	8,129
Income tax receivable	-	72,926
Right-of-use-assets	112,948	106,022
Contingent deferred sales commission	(17,716)	(29,663)
Receivable from affiliates	7,029	4,984
Other assets	203,482	222,483
Increase (decrease) in operating liabilities:		
Compensation payable	(563,114)	(539,133)
Payable to affiliates	(153,646)	(178,074)
Distribution costs payable	(48,224)	6,337
Income tax payable	44,611	-
Lease liabilities	(121,966)	(12,824)
Accrued expenses and other liabilities	(195,651)	(231,776)
Total adjustments	1,111,285	708,104
Net cash provided by operating activities	1,129,316	2,378,124
Cash Flows from Investing Activities		
Proceeds from sale of investments	-	88,736
Net cash provided by investing activities	-	88,736
Cash Flows from Financing Activities		
Repayment of long-term debt	-	(2,000,000)
Dividends paid	(63,114)	(189,470)
Stock repurchase	-	(49,582)
Net cash used in financing activities	(63,114)	(2,239,052)
Net increase (decrease) in cash and cash equivalents	1,066,202	227,808
Cash and cash equivalents:		
Beginning of year	7,866,308	5,192,582
End of period	$ 8,932,510	$ 5,420,390
Supplemental disclosure of cash flow information:		
Interest payments	$ -	$ 31,233
Federal and State income tax payments	$ 70,663	$ 319,147
Supplemental disclosure of non-cash activity:		
Right-of-use asset obtained in exchange for lease liability	$ -	$ 1,456,506

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

A. Significant Accounting Policies

Basis of Presentation

Teton Advisors, Inc. ("Teton") was formed in Texas as Teton Advisors, LLC in December 1994. Teton 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 eleven mutual funds (currently nine) under the TETON Westwood and KEELEY Funds brands (collectively referred to herein as the "Funds"), along with various separately managed account strategies. Unless we have indicated otherwise, or the context otherwise requires, references in this report to "the Company," "we" or "us" collectively refer to Teton and Keeley-Teton. The Company's capital structure consists of 1,700,000 shares authorized of Class A common stock with one vote per share, 800,000 shares authorized of Class B common stock with ten votes per share, and 80,000 shares authorized of Preferred Stock.

The unaudited interim condensed consolidated financial statements of the Company included herein have been prepared in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") in the United States for interim financial information. As interim financial statements, they do not include all the information and footnotes required by 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 the Company 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. Intercompany accounts and transactions have been eliminated. Additionally, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report for the year ended December 31, 2019.

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 may 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. The Company's principal market is the United States.

Recent Accounting Developments

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 — Leases (Topic 842). The update required the recognition of right-of-use lease assets and liabilities on the balance sheet and the disclosure of qualitative and quantitative information about leasing arrangements. We adopted this standard using a modified retrospective approach. We elected the package of practical expedients permitted under this guidance which, among other things, allowed us to carry-forward the historical lease classification and determine whether initial direct costs related to existing leases should be capitalized under this guidance. On January 1, 2019, we recognized operating lease assets totaling approximately $1.5 million and corresponding operating lease liabilities of approximately $1.5 million related primarily to our real estate leases. The adoption did not have a material impact on our results of operations. The main impact to the financial statements is the recognition of lease liabilities and right of use assets. Additional information on our operating leases is included in Note C Leases.

In June 2016, the FASB issued ASU 2016-13, *Accounting for Financial Instruments - Credit Losses (Topic 326)*, which requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Currently, U.S. GAAP requires an "incurred loss" methodology that delays recognition until it is probable a loss has been incurred. Under ASU 2016-13, the allowance for credit losses must be deducted from the amortized cost of the financial asset to present the net amount expected to be collected. The consolidated statement of income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. In November 2019, the FASB issued ASU 2019-10, which deferred the effective date of this guidance for smaller reporting companies for three years. This guidance is effective for the Company on January 1, 2023 and requires a modified retrospective transition method, which will result in a cumulative-effect adjustment in retained earnings upon adoption. Early adoption is permitted. The Company is currently assessing the potential impact of this new guidance on the Company's consolidated financial statements.

B. Intangible Assets

Included in our acquisition of assets from KAMCO were certain intangible assets. These assets are comprised of customer relationships, mutual fund management contracts and trade name. These intangible assets are held at the acquisition date fair value net of any amortization and impairment, where applicable. Due to the market disruptions resulting from the impact of the effects of the COVID-19 pandemic, we have performed ongoing reviews of our intangibles assets. As a result, we determined that there was an additional impairment to mutual fund management contracts during the 1st quarter of 2020 amounting to $800,000. This impairment charge is reflected in our condensed consolidated statements of income. The following is a summary of the intangible assets:

	As of June 30, 2020				
	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Customer relationships	9	$ 7,360,000	$ (2,704,115)	$ (269,000)	$ 4,386,885
Mutual fund management contracts	-	12,600,000	-	(8,258,000)	4,342,000
Trade name	-	1,520,000	-	(1,086,000)	434,000
		$ 21,480,000	$ (2,704,115)	$ (9,613,000)	$ 9,162,885

Amortization expense for customer relationships for the quarters ended June 30, 2020 and 2019 are $193,539 and $204,444, respectively.

Estimated amortization expense for customer relationships over the next five years and thereafter is as follows:

For the year ended December 31,	Estimated Amortization Expense
2020 (excluding the first six months ended June 30)	$ 387,078
2021	774,156
2022	774,156
2023	774,156
2024	774,156
Thereafter	903,183
Total	$ 4,386,885

C. Leases

We review new arrangements at inception to evaluate whether we obtain substantially all the economic benefits of and have the right to control the use of an asset. If we determine that an arrangement qualifies as a lease, we recognize a lease liability and a corresponding right-of-use asset on the lease's commencement date. The lease liability is initially measured at the present value of the future minimum lease payments over the lease term using the rate implicit in the arrangement or, if not available, our incremental borrowing rate. An operating lease asset is measured initially at the value of the lease liability but excludes initial direct costs incurred. Additionally, certain of our leases contain options to extend or terminate the lease term that, if exercised, would result in the remeasurement of the operating lease liability.

Our operating leases contain both lease and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the lease assets, such as common area maintenance and other management costs. We elected for our real estate operating leases to measure the lease liability by combining the lease and non-lease components as a single lease component. As such, we included the fixed payments and any payments that depend on a rate or index that relate to our lease and non-lease components in the measurement of the operating lease liability.

We recognize lease expense on a straight-line basis over the lease term. Operating lease expense is recognized as part of other operating expenses costs in our unaudited condensed consolidated statements of income.

All of our leases are operating leases and primarily consist of real estate leases for our corporate offices in Rye, NY and Chicago, IL. As of June 30, 2020, the weighted-average remaining lease term on these leases is approximately 5.6 years and the weighted-average discount rate used to measure the lease liabilities ranges from 4.63% to 5.63%.

Our operating lease expense for the three months ended June 30, 2020 and 2019, was $74,750 and $74,639, respectively, and for the six months ended June 30, 2020 and 2019, was $149,500 and $149,277, respectively.

We made lease payments of $79,259 and $28,040 during the three months ended June 30, 2020 and 2019, respectively, and for the six months ended June 30, 2020 and 2019, was $158,518 and $56,080, respectively.

Our future undiscounted cash flows related to our operating leases and the reconciliation to the operating lease liabilities as of June 30, 2020, are as follows:

		June 30, 2020
2020 (excluding the first six months ended June 30)	$	158,519
2021		322,140
2022		319,121
2023		320,399
Thereafter		338,653
Total future undiscounted cash flows		1,458,831
Less: imputed interest to be recognized in lease expense		(193,886)
Operating lease liabilities, as reported	$	1,264,945

D. Equity

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

Voting Rights

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

Stock Based Compensation

In the second quarter of 2019, the Company issued 17,500 RSAs at a grant date fair value of $51.32 per share, 40% to vest in three years and 60% in five years.

In the third quarter of 2019, the Company issued 25,000 RSAs at a grant date fair value of $45.00 per share, 40% to vest in three years and 60% in five years.

For the three months ended June 30, 2020 and 2019, the Company recorded stock-based compensation expense related to RSAs of $120,546 and $37,920, respectively, and for the six months ended June 30, 2020 and 2019, expensed $248,675 and $37,920, respectively.

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, an affiliate of GAMCO. GAMCO is majority-owned and controlled by the majority owner of the Company. At June 30, 2020 and December 31, 2019, the Company had $8,114,531 and $6,605,042, respectively, in this money market fund.

The Company pays GAMCO a sub-advisory fee at an annualized rate of between 0.32% of the average net assets of the TETON Westwood Mighty Mites Fund and the TETON Westwood Convertible Securities Fund. The sub-advisory fees were $516,541 and $898,297 for the quarters ended June 30, 2020 and 2019, respectively, and for the six months ended June 30, 2020 and 2019, were $1,248,682 and $1,833,747, respectively.

The Company pays GAMCO marketing and administration fees based on the average net assets of the TETON Westwood Funds. Marketing and administration fees were $306,244 and $445,307 for the quarters ended June 30, 2020 and 2019, respectively, and for the six months ended June 30, 2020 and 2019, were $693,767 and $900,916.

The Company pays GAMCO a fixed administrative and management services fee pursuant to a contractual agreement. The amounts paid were $12,500, for the quarters ended June 30, 2020 and 2019, respectively, and for the six months ended June 30, 2020 and 2019, were $25,000, respectively.

The Company subleases office space located at One Corporate Center, Rye, New York from GAMCO and an affiliate. These sublease payments totaled $21,669 for the quarters ended June 30, 2020 and 2019, and for the six months ended June 30, 2020 and 2019, were $43,338, respectively.

At June 30, 2020 and December 31, 2019, the amounts payable to GAMCO for the services described above were $283,942 and $425,357, 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, an affiliate of GAMCO, 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. These costs were $206,269 and $124,232 for the quarters ended June 30, 2020 and 2019, respectively, and for the six months ended June 30, 2020 and 2019, were $375,215 and $398,742, respectively.

At June 30, 2020 and December 31, 2019, the amounts payable to G. distributors for the items described above were $113,582 and $125,813, 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.

F. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Basic:				
Net income (loss) attributable to Teton shareholders	$ (50,651)	$ 995,572	$ 18,031	$ 1,670,020
Weighted average shares outstanding	1,260,988	1,262,431	1,260,988	1,262,679
Basic net income (loss) per share	$ (0.04)	$ 0.79	$ 0.01	$ 1.32
Fully diluted:				
Net income (loss) attributable to Teton shareholders	$ (50,651)	$ 995,572	$ 18,031	$ 1,670,020
Weighted average shares outstanding	1,260,988	1,262,638	1,267,263	1,262,679
Fully diluted net income (loss) per share	$ (0.04)	$ 0.79	$ 0.01	$ 1.32

G. Revenue

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 is satisfied 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 month or 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 funds, 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.

Mutual fund advisory fee revenue is net of related fund reimbursements. Fund reimbursements for the three months ended June 30, 2020 and 2019 were $444,714 and $387,601, respectively, and for the six months ended June 30, 2020 and 2019 were $902,126 and $779,915, respectively.

Revenue Disaggregated

The following table presents our revenue disaggregated by account type:

	For The Three Months Ended June 30,		Increase (decrease)	
(Unaudited)	2020	2019	$	%
Investment advisory fees				
Open-end mutual funds, net	$ 2,489,053	$ 4,689,929	$ (2,200,876)	-46.9%
Institutional	181,253	277,970	(96,717)	-34.8%
Private client	286,191	330,527	(44,336)	-13.4%
Wrap	36,733	110,714	(73,981)	-66.8%
Total separate accounts	504,177	719,211	(215,034)	-29.9%
Total investment advisory fees	2,993,230	5,409,140	(2,415,910)	-44.7%
Distribution fees	12,593	28,362	(15,769)	-55.6%
Other income, net	16,243	33,396	(17,153)	-51.4%
Total revenues	$ 3,022,066	$ 5,470,898	$ (2,448,832)	-44.8%

	For The Six Months Ended June 30,		Increase (decrease)	
(Unaudited)	2020	2019	$	%
Investment advisory fees				
Open-end mutual funds, net	$ 6,067,941	$ 9,495,978	$ (3,428,037)	-36.1%
Institutional	395,667	527,482	(131,815)	-25.0%
Private client	631,188	638,764	(7,576)	-1.2%
Wrap	116,243	208,234	(91,991)	-44.2%
Total separate accounts	1,143,098	1,374,480	(231,382)	-16.8%
Total investment advisory fees	7,211,039	10,870,458	(3,659,419)	-33.7%
Distribution fees	30,412	61,358	(30,946)	-50.4%
Other income, net	43,759	71,250	(27,491)	-38.6%
Total revenues	$ 7,285,210	$ 11,003,066	$ (3,717,856)	-33.8%

H. Commitments and Contingencies

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.

The COVID-19 pandemic continues to significantly impact global economies, resulting in workforce and travel restrictions, supply chain and production disruptions and market volatility. The Bureau of Economic Analysis recently announced that the real gross domestic product (GDP) decreased at an annual rate of 32.9% in the second quarter of 2020. The impact of the COVID-19 outbreak continues to evolve and has been marked by rapid changes and developments. As such, its outcome cannot be accurately predicted. If the disruptions posed by COVID-19 continue for an extensive period of time, our business may be materially adversely affected.

I. Subsequent Events

There were no subsequent events or transactions that occurred after the balance sheet date but before August 20, 2020, the date the financial statements were available to be issued, which warrant disclosure.

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.

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.

Risk Factors

The risk factor set forth below updates the risk factors in our Annual Report for the year ended December 31, 2019.

The COVID-19 pandemic has significantly impacted global economies, resulting in workforce and travel restrictions, supply chain and production disruptions, and market volatility.

AUM has been adversely impacted by the COVID-19 pandemic. We are also facing increased operational challenges from the need to protect employee health and safety while limiting workplace disruptions. Management is taking cost and liquidity actions to manage risk and mitigate the financial impact. The ultimate impact of the pandemic cannot be accurately predicted. If the disruptions posed by COVID-19 continue for an extensive period of time, our business may be materially adversely affected.

Assets Under Management Highlights

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

						% Δ From	
($ in millions)	**6/19**	**9/19**	**12/19**	**3/20**	**6/20**	**6/19**	**3/20**
Mutual Funds							
Equities	$ 2,005	$ 1,854	$ 1,873	$ 1,168	$ 1,238	-38.3%	6.0%
Fixed Income	8	5	5	5	-	-100.0%	-100.0%
Institutional, Private Client & Wrap	479	452	453	318	350	-26.9%	10.1%
Total Assets Under Management	$ 2,492	$ 2,311	$ 2,331	$ 1,491	$ 1,588	-36.3%	6.5%
Quarterly Average Assets Under Management	$ 2,552	$ 2,371	$ 2,307	$ 2,077	$ 1,552	-39.2%	-25.3%

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

($ in millions)	April 1, 2020	Appreciation / (depreciation)	Net flows	June 30, 2020
Mutual Funds				
Equities	$ 1,168	$ 208	$ (138)	$ 1,238
Fixed Income	5	-	(5)	-
Institutional, Private Client & Wrap	318	59	(27)	350
	$ 1,491	$ 267	$ (170)	$ 1,588

($ in millions)	January 1, 2020	Appreciation / (depreciation)	Net flows	June 30, 2020
Mutual Funds				
Equities	$ 1,873	$ (345)	$ (290)	$ 1,238
Fixed Income	5	-	(5)	-
Institutional, Private Client & Wrap	453	(65)	(38)	350
	$ 2,331	$ (410)	$ (333)	$ 1,588

AUM was $1.59 billion at June 30, 2020 versus $1.49 billion at March 31, 2020. The increase was due to market appreciation of $267 million and inflows of $108 million which were partly off-set by outflows of $278 million. This compares to the second quarter of 2019 with outflows of $655 million partly offset by inflows of $492 million and market appreciation of $44 million. Average AUM was $1.55 billion for the second quarter 2020, a decrease of 39.2% from $2.55 billion in the second quarter 2019.

Operating Results for the Three Months Ended June 30, 2020 as Compared to the Three Months Ended June 30, 2019

Revenues

Total revenues were $3,022,066 in the second quarter of 2020, a decrease of 44.8% from the total revenues of $5,470,898 for the same period in the prior year. The change in total revenues by revenue component was as follows:

	For The Three Months Ended June 30,		Increase (decrease)	
(Unaudited)	2020	2019	$	%
Investment advisory fees				
Open-end mutual funds, net	$ 2,489,053	$ 4,689,929	$ (2,200,876)	-46.9%
Institutional	181,253	277,970	(96,717)	-34.8%
Private client	286,191	330,527	(44,336)	-13.4%
Wrap	36,733	110,714	(73,981)	-66.8%
Total separate accounts	504,177	719,211	(215,034)	-29.9%
Total investment advisory fees	2,993,230	5,409,140	(2,415,910)	-44.7%
Distribution fees	12,593	28,362	(15,769)	-55.6%
Other income, net	16,243	33,396	(17,153)	-51.4%
Total revenues	$ 3,022,066	$ 5,470,898	$ (2,448,832)	-44.8%

Investment Advisory Fees: Investment advisory fees shown above 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 $1.21 billion for the second quarter ended June 30, 2020 compared to $2.08 billion for the quarter ended June 30, 2019, a decrease of 41.8%.

Average billable AUM for institutional, private clients and wrap accounts were $340.4 million for the three months ended June 30, 2020 compared to $471.4 million for the three months ended June 30, 2019, a decrease of 27.8%.

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 June 30, 2020 and 2019 were $12,593 and $28,362, respectively. Total sales of class C shares were $6.2 million for the trailing twelve months ending June 30, 2020 and $10.9 million for the trailing twelve months ending June 30, 2019.

Other Income, Net: Other income, net includes net gains (losses) from investments, interest income earned from cash equivalents that were invested in a money market mutual fund managed by Gabelli Funds, LLC, a subsidiary of GAMCO, and interest earned from cash held at banks. Other income, net for the three months ended June 30, 2020 and 2019 was $16,243 and $33,396, respectively. The decrease from the prior year of $17,153 was due to lower interest income earned on the Company's money market fund.

Expenses

Compensation: Compensation costs, which include salaries, bonuses, benefits and stock-based compensation, were $1,122,995 for the second quarter of 2020, a decrease of 21.5% from $1,430,751 in the prior year comparative period. Fixed compensation costs, which include salary and benefits, were $854,781 for the second quarter of 2020, a decrease of 18.2% from $1,044,694 in the prior year comparative period. This decrease was due to a reduction in staff and staff salaries. Stock based compensation was $120,546 for the second quarter of 2020, compared to $37,920 in the prior year comparative period. The remainder of the compensation expenses represents variable compensation that includes bonuses and revenue sharing that fluctuates with net investment advisory revenues. For the second quarter of 2020, variable compensation was $147,668, a decrease of 57.6% from $348,137 in the prior year comparative period. The decrease in variable compensation is directly related to the reduction of Company discretionary bonuses.

Sub-advisory Fees: The Company has currently retained a sub-adviser for four of the six 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, which are recognized as expenses as the related services are performed, were $573,668 for the second quarter of 2020, a decrease of 40.5% from $964,496 in the prior year comparative period. The decrease was due to lower average AUM in the funds. Average AUM in sub-advised funds was $747.2 million for the second quarter of 2020, a decrease of 39.7% from $1.24 billion in the prior year comparative period.

Distribution Costs: Distribution costs, which are primarily related to the sale of shares of the Funds, net of related reimbursements, include wholesaler payouts and payments made to third party distributors for funds sold through their platforms, including their no transaction fee programs. These costs were $469,802 for the second quarter of 2020, a decrease of 12.1% from $534,419 in the prior year comparative period. The decrease was directly related to lower fund AUM.

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 $306,244 for the second quarter of 2020, a decrease of 31.2% from $445,307 in the prior year comparative 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 15.7 basis points of the average AUM of the TETON Westwood Funds for the second quarter 2020 versus 13.8 basis points of the average AUM for the second quarter 2019. As the AUM of the TETON Westwood Funds declines, these fees will increase as a percentage of average AUM.

Advanced Commissions: Advanced commission expenses were $11,189 for the second quarter of 2020, a decrease of 58.7% from $27,107 in the prior year comparative period.

Other Operating Expenses: Other operating expenses, including those charged by GAMCO and incurred directly, were $412,113 for the second quarter of 2020, a decrease of 19.5% from $512,110 in the prior year comparative period.

Depreciation and amortization: Depreciation and amortization expense was $198,087 for the second quarter of 2020 compared to $223,080 for the prior year comparative period.

Income Taxes

The effective tax rate was 29.7% for the quarter ended June 30, 2020, and 25.4% for the quarter ended June 30, 2019. The increase is largely due higher statutory rates for state and local taxes.

Net Income (Loss)

Net loss for the second quarter of 2020 was ($50,651) or ($0.04) per fully diluted share, versus net income of $995,572 or $0.79 per fully diluted share, for the comparable period in 2019.

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 or net loss 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 or net loss the non-cash expense associated with the intangible amortization expense incurred in connection with the KAMCO acquisition, as well as the after-tax intangible asset impairment charges. 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 (loss) to Cash Earnings for the periods presented:

	For the Quarter Ended,			
	June 30, 2020		June 30, 2019	
Net income (loss)	$	(50,651)	$	995,572
Add: Intangible amortization		193,539		204,444
Cash Earnings	$	142,888	$	1,200,016
Cash Earnings Per Fully Diluted Share (a)	$	0.11	$	0.95

(a) - Cash Earnings Per Fully Diluted Share reflects reductions for cash dividends paid on Series A Preferred Stock totaling zero and $45,400 in the second quarter 2019 and in the prior year quarter, respectively. It does not include reductions for non-cash constructive dividends totaling zero and $264,984 in the second quarter 2019 and in the prior year quarter, respectively.

Operating Results for the Six Months Ended June 30, 2020 as Compared to the Six Months Ended June 30, 2019

Revenues

Total revenues were $7,285,210 in the second quarter of 2020, a decrease of 33.8% from the total revenues of $11,003,066 for the same period in the prior year. The change in total revenues by revenue component was as follows:

	For The Six Months Ended June 30,		Increase (decrease)	
(Unaudited)	2020	2019	$	%
Investment advisory fees				
Open-end mutual funds, net	$ 6,067,941	$ 9,495,978	$ (3,428,037)	-36.1%
Institutional	395,667	527,482	(131,815)	-25.0%
Private client	631,188	638,764	(7,576)	-1.2%
Wrap	116,243	208,234	(91,991)	-44.2%
Total separate accounts	1,143,098	1,374,480	(231,382)	-16.8%
Total investment advisory fees	7,211,039	10,870,458	(3,659,419)	-33.7%
Distribution fees	30,412	61,358	(30,946)	-50.4%
Other income, net	43,759	71,250	(27,491)	-38.6%
Total revenues	$ 7,285,210	$ 11,003,066	$ (3,717,856)	-33.8%

Investment Advisory Fees: Investment advisory fees shown above 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 $1.44 billion for the six months ended June 30, 2020 compared to $2.11 billion for the six months ended June 30, 2019, a decrease of 31.8%.

Average billable AUM for institutional, private clients and wrap accounts were $375.6 million for the six months ended June 30, 2020 compared to $463.7 million for the six months ended June 30, 2019, a decrease of 19.0%.

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 six months ended June 30, 2020 and 2019 were $30,412 and $61,358, respectively. Total sales of class C shares were $6.2 million for the trailing twelve months ended June 30, 2020 and $10.9 million for the trailing twelve months ended June 30, 2019.

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 six months ended June 30, 2020 and 2019 was $43,759 and $71,250, respectively. The decrease was primarily due to realized gains recognized in the prior year period on the sale of mutual funds that were held by Teton, as well as, lower interest income earned in the current year period compared to the prior year period.

Expenses

Compensation: Compensation costs, which include salaries and benefits, portfolio manager compensation and stock-based compensation, were $2,430,725 for the six months ended June 30, 2020, a decrease of 15.6% from $2,879,986 in the prior year comparative period. Fixed compensation costs, which include salary, bonus and benefits, were $1,828,394 for the six months ended June 30, 2020 a decrease of 15.5% from $2,163,097 in the prior year comparative period. This decrease was due to the reduction in staff and staff salaries. Stock based compensation was $248,675 for the six months ended June 30, 2020, an increase of $210,755 from $37,920 in the prior year comparative period. The remainder of the compensation expenses represents variable compensation that fluctuates with net investment advisory revenues. For the six months ended June 30, 2020, variable compensation was $353,656, a decrease of 47.9% from $678,969 in the prior year comparative period. The decrease in variable compensation is directly related to the reduction of Company discretionary bonuses.

Sub-advisory Fees: The Company has currently retained a sub-adviser for four of the six TETON Westwood Funds. All 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, which are recognized as expenses as the related services are performed, were $1,370,048 for the six months ended June 30, 2020, decrease of 30.3% from $1,965,786 in the prior year comparative period. The decrease was due to lower average AUM in the funds. Average AUM in sub-advised Funds was $888.6 million for the six months ended June 30, 2020, a decrease of 30.0% from $1.27 billion 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 $941,699 for the six months ended June 30, 2020, a decrease of 19.0% from $1,162,016 in the prior year comparative period.

Distribution costs include wholesaler payouts and payments made to third party distributors for Funds sold through them, including their no transaction fee programs; these distribution costs were $848,736 for the six months ended June 30, 2020, a decrease of 20.2% from the prior year comparative period amount of $1,063,909. The decrease was due to a decrease in payments to third party distribution partners due to lower monthly AUM compared to the prior year period.

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 $693,767 for the six months ended June 30, 2020, a 23.0% decrease from $900,916 in the prior year comparative 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 15.0 basis points of the average AUM of the TETON Westwood Funds for the six months ended June 30, 2020 versus 13.6 basis points of such average AUM for prior year comparative period. As the AUM of the TETON Westwood Funds declines these fees will increase as a percentage of average AUM.

<u>*Advanced Commissions*</u>*:* Advanced commission expense was $28,720 for the six months ended June 30, 2020, a decrease of 47.4% from $54,577 from the prior year comparative period.

<u>*Other Operating Expenses*</u>*:* Other operating expenses, including those charged by GAMCO and incurred directly, were $827,001 for the six months ended June 30, 2020, a decrease of 18.3% from $1,011,766 in the prior year comparative period.

<u>*Depreciation and amortization*</u>: Depreciation and amortization expense was $1,196,175 for the six months ended June 30, 2020, an increase of $762,895 from $433,280 in the prior year period. This increase is primarily due to the impairment of the intangible asset - mutual fund management contracts. The Company recognized an impairment of $800,000 on March 31, 2020 due to the decrease in AUM as a result of the Covid-19 pandemic.

<u>*Interest expense:*</u> Interest expense includes cash interest paid on the GGCP debt, as well as the amortization of debt discount associated with the debt issuance. Interest expense was zero for the six months ended June 30, 2020 and $426,822 in the prior year comparative period. The decrease in interest expense primarily attributable to debt being paid off in early January 2019.

Income Taxes

The effective tax rate was 108.9% for the six months ended June 30, 2020, and 22.9% for the six months ended June 30, 2019. The increase largely due to the release of prior years' FIN 48 accrual totaling $134,545, as well as a reduction to the deferred tax asset of $208,846 which off-set the current tax expense of $122,435.

Net Income

Net income for six months ended June 30, 2020 was $18,031, or $0.01 per fully diluted share, versus $1,670,020, or $1.32 per fully diluted share, for the comparable period in 2019.

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, as well as the after-tax intangible asset impairment charges. 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.

Teton Advisors, Inc. and Subsidiary

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

	For the Six Month Period Ended,			
	June 30, 2020		June 30, 2019	
Net income	$	18,031	$	1,670,020
Add: Debt discount amortization		-		425,589
Add: Intangible amortization		387,078		408,889
Add: Intangible asset impairment (net of tax impact)		560,400		-
Cash Earnings	$	965,509	$	2,504,498
Cash Earnings Per Fully Diluted Share (a)	$	0.76	$	1.98

(a) - Cash Earnings Per Fully Diluted Share reflects reductions for cash dividends paid on Series A Preferred Stock totaling zero and $45,400 in the second quarter 2019 and in the prior year quarter, respectively. It does not include reductions for non-cash constructive dividends totaling zero and $264,984 in the second quarter 2019 and in the prior year quarter, respectively.