

HENNESSY ADVISORS INC

Form 10-Q

August 05, 2009

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2009

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ to _____

Commission File Number 000-49872

HENNESSY ADVISORS, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: HENNESSY ADVISORS INC - Form 10-Q

California
(State or other jurisdiction of
incorporation or organization)

68-0176227
(IRS Employer
Identification No.)

7250 Redwood Blvd., Suite 200

Novato, California
(Address of principal executive office)

94945
(Zip Code)

(415) 899-1555

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 14, 2009 there were 5,753,342 shares of common stock issued and outstanding.

Table of Contents

HENNESSY ADVISORS, INC.

INDEX

	Page Number
PART I. Financial Information	
Item 1. Unaudited Condensed Financial Statements	
<u>Balance Sheets as of June 30, 2009 (unaudited) and September 30, 2008</u>	3
<u>Statements of Income for the three and nine months ended June 30, 2009 and 2008 (unaudited)</u>	4
<u>Statement of Changes in Stockholders' Equity for the nine months ended June 30, 2009 (unaudited)</u>	5
<u>Statements of Cash Flows for the nine months ended June 30, 2009 and 2008 (unaudited)</u>	6
<u>Notes to Unaudited Condensed Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 4. <u>Controls and Procedures</u>	25
PART II. Other Information	25
Item 6. <u>Exhibits</u>	25
<u>Signatures</u>	26

Table of Contents**Hennessy Advisors, Inc.****Balance Sheets**

(In thousands, except share and per share amounts)

	June 30, 2009 (Unaudited)	September 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,744	\$ 12,788
Investments in marketable securities, at fair value	4	5
Investment fee income receivable	528	670
Prepaid expenses	490	435
Deferred income tax asset	195	225
Other current assets	7	17
Total current assets	6,968	14,140
Property and equipment, net of accumulated depreciation of \$349 and \$274	241	301
Management contracts, net of accumulated amortization of \$629	21,452	19,406
Investment in the Hennessy Micro Cap Growth Fund, LLC	306	417
Other assets	58	71
Total assets	\$ 29,025	\$ 34,335
Liabilities and Stockholders Equity		
Current liabilities:		
Accrued liabilities and accounts payable	\$ 440	\$ 1,238
Current portion of deferred rent	20	11
Current portion of long-term debt	825	2,091
Total current liabilities	1,285	3,340
Long-term debt	1,331	4,417
Long-term portion of deferred rent	10	26
Deferred income tax liability	2,455	2,029
Total liabilities	5,081	9,812
Commitments and Contingencies (Note 9)		
Stockholders equity:		
Adjustable rate preferred stock, \$25 stated value, 5,000,000 shares authorized: zero shares issued and outstanding		
Common stock, no par value, 15,000,000 shares authorized: 5,753,342 shares issued and outstanding at June 30, 2009 and 5,718,850 at September 30, 2008	9,338	9,105
Other comprehensive loss	(206)	(95)
Retained earnings	14,812	15,513
Total stockholders equity	23,944	24,523

Total liabilities and stockholders equity	\$ 29,025	\$ 34,335
--	-----------	-----------

See accompanying notes to unaudited condensed financial statements

- 3 -

Table of Contents**Hennessy Advisors, Inc.****Statements of Income****(In thousands, except share and per share amounts)****(Unaudited)**

	Three Months ended June 30,		Nine Months ended June 30,	
	2009	2008	2009	2008
Revenue				
Investment advisory fees	\$ 1,382	\$ 2,045	\$ 3,666	\$ 7,120
Shareholder service fees	183	268	483	959
Other	3	5	11	35
Total revenue	1,568	2,318	4,160	8,114
Operating expenses				
Compensation and benefits	756	653	2,182	2,141
General and administrative	573	529	1,610	1,576
Mutual fund distribution	137	374	472	1,428
Amortization and depreciation	29	166	91	495
Total operating expenses	1,495	1,722	4,355	5,640
Operating income (loss)	73	596	(195)	2,474
Interest expense	13	77	75	319
Other income	(7)	(84)	(31)	(336)
Income (loss) before income tax expense	67	603	(239)	2,491
Income tax expense (benefit)	44	263	(55)	1,035
Net income (loss)	\$ 23	\$ 340	\$ (184)	\$ 1,456
Earnings (loss) per share:				
Basic	\$	\$ 0.06	\$ (0.03)	\$ 0.26
Diluted	\$	\$ 0.06	\$ (0.03)	\$ 0.25
Weighted average shares outstanding:				
Basic	5,677,748	5,659,841	5,670,212	5,647,262
Diluted	5,677,748	5,801,472	5,670,212	5,822,314

See accompanying notes to unaudited condensed financial statements

Table of Contents**Hennessy Advisors, Inc.****Statement of Changes in Stockholders' Equity****Nine Months Ended June 30, 2009****(In thousands, except share data)****(Unaudited)**

	Common Shares	Common Stock	Retained Earnings	Other Comprehensive Loss	Total Stockholders Equity
Balance as of September 30, 2008	5,718,850	\$ 9,105	\$ 15,513	\$ (95)	\$ 24,523
Net loss for nine months ended June 30, 2009			(184)		(184)
Dividends paid			(517)		(517)
Unrealized loss on investment in Hennessy Micro Cap Growth Fund, LLC				(111)	(111)
Employee and director restricted stock vested	38,106				
Repurchase of vested employee restricted stock for tax withholding	(3,614)	(11)			(11)
Employee and director restricted stock compensation		401			401
Tax effect of RSU vesting		(157)			(157)
Balance as of June 30, 2009	5,753,342	\$ 9,338	\$ 14,812	\$ (206)	\$ 23,944

See accompanying notes to unaudited condensed financial statements

Table of Contents**Hennessy Advisors, Inc.****Statements of Cash Flows****(Unaudited)**

	Nine Months Ended June 30,	
	2009	2008
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (184)	\$ 1,456
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	91	495
Deferred income taxes	456	308
Tax effect from restricted stock unit vesting	(157)	(187)
Restricted stock units vested	(11)	(97)
Deferred restricted stock unit compensation	401	354
Restricted stock units forfeited		(11)
Unrealized loss on marketable securities	1	1
(Increase) decrease in operating assets:		
Investment fee income receivable	142	403
Prepaid expenses	(55)	(128)
Other current assets	10	10
Other assets	1	56
Increase (decrease) in operating liabilities:		
Accrued liabilities and accounts payable	(798)	(1,108)
Income taxes payable		(68)
Current portion of deferred rent	9	
Long-term portion of deferred rent	(16)	1
Net cash provided by (used in) operating activities	(110)	1,485
Cash flows used in investing activities:		
Purchases of property and equipment	(19)	(64)
Investment in the Hennessy Micro Cap Growth Fund, LLC		(512)
Payments related to acquisition of management contracts	(2,046)	
Net cash used in investing activities	(2,065)	(576)
Cash flows used in financing activity:		
Principal payments on debt	(4,352)	(1,568)
Dividend payment	(517)	(515)
Net cash used in financing activity	(4,869)	(2,083)
Net decrease in cash and cash equivalents	(7,044)	(1,174)
Cash and cash equivalents at the beginning of the period	12,788	13,760
Cash and cash equivalents at the end of the period	\$ 5,744	\$ 12,586

Edgar Filing: HENNESSY ADVISORS INC - Form 10-Q

Supplemental disclosures of cash flow information:

Unrealized loss on investment	\$	(111)	\$	(65)
Cash paid for:				
Income taxes	\$		\$	1,176
Interest	\$	87	\$	335

See accompanying notes to unaudited condensed financial statements

- 6 -

Table of Contents

Hennessy Advisors, Inc.

Notes to Unaudited Condensed Financial Statements

(1) Basis of Financial Statement Presentation

The accompanying condensed balance sheet as of September 30, 2008, which has been derived from audited financial statements, and the unaudited interim condensed financial statements as of June 30, 2009 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and include the accounts of Hennessy Advisors, Inc. (the Company). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position at June 30, 2009, the operating results for the nine months ended June 30, 2009 and June 30, 2008, and the cash flows for the nine months ended June 30, 2009 and June 30, 2008. These financial statements and notes should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended September 30, 2008, included in the Company's Form 10-K filed with the Securities and Exchange Commission.

The operating activities of the Company consist of providing investment management and shareholder services to eight open-end mutual funds, six of which also have institutional share classes (the Hennessy Funds), and investment management services to one non-registered private pooled investment fund (the Hennessy Micro Cap Growth Fund, LLC). The Company serves as investment advisor for all classes of the Hennessy Cornerstone Growth Fund, Hennessy Cornerstone Growth Fund, Series II, Hennessy Focus 30 Fund, Hennessy Cornerstone Large Growth Fund, Hennessy Cornerstone Value Fund, Hennessy Select Large Value Fund, Hennessy Total Return Fund, Hennessy Balanced Fund, and Hennessy Micro Cap Growth Fund, LLC.

(2) Management Contracts

On March 23, 2009, Hennessy Advisors acquired the assets related to the management of the Tamarack Large Cap Growth Fund and the Tamarack Value Fund. Hennessy acquired these assets from Royal Bank of Canada's Voyageur Asset Management, Inc. The two funds had combined assets on that date of approximately \$158.3 million. Shares of the Tamarack Large Cap Growth Fund were exchanged for shares of the Hennessy Cornerstone Large Growth Fund (original class shares), and shares of the Tamarack Value Fund were exchanged for shares of the Hennessy Select Large Value Fund (original class shares). Both Funds also offer institutional class shares.

Hennessy Advisors has retained Voyageur Asset Management as sub-advisor to manage the portfolio of the Hennessy Select Large Value Fund. This Fund is the first of a new Select Series of funds launched for the purpose of employing seasoned, yet undiscovered asset managers.

Table of Contents

As of June 30, 2009, Hennessy Advisors had contractual management agreements with Hennessy Funds, Inc. for the Hennessy Balanced Fund and the Hennessy Total Return Fund; with Hennessy Mutual Funds, Inc. for all classes of the Hennessy Cornerstone Growth Fund, the Hennessy Cornerstone Value Fund, and the Hennessy Focus 30 Fund; and with Hennessy Funds Trust for all classes of the Hennessy Cornerstone Growth Fund, Series II, the Hennessy Cornerstone Large Growth Fund, and the Hennessy Select Large Value Fund.

The management agreements for the Hennessy Cornerstone Large Growth Fund and the Hennessy Select Large Value Fund were approved by the Board of Trustees of Hennessy Funds Trust on March 3, 2009 for an initial period of two years, to be renewed annually thereafter. After the initial period of two years, the agreements may be renewed from year to year, as long as continuance is specifically approved at least annually in accordance with the requirements of the Investment Company Act of 1940. Each management agreement will terminate in the event of its assignment, or it may be terminated by Hennessy Funds Trust (either by the Board of Directors or by vote of a majority of the outstanding voting securities of each Fund), or by Hennessy Advisors, upon 60 days prior written notice.

The management agreements for the remaining Funds were renewed by the Board of Directors/Trustees of Hennessy Funds, Inc., Hennessy Mutual Funds, Inc. and Hennessy Funds Trust, at their meeting on March 3, 2009 for a period of one year. The agreements may be renewed from year to year, as long as their continuance is specifically approved at least annually in accordance with the requirements of the Investment Company Act of 1940. Each management agreement will terminate in the event of its assignment, or it may be terminated by Hennessy Funds, Inc., Hennessy Mutual Funds, Inc., Hennessy Funds Trust (either by the Board of Directors or by vote of a majority of the outstanding voting securities of each Fund), or by Hennessy Advisors, upon 60 days prior written notice.

Under the terms of the management agreements, each Fund bears all expenses incurred in its operation that are not specifically assumed by Hennessy Advisors, the administrator or the distributor. Hennessy Advisors bears the expense of providing office space, shareholder servicing, fulfillment, clerical and bookkeeping services and maintaining books and records of the Funds. Hennessy Advisors may choose to voluntarily waive part of its management fees in order to maintain competitive expense ratios for the Funds. For the institutional share class, Hennessy Advisors has a contractual obligation to waive the advisory fee to the extent necessary to ensure that net expenses do not exceed 0.98% of the average daily net assets of the Funds. For the original share classes of the Hennessy Cornerstone Large Growth Fund and the Hennessy Select Large Value Fund, Hennessy Advisors has a contractual obligation to waive the advisory fee to the extent necessary to ensure that net expenses do not exceed 1.30% of the average daily net assets of the Funds. The expense limitation will be in effect through March, 2010.

Hennessy Advisors is also the Managing Member of the Hennessy Micro Cap Growth Fund, LLC (the Micro Cap Fund). Hennessy Advisors will serve as the Managing Member until its resignation or removal. The Managing Member may voluntarily resign with 30 days prior written notice to the other members or 60 days prior written notice if there is not then a remaining Managing Member. At any time, the Managing Member may designate an additional Managing Member or designate a successor Managing Member with no further consent or approval required from the other members. The Managing Member may be removed at any time, with or without cause, by the vote of the other

Table of Contents

members owning a majority-in-interest of the capital accounts of the Disinterested Members (defined as members other than members who are the Managing Member or affiliates of the Managing Member).

Under the terms of the management agreement, the Managing Member bears all organizational expenses (defined as expenses incurred in connection with and directly related to the formation, qualification and funding of the Micro Cap Fund), but the Micro Cap Fund bears all of its operating, investment and other expenses. However, the Managing Member is responsible for the ordinary and extraordinary costs of administering the Micro Cap Fund, including any placement fees incurred in connection with the offering of interests in the Micro Cap Fund.

Hennessy Advisors, as the Managing Member of the Hennessy Micro Gap Growth Fund, LLC, has the right to reduce or waive the management fee or incentive allocation (as defined in Note 5) chargeable to any member's account without the consent of or notice to any other member.

(3) Investment in the Hennessy Micro Cap Growth Fund, LLC

On October 30, 2007, Hennessy Advisors invested \$0.5 million in the Hennessy Micro Cap Growth Fund, LLC. The investment currently represents approximately 18.4% of the total subscriptions in the Micro Cap Fund. The Micro Cap Fund is a limited liability company for which Hennessy Advisors is the Managing Member.

The investment is classified at fair market value on the balance sheet as an available-for-sale security subject to FASB Statement No. 115. The fair market value of the investment at June 30, 2009 was \$0.3 million.

(4) Long-term Debt

On March 11, 2004, Hennessy Advisors secured financing from US Bank National Association to acquire the management contracts for certain Lindner Funds. The loan agreement required fifty-nine (59) monthly payments in the amount of \$94,060 plus interest at the bank's prime rate less one percent, as amended on February 1, 2007. On July 1, 2005, the loan was amended to provide an additional \$6.7 million to fund acquisition of the management contract for the Henlopen Fund. The amended loan after payment of an installment of \$94,060 on July 10, 2005, required 64 monthly payments in the amount of \$174,210 plus interest at the bank's prime rate, less one percent, per a loan amendment dated February 1, 2007. An additional installment of \$3.5 million was paid on December 29, 2008, and the loan was amended to require 20 monthly payments in the amount of \$68,750 plus interest at the bank's prime rate (currently 3.25%, in effect since December 17, 2008), less one percent (effectively 2.25%). The loan is secured by the Company's assets. The final installment of the then outstanding principal and interest is due September 30, 2010. The loan agreement includes certain reporting requirements and loan covenants requiring the maintenance of certain financial ratios. The Company is in compliance for the nine month period ended June 30, 2009.

In connection with securing the financing discussed above, Hennessy Advisors incurred loan costs in the amount of \$101,110. These costs are included in other assets and the unamortized balance of \$85,289 (as of the loan amendment date of July 1, 2005) is being amortized on a straight-line basis over 64 months.

Table of Contents

(5) Investment Advisor and Shareholder Service Fee Revenue

Investment Advisory and Shareholder Service fees, which are the primary sources of revenue, are recorded when earned. The Company receives investment advisory fees monthly at an annual rate of 0.74% of the average daily net assets of the Hennessy Cornerstone Growth Fund, Hennessy Cornerstone Growth Fund, Series II, Hennessy Focus 30 Fund, Hennessy Cornerstone Large Growth Fund, and Hennessy Cornerstone Value Fund, and at an annual rate of 0.85% of the average daily net assets of the Hennessy Select Large Value Fund. The Company has delegated the day-to-day management of the Hennessy Select Large Value Fund to a sub-advisor, Voyageur Asset Management Inc. Hennessy Advisors pays Voyageur Asset Management Inc. at an annual rate of 0.35% of the average daily net assets of the Hennessy Select Large Value Fund. The annual advisory fee for the Hennessy Balanced Fund and Hennessy Total Return Fund is 0.60%, and the annual advisory fee for the Hennessy Micro Cap Growth Fund, LLC is 2.0% of the aggregate capital accounts of the members, but no management fee is charged to the capital account of the Company.

Fees are earned for shareholder support services provided for each of the original class shares of the eight Hennessy Funds. The shareholder servicing fees are charged at an annual rate of 0.1% of average daily net assets.

In the Hennessy Micro Cap Growth Fund, LLC, an additional incentive allocation can potentially be earned on any member's balance, other than the Company's balance. The allocation is determined at the end of each calendar quarter as 20% of the amount by which net profits (defined as the amount by which the net asset value on the last day of a period exceeds the net asset value on the commencement of the same period), if any, exceed the positive balance, if any, of a member's loss carryforward (defined as a memorandum account kept for each member having an initial balance of zero that is increased by the net loss, if any, allocated to each member for each calendar period).

(6) Income Taxes

For loss years beginning after December 31, 2007, a net operating loss (NOL) may be carried back and deducted from federal taxable income in each of the preceding five years or until exhausted. The Company has cumulative taxable income in the prior five years; therefore, the current federal NOL of \$1,042,400 has been carried back to offset its preceding five years' taxable income and creates a tax benefit of \$354,416 (\$1,042,400 at 34%). California does not allow the carryback of NOLs. The following is our tax position at June 30, 2009:

Table of Contents

The provision for income taxes comprised of the following for the nine months ended June 30, 2009 and 2008:

	6/30/2009	6/30/2008
Current		
Federal	(331,200)	580,300
State	3,200	185,400
	(328,000)	765,700
Deferred		
Federal	305,200	240,300
State	(7,000)	28,600
	298,200	268,900
Total	(29,800)	1,034,600

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of June 30, 2009 and 2008 are presented below:

	6/30/2009	6/30/2008
Current deferred tax assets:		
Accrued compensation	115,200	113,800
Accrued rent	3,800	14,100
State taxes	16,000	117,600
Net Operating Loss	54,300	
Other	5,700	
Total deferred tax assets	195,000	245,500
Noncurrent deferred tax liabilities:		
Property and equipment	(23,700)	(51,700)
Management contracts	(2,430,800)	(1,825,800)
Total deferred tax liabilities	(2,454,500)	(1,877,500)
Net deferred tax liabilities	(2,259,500)	(1,632,000)

The Company files U.S. federal and state tax returns and has determined that its major tax jurisdictions are the United States and California. The tax years ended in 2005 through 2008 remain open and subject to examination by the appropriate governmental agencies in the U.S., and the 2002 through 2008 tax years remain open in California.

The Company's effective tax rate for the nine months ended June 30, 2009 and 2008, were 22.9% and 41.5%, respectively, and differ from the federal statutory rate of 34% primarily due to the effects of state income taxes.

Table of Contents

(7) Earnings or Loss per Share

Basic earnings or loss per share are determined by dividing net earnings or loss by the weighted average number of shares of common stock outstanding, while diluted earnings or loss per share are determined by dividing net earnings or loss by the weighted average number of shares of common stock outstanding adjusted for the dilutive effect of common stock equivalents.

The common stock equivalents were excluded from the loss per share calculation for the quarter ended June 30, 2009 as they were anti-dilutive.

(8) Stock-Based Compensation

On May 2, 2001, the Company established an incentive plan (the Plan) providing for the issuance of options, stock appreciation rights, restricted stock, performance awards, and stock loans for the purpose of attracting and retaining executive officers and key employees. The maximum number of shares which may be issued under the Plan is 25% of the outstanding common stock of the Company, subject to adjustment by the compensation committee of the Board of Directors. The 25% limitation does not invalidate any awards made prior to a decrease in the number of outstanding shares, even though such awards have resulted or may result in shares constituting more than 25% of the outstanding shares being available for issuance under the Plan. Shares available under the Plan which are not awarded in one particular year may be awarded in subsequent years. The compensation committee of the Board of Directors has the authority to determine the awards granted under the Plan, including among other things, the individuals who receive the awards, the times when they receive them, vesting schedules, performance goals, whether an option is an incentive or nonqualified option and the number of shares to be subject to each award. However, no participant may receive options or stock appreciation rights under the Plan for an aggregate of more than 75,000 shares in any calendar year. The exercise price and term of each option or stock appreciation right will be fixed by the compensation committee except that the exercise price for each stock option which is intended to qualify as an incentive stock option must be at least equal to the fair market value of the stock on the date of grant and the term of the option cannot exceed 10 years. In the case of an incentive stock option granted to a 10% shareholder, the exercise price must be at least 110% of the fair market value on the date of grant and cannot exceed five years. Incentive stock options may be granted only within ten years from the date of adoption of the Plan. The aggregate fair market value (determined at the time the option is granted) of shares with respect to which incentive stock options may be granted to any one individual, which stock options are exercisable for the first time during any calendar year, may not exceed \$100,000. An optionee may, with the consent of the compensation committee, elect to pay for the shares to be received upon exercise of their options in cash or shares of common stock or any combination thereof.

As the exercise prices of all options granted under the Plan prior to the adoption of FAS 123R were equal to the market price of the underlying common stock on the grant date, no stock-based employee compensation cost was recognized in net income. There were no options granted during the nine month periods ended June 30, 2009 and 2008.

During the nine months ended June 30, 2009, the Company issued restricted stock units (RSU) under its 2001 Omnibus Plan. Under the

Table of Contents

Company's 2001 Omnibus Plan, participants may be granted RSUs, representing an unfunded, unsecured right to receive a Company common share on the date specified in the recipient's award. The Company issues new shares for shares delivered for RSU recipients. The RSUs granted under this plan vest over four years, at a rate of 25 percent per year. The Company recognizes compensation expense on a straight-line basis over the four-year vesting term of each award. RSU activity for the nine months ended June 30, 2009 was as follows:

	Restricted Stock Unit Activity	
	Nine Months Ended June 30, 2009	
	Number of Restricted	Weighted Avg.
	Share Units	Fair Value
		at
		Grant Date
Non-vested Balance at September 30, 2008	88,596	\$ 12.26
Granted	61,000	\$ 2.66
Vested (1)	(39,684)	\$ 9.94
Forfeited		
Non-vested Balance at June 30, 2009	109,912	\$ 7.71

- (1) The restricted stock units vested includes partially vested shares. Shares of common stock have not been issued for the partially vested shares, but the related compensation costs have been expensed. Additionally, some of the shares issued in the current year were partially vested (and expensed) in the prior fiscal year. There were 34,492 shares of common stock issued for restricted stock units vested (net of shares repurchased for tax withholding) in the nine months ended June 30, 2009.

Restricted Stock Unit Compensation

	(In Thousands)
Total expected compensation expense related to Restricted Stock Units	\$ 2,242
Compensation Expense recognized as of June 30, 2009	(1,395)
Unrecognized compensation expense related to RSUs at June 30, 2009	\$ 847

As of June 30, 2009, there was \$0.8 million of total RSU compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted-average vesting period of 2.6 years.

Table of Contents

(9) Commitments and Contingencies

The Company's headquarters is located in leased office space under a single non-cancelable operating lease at 7250 Redwood Blvd., Suite 200, in Novato, California. The initial lease expires October 31, 2010 with one five-year extension available thereafter.

The Company's portfolio trading operation is located in leased office space under a non-cancelable lease at One Landmark Square, Suite 424, in Stamford, Connecticut. The lease was amended on April 1, 2008 and expires September 30, 2011.

As of June 30, 2009, there were no material changes in leasing arrangements that would have a significant effect on future minimum lease payments reported in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008.

(10) New Accounting Policies

In September, 2006, the FASB issued SFAS No. 157, Fair Value Measurements (FAS 157), which is effective beginning in our fiscal year 2009. In February, 2008, the FASB issued FASB Staff Position FAS 157-2 Effective Date of FASB Statement No. 157, which delayed the effective date of FAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to the fiscal year beginning after November 15, 2008 (our fiscal year 2010). As of October 1, 2008, Hennessy Advisors adopted FAS 157 for all financial assets and liabilities, which establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy consisting of the following three levels that prioritize the inputs to the valuation techniques used to measure fair value:

Level 1 quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 from other than quoted market prices that are observable for the asset or liability, either directly or indirectly (namely, similar assets or from markets that are not active).

Level 3 unobservable and shall be used to measure fair value to the extent that observable inputs are not available (namely, reflecting an entity's own assumptions).

Table of Contents

Based on the FAS 157 definitions, the following table represents the Company's financial assets categorized in the level 1 to 3 hierarchy as of June 30, 2009:

	Fair Value Measurements at Reporting Date Using (amounts in thousands)			
	Level 1	Level 2	Level 3	Total
Money market fund deposits	\$ 4,815	\$	\$	\$ 4,815
Mutual fund investments	4			4
Investment in domestic equities	306			306
Total	\$ 5,125	\$	\$	\$ 5,125
Amounts included in:				
Cash and cash equivalents	\$ 4,815	\$	\$	\$ 4,815
Investments in marketable securities	4			4
Investment in the Hennessy Micro Cap Fund	306			306
Total	\$ 5,125	\$	\$	\$ 5,125

The investments in money market funds, mutual funds, and domestic equities are assets traded on active markets with readily available daily values. The inputs are therefore level 1.

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities" (FAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value. Hennessy Advisors, Inc. adopted FAS 159 as of October 1, 2008, but did not elect the fair value option for any assets or liabilities as of June 30, 2009.

There have been no other significant changes in the Company's critical accounting policies and estimates during the nine months ended June 30, 2009 as compared to what was previously disclosed in the Company's Form 10-K for the year ended September 30, 2008 as filed with the SEC on December 5, 2008.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements

Certain statements in this report are forward-looking within the meaning of the federal securities laws. Although management believes that the expectations reflected in the forward-looking statements are reasonable, future levels of activity, performance or achievements cannot be guaranteed. Additionally, management does not assume responsibility for the accuracy or completeness of these statements. There is no regulation requiring an update of any of the forward-looking statements after the date of this report to conform these statements to actual results or to changes in our expectations.

Our business activities are affected by many factors, including redemptions by mutual fund shareholders, general economic and financial conditions, movement of interest rates, competitive conditions, industry regulation, fluctuation in the stock market, and others, many of which are beyond the control of our management.

Table of Contents

Statements regarding the following subjects are forward-looking by their nature:

our business strategy, including our ability to identify and complete future acquisitions;

market trends and risks;

our assumptions about changes in the market place, especially with the extreme volatility in the global and US financial markets;

our estimates for future performance;

our estimates regarding anticipated revenues and operating expenses; and

our ability to retain the mutual fund assets we currently manage.

Although we seek to maintain cost controls, a significant portion of our expenses are fixed and do not vary greatly. As a result, substantial fluctuations in our revenue can directly impact our net income from period to period.

Overview

We derive our operating revenue from management fees and shareholder servicing fees paid to us by the Hennessy Funds. These fees are calculated as a percentage of the average daily net assets in our mutual funds and vary from fund to fund. The fees we receive fluctuate with changes in the total net asset value of the assets in our mutual funds, which are affected by our investment performance, redemptions, completed acquisitions of management agreements, market conditions and the success of our marketing efforts. Total assets under management were \$775 million as of June 30, 2009.

Table of Contents

Our total assets under management have decreased since June 30, 2008, mainly due to market depreciation and redemption activity. Market impact is unpredictable. The uncertainty in the marketplace has caused fluctuations in fund performance which may cause decreases in fund inflows as shareholders react. The following table illustrates the changes in assets under management from June 30, 2008 through June 30, 2009:

	Assets Under Management				
	At Each Quarter End, June 30, 2008 through June 30, 2009				
	6/30/2008	9/30/2008	12/31/2008	3/31/2009	6/30/2009
	(In Thousands)				
Beginning assets undermanagement	\$ 1,098,695	\$ 1,094,791	\$ 876,069	\$ 641,344	\$ 699,176
Acquisition inflows				158,293	
Organic inflows	63,237	92,452	27,178	14,029	16,696
Redemptions	(105,092)	(85,497)	(81,761)	(46,416)	(47,371)
Market appreciation (depreciation)	37,951	(225,677)	(180,142)	(68,074)	106,017
Ending assets undermanagement	\$ 1,094,791	\$ 876,069	\$ 641,344	\$ 699,176	\$ 774,518

The principal asset on our balance sheet, management contracts net of accumulated amortization, represents the capitalized costs incurred in connection with the acquisition of management agreements. As of June 30, 2009, this asset had a net balance of \$21.5 million.

The principal liability on our balance sheet is the long-term bank debt incurred in connection with the acquisition of the management agreements for the Lindner Funds and the Henlopen Fund. As of June 30, 2009, this liability, including the current portion of long-term debt, had a balance of \$2.2 million.

Table of Contents

Results of Operations

The following table displays items in the statements of income as dollar amounts and as percentages of total revenue for the three months ended June 30, 2009 and 2008:

	Three Months Ended June 30, 2009		2008	
	Amounts	Percent of Total Revenue	Amounts	Percent of Total Revenue
Revenue:				
Investment advisory fees	\$ 1,382	88.1%	\$ 2,045	88.2%
Shareholder service fees	183	11.7	268	11.6
Other	3	0.2	5	0.2
Total revenue	1,568	100.0	2,318	100.0
Operating expenses:				
Compensation and benefits	756	48.2	653	