HENNESSY ADVISORS INC
Form 10QSB
May 14, 2003

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

Commission File Number 000-49872

HENNESSY ADVISORS, INC.
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	68-0176227 (I.R.S. Employer Identification No.)
750 Grant Avenue, Suite 100 Novato, California (Address of principal executive offices)	94945 (Zip Code)

(415) 899-1555
(Registrant's telephone number, including area code)

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 X ; No ___.

The number of shares outstanding of each of the issuer's classes of common equity as of March 31, 2003 was 1,626,142.

Transitional Small Business Disclosure Format: Yes ___; No X

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Hennessy Advisors, Inc.
Balance Sheets
March 31, 2003 and September 30, 2002

Assets		March 31 2003
Cash and cash equivalents	$	2,568,997
Investments in marketable securities, at fair value		3,981
Investment fee income receivable		337,273
Expert witness fees receivable		-
Management contracts acquired, net of accumulated amortization of $628,627		4,480,888
Property and equipment, net of accumulated depreciation of $63,323 and $52,429		45,190
Other assets		38,550
Total assets	$	7,474,879

Liabilities and Stockholders' Equity		
Accrued liabilities and accounts payable	$	219,581
Income taxes payable		4,177
Deferred income tax liability		82,068
Total liabilities		305,826
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: 1,626,142 shares issued and outstanding at March 31, 2003 and September 30, 2002		6,788,205
Additional paid-in capital		24,008
Retained earnings (accumulated deficit)		356,840
Total stockholders' equity		7,169,053
Total liabilities & stockholders' equity	$	7,474,879

See accompanying notes to condensed financial statements

Hennessy Advisors, Inc.
Statements of Operations
Three Months Ended March 31, 2003 and 2002,
and Six Months Ended March 31, 2003 and 2002

	Three Months Ended March 31		Six Months Ended March 31	
	2003	2002	2003	2002
Income				
Investment advisor fees	$ 886,582	$380,430	$ 1,717,920	$ 738,96
Shareholder service fees	115,499	-	224,251	
Expert witness fees	-	41,183	7,150	85,47
Gain on repayment of debt	-	90,214	-	90,21
Other Income	6,458	9,633	14,373	10,46
Total income	1,008,539	521,460	1,963,694	925,12
Expenses				
Compensation and benefits	299,943	145,934	593,293	283,13

General and administrative	182,460	80,262	356,058	121,20
Mutual fund distribution	178,691	53,209	322,805	117,74
Amoritization and depreciation	5,625	74,081	10,895	148,16
Interest	-	70,718	-	177,20
Total expenses	666,719	424,204	1,283,051	847,44
Income before income tax expense	341,820	97,256	680,643	77,67
Income tax expense	177,362	200	286,220	40
Net earnings	$ 164,458	$ 97,056	$ 394,423	$ 77,27
Basic earnings per share	$ 0.10	$ 0.09	$ 0.24	$ 0.0
Diluted earnings per share	$ 0.10	$ 0.09	$ 0.24	$ 0.0

See accompanying notes to condensed financial statements

Hennessy Advisors, Inc.
Statement of Changes in Stockholders' Equity
Six Months Ended March 31, 2003

	Common Shares	Common Stock	Additional Paid-in Capital	Retai Earni (Accumu Defi
Balances as of September 30, 2002	1,626,142	$ 6,788,205	$ 24,008	$ (37
Net earnings for the six months ended March 31, 2003	-	-	-	394
Balances as of March 31, 2003	1,626,142	$ 6,788,205	$ 24,008	$ 356

See accompanying notes to condensed financial statements

Hennessy Advisors, Inc.
Statements of Cash Flow
Six Months Ended March 31, 2003 and 2002

	2003
Cash flows from operating activities:	
Net earnings	$ 394,423
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	10,894
Deferred income taxes	82,068
Unrealized gains on marketable securities	(103)
Realized loss on investments in limited partnership	-
Gain on repayment of debt	-
(Increase) decrease in operating assets:	
Investment fee income receivable	(107,254)
Expert witness fees receivable	21,745
Other assets	18,600
Increase (decrease) in operating liabilities:	
Accrued liabilities and accounts payable	94,365
Income taxes payable	(28,991)
Net cash provided by operating activities	485,747
Cash flows used in investing activities:	
Purchases of property and equipment	(13,761)
Purchases of investments	(48)
Management contracts acquired	-
Net cash used in investing activities	(13,809)
Cash flows provided by financing activities:	
Gross proceeds from issuance of common stock	-
Offering costs incurred in issuance of common stock	-
Repayment of amounts due affiliate	-
Liquidation of adjustable rate preferred stock	-
Repayment of note payable and accrued interest to Netfolio	-
Repayment of note payable to Firstar	-
Net cash provided by financing activities	-
Net increase in cash and cash equivalents	471,938

Cash and cash equivalents at the beginning of the period	2,097,059
Cash and cash equivalents at the end of the period	$ 2,568,997
Supplemental disclosures of cash flow information:	
Common stock issued in connection with acquisition of management contracts	$ -
Interest paid	$ -
Taxes paid	$ 233,813

See accompanying notes to condensed financial statements

Hennessy Advisors, Inc.
Notes to Condensed Financial Statements

Basis of Financial Statement Presentation

The accompanying condensed financial statements of Hennessy Advisors, Inc. (the "Company") are unaudited, but in the opinion of management, such financial statements have been presented on the same basis as the audited financial statements and include all adjustments consisting of only normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods represented. The condensed financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the three and six months ended March 31, 2003, are not necessarily indicative of results which may be expected for the fiscal year ending September 30, 2003. For additional information, refer to the financial statements for the fiscal year ended September 30, 2002, which are included in the Company's annual report on Form 10-KSB, filed with the Securities and Exchange Commission on December 27, 2002.

The operating activities of the Company consist primarily of providing investment management services to four open-end mutual funds (the "Hennessy Funds"). The Company serves as investment advisor of the Hennessy Cornerstone Growth Fund, Hennessy Cornerstone Value Fund, Hennessy Balanced Fund, and the Hennessy Total Return Fund.

Management Contracts

Hennessy Advisors, Inc. has management agreements with Hennessy Funds, Inc. for the Hennessy Balanced Fund and Total Return Fund and with Hennessy Mutual Funds, Inc. for the Hennessy Cornerstone Growth Fund and the Hennessy

Cornerstone Value Fund.

The management agreements were renewed by the Board of Directors of Hennessy Funds, Inc. and Hennessy Mutual Funds, Inc., at their meeting on March 5, 2003 for a period of one year. 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 1940 Act. Each management agreement will terminate in the event of its assignment, or it may be terminated by Hennessy Mutual Funds (either by the Board of Directors or by vote of a majority of the outstanding voting securities of that 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, fullfilment, clerical and bookkeeping services and maintaining books and records of the Funds. Hennessy Advisors, as deemed necessary and without contractual obligation, may voluntarily waive its management fee or subsidize other Fund expenses.

Investment Fee Income

Advisory and Shareholder Service fees, which comprise investment fee income, 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 and the Hennessy Cornerstone Value Fund, and 0.60% of the average daily net assets of the Hennessy Balanced Fund and Hennessy Total Return Fund.

Effective October 1, 2002, the Board of directors of Hennessy Mutual Funds, Inc. authorized an additional monthly fee for shareholder support services provided to the Cornerstone Growth and Cornerstone Value Fund, at an annual rate of 0.1% of average daily net assets.

Expert Witness Fees

The Company receives fees for services provided by the Company's president and staff in mediating, reviewing, and consulting on various cases within the securities industry. Such fees are recognized when earned.

Income Taxes

Income taxes are accounted for under the asset and liability method, in accordance with the provisions of FASB 109 "Accounting For Income Taxes".

Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of such a change.

A valuation allowance is then established to reduce that deferred tax asset to the level at which it is "more likely than not" that the tax benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss or credit carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods. Sources of taxable income that may allow for the realization of tax benefits include income that will result from future operations.

Deferred tax expense and corresponding deferred tax liabilities of $82,068 have been recognized under the provisions of FASB 109 "Accounting For Income Taxes". This amount represents the after tax value of investment management contract amortization deducted for tax purposes, but not recorded for book purposes, under the provisions of FASB 142 "Goodwill And Other Intangible Assets".

Earnings per Share

Basic earnings per share is determined by dividing net earnings by the weighted average number of shares of common stock outstanding, while diluted earnings per share is determined by dividing the weighted average number of

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shares of common stock outstanding adjusted for the dilutive effect of common stock equivalents.

The weighted average common shares outstanding used in the calculation of basic earnings per share, and the weighted average common shares outstanding, adjusted for common stock equivalents, used in the computation of diluted earnings per share, were as follows for the three and six months ended March 31, 2003 and 2002:

	Three Months Ended		Six
	March 31		
	2003	2002	2003
Weighted average common stock outstanding	1,626,142	1,141,392	1,626,142
Common stock equivalents -stock options	4,854	-	4,854
	1,630,996	1,141,392	1,630,996

Accounting Pronouncements

In June of 2001 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supercedes APB No, 17, "Intangible Assets". Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but will be tested at least annually for impairment. The Company considers our mutual fund management contracts to be intangible assets with an indefinite life. The Company fully implemented the provisions of SFAS 142 on October 1, 2002, at which time amortization on these intangible assets ceased. This change is expected to result in a reduction of annual amortization expense to the Company of $279,390. Impairment analysis of our management contract asset is performed quarterly, and as of March 31, 2003, there was no impairment.

The impact of adoption of SFAS 142 on earnings and earnings per share when comparing the three months ended March 31, 2003 and 2002, was as follows:

	Net Income	Basic & Diluted EPS
Three months ended March 31, 2003		
Net Income	$164,458	$ 0.10
Add back management contract amortization, net of tax	-	-
Adjusted net income	$164,458	$ 0.10
Three months ended March 31, 2002		
Net Income	$ 97,056	$ 0.09
Add back management contract amortization, net of tax	41,909	0.04
Adjusted net income	$138,965	$ 0.13

The impact of adoption of SFAS 142 on earnings and earnings per share when comparing the six months ended March 31, 2003 and 2002, was as follows:

	Net Income	Basic & Diluted EPS
Six months ended March 31, 2003		
Net Income	$394,423	$ 0.24
Add back management contract amortization, net of tax	-	-
Adjusted net income	$394,423	$ 0.24

Six months ended March 31, 2002

Net Income	$ 77,279	$ 0.07
Add back management contract amortization, net of tax	83,818	0.08
Adjusted net income	$161,097	$ 0.15

In December, 2002, FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The full provisions of SFAS No. 148 are required to be implemented in fiscal years beginning after December 15, 2002. The Company does not expect the implementation of SFAS No. 148 to have a significant impact on the Company's results of operations or financial condition.

The Company applies APB Opinion 25 in accounting for stock-based compensation, and accordingly, compensation cost has not been recognized in the accompanying financial statements for stock options granted through March 31, 2003. During the three month period ended March 31, 2002, 82,000 options were granted, and had the Company applied SFAS 123 as amended by SFAS 148, the impact on net income and earnings per share would have been as follows (as determined by using an options pricing model with an assumed risk-free interest rate of 3.8%, an expected life of 5 years and zero dividends):

	Net Income	Basic Diluted
Three months ended March 31, 2002		
Net Income	$ 97,056	$ 0
Fair value of stock options - net of tax	$ 141,040	0
Proforma Net (loss)	$ (43,984)	$ (0

	Net Income	Basic Diluted
Six months ended March 31, 2002		
Net Income	$ 77,279	$ 0
Fair value of stock options - net of tax	141,040	0
Proforma Net (loss)	$ (63,761)	$ (0

Item 2. Management's Discussion and Analysis

Overview and General Industry Conditions

Our primary sources of revenue are investment fees derived from managing our four mutual funds. Advisory services include investment research, supervision of investments, conducting clients' investment programs, including evaluation, sale and reinvestment of assets, the placement of orders for purchase and sale of securities, solicitation of brokers to execute transactions and the preparation and distribution of reports and statistical information. Shareholder services primarily include providing a call center to respond to shareholder inquiries, including specific mutual fund account information.

Investment advisory fees and shareholder service fees are charged as a specified percentage of the average daily net value of the assets under management. Hennessy's total assets under management were $522 million as of March 31, 2003, of which $498 million were mutual fund assets. Approximately 99% of Hennessy's total revenues were attributable to the four Hennessy mutual funds for the six months ended March 31, 2003.

Neil J. Hennessy, our Chief Executive Officer, President and Chairman of the Board served as expert witness and mediator in securities cases in the past, and has continued as a mediator on a limited basis this quarter. Mr. Hennessy expects to further limit his mediation activities to devote more time to managing the investment advisory business of Hennessy Advisors, Inc., resulting in significant reduction of revenue from these activities compared to prior periods.

The principal asset on our balance sheet represents the capitalized acquisition costs of the investment advisory agreements with all four Mutual Funds. As of March 31, 2003 the management contracts acquired asset had a net balance of $4,480,888, unchanged from the balance at September 30, 2002.

Results of Operations

The following table reflects items in the statement of operations as dollar amounts and as percentages of total revenue for the three months ended March 31, 2003 and 2002:

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	Three Months Ended March 31 2003		200
	Amounts	Percentage of Total Revenue	Amounts
Revenue:			
Investment fee income	$ 1,002,081	99.4%	$ 380,430

Expert witness fees	-	-	41,183
Gain on repayment of debt	-	-	90,214
Other income	6,458	0.6	9,633
Total Revenue	1,008,539	100.0	521,460
Operating Expenses:			
Compensation and benefits	299,943	29.7	145,934
General and administrative	182,460	18.1	80,262
Mutual fund distribution expenses	178,691	17.7	53,209
Amortization and depreciation	5,625	0.6	74,081
Interest	-	-	70,718
Total operating expenses	666,719	66.1	424,204
Income before income taxes	341,820	33.9	97,256
Income taxes	177,362	17.6	200
Net income	$ 164,458	16.3%	$ 97,056

Three Months Ended March 31, 2003 Compared to the Three Months Ended March 31, 2002:

Total revenue increased $487,079 in the three months ended March 31, 2003, from $521,460 in the same period of 2002, primarily due to fees earned from increased mutual fund assets under management, resulting from increased net cash inflows. Investment fee income increased $621,651 in the three months ended March 31, 2003, from $380,430 in the prior comparable period. Shareholder Service fees comprised $115,499 of the increase in investment fees or 18.6%.

There were no expert witness fees earned in the three months ended March 31, 2003, a decrease of $41,183 from the three months ended March 31, 2002. Mr. Hennessy is working in a limited capacity as a securities litigation mediator, devoting the majority of his time to managing Hennessy Advisors, Inc.

Total operating expenses increased $242,515 or 57.2%, in the three months ended March 31, 2003, from $424,204 in the same period of 2002. The increase resulted from higher compensation expense, increases in several components of general and administrative expense and mutual fund distribution costs. As a percentage of total revenue, total operating expenses decreased to 66.1% in the three months ended March 31, 2003, compared to 81.3% in the prior comparable period.

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Compensation and benefits increased $154,009 or 105.5%, in the three months ended March 31, 2003, from $145,934 in the prior comparable period. The increase resulted from adjustment of Mr. Hennessy's monthly compensation under his employment contract; the net addition of one employee; and implementation of salary increases and performance incentives for officers and staff. As a percentage of total revenue, compensation and benefits increased to 29.7% for the three months ended March 31, 2003, compared to 28.0% in the prior comparable period.

General and administrative expense increased $102,198 or 127.3%, in the three months ended March 31, 2003, from $80,262 in the three months ended March 31, 2002, due to increases in public relations, insurance, business development, accounting and legal fees, rent, printing, and outside director's fees. As a percentage of total revenue, general and administrative expense increased to 18.1% in the three months ended March 31, 2003, from 15.4% in the prior comparable period.

Mutual fund distribution expenses increased $125,482 or 235.8%, in the three months ended March 31, 2003, from $53,209 in the three months ended March 31, 2002. As a percentage of total revenue, distribution expenses increased to 17.7% for the three months ended March 31, 2003, compared to 10.2% in the prior comparable period. These expenses represent "no transaction fee" programs through which our mutual fund shares are distributed. These expenses increase as our assets grow through use of "NTF" programs, and expansion of these programs continues to be an integral part of management's business growth strategy.

Amortization and depreciation expense decreased $68,456 or 92.4% in the three months ended March 31, 2003, from $74,081 for the three months ended March 31, 2002, due to discontinuance (for book purposes) of amortization of management contract assets accounted for under the provisions of SFAS 142, "Goodwill and Other Intangible Assets". Amortization for tax purposes will be continued however, in accordance with regulations of the Internal Revenue Service.

Interest expense was zero in the three months ended March 31, 2003, compared to $70,718 in the comparable prior period, reflecting payment in full of notes due Netfolio and Firstar Bank in March 2002.

Income tax expense increased $177,362 for the three months ended March 31, 2003, compared to $200 in the prior period, due to significant income generation in the current quarter, full use of prior period loss carryforward balances in fiscal year 2002, and current period expenses for deferred income taxes of $82,068, relating to the after tax value of investment management contract amortization deducted for income tax purposes but excluded for book purposes.

Net income increased $67,402 to $164,458 in the three months ended March 31, 2003, compared to $97,056 in the prior comparable period, as a result of the factors discussed above.

The following table reflects items in the statement of operations as dollar amounts and as percentages of total revenue for the six months ended March 31, 2003 and 2002:

	Six Months Ended March 31		
	2003		20
	Amounts	Percentage of Total Revenue	Amounts

Revenue:			
Investment fee income	$ 1,942,171	98.9%	$ 738,967
Expert witness fees	7,150	0.4	85,476
Gain on repayment of debt	0	-	90,214
Other income	14,373	0.7	10,469
Total revenue	1,963,694	100.0	925,126
Operating Expenses:			
Compensation and benefits	593,293	30.2	283,132
General and administrative	356,058	18.1	121,201
Mutual fund distribution expenses	322,805	16.4	117,747
Amortization and depreciation	10,895	0.6	148,162
Interest	0	-	177,205
Total operating expenses	1,283,051	65.3	847,447
Income before income taxes	680,643	34.7	77,679
Income taxes	286,220	14.6	400
Net income	$ 394,423	20.1%	$ 77,279

Six Months Ended March 31, 2003 Compared to the Six Months Ended March 31, 2002:

Total revenue increased $1,038,568 in the six months ended March 31, 2003, from $925,126 in the same period of 2002, primarily due to fees earned from increased mutual fund assets under management, resulting from increased net cash inflows. Investment fee income increased $1,203,204 in the six months ended March 31, 2003, from $738,967 in the prior comparable period. Shareholder Service fees comprised $224,251 of the increase in investment fees or 18.6%.

Expert witness fees in the six months ended March 31, 2003, decreased $78,326 from $85,476 in the six months ended March 31, 2002. Mr. Hennessy is working in a limited capacity as a securities litigation mediator, to devote the majority of his time to managing Hennessy Advisors, Inc.

Total operating expenses increased $435,604 or 51.4%, in the six months ended March 31, 2003, from $847,447 in the same period of 2002. The increase resulted from higher compensation expense, increases in several components of general and administrative expense and mutual fund distribution costs. As a percentage of total revenue, total operating expenses decreased to 65.3% in the six months ended March 31, 2003, compared to 91.6% in the prior comparable period.

Compensation and benefits increased $310,161 or 109.5%, in the six months ended March 31, 2003, from $283,132 in the prior comparable period. The increase resulted from adjustment of Mr. Hennessy's monthly compensation under his employment contract; the net addition of one employee; and implementation of salary increases and performance incentives for officers and staff. As a percentage of total revenue, compensation and benefits decreased to 30.2% for the six months ended March 31, 2003, compared to 30.6% in the prior comparable period.

General and administrative expense increased $234,857 or 193.8%, in the six months ended March 31, 2003, from $121,201 in the six months ended March 31, 2002, due to increases in public relations, insurance, business development, accounting and legal fees, rent, printing, and outside director's fees. As a percentage of total revenue, general and administrative expense increased to 18.1% in the six months ended March 31, 2003, from 13.1% in the prior comparable period.

Mutual fund distribution expenses increased $205,058 or 174.2%, in the six months ended March 31, 2003, from $117,747 in the six months ended March 31, 2002. As a percentage of total revenue, distribution expenses increased to 16.4% for the six months ended March 31, 2003, compared to 12.7% in the prior comparable period. These expenses represent "no transaction fee" programs through which our mutual fund shares are distributed. These expenses increase as our assets grow through use of "NTF" programs, and expansion of these programs continues to be an integral part of management's business growth strategy.

Amortization and depreciation expense decreased $137,267 or 92.6% in the six months ended March 31, 2003, from $148,162 for the six months ended March 31, 2002, due to discontinuance (for book purposes) of amortization of management contract assets accounted for under the provisions of SFAS 142, "Goodwill and Other Intangible Assets". Amortization for tax purposes will be continued however, in accordance with regulations of the Internal Revenue Service.

Interest expense was zero in the six months ended March 31, 2003, compared to $177,205 in the comparable prior period, reflecting payment in full of notes due Netfolio and Firstar Bank in March 2002.

Income tax expense increased $285,820 for the six months ended March 31, 2003, compared to $400 in the prior period, due to significant income generation in the current quarter, full use of prior period loss carryforward balances in fiscal year 2002, and current period expenses for deferred income taxes of $82,068, relating to the after tax value of investment management contract amortization deducted for income tax purposes but excluded for book purposes.

Net income increased $317,144 to $394,423 in the six months ended March 31, 2003, compared to $77,279 in the prior comparable period, as a result of the factors discussed above.

Liquidity and Capital Resources

As of March 31, 2003, Hennessy Advisors, Inc. had cash and cash equivalents of $2,568,997.

With the exception of property and equipment and management contracts acquired, which amount to a combined $4,526,078 as of March 31, 2003, remaining assets of $2,948,801 are very liquid, consisting primarily of cash, and receivables derived from mutual fund asset management activities. Total assets as of March 31, 2003 were $7,474,879, compared to $6,933,014 at September 30, 2002, an increase of 7.8%.

Capital requirements for Hennessy Advisors, Inc. are continually reviewed to ensure that sufficient funding is available to support business growth strategies. The management of Hennessy Advisors, Inc. anticipates that cash and other liquid assets on hand as of March 31, 2003, will be sufficient to fund its operations for the foreseeable future. To the extent that liquid resources and cash provided by operations are not adequate to meet capital requirements, management may need to raise additional capital through debt and/or equity markets. There can be no assurance that Hennessy Advisors, Inc. will be able to borrow funds or raise additional equity.

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, and others, for example:

- Continuing volatility in the equity markets have caused the levels of our assets under management to fluctuate significantly.
- Continued weak market conditions may lower our assets under management and reduce our revenues and income.
- We face strong competition from numerous and sometimes larger companies.
- Changes in the distribution channels on which we depend could reduce our revenues or hinder our growth. o For the next several years, insurance costs are likely to increase materially and we may not be able to obtain the same types or amounts of coverage.
- For the next several years, professional service fees are likely to increase due to increased securities industry legislation.
- The current conflict in Iraq and the ongoing threat of terrorism may adversely affect the general economy, financial and capital markets and our business.

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 can occur in our revenue and resulting net income from period to period. These risk factors are described in more detail in the "Risk Factors" section of the Company's Annual Report, filed on Form 10-KSB with the U.S. Securities and Exchange Commission on December 27, 2002.

Item 3. Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended, within 90 days of the filing date of this report. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective.

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced above.

Part II. OTHER INFORMATION AND SIGNATURES

There were no reportable events for items 1 through 3 or 5 and 6.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of shareholders was conducted on Wednesday, February 5, 2003.

(b) The eight current members of the Board of Directors were nominated and elected to serve one year terms, expiring at the annual meeting of shareholders to be held in year 2004. Votes cast by proxy or by ballot were tabulated and certified by the Inspector of Elections, as follows:

	For	Withheld
Neil J. Hennessy	1,196,230	1,000
Teresa M. Nilsen	1,196,230	1,000
Daniel B. Steadman	1,196,230	1,000
Henry Hansel	1,196,230	1,000
Brian A. Hennessy	1,196,230	1,000
Rodger Offenbach	1,196,230	1,000
Daniel G. Libarle	1,196,230	1,000
Thomas L. Seavey	1,196,230	1,000

(c) The only other matter submitted to shareholders was the ratification of our stock option incentive plan. Results of the voting, as certified by the Inspector of Elections, were as follows:

For	987,192
Against	7,800

Abstain	600
Broker Non-votes	201,638

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 99.1 Written Statement of the Chief Executive Officer, Pursuant to 18 U.S.C. ss. 1350

Exhibit 99.2 Written Statement of the Chief Financial Officer, Pursuant to 18 U.S.C. ss. 1350

(b) Reports on Form 8-K

Hennessy Advisors, Inc. did not file any reports on Form 8-K during the quarter ended March 31, 2003.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

HENNESSY ADVISORS, INC.

Date: May 14, 2003

By: /s/ Teresa M. Nilsen

Teresa M. Nilsen, Executive Vice President, Chief Financial Officer and Secretary

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Neil J. Hennessy, Chief Executive Officer and President of Hennessy Advisors, Inc., certify that:

1) I have reviewed this quarterly report on Form 10-QSB of Hennessy Advisors, Inc. for the quarter ended March 31, 2003.

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within Hennessy Advisors, Inc., particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and,

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data, and have identified for the registrant's auditors any material weaknesses in internal controls; and,

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and,

6) The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Neil J. Hennessy   Date: May 14, 2003

Neil J. Hennessy, Chief Executive Officer and President
Hennessy Advisors, Inc.

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Teresa M. Nilsen, Chief Financial Officer of Hennessy Advisors, Inc., certify that:

1) I have reviewed this quarterly report on Form 10-QSB of Hennessy Advisors, Inc. for the quarter ended March 31, 2003.

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within Hennessy Advisors, Inc., particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and,

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data, and have identified for the registrant's auditors any material weaknesses in internal controls; and,

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and,

6) The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any

corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Teresa M. Nilsen   Date: May 14, 2003

Teresa M. Nilsen, Chief Financial Officer
Hennessy Advisors, Inc.

EXHIBIT INDEX

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