

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

HENNESSY ADVISORS INC  
Form 10QSB  
August 12, 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 June 30, 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  ; No .

The number of shares outstanding of each of the issuer's classes of common equity as of June 30, 2003 was 1,626,142.

Transitional Small Business Disclosure Format: Yes ; No

1

HENNESSY ADVISORS, INC.  
INDEX

Page  
Number

PART I.	Financial Information	
Item 1.	Financial Statements	
	Balance Sheets as of June 30, 2003 and	

## Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

	September 30, 2002	3
	Statements of Income for the three and nine months ended June 30, 2003 and 2002	4
	Statement of Changes in Stockholders' Equity for the nine months ended June 30, 2003	5
	Statements of Cash Flows for the nine months ended June 30, 2003 and 2002	6
	Notes to Condensed Financial Statements	7
Item 2.	Management's Discussion and Analysis	11
Item 3.	Controls and Procedures	17
PART II.	Other Information and Signatures	18
Item 6.	Exhibits and Reports on Form 8-K	18
	Signatures	18
	Certifications	20

2

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

		June 30	
Assets		2003	
		----	
Cash and cash equivalents	\$	2,917,664	\$
Investments in marketable securities, at fair value		4,363	
Investment fee income receivable		439,206	
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 \$68,265 and \$52,429		51,537	
Other assets		55,810	
		-----	--
Total assets	\$	7,949,468	\$
		=====	==
Liabilities and Stockholders' Equity			
Accrued liabilities and accounts payable	\$	348,037	\$

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

Income taxes payable	31,310	
Deferred income tax liability	115,986	
	-----	
Total liabilities	495,333	
	-----	
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 June 30, 2003 and September 30, 2002	6,788,205	
Additional paid-in capital	24,008	
Retained earnings (accumulated deficit)	641,922	
	-----	
Total stockholders' equity	7,454,135	
	-----	
Total liabilities and stockholders' equity	\$ 7,949,468	\$
	=====	=====

See accompanying notes to condensed financial statements

3

Hennessy Advisors, Inc.  
 Statements of Income  
 Three Months Ended June 30, 2003 and 2002, and  
 Nine Months Ended June 30, 2003 and 2002

	Three Months Ended June 30		Nine Months Ended June 30	
	2003	2002	2003	2002
	----	----	----	----
<b>Revenue</b>				
Investment advisor fees	\$1,070,737	\$ 585,856	\$ 2,788,657	\$1,331,276
Shareholder service fees	140,344	-	364,595	-
Expert witness fees	-	6,516	7,150	91,993
Gain on repayment of debt	-	-	-	90,214
Other Income	7,029	4,208	21,402	8,221
	-----	-----	-----	-----
Total revenue	1,218,110	596,580	3,181,804	1,521,704
	-----	-----	-----	-----
<b>Expenses</b>				
Compensation and benefits	359,149	156,025	952,442	438,369
General and administrative	158,638	135,642	514,696	257,632
Mutual fund distribution	224,509	86,005	547,314	203,750
Amortization and depreciation	4,941	75,796	15,836	223,958

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

Interest	-	-	-	177,205
Total expenses	747,237	453,468	2,030,288	1,300,914
Income before income tax expense	470,873	143,112	1,151,516	220,790
Income tax expense	185,791	200	472,011	600
Net income	\$ 285,082	\$ 142,912	\$ 679,505	\$ 220,190
Basic earnings per share	\$ 0.18	\$ 0.09	\$ 0.42	\$ 0.18
Diluted earnings per share	\$ 0.17	\$ 0.09	\$ 0.42	\$ 0.18

See accompanying notes to condensed financial statements

4

Hennessy Advisors, Inc.  
Statement of Changes in Stockholders' Equity  
Nine Months Ended June 30, 2003

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	
Balances as of September 30, 2002	1,626,142	\$ 6,788,205	\$ 24,008	\$ (37,583)	\$
Net income for the nine months ended June 30, 2003	-	-	-	679,505	
Balances as of June 30, 2003	1,626,142	\$ 6,788,205	\$ 24,008	\$ 641,922	\$

See accompanying notes to condensed financial statements

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

5

Hennessy Advisors, Inc.  
 Statements of Cash Flows  
 Nine Months Ended June 30, 2003 and 2002

	2003	
	-----	-----
Cash flows from operating activities:		
Net income	\$ 679,505	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,836	
Deferred income taxes	115,986	
Unrealized gains on marketable securities	(468)	
Realized loss on investments in limited partnership	-	
Gain on repayment of debt	-	
(Increase) decrease in operating assets:		
Investment fee income receivable	(209,187)	
Expert witness fees receivable	21,745	
Other assets	1,340	
Increase (decrease) in operating liabilities:		
Accrued liabilities and accounts payable	222,821	
Income taxes payable	(1,858)	
	-----	-----
Net cash provided by operating activities	845,720	
	-----	-----
Cash flows used in investing activities:		
Purchases of property and equipment	(25,050)	
Purchases of investments	(65)	
Management contracts acquired	-	
	-----	-----
Net cash used in investing activities	(25,115)	
	-----	-----
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 Firststar	-	
	-----	-----
Net cash provided by financing activities	-	
	-----	-----
Net increase in cash and cash equivalents	820,605	
Cash and cash equivalents at the beginning of the period	2,097,059	
	-----	-----
Cash and cash equivalents at the end of the period	\$ 2,917,664	\$
	=====	=====

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

Supplemental disclosures of cash flow information:

Common stock issued in connection with acquisition of management contracts	\$ -	\$
	=====	==
Interest paid	\$ -	\$
	=====	==
Taxes paid	\$ 345,437	\$
	=====	==

See accompanying notes to condensed financial statements

6

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 nine months ended June 30, 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

## Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

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, fulfillment, 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.

7

### 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.

The Company's effective tax rate of 40% differs from the federal statutory rate of 34% primarily due to the effects of state income taxes.

## Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

### 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 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,

8

adjusted for common stock equivalents, used in the computation of diluted earnings per share, were as follows for the three and nine months ended June 30, 2003 and 2002:

	Three Months Ended		Ni
	June 30		
	2003	2002	2003
Weighted average common stock outstanding	1,626,142	1,547,131	1,626,
Common stock equivalents -stock options	9,000	-	6,
	1,635,142	1,547,131	1,633,

### 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 supersedes 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 June 30, 2003, there was no impairment.

The impact of adoption of SFAS 142 on earnings and earnings per share when comparing the three months ended June 30, 2003 and 2002, was as follows:



Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

	Net Income	Basic / Diluted EPS
	-----	-----
Three months ended June 30, 2003		
-----		
Net income	\$ 285,082	\$ 0.18/\$0.17
Add back management contract amortization, net of tax	-	-
	-----	-----
Adjusted net income	\$ 285,082	\$ 0.18/\$0.17
	=====	=====

Three months ended June 30, 2002		
-----		
Net income	\$ 142,912	\$ 0.09
Add back management contract amortization, net of tax	41,909	0.03
	-----	-----
Adjusted net income	\$ 184,821	\$ 0.12
	=====	=====

The impact of adoption of SFAS 142 on earnings and earnings per share when comparing the nine months ended June 30, 2003 and 2002, was as follows:

9

	Net Income	Basic / Diluted EPS
	-----	-----
Nine months ended June 30, 2003		
-----		
Net income	\$ 679,505	\$ 0.42
Add back management contract amortization, net of tax	-	-
	-----	-----
Adjusted net income	\$ 679,505	\$ 0.42
	=====	=====
Nine months ended June 30, 2002		
-----		
Net income	\$ 220,190	\$ 0.18
Add back management contract amortization, net of tax	125,726	0.10
	-----	-----
Adjusted net income	\$ 345,916	\$ 0.28
	=====	=====

In December, 2002, FASB issued SFAS No. 148, "Accounting for Stock-Based

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

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. Effective for interim periods beginning after December 15, 2002, SFAS No. 148 requires disclosure of pro-forma results on a quarterly basis as if the Company had applied the fair value recognition provisions of SFAS No. 123.

The Company continues to account for its stock option plan under the intrinsic value recognition and measurement principles of APB Opinion No. 25 and related interpretations. As the exercise price of all options granted under the plan 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. No options were granted during the nine month period ended June 30, 2003. During the nine month period ended June 30, 2002, 82,000 options were granted. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended, to options granted under the stock option plan. Because the estimated value is determined as of the date of grant, the actual value ultimately realized by the employee may be significantly different. The value of options granted in the nine month period ended June 30, 2002 was determined at the date of grant 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 EPS
	-----	-----
Three months ended June 30, 2002		
-----		
Net income	\$ 142,912	\$ 0.09
Fair value of stock options - net of tax	-	-
	-----	-----
Proforma net income	\$ 142,912	\$ 0.09
	=====	=====

10

	Net Income	Basic / Diluted EPS
	-----	-----
Nine months ended June 30, 2002		
-----		
Net income	\$ 220,190	\$ 0.18
Fair value of stock options - net of tax	141,040	0.12
	-----	-----
Proforma net income	\$ 79,150	\$ 0.06
	=====	=====

# Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

## 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 \$689 million as of June 30, 2003, of which \$663 million were mutual fund assets. Approximately 99% of Hennessy's total revenues were attributable to the four Hennessy mutual funds for the nine months ended June 30, 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. Mr. Hennessy has limited 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 June 30, 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 statements of income as dollar amounts and as percentages of total revenue for the three months ended June 30, 2003 and 2002:

11

	Three Months Ended June 30		
	2003		
	Amounts	Percentage of Total Revenue	Amounts
Revenue:			
Investment advisory fees	\$ 1,070,737	87.9%	\$ 585,856
Shareholder service fees	140,344	11.5	-

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

Expert witness fees	-	-	6,516
Other income	7,029	0.6	4,208
	-----		
Total revenue	1,218,110	100.0	596,580
	-----		
Operating Expenses:			
Compensation and benefits	359,149	29.5	156,025
General and administrative	158,638	13.0	135,642
Mutual fund distribution expenses	224,509	18.4	86,005
Amortization and depreciation	4,941	0.4	75,796
	-----		
Total operating expenses	747,237	61.3	453,468
	-----		
Income before income taxes	470,873	38.7	143,112
Income taxes	185,791	15.3	200
	-----		
Net income	\$ 285,082	23.4%	\$ 142,912
	=====		

Three Months Ended June 30, 2003 Compared to the Three Months Ended June 30, 2002:

Total revenue increased \$621,530 in the three months ended June 30, 2003, from \$596,580 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 advisory fees increased \$484,881 in the three months ended June 30, 2003, from \$585,856 in the prior comparable period. Shareholder service fees comprised \$140,344 of the increase in investment fees or 22.6%.

There were no expert witness fees earned in the three months ended June 30, 2003, a decrease of \$6,516 from the three months ended June 30, 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 \$293,769 or 64.8%, in the three months ended June 30, 2003, from \$453,468 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 61.3% in the three months ended June 30, 2003, compared to 76.0% in the prior comparable period.

Compensation and benefits increased \$203,124 or 130.2%, in the three months ended June 30, 2003, from \$156,025 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 29.5% for the three months ended June 30, 2003, compared to 26.2% in the prior comparable period.

## Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

General and administrative expense increased \$22,996 or 17.0%, in the three months ended June 30, 2003, from \$135,642 in the three months ended June 30, 2002, due to increases in public relations, insurance, rent, printing, travel expenses, outside director's fees and shareholder meeting expenses. As a percentage of total revenue, general and administrative expense decreased to 13.0% in the three months ended June 30, 2003, from 22.7% in the prior comparable period.

Mutual fund distribution expenses increased \$138,504 or 161.0%, in the three months ended June 30, 2003, from \$86,005 in the three months ended June 30, 2002. As a percentage of total revenue, distribution expenses increased to 18.4% for the three months ended June 30, 2003, compared to 14.4% in the prior comparable period. These expenses represent "no transaction fee" programs through which Hennessy mutual fund shares are distributed. These expenses increase as assets under management 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 \$70,855 or 93.5% in the three months ended June 30, 2003, from \$75,796 for the three months ended June 30, 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.

For the three months ended June 30, 2003, the provision for income taxes increased \$185,591, resulting from an increase in pre-tax income of \$327,761 and an increase in our effective tax rate from 0.1% to 39.5%. The change in effective tax rate was primarily due to the elimination of valuation allowances in the prior period.

Net income increased \$142,170 to \$285,082 in the three months ended June 30, 2003, compared to \$142,912 in the prior comparable period, as a result of the factors discussed above.

The following table reflects items in the statements of income as dollar amounts and as percentages of total revenue for the nine months ended June 30, 2003 and 2002:

	Nine Months Ended June 30 2003		
	Amounts	Percentage of Total Revenue	Amounts
Revenue:			
Investment advisory fees	\$ 2,788,657	87.6%	\$ 1,331,276
Shareholder service fees	364,595	11.5	-
Expert witness fees	7,150	0.2	91,993
Gain on repayment of debt	-	-	90,214
Other income	21,402	0.7	8,221

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

Total revenue	3,181,804	100.0	1,521,704
Operating Expenses:			
Compensation and benefits	952,442	29.9	438,369
General and administrative	514,696	16.2	257,632
Mutual fund distribution expenses	547,314	17.2	203,750
Amortization and depreciation	15,836	0.5	223,958
Interest	-	-	177,205
Total operating expenses	2,030,288	63.8	1,300,914
Income before income taxes	1,151,516	36.2	220,790
Income taxes	472,011	14.8	600
Net income	\$ 679,505	21.4%	\$ 220,190

Nine Months Ended June 30, 2003 Compared to the Nine Months Ended June 30, 2002:

Total revenue increased \$1,660,100 in the nine months ended June 30, 2003, from \$1,521,704 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 advisory fees increased \$1,457,381 in the nine months ended June 30, 2003, from \$1,331,276 in the prior comparable period. Shareholder service fees comprised \$364,595 of the increase in investment fees or 20.0%.

Expert witness fees in the nine months ended June 30, 2003, decreased \$84,843 from \$91,993 in the nine months ended June 30, 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 \$729,374 or 56.1%, in the nine months ended June 30, 2003, from \$1,300,914 in the same period of 2002. The increase resulted from higher compensation expense, increases in several components of general and administrative expenses and mutual fund distribution costs. As a percentage of total revenue, total operating expenses decreased to 63.8% in the nine months ended June 30, 2003, compared to 85.5% in the prior comparable period.

14

Compensation and benefits increased \$514,073 or 117.3%, in the nine months ended June 30, 2003, from \$438,369 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 29.9% for the nine months ended June 30, 2003, compared to 28.8% in the prior comparable period.

General and administrative expense increased \$257,064 or 99.8%, in the nine months ended June 30, 2003, from \$257,632 in the nine months ended June 30, 2002, due to increases in public relations, insurance, business development,

## Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

accounting and legal fees, rent, printing, travel expenses, outside director's fees and shareholder meeting expenses. As a percentage of total revenue, general and administrative expense decreased to 16.2% in the nine months ended June 30, 2003, from 16.9% in the prior comparable period.

Mutual fund distribution expenses increased \$343,564 or 168.6%, in the nine months ended June 30, 2003, from \$203,750 in the nine months ended June 30, 2002. As a percentage of total revenue, distribution expenses increased to 17.2% for the nine months ended June 30, 2003, compared to 13.4% in the prior comparable period. These expenses represent "no transaction fee" programs through which Hennessy mutual fund shares are distributed. These expenses increase as assets under management 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 \$208,122 or 92.9% in the nine months ended June 30, 2003, from \$223,958 for the nine months ended June 30, 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 nine months ended June 30, 2003, compared to \$177,205 in the comparable prior period, reflecting payment in full of notes due Netfolio and Firststar Bank in March 2002.

For the nine months ended June 30, 2003, the provision for income taxes increased \$471,411, resulting from an increase in pre-tax income of \$930,726 and an increase in our effective tax rate from 0.1% to 41.0%. The change in effective tax rate was primarily due to the elimination of valuation allowances in the prior period.

Net income increased \$459,315 to \$679,505 in the nine months ended June 30, 2003, compared to \$220,190 in the prior comparable period, as a result of the factors discussed above.

15

### Liquidity and Capital Resources

As of June 30, 2003, Hennessy Advisors, Inc. had cash and cash equivalents of \$2,917,664.

With the exception of property and equipment and management contracts acquired, which amount to a combined \$4,532,425 as of June 30, 2003, remaining assets of \$3,417,043 are very liquid, consisting primarily of cash and receivables derived from mutual fund asset management activities. Total assets as of June 30, 2003 were \$7,949,468, compared to \$6,933,014 at September 30, 2002, an increase of 14.7%.

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 June 30, 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

## Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

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.

On April 14, 2003, Neil Hennessy, Chief Executive Officer and President of Hennessy Advisors, Inc., announced that Hennessy Advisors, Inc. agreed in principle to acquire the management contracts for the SYM Select Growth Fund (SYMFX). The SYM Select Growth Fund is a Mid-Cap growth fund with approximately \$27 million in assets under management. The acquisition transaction is expected to be completed before fiscal year-end (September 30, 2003), subject to satisfactory completion of due diligence and approval by the Board of Directors of both companies and SYM Select Growth Fund shareholders. The acquisition will be funded through use of existing cash resources.

### 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:

- o Continuing volatility in the equity markets have caused the levels of our assets under management to fluctuate significantly.
- o Continued weak market conditions may lower our assets under management and reduce our revenues and income.
- o We face strong competition from numerous and sometimes larger companies.

16

- o 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.
- o For the next several years, professional service fees are likely to increase due to increased securities industry legislation.
- o Business growth through asset acquisitions may not proceed as planned and result in significant expenses adversely affecting earnings.
- o International conflicts 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.



## Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

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-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by 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.

17

### Part II. OTHER INFORMATION AND SIGNATURES

There were no reportable events for items 1 through 5 during the three and nine months ended June 30, 2003.

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits

Exhibit 31.1 Rule 13a - 14a Certification of the Chief Executive Officer

Exhibit 31.2 Rule 13a - 14a Certification of the Chief Financial Officer

Exhibit 32.1 Written Statement of the Chief Executive Officer, Pursuant to 18 U.S.C. ss. 1350

Exhibit 32.2 Written Statement of the Chief Financial Officer, Pursuant to 18 U.S.C. ss. 1350

##### (b) Reports on Form 8-K

Hennessy Advisors, Inc. furnished or filed Forms 8-K and 8-K/A during the quarter ended June 30, 2003, as follows:

--Form 8-K, furnished April 22, 2003, Earnings Release for 3/31/03

--Form 8-K/A, furnished May 9, 2003, Revised Earnings Release for

Edgar Filing: HENNESSY ADVISORS INC - Form 10QSB

3/31/03  
--Form 8-K, filed June 10, 2003, Change in Certifying Accountant

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: August 12, 2003

By: /s/ Teresa M. Nilsen

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

18

EXHIBIT INDEX

-----

Exhibit 31.1 Rule 13a - 14a Certification of the Chief Executive Officer

Exhibit 31.2 Rule 13a - 14a Certification of the Chief Financial Officer

Exhibit 32.1 Written Statement of the Chief Executive Officer, pursuant to  
18 U.S.C.ss.1350

Exhibit 32.2 Written Statement of the Chief Financial Officer, pursuant to  
18 U.S.C.ss.1350

