

HENNESSY ADVISORS INC  
Form 10-Q  
August 03, 2015  
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, 2015**

.. **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 001-36423**

**HENNESSY ADVISORS, INC.**

**(Exact name of registrant as specified in its charter)**

**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**

**(Registrant'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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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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 20, 2015, there were 6,025,377 shares of common stock issued and outstanding.

**Table of Contents**

HENNESSY ADVISORS, INC.

INDEX

	Page Number
PART I. <u>Financial Information</u>	3
Item 1. <u>Unaudited Condensed Financial Statements</u>	3
<u>Balance Sheets as of June 30, 2015 (unaudited) and September 30, 2014</u>	3
<u>Statements of Income for the three and nine months ended June 30, 2015 and 2014 (unaudited)</u>	4
<u>Statement of Changes in Stockholders' Equity for the nine months ended June 30, 2015 (unaudited)</u>	5
<u>Statements of Cash Flows for the nine months ended June 30, 2015 and 2014 (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>	28
PART II. <u>Other Information</u>	29
Item 6. <u>Exhibits</u>	29
<u>Signatures</u>	30

Table of Contents**PART I: FINANCIAL INFORMATION****Item 1: Unaudited Condensed Financial Statements****Hennessy Advisors, Inc.****Balance Sheets****(In thousands, except share and per share amounts)**

	June 30, 2015 (Unaudited)	September 30, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,865	\$ 7,645
Investments in marketable securities, at fair value	7	7
Investment fee income receivable	3,962	3,142
Prepaid expenses	1,200	601
Deferred income tax asset	314	342
Other accounts receivable	316	444
<b>Total current assets</b>	<b>19,664</b>	<b>12,181</b>
Property and equipment, net of accumulated depreciation of \$687 and \$554, respectively	222	240
Management contracts	62,526	62,489
Deferred offering costs	12	
Other assets, net of accumulated amortization of \$307 and \$242, respectively	340	405
<b>Total assets</b>	<b>\$ 82,764</b>	<b>\$ 75,315</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accrued liabilities and accounts payable	\$ 4,372	\$ 3,538
Income taxes payable	958	
Deferred rent	111	142
Current portion of long-term debt	3,750	3,750
<b>Total current liabilities</b>	<b>9,191</b>	<b>7,430</b>
Long-term debt, net of current portion	20,159	22,972
Deferred income tax liability	8,532	7,499

Total liabilities	37,882	37,901
<b>Commitments and Contingencies (Note 8)</b>		
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: 6,025,373 shares issued and outstanding at June 30, 2015 and 6,019,276 at September 30, 2014	11,399	10,852
Retained Earnings	33,483	26,562
Total stockholders' equity	44,882	37,414
Total liabilities and stockholders' equity	\$ 82,764	\$ 75,315

See accompanying notes to unaudited condensed financial statements

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

	Three Months ended		Nine Months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
<b>Revenue</b>				
Investment advisory fees	\$ 10,622	\$ 8,550	\$ 30,021	\$ 24,326
Shareholder service fees	1,346	234	2,239	689
<b>Total revenue</b>	<b>11,968</b>	<b>8,784</b>	<b>32,260</b>	<b>25,015</b>
<b>Operating expenses</b>				
Compensation and benefits	2,628	1,814	7,007	5,460
General and administrative	1,191	1,085	3,839	3,340
Mutual fund distribution	480	619	2,100	1,715
Sub-advisor fees	1,923	1,492	5,256	4,351
Amortization and depreciation	67	61	197	181
<b>Total operating expenses</b>	<b>6,289</b>	<b>5,071</b>	<b>18,399</b>	<b>15,047</b>
<b>Operating income</b>	<b>5,679</b>	<b>3,713</b>	<b>13,861</b>	<b>9,968</b>
Interest expense	242	280	756	812
Other income, net		(1)	(1)	(1)
<b>Income before income tax expense</b>	<b>5,437</b>	<b>3,434</b>	<b>13,106</b>	<b>9,157</b>
Income tax expense	2,134	1,389	5,143	3,896
<b>Net income</b>	<b>\$ 3,303</b>	<b>\$ 2,045</b>	<b>\$ 7,963</b>	<b>\$ 5,261</b>
<b>Earnings per share:</b>				
Basic	\$ 0.57	\$ 0.35	\$ 1.36	\$ 0.90
Diluted	\$ 0.56	\$ 0.35	\$ 1.34	\$ 0.89
<b>Weighted average shares outstanding:</b>				
Basic	5,776,116	5,766,376	5,861,921	5,834,073

Diluted	5,855,397	5,821,722	5,961,096	5,881,556
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See accompanying notes to unaudited condensed financial statements



Table of Contents**Hennessy Advisors, Inc.****Statements of Changes in Stockholders' Equity****Nine Months Ended June 30, 2015****(In thousands, except share data)****(Unaudited)**

	Common Shares	Common Stock	Retained Earnings	Total Stockholders Equity
Balance at September 30, 2014	6,019,276	\$ 10,852	\$ 26,562	\$ 37,414
Net income			7,963	7,963
Dividends paid			(1,024)	(1,024)
Employee restricted stock vested	7,825			
Repurchase of vested employee restricted stock for tax withholding	(1,730)	(16)	(18)	(34)
Equity issued pursuant to direct stock purchase plan	2			
Deferred restricted stock unit compensation		498		498
Tax effect of restricted stock vesting		65		65
Balance at June 30, 2015	6,025,373	\$ 11,399	\$ 33,483	\$ 44,882

See accompanying notes to unaudited condensed financial statements

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

	Nine Months Ended June 30,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,963	\$ 5,261
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	197	181
Deferred income taxes	1,061	1,201
Tax effect from restricted stock units and stock options	65	334
Restricted stock units repurchased for employee tax withholding	(34)	(1,004)
Deferred restricted stock unit compensation	498	147
Deferred rent	(31)	39
<b>(Increase) decrease in operating assets:</b>		
Investment fee income receivable	(820)	(592)
Prepaid expenses	(599)	87
Other accounts receivable	128	(9)
Other assets		(184)
<b>Increase (decrease) in operating liabilities:</b>		
Accrued liabilities and accounts payable	834	666
Income taxes payable	958	(44)
<b>Net cash provided by operating activities</b>	<b>10,220</b>	<b>6,083</b>
<b>Cash flows used in investing activities:</b>		
Purchases of property and equipment	(114)	(79)
Deferred offering costs	(12)	
Payments related to acquisition of management contracts	(37)	(19,152)
<b>Net cash used in investing activities</b>	<b>(163)</b>	<b>(19,231)</b>
<b>Cash flows provided by (used in) financing activities:</b>		
Principal payments on bank loan	(2,813)	(2,494)
Proceeds from amended bank loan		13,287
Loan fee payments and other acquisition costs related to amended bank loan		(153)
Proceeds from exercise of employee stock options		1,258
Dividend payments	(1,024)	(658)

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Net cash provided by (used in) financing activities	(3,837)	11,240
Net increase (decrease) in cash and cash equivalents	6,220	(1,908)
Cash and cash equivalents at the beginning of the period	7,645	8,406
Cash and cash equivalents at the end of the period	\$ 13,865	\$ 6,498
Supplemental disclosures of cash flow information:		
Cash paid for:		
Income taxes	\$ 3,624	\$ 2,546
Interest	\$ 765	\$ 777

See accompanying notes to unaudited condensed financial statements

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**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, 2014, which has been derived from audited financial statements, and the unaudited interim condensed financial statements as of June 30, 2015 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 in these unaudited interim condensed financial statements, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission for Quarterly Reports on Form 10-Q. In the opinion of management, the unaudited interim condensed financial statements reflect all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the Company's financial position at June 30, 2015, the Company's operating results for the three and nine months ended June 30, 2015 and 2014, and the Company's cash flows for the nine months ended June 30, 2015 and 2014. These unaudited interim condensed 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, 2014, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

The Company's operating activities consist primarily of providing investment advisory services to sixteen open-end mutual funds commonly referred to as the Hennessy Funds. The Company serves as the investment advisor to all classes of the Hennessy Cornerstone Growth Fund, the Hennessy Focus Fund, the Hennessy Cornerstone Mid Cap 30 Fund, the Hennessy Cornerstone Large Growth Fund, the Hennessy Cornerstone Value Fund, the Hennessy Large Value Fund, the Hennessy Total Return Fund, the Hennessy Equity and Income Fund, the Hennessy Balanced Fund, the Hennessy Core Bond Fund, the Hennessy Gas Utility Fund, the Hennessy Small Cap Financial Fund, the Hennessy Large Cap Financial Fund, the Hennessy Technology Fund, the Hennessy Japan Fund, and the Hennessy Japan Small Cap Fund. The Company also provides shareholder services to the entire family of Hennessy Funds. Prior to March 1, 2015, the Company only earned shareholder servicing fees from some of the Hennessy Funds.

The Company's operating revenue consists of contractual investment advisory and shareholder service fees paid to it by the Hennessy Funds. The Company earns investment advisory fees from the Hennessy Funds by, among other things, managing the composition of each Hennessy Fund's portfolio (including the purchase, retention, and disposition of portfolio securities in accordance with the applicable Hennessy Fund's investment objectives, policies, and restrictions), conducting investment research, monitoring compliance with each applicable Hennessy Fund's investment restrictions and applicable laws and regulations, overseeing service providers (including sub-advisors), maintaining an in-house public relations and marketing program for each of the Hennessy Funds, preparing and distributing regulatory reports, and overseeing distribution through third-party financial intermediaries. The Company earns shareholder service fees from the Hennessy Funds by, among other things, maintaining an 800 number that the current investors of the Hennessy Funds may call to ask questions about the Hennessy Funds or their accounts, or to get help with processing exchange and redemption requests or changing account options. These fee revenues are earned and calculated daily by the Hennessy Funds' accountants at U.S. Bancorp Fund Services, LLC. The fees are computed and billed monthly, at which time they are recognized in accordance with Accounting Standard Codification 605 Revenue Recognition.

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**Table of Contents**

In the past, the Company has waived fees with respect to some of the Hennessy Funds to comply with contractual expense ratio limitations, but all such expense ratio limitations expired or were terminated as of February 28, 2015. The fee waivers were calculated daily by the Hennessy Funds' accountants at U.S. Bancorp Fund Services, LLC and were charged to expense monthly by the Company as an offset to revenue. The waived fees were deducted from investment advisory fee income and reduced the amount of advisory fees that the Hennessy Funds paid in the subsequent month. To date, the Company has only waived fees based on contractual obligations, but the Company has the ability to waive fees at its discretion to compete with other mutual funds with lower expense ratios. If the Company were to elect voluntarily to waive fees, the decision to waive fees would not apply to previous periods, but would only apply on a going forward basis. As of June 30, 2015, the Company has never voluntarily waived fees.

The Company's contractual agreements for investment advisory and shareholder services provide persuasive evidence that an arrangement exists with fixed and determinable fees, and the services are rendered daily. The collectability is probable as the fees are received from the Hennessy Funds in the month subsequent to the month in which the services are provided.

**(2) Management Contracts Purchased**

The Company has purchased assets related to the management of open-end mutual funds from time to time throughout its history. Prior to September 30, 2012, the Company had completed several purchases of assets related to the management of thirteen different mutual funds, some of which were reorganized into already existing Hennessy Funds. On October 26, 2012, the Company purchased the assets related to the management of the entire family of ten FBR funds (the "FBR Funds"), adding approximately \$2.2 billion in assets under management. The purchase was consummated in accordance with the terms and conditions of that certain Asset Purchase Agreement, dated as of June 6, 2012, between the Company and FBR Fund Advisers, Inc. The purchase price was comprised of two payments: (i) an initial payment of \$19,692,137 made on October 26, 2012 based upon the net asset value of the FBR Funds as of October 25, 2012 and (ii) a contingent payment of \$19,193,595 made on November 5, 2013 based upon the net asset value of the FBR Funds as of October 28, 2013. The initial payment was funded with \$3.4 million of available cash and \$16.3 million of debt proceeds that were obtained pursuant to an amendment and restatement of the Company's then-existing loan agreement with U.S. Bank National Association that allowed the Company to borrow the additional amount due.

The contingent payment due under the Asset Purchase Agreement was determined to be \$19,193,595 as of October 28, 2013. The amount of the liability was booked as of September 30, 2013 because it was measurable. The contingent payment was funded in part with \$13,286,666 of debt proceeds that were obtained pursuant to an amendment of the Company's then-existing loan agreement with U.S. Bank National Association that allowed the Company to borrow such amount, with the remainder of the payment being funded out of available cash.

## **Table of Contents**

In accordance with guidance issued by the Financial Accounting Standards Board ( FASB ), the Company periodically reviews the carrying value of its purchased management contracts to determine if any impairment has occurred. The fair value of management contracts are based on management estimates and assumptions, including third-party valuations that utilize appropriate valuation techniques. The fair value of the management contracts was estimated by applying the income approach. As of June 30, 2015, no events or changes in circumstances had occurred that indicated potential impairment of the management contracts.

Under the FASB guidance on Intangibles Goodwill and Other, intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment. The Company reviews the life of the management contracts each reporting period to determine if they continue to have an indefinite useful life. The Company considers the mutual fund management contracts to be intangible assets with an indefinite useful life as of June 30, 2015.

### **(3) Investment Advisory Agreements**

The Company has management contracts with Hennessy Funds Trust, under which it provides investment advisory services to all classes of the sixteen Hennessy Funds.

The management contracts must be renewed annually by (i) the Board of Trustees of Hennessy Funds Trust or by the vote of a majority of the outstanding shares of the applicable Hennessy Fund and (ii) by the vote of a majority of the trustees of Hennessy Funds Trust who are not interested persons of the Hennessy Funds, except that the management contract for the Hennessy Cornerstone Growth Fund, the Hennessy Cornerstone Mid Cap 30 Fund, the Hennessy Cornerstone Value Fund, the Hennessy Total Return Fund, the Hennessy Balanced Fund, the Hennessy Japan Fund and the Hennessy Japan Small Cap Fund has an initial period of two years, which commenced on February 28, 2014, to be renewed annually thereafter. If the management contracts are not renewed as described above, they will terminate automatically. In addition, there are two other circumstances in which the management contracts would terminate. First, the management contracts would automatically terminate if the Company assigned them to another advisor (assignment includes indirect assignment, which is the transfer of the Company's common stock in sufficient quantities deemed to constitute a controlling block). Second, each management contract may be terminated prior to its expiration upon 60 days' notice by either the Company or the applicable Hennessy Fund.

As provided in the management contracts with the sixteen Hennessy Funds, the Company receives investment advisory fees monthly based on a percentage of the respective Hennessy Fund's average daily net assets.

The Company has entered into sub-advisory agreements for the Hennessy Focus Fund, the Hennessy Large Value Fund, the Hennessy Equity and Income Fund, the Hennessy Core Bond Fund, the Hennessy Japan Fund, and the Hennessy Japan Small Cap Fund. Under each of these sub-advisory agreements, the sub-advisor is responsible for the investment and re-investment of the assets of the applicable Hennessy Fund in accordance with the terms of such agreement and the applicable Hennessy Fund's Prospectus and Statement of Additional Information. The sub-advisors are subject to the direction, supervision and control of the Company and the Board of Trustees of Hennessy Funds Trust. The sub-advisory agreements must be renewed annually in the same manner and are subject to the same termination provisions as the management contracts, except that the sub-advisory agreement for the Hennessy Japan Fund and the Hennessy Japan Small Cap Fund have an initial period of two years, which commenced on February 28, 2014, to be renewed annually thereafter.

## **Table of Contents**

In exchange for the sub-advisor services, the Company (not the Hennessy Funds) pays a sub-advisor fee to the sub-advisors, which is based on the amount of each applicable Hennessy Fund's average daily net assets.

### **(4) Bank Loan**

The Company has an outstanding bank loan with U.S. Bank National Association. On October 26, 2012, the loan, which then had an outstanding principal balance of \$1.9 million, was amended and restated to provide an additional \$16.3 million to purchase the assets related to the management of the FBR Funds. The balance of the loan immediately following the amendment and restatement was \$18.4 million. On November 1, 2013, in connection with the contingent payment for the purchase of assets related to the FBR Funds, the Company entered into an amendment to the loan agreement with U.S. Bank National Association that increased its total outstanding loan balance by \$13.3 million to \$30.0 million. The amended loan agreement requires 47 monthly payments in the amount of \$312,500 plus interest at the bank's prime rate (currently 3.25%, in effect since December 17, 2008) plus 0.75% (effective interest rate of 4.00%) and is secured by the Company's assets. The final installment of the then-outstanding principal and interest are due October 26, 2017.

The amended loan agreement includes certain reporting requirements and loan covenants requiring the maintenance of certain financial ratios. The Company is in compliance with the loan covenants as of June 30, 2015 and September 30, 2014.

In connection with securing the financings discussed above, the Company incurred loan costs in the amount of \$376,226. These costs are included in other assets and the balance is being amortized on a straight-line basis over 60 months. Amortization expense during the three-month periods ended June 30, 2015 and 2014 was unchanged at \$21,624 for each period. Amortization expense during the nine-month periods ended June 30, 2015 and 2014 was \$64,871 and \$61,703, respectively. The unamortized balance of the loan fees was \$201,822 as of June 30, 2015.

### **(5) Income Taxes**

The Company's effective tax rates for the nine months ended June 30, 2015 and 2014 were 39.2% and 42.5%, respectively, and differ from the federal statutory rate of 35% primarily due to state taxes. The effective tax rate was higher for the period ended June 30, 2014 as a result of a one-time tax charge to true-up the prior year tax provision due to the inability to deduct for income tax purposes certain compensation expenses under Section 162(m) of the United States Internal Revenue Code of 1986, as amended.

We are subject to income tax in the U.S. federal jurisdiction and various state jurisdictions and have identified our federal tax return and tax returns in California and Massachusetts as major tax filings. Our U.S. federal tax returns for 2011 and subsequent years remain open to examination. Our California and Massachusetts tax returns for 2010 and subsequent tax years remain open to examination.

**Table of Contents**

**(6) Earnings per Share and Dividends 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 net earnings by the weighted average number of shares of common stock outstanding adjusted for the dilutive effect of common stock equivalents.

All common stock equivalents were dilutive and therefore included in the diluted earnings per share calculation for the three and nine months ended June 30, 2015.

Quarterly cash dividends of \$0.05, \$0.06 and \$0.06 per share, respectively, were paid on December 8, 2014 to shareholders of record as of November 14, 2014; on March 9, 2015 to shareholders of record as of February 13, 2015; and on June 12, 2015 to shareholders of record as of May 20, 2015.

A quarterly cash dividend of \$0.06 per share will be paid on September 10, 2015 to shareholders of record as of August 18, 2015.



**Table of Contents****(7) Stock-Based Compensation**

On March 26, 2014, the Company adopted, and the Company's shareholders approved, the Amended and Restated 2013 Omnibus Incentive Plan (the "Plan"). Under the Plan, participants may be granted restricted stock units ("RSUs"), representing an unfunded, unsecured right to receive a share of the Company's common stock on the date specified in the recipient's award. The Company issues new shares of its common stock when it is required to deliver shares to an RSU recipient. The RSUs granted under the 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. There were 62,500 RSUs granted during the nine months ended June 30, 2015 under the Plan and 32,800 granted during the nine months ended June 30, 2014 under the 2013 Omnibus Incentive Plan. RSU activity for the nine months ended June 30, 2015 was as follows:

	Restricted Stock Unit Activity Nine Months Ended June 30, 2015	
	Number of Restricted Share Units	Weighted Avg. Fair Value Per Share at Each Date
Non-vested Balance at September 30, 2014	112,963	\$ 12.53
Granted	62,500	17.46
Vested (1)	(36,577)	13.61
Forfeited	(600)	9.01
Non-vested Balance at June 30, 2015	138,286	\$ 14.49

- (1) The restricted share 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 charged to expense. There were 6,095 shares of common stock issued for restricted stock units vested in the nine months ended June 30, 2015.

## Restricted Stock Unit Compensation

Nine Months Ended June 30, 2015

	(In Thousands)
Total expected compensation expense related to Restricted Stock Units	\$ 4,859
Compensation expense recognized through June 30, 2015	(2,856)
Unrecognized compensation expense related to RSUs at June 30, 2015	\$ 2,003

As of June 30, 2015, there was \$2.0 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 2.9 years.

**(8) 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 lease expires on March 31, 2017, with one five-year extension available thereafter.

## **Table of Contents**

We also have an office located at 101 Federal Street, Suite 1900, Boston, Massachusetts 02110, where we occupy approximately 670 square feet and have the right to use all common areas. The initial term of our lease expires on November 30, 2015, but will automatically renew for successive one-year periods unless either party terminates the lease by providing at least three months' notice of termination to the other party prior to the next renewal date.

We also have an office located at 1340 Environ Way, #305, Chapel Hill, North Carolina 27517, where we occupy approximately 122 square feet and have the right to use all common areas. The initial term of our lease expired on November 30, 2014, but automatically renews for successive three-month periods unless either party terminates the lease by providing at least two months' notice of termination to the other party prior to the next renewal date.

As of June 30, 2015, there were no material changes in the leasing arrangements that would have a significant effect on future minimum lease payments reported in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

## **(9) Fair Value Measurements**

The Company applies the FASB standard Fair Value Measurements 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. The standard 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 definitions, the following table represents the Company's assets categorized in the Level 1 to 3 hierarchies as of June 30, 2015:

	Fair Value Measurements at Reporting Date			
	(amounts in thousands)			
	Level 1	Level 2	Level 3	Total
Money market fund deposits	\$ 10,942	\$	\$	\$ 10,942
Mutual fund investments	7			7
<b>Total</b>	<b>\$ 10,949</b>	<b>\$</b>	<b>\$</b>	<b>\$ 10,949</b>
Amounts included in:				
Cash and cash equivalents	\$ 10,942	\$	\$	\$ 10,942
Investments in marketable securities	7			7
<b>Total</b>	<b>\$ 10,949</b>	<b>\$</b>	<b>\$</b>	<b>\$ 10,949</b>

**(10) New Accounting Standards**

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers. The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. When it becomes effective, it will replace most existing revenue recognition guidance in GAAP. The effective date for the new standard has been deferred to apply to annual periods beginning after December 15, 2017, including interim periods within that reporting period (the Company's first quarter of fiscal year 2019). The adoption of this standard is not expected to impact the Company's financial condition, results of operations or cash flows.

There have been no other significant changes in the Company's critical accounting policies and estimates during the nine months ended June 30, 2015 as compared to what was previously disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2014.

**Table of Contents**

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

This report contains forward-looking statements within the meaning of the securities laws, for which we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by terminology such as expect, anticipate, intend, may, plan, will, should, could, would, assume, believe, estimate, predict, potential, similar expressions, as well as statements in future tense. We have based these forward-looking statements on our current expectations and projections about future events, based on information currently available to us.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or means by, which such performance or results will be achieved.

Forward-looking statements are subject to risks, uncertainties and assumptions, including those described in the section entitled Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended September 30, 2014 filed with the Securities and Exchange Commission. Unforeseen developments could cause actual performance or results to differ substantially from those expressed in or suggested by the forward-looking statements. Management does not assume responsibility for the accuracy or completeness of these forward-looking 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, without limitation, redemptions by mutual fund shareholders, general economic and financial conditions, movement of interest rates, competitive conditions, industry regulation, and fluctuations in the stock market, many of which are beyond the control of our management. Further, the business and regulatory environments in which we operate remain complex, uncertain, and subject to change. We expect that regulatory requirements and developments will cause us to incur additional administrative and compliance costs. In addition, while domestic economic conditions have stabilized, the anticipated rise in short-term interest rates and developments in international financial markets could influence economic and financial conditions significantly. Notwithstanding the variability in our economic and regulatory environments, we remain focused on the investment performance of the Hennessy Funds and on providing high quality customer service to investors.

Our business strategy centers on (i) the identification, completion and integration of future acquisitions and (ii) organic growth, through both the retention of the mutual fund assets we currently manage and the generation of inflows into the mutual funds we manage. The success of our business strategy may be influenced by the factors discussed in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2014. All statements regarding our business strategy, as well as statements regarding market trends and risks and assumptions about changes in the marketplace, are forward-looking by their nature.

## Table of Contents

### Overview

Our primary operating activity is providing investment advisory services to sixteen open-end mutual funds commonly referred to as the Hennessy Funds. We also provide shareholder services to the Hennessy Funds, but have only earned shareholder service fees from all of (instead of some of) the Hennessy Funds since March 1, 2015. Our operating revenue is derived from investment advisory fees and shareholder service fees paid to us by the Hennessy Funds. These fees are calculated as a percentage of the average daily net assets in each of the Hennessy Funds. The percentage amount of the investment advisory fees vary from fund to fund, but the percentage of the amount of shareholder service fees is consistent across all funds. The dollar amount of the fees we receive fluctuate with changes in the average net asset value of each of the Hennessy Funds, which is affected by each fund's investment performance, purchases and redemptions of the fund's shares, general market conditions and the success of our marketing, sales, and public relations efforts.

U.S. equity markets were volatile during the nine-month period ended June 30, 2015, but ended the period with moderate gains. Swings in equity indices were due in large part to uncertainty regarding the timing and magnitude of a rise in short-term interest rates currently being contemplated by the Federal Reserve. Although economic growth slowed somewhat during the period, corporate merger activity and lower energy costs buoyed stock prices.

U.S. bond prices rallied strongly at the beginning of the period when yields dropped in response to a steep drop in oil prices and signs of slower economic activity. Bond prices slipped in the second half of the period as energy prices recovered and evidence of stronger economic activity materialized.

The Japanese equity market performed strongly over the nine months ended June 30, 2015, driven by aggressive monetary easing by the Bank of Japan, optimism regarding economic and financial reforms and strong export growth as a result of the weaker yen.

In the midst of these market conditions, 13 of the 16 Hennessy Funds posted positive annualized returns for the 1-year, 3-year, 5-year, 10-year and since inception periods as of June 30, 2015.

We also continued our marketing and sales efforts during the nine months ended June 30, 2015. We consistently target over 125,000 financial advisors through our marketing and sales program, and currently have 16,000 investment advisors who utilize at least one of the Hennessy Funds for their clients. We continue to expand our team of sales professionals to serve our advisor community and to assist us with providing services to our over 300,000 mutual fund accounts across the country. In addition, we have a rigorous public relations effort with the Hennessy name appearing in financial press, on TV or on radio an average of once every two days.

We believe our recent marketing, sales and public relations efforts, as well as the positive performance of the majority of the Hennessy Funds for the periods ended June 30, 2015, have helped generate inflows into the Hennessy Funds. Total assets under management as of June 30, 2015 were \$6.07 billion, an increase of 12.9%, or \$694 million, from \$5.38 billion as of June 30, 2014 (the end of the prior comparable period). The increase in total assets is attributable to net inflows into the Hennessy Funds of \$441 million and to market appreciation of \$253 million.

**Table of Contents**

The following table illustrates the changes in total assets under management from June 30, 2014 through June 30, 2015:

	Total Assets Under Management				
	At Each Quarter End, June 30, 2014 through June 30, 2015				
	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015
	(In Thousands)				
Beginning assets under management	\$ 4,774,229	\$ 5,380,831	\$ 5,520,802	\$ 5,940,055	\$ 6,131,190
Organic inflows	599,016	522,008	491,228	607,770	495,900
Redemptions	(320,580)	(329,915)	(410,980)	(485,811)	(449,524)
Market appreciation (depreciation)	328,166	(52,122)	339,005	69,176	(102,661)
Ending assets under management	\$ 5,380,831	\$ 5,520,802	\$ 5,940,055	\$ 6,131,190	\$ 6,074,905

The principal asset on our balance sheet, management contracts, represents the capitalized costs incurred in connection with the purchase of assets related to the management of mutual funds. As of June 30, 2015, this asset had a net balance of \$62.5 million.

The principal liability on our balance sheet is the bank debt incurred in connection with the purchase of assets related to the management of mutual funds. As of June 30, 2015, this liability had a balance of \$23.9 million.

**Table of Contents****Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014**

The following table sets forth items in the statements of income as dollar amounts and as percentages of total revenue for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015		2014	
	Amounts	Percent of Total Revenue	Amounts	Percent of Total Revenue
<b>Revenue:</b>				
Investment advisory fees	\$ 10,622	88.8%	\$ 8,550	97.3%
Shareholder service fees	1,346	11.2	234	2.7
<b>Total revenue</b>	<b>11,968</b>	<b>100.0</b>	<b>8,784</b>	<b>100.0</b>
<b>Operating expenses:</b>				
Compensation and benefits	2,628	22.0	1,814	20.7
General and administrative	1,191	10.0	1,085	12.4
Mutual fund distribution	480	4.0	619	7.0
Sub-advisor fees	1,923	16.1	1,492	17.0
Amortization and depreciation	67	0.4	61	0.6
<b>Total operating expenses</b>	<b>6,289</b>	<b>52.5</b>	<b>5,071</b>	<b>57.7</b>
<b>Operating income</b>	<b>5,679</b>	<b>47.5</b>	<b>3,713</b>	<b>42.3</b>
Interest expense	242	2.1	280	3.2
Other income, net			(1)	(0.0)
<b>Income before income tax expense</b>	<b>5,437</b>	<b>45.4</b>	<b>3,434</b>	<b>39.1</b>
Income tax expense	2,134	17.8	1,389	15.8
<b>Net income</b>	<b>\$ 3,303</b>	<b>27.6%</b>	<b>\$ 2,045</b>	<b>23.3%</b>

*Revenues Investment Advisory Fees and Shareholder Service Fees*

Total revenue increased 36.2% from the prior comparable period to \$12.0 million in the three months ended June 30, 2015. Investment advisory fees increased 24.2% from the prior comparable period to \$10.6 million in the three months ended June 30, 2015. The increase in investment advisory fees is due to increased average daily net assets of the Hennessy Funds. Average daily net assets of the Hennessy Funds for the three months ended June 30, 2015 increased by \$1.18 billion, or 23.5%, to \$6.18 billion, versus the prior comparable period. We earned investment advisory fees from all of the Hennessy Funds in the three months ended June 30, 2015 and in the prior comparable period. Shareholder service fees increased 475.2% from the prior comparable period to \$1.3 million in the three



months ended June 30, 2015. The increase in shareholder service fees is due both to increased average daily net assets of the Hennessy Funds and earning shareholder service fees from all of the Hennessy Funds as of March 1, 2015 instead of only some of the Hennessy Funds in the prior comparable period.

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**Table of Contents**

The Company collects investment advisory fees from each of the Hennessy Funds at differing rates. These annual rates range between 0.40% and 1.20% of average daily net assets. The Hennessy Fund with the largest average daily net assets for the three months ended June 30, 2015 was the Hennessy Gas Utility Fund, with \$2.11 billion. The Company collects an investment advisory fees from the Hennessy Gas Utility Fund at an annual rate of 0.40% of average daily net assets. The Hennessy Fund with the second largest average daily assets for the three months ended June 30, 2015 was the Hennessy Focus Fund, with \$1.78 billion. The Company collects an investment advisory fee from the Hennessy Focus Fund at an annual rate of 0.90% of average daily net assets. However, for the Hennessy Focus Fund, the Company pays a sub-advisory fee at an annual rate of 0.29% to the Fund's sub-advisor, which reduces the net operating profit contribution of the Fund to the Company's financial operations.

Total assets under management as of June 30, 2015 were \$6.07 billion, a decrease of 0.9% or \$56 million, compared with \$6.13 billion as of March 31, 2015. The decrease in total assets under management over the three months ended June 30, 2015 was due to market depreciation of \$103 million, partly offset by net inflows into the Hennessy Funds of \$46 million. Net inflows for the three months ended June 30, 2015 were led by the Hennessy Mid Cap 30 Fund (\$130 million), the Hennessy Focus Fund (\$105 million), and the Hennessy Japan Fund (\$21 million). Redemptions as a percentage of assets under management increased from an average of 2.2% per month during the three months ended June 30, 2014 to 2.4% per month during the three months ended June 30, 2015.

*Operating and Other Expenses*

Total operating expenses increased 24.0% to \$6.3 million in the three months ended June 30, 2015, from \$5.1 million in the prior comparable period. The increase is due primarily to increases in employee expense and marketing and sales expense resulting from increased assets under management, but was partially offset by a decrease in mutual fund distribution expense resulting from the implementation of a distribution plan for the Hennessy Gas Utility Fund. As a percentage of total revenue, total operating expenses decreased 5.2 percentage points to 52.5% in the three months ended June 30, 2015, as compared to 57.7% in the prior comparable period.

**Compensation and Benefits Expense:** Compensation and benefits expense increased 44.9% to \$2.6 million in the three months ended June 30, 2015, from \$1.8 million in the prior comparable period. The increase is primarily due to increased employment in marketing and finance necessary to support the increase in the Company's assets under management, as well as an increase in the Company's discretionary bonus pool related to the Company's increased profitability. As a percentage of total revenue, compensation and benefits expense increased 1.3 percentage points to 22.0% for the three months ended June 30, 2015, compared to 20.7% in the prior comparable period.

**General and Administrative Expense:** General and administrative expense increased 9.8% to \$1.2 million in the three months ended June 30, 2015, from \$1.1 million in the prior comparable period. The increase resulted primarily from an increase in marketing, sales, and distribution efforts in the current period. As a percentage of total revenue, general and administrative expense decreased 2.4 percentage points to 10.0% in the three months ended June 30, 2015, from 12.4% in the prior comparable period.

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**Table of Contents**

**Mutual Fund Distribution Expense:** Mutual fund distribution expense decreased 22.5% to \$0.5 million in the three months ended June 30, 2015, from \$0.6 million in the prior comparable period. As a percentage of total revenue, mutual fund distribution expense decreased 3 percentage points to 4% for the three months ended June 30, 2015, compared to 7% in the prior comparable period ended June 30, 2014.

Mutual fund distribution expense consists of fees paid to various financial institutions that offer the Hennessy Funds as potential investments to their clients. When the Hennessy Funds are purchased through one of these financial institutions, the institution typically charges us an asset-based fee, which is recorded in mutual fund distribution expense in our statement of operations. When the Hennessy Funds are purchased directly, no such expense is incurred. These fees increase or decrease in line with the net asset values of the Hennessy Funds held through these financial institutions, which can be affected by inflows, outflows and market performance.

The decrease in mutual fund distribution expense in the current three-month period is due to the implementation of a Distribution (Rule 12b-1) Plan for the Hennessy Gas Utility Fund as of March 1, 2015, which charges the Fund an annual rate of 0.15% (though 0.25% is the maximum allowable) of average daily net assets to pay for sales, distribution and other expenses. The distribution plan therefore allows the Fund to use the distribution plan fees to offset fees charged by financial institutions that offer the Hennessy Funds as potential investments to their clients. Therefore, beginning March 1, 2015, a portion of the mutual fund distribution expense previously paid by the Company began to be offset by payments made by the Hennessy Gas Utility Fund pursuant to the distribution plan.

The decrease in mutual fund distribution expense as a result of the implementation of a distribution plan for the Hennessy Gas Utility Fund was slightly offset by an increase in mutual fund distribution expense for the other Hennessy Funds due to an increase in the average daily net assets of the Hennessy Funds held through financial institutions as a percentage of average daily net assets of the Hennessy Funds in total. For the three months ended June 30, 2015, the average daily net assets of the Hennessy Funds held through financial institutions increased to 84.5% of total average daily net assets of the Hennessy Funds compared to 82.6% for the prior comparable period ended June 30, 2014.

**Sub-Advisor Fee Expense:** Sub-advisor fee expense increased 28.9% to \$1.9 million in the three months ended June 30, 2015, from \$1.5 million in the prior comparable period. The increase is a result of the increase in average assets under management due to market appreciation in the portfolio securities held by the sub-advised Hennessy Funds and net inflows into the sub-advised Hennessy Funds. As a percentage of total revenue, sub-advisor fee expense decreased 0.9 percentage points to 16.1% for the three months ended June 30, 2015, compared to 17.0% in the prior comparable period.

**Amortization and Depreciation Expense:** Amortization and depreciation expense increased 9.8% to \$0.07 million in the three months ended June 30, 2015, from \$0.06 million in the prior comparable period. The increase is a result of a higher fixed asset base for the three months ended June 30, 2015 compared to the prior comparable period. As a percentage of total revenue, amortization and depreciation expense decreased 0.2 percentage points to 0.4% for the three months ended June 30, 2015, compared to 0.6% in the prior comparable period.

**Table of Contents**

**Interest Expense:** Interest expense decreased 13.6% to \$0.24 million in the three months ended June 30, 2015, from \$0.28 million in the prior comparable period. The decrease is due to \$3.8 million in principal loan payments since the prior comparable period. As a percentage of total revenue, interest expense decreased 1.1 percentage points to 2.1% for the three months ended June 30, 2015, compared to 3.2% in the prior comparable period.

**Income Tax Expense:** The provision for income tax expense increased 53.6% to \$2.1 million in the three months ended June 30, 2015, from \$1.4 million in the prior comparable period. This change is due to increased income before income tax expense in the current period. As a percentage of total revenue, income tax expense increased 2.0 percentage points to 17.8% for the three months ended June 30, 2015, compared to 15.8% in the prior comparable period.

*Net Income*

Net income increased by 61.5% to \$3.3 million in the three months ended June 30, 2015, from \$2.0 million in the prior comparable period, as a result of the factors discussed above.

**Table of Contents****Nine Months Ended June 30, 2015 Compared to Nine Months Ended June 30, 2014**

The following table sets forth items in the statements of income as dollar amounts and as percentages of total revenue for the nine months ended June 30, 2015 and 2014:

	Nine Months Ended June 30,			
	2015	2014		
	(In thousands, except percentages)			
	Amounts	Percent of Total Revenue	Amounts	Percent of Total Revenue
<b>Revenue:</b>				
Investment advisory fees	\$ 30,021	93.1%	\$ 24,326	97.2%
Shareholder service fees	2,239	6.9	689	2.8
Total revenue	32,260	100.0	25,015	100.0
<b>Operating expenses:</b>				
Compensation and benefits	7,007	21.7	5,460	21.8
General and administrative	3,839	11.9	3,340	13.4
Mutual fund distribution	2,100	6.5	1,715	6.9
Sub-advisor fees	5,256	16.3	4,351	17.4
Amortization and depreciation	197	0.6	181	0.7
Total operating expenses	18,399	57.0	15,047	60.2
Operating income	13,861	43.0	9,968	39.8
Interest expense	756	2.4	812	3.2
Other income, net	(1)	(0.0)	(1)	(0.0)
Income before income tax expense	13,106	40.6	9,157	36.6
Income tax expense	5,143	15.9	3,896	15.6
Net income	\$ 7,963	24.7%	\$ 5,261	21.0%

*Revenues Investment Advisory Fees and Shareholder Service Fees*

Total revenue increased 29.0% from the prior comparable period to \$32.3 million in the nine months ended June 30, 2015. Investment advisory fees increased 23.4% from the prior comparable period to \$30.0 million in the nine months ended June 30, 2015. The increase in investment advisory fees is due to increased average daily net assets of the Hennessy Funds. Average daily net assets of the Hennessy Funds for the nine months ended June 30, 2015, increased by \$1.3 billion, or 28.2%, to \$5.9 billion versus the prior comparable period. We earned investment advisory fees from all of the Hennessy Funds in the nine months ended June 30, 2015 and in the prior comparable period. Shareholder service fees increased 225.0% from the prior comparable period to \$2.2 million in the nine months ended

June 30, 2015. The increase in shareholder service fees is due both to increased average daily net assets of the Hennessy Funds and earning shareholder service fees from all of the Hennessy Funds as of March 1, 2015 instead of only some of the Hennessy Funds in the prior comparable period.

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**Table of Contents**

The Company collects investment advisory fees from each of the Hennessy Funds at differing rates. These annual rates range between 0.40% and 1.20% of average daily net assets. The Hennessy Fund with the largest average daily net assets for the nine months ended June 30, 2015 was the Hennessy Gas Utility Fund, with \$2.20 billion. The Company collects an investment advisory fee from the Hennessy Gas Utility Fund at an annual rate of 0.40% of average daily net assets. The Hennessy Fund with the second largest average daily assets for the nine months ended June 30, 2015 was the Hennessy Focus Fund, with \$1.64 billion. The Company collects an investment advisory fee from the Hennessy Focus Fund at an annual rate of 0.90% of average daily net assets. However, for the Hennessy Focus Fund, the Company pays a sub-advisory fee at an annual rate of 0.29% to the Fund's sub-advisor, which reduces the net operating profit contribution of the Fund to the Company's financial operations.

Total assets under management as of June 30, 2015 were \$6.07 billion, an increase of 10% or \$554 million, compared with \$5.52 billion as of September 30, 2014. The increase in total assets under management over the nine months ended June 30, 2015 was due to net inflows into the Hennessy Funds of \$249 million and market appreciation of \$305 million. Net inflows for the nine months ended June 30, 2015 were led by the Hennessy Mid Cap 30 Fund (\$226 million), the Hennessy Focus Fund (\$156 million), and the Hennessy Equity and Income Fund (\$121 million). Redemptions as a percentage of assets under management increased from an average of 2.2% per month during the nine months ended June 30, 2014 to 2.5% per month during the nine months ended June 30, 2015.

*Operating and Other Expenses*

Total operating expenses increased 22.3% to \$18.4 million in the nine months ended June 30, 2015, from \$15.0 million in the prior comparable period. The increase is due primarily to increases in employee expense and marketing and sales expense resulting from increased assets under management. As a percentage of total revenue, total operating expenses decreased 3.2 percentage points to 57.0% in the nine months ended June 30, 2015, as compared to 60.2% in the prior comparable period.

**Compensation and Benefits Expense:** Compensation and benefits expense increased 28.3% to \$7.0 million in the nine months ended June 30, 2015, from \$5.5 million in the prior comparable period. The increase is primarily due to increased employment in marketing and finance necessary to support the increase in the Company's assets under management, as well as an increase in the Company's discretionary bonus pool related to the Company's increased profitability. As a percentage of total revenue, compensation and benefits expense decreased 0.1 percentage points to 21.7% for the nine months ended June 30, 2015, compared to 21.8% in the prior comparable period.

**General and Administrative Expense:** General and administrative expense increased 14.9% to \$3.8 million in the nine months ended June 30, 2015, from \$3.3 million in the prior comparable period. The increase resulted primarily from an increase in marketing, sales, and distribution efforts in the current period. As a percentage of total revenue, general and administrative expense decreased 1.5 percentage points to 11.9% in the nine months ended June 30, 2015, from 13.4% in the prior comparable period.

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**Table of Contents**

**Mutual Fund Distribution Expense:** Mutual fund distribution expense increased 22.4% to \$2.1 million in the nine months ended June 30, 2015, from \$1.7 million in the prior comparable period. As a percentage of total revenue, mutual fund distribution expense decreased 0.4 percentage points to 6.5% for the nine months ended June 30, 2015, compared to 6.9% in the prior comparable period.

Mutual fund distribution expense consists of fees paid to various financial institutions that offer the Hennessy Funds as potential investments to their clients. When the Hennessy Funds are purchased through one of these financial institutions, the institution typically charges us an asset-based fee, which is recorded in mutual fund distribution expense in our statement of operations. When the Hennessy Funds are purchased directly, no such expense is incurred. These fees increase or decrease in line with the net asset values of the Hennessy Funds held through these financial institutions, which can be affected by inflows, outflows and market performance.

The increase in mutual fund distribution expense in the current nine-month period is due to an increase in the average daily net assets of the Hennessy Funds held through financial institutions as a percentage of average daily net assets of the Hennessy Funds in total. For the nine months ended June 30, 2015, the average daily net assets of the Hennessy Funds held through financial institutions increased to 84.3% of total average daily net assets of the Hennessy Funds compared to 82.8% for the prior comparable period ended June 30, 2014.

This increase in mutual fund distribution expense was partially offset by the implementation of a Distribution (Rule 12b-1) Plan for the Hennessy Gas Utility Fund as of March 1, 2015, which charges the Fund an annual rate of 0.15% (though 0.25% is the maximum allowable) of average daily net assets to pay for sales, distribution and other expenses. The distribution plan allows the Fund to use the distribution plan fees to offset fees charged by financial institutions that offer the Hennessy Funds as potential investments to their clients. Therefore, beginning March 1, 2015, a portion of the mutual fund distribution expense previously paid by the Company began to be offset by payments made by the Hennessy Gas Utility Fund pursuant to the distribution plan.

**Sub-Advisor Fee Expense:** Sub-advisor fee expense increased 20.8% to \$5.3 million in the nine months ended June 30, 2015, from \$4.4 million in the prior comparable period. The increase is a result of the increase in average assets under management due to market appreciation in the portfolio securities held by the sub-advised Hennessy Funds and net inflows into the sub-advised Hennessy Funds. As a percentage of total revenue, sub-advisor fee expense decreased 1.1 percentage points to 16.3% for the nine months ended June 30, 2015, compared to 17.4% in the prior comparable period.

**Amortization and Depreciation Expense:** Amortization and depreciation expense increased 8.8% to \$0.20 million in the nine months ended June 30, 2015, from \$0.18 million in the prior comparable period. The increase is mainly a result of a higher fixed asset base for the nine months ended June 30, 2015 compared to the prior comparable period. As a percentage of total revenue, amortization and depreciation expense decreased 0.1 percentage points to 0.6% for the nine months ended June 30, 2015, compared to 0.7% in the prior comparable period.

**Interest Expense:** Interest expense decreased 6.9% to \$0.76 million in the nine months ended June 30, 2015, from \$0.81 million in the prior comparable period. The decrease is due to \$3.8 million in principal payments since the prior comparable period. As a percentage of total revenue, interest expense decreased 0.8 percentage points to 2.4% for the nine months ended June 30, 2015, compared to 3.2% in the prior comparable period.



**Table of Contents**

Income Tax Expense: The provision for income tax expense increased 32.0% to \$5.1 million in the nine months ended June 30, 2015, from \$3.9 million in the prior comparable period. This change is due to increased income before income tax expense in the current period. As a percentage of total revenue, income tax expense increased 0.3 percentage points to 15.9% for the nine months ended June 30, 2015, compared to 15.6% in the prior comparable period.

*Net Income*

Net income increased by 51.4% to \$8.0 million in the nine months ended June 30, 2015, from \$5.3 million in the prior comparable period, as a result of the factors discussed above.

## **Table of Contents**

### **Critical Accounting Policies**

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. These accounting policies, methods, and estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods, and estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgment. Described below are the accounting policies that we believe are most critical to understanding our results of operations and financial position.

Our operating revenues consist of contractual investment advisory and shareholder service fees. We earn our investment advisory fees from the Hennessy Funds by, among other things, managing the composition of each Hennessy Fund's portfolio (including the purchase, retention, and disposition of portfolio securities in accordance with the applicable Hennessy Fund's investment objectives, policies, and restrictions), conducting investment research, monitoring compliance with each applicable Hennessy Fund's investment restrictions and applicable laws and regulations, overseeing service providers (including sub-advisors), maintaining an in-house public relations and marketing program for each of the Hennessy Funds, preparing and distributing regulatory reports, and overseeing distribution through third-party financial intermediaries. We earn our shareholder service fees from the Hennessy Funds by, among other things, maintaining an 800 number that the current investors of the Hennessy Funds may call to ask questions about the Hennessy Funds or their accounts, or to get help with processing exchange and redemption requests or changing account options. These fee revenues are earned and calculated daily by the Hennessy Funds accountants. In accordance with the Financial Accounting Standards Board (FASB) guidance on revenue recognition, we recognize fee revenues monthly. Our contractual agreements provide persuasive evidence that an arrangement exists with fixed and determinable fees, and the services are rendered daily. The collectability is probable as the fees are received from the Hennessy Funds in the month subsequent to the month in which the services are provided.

### **Liquidity and Capital Resources**

We continually review our capital requirements to ensure that we have sufficient funding available to support our growth strategies. To the extent that liquid resources and cash provided by operations are not adequate to meet capital requirements, management plans to raise additional capital through debt or equity markets. There can be no assurance that we will be able to borrow funds or raise additional equity.

Total assets under management as of June 30, 2015 were \$6.07 billion, an increase of \$694 million, or 12.9%, from \$5.38 billion as of the end of the prior comparable period. The primary source of our revenue, liquidity and cash flow is our investment advisory fee revenue, which is based on and generated by our average assets under management. Fixed assets and management contracts purchased totaled \$62.7 million as of June 30, 2015. Our remaining assets are very liquid, consisting primarily of cash and

**Table of Contents**

receivables derived from mutual fund asset management activities. As of June 30, 2015, we had cash and cash equivalents of \$13.9 million, which is sufficient for the next twelve months of operations.

The following table summarizes key financial data relating to our liquidity and use of cash for the nine months ended June 30, 2015 and 2014:

	<b>For the Nine Months Ended June 30, (unaudited, in thousands)</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flow data:</b>		
Operating cash flows	\$ 10,220	\$ 6,083
Investing cash outflows	(163)	(19,231)
Financing cash inflows (outflows)	(3,837)	11,240
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 6,220</b>	<b>\$ (1,908)</b>

The increase in cash provided by operating activities of \$4.1 million is mainly due to increased revenue as a result of both increased average daily net assets of the Hennessy Funds and earning shareholder service fees from all of the Hennessy Funds as of March 1, 2015 instead of only some of the Hennessy Funds. Additionally, income taxes payable increased by \$1.0 million, adding to the increase in operating cash flows.

The decrease in cash used in investing activities of \$19.1 million is tied to the payment related to the purchase of assets related to the management of the FBR Funds made in the prior period.

The decrease in cash provided by financing activities of \$15.1 million is due to the increase in the principal amount of our loan agreement to finance the contingent payment for the purchase of assets related to the management of the FBR Funds in the prior period. Due to the increase in the loan, we also have higher monthly principal payments in the current period as compared to the prior comparable period. See below for a discussion of the loan agreement.

We have an outstanding bank loan with U.S. Bank National Association. On October 26, 2012, the loan, which then had an outstanding principal balance of \$1.9 million, was amended and restated to provide an additional \$16.3 million to purchase the assets related to the management of the FBR Funds. The balance of the loan immediately following the amendment and restatement was \$18.4 million. On November 1, 2013, in connection with the contingent payment for the purchase of assets related to the FBR Funds, the Company entered into an amendment to the loan agreement with U.S. Bank National Association that increased its total outstanding loan balance by \$13.3 million to \$30.0 million. The amended loan agreement requires 47 monthly payments in the amount of \$312,500 plus interest at the bank's prime rate (currently 3.25%, in effect since December 17, 2008) plus 0.75% (for an effective interest rate of 4.00%) and is secured by the Company's assets. The final installment of the then-outstanding principal and interest is due October 26, 2017. The amended loan agreement includes certain reporting requirements and loan covenants requiring the maintenance of certain financial ratios. We were in compliance with our loan covenants as of June 30, 2015. As of June 30, 2015, we had \$23.9 million outstanding under our bank loan.



**Table of Contents**

**Item 4. Controls and Procedures**

An evaluation was performed by management of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of June 30, 2015. Based on that evaluation, management, including the Company's principal executive and principal financial officers, concluded that the Company's disclosure controls and procedures are effective.

There has been no change in the internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**PART II: OTHER INFORMATION**

**Item 6. Exhibits**

- 31.1 Rule 13a-14a Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14a Certification of the Chief Financial Officer.
- 32.1 Written Statement of the Chief Executive Officer, Pursuant to 18 U.S.C. § 1350.
- 32.2 Written Statement of the Chief Financial Officer, Pursuant to 18 U.S.C. § 1350.
- 101 Financial statements from the Quarterly Report on Form 10-Q of Hennessy Advisors, Inc. for the quarter ended June 30, 2015, filed on August 3, 2015, formatted in XBRL: (i) the Condensed Balance Sheets; (ii) the Condensed Statements of Income; (iii) the Condensed Statements of Changes in Stockholders Equity; (iv) the Condensed Statements of Cash Flows; and (v) the Notes to Unaudited Condensed Financial Statements.

**Table of Contents**

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 3, 2015

By: /s/ Teresa M. Nilsen  
Teresa M. Nilsen, Executive Vice  
President, Chief Financial Officer  
and Secretary

**Table of Contents**

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