HENNESSY ADVISORS INC
Form 10QSB
August 10, 2004

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, 2004

Commission File Number 000-49872

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common equity as of June 30, 2004 was 1,633,142.

Transitional Small Business Disclosure Format: Yes ___; No X

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Hennessy Advisors, Inc.
Balance Sheets
June 30, 2004 and September 30, 2003

	June 30, 2004 (Unaudited)	Septem 200
Assets		
Current assets:		
Cash and cash equivalents	$ 4,193,756	$ 2,8
Investments in marketable securities, at fair value	4,662	
Investment fee income receivable	849,624	5
Prepaid expenses	38,293	
Deferred income tax assets	51,000	
Other current assets	30,434	
Total current assets	$ 5,167,769	$ 3,4
Property and equipment, net of accumulated depreciation of $92,884 and $73,590	$ 80,563	$
Management contracts, net of accumulated amortization of $628,627	14,142,520	5,6
Other assets	65,726	

Total assets	$ 19,456,578	$ 9,1
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued liabilities and accounts payable	$ 1,070,508	$ 6
Income taxes payable	38,377	
Note payable	527,912	5
Current portion of long-term debt	1,128,721	
Total current liabilities	$ 2,765,518	$ 1,1
Long-term debt	$ 6,490,148	$
Deferred income tax liability	313,671	1
Total liabilities	$ 9,569,337	$ 1,3
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: 1,633,142 shares issued and outstanding at June 30, 2004 and 1,626,142 at September 30, 2003	6,861,205	6,7
Additional paid-in capital	24,008	
Retained earnings	3,002,028	1,0
Total stockholders' equity	$ 9,887,241	$ 7,8
Total liabilities and stockholders' equity	$ 19,456,578	$ 9,1

See accompanying notes to condensed financial statements

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Hennessy Advisors, Inc.
Statements of Income
Three and Nine Months Ended June 30, 2004 and 2003
(Unaudited)

	Three Months Ended June 30,		Nine Months En
	2004	2003	2004
Revenue			
Investment advisory fees	$ 2,324,616	$ 1,070,737	$ 6,234,999 $
Shareholder service fees	269,980	140,344	749,888
Expert witness fees	-	-	-
Other	7,139	7,029	19,099
Total revenue	2,601,735	1,218,110	7,003,986
Operating expenses			

Compensation and benefits	579,462	359,149	1,604,259	
General and administrative	194,450	158,638	645,645	
Mutual fund distribution	471,590	224,509	1,395,232	
Amortization and depreciation	9,891	4,941	22,905	
Total operating expenses	1,255,393	747,237	3,668,041	
Operating income	1,346,342	470,873	3,335,945	
Interest expense	77,982	-	92,353	
Income before income tax expense	1,268,360	470,873	3,243,592	
Income tax expense	491,016	185,791	1,265,969	
Net income	$ 777,344	$ 285,082	$ 1,977,623	$
Basic earnings per share	$ 0.48	$ 0.18	$ 1.22	$
Diluted earnings per share	$ 0.46	$ 0.17	$ 1.17	$

See accompanying notes to condensed financial statements

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Hennessy Advisors, Inc.
Statement of Changes in Stockholders' Equity
Nine Months Ended June 30, 2004
(Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital
Balances as of September 30, 2003	1,626,142	$ 6,788,205	$ 24,008
Net income for the nine months ended June 30, 2004	-	-	-
Employee stock options exercised	7,000	73,000	-

Balances as of June 30, 2004	1,633,142	$ 6,861,205	$ 24,008

See accompanying notes to condensed financial statements

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Hennessy Advisors, Inc.
Statements of Cash Flows
Nine Months Ended June 30, 2004 and 2003
(Unaudited)

Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	
Deferred income taxes	
Unrealized gains on marketable securities	
(Increase) decrease in operating assets:	
Investment fee income receivable	
Expert witness fees receivable	
Prepaid expenses	
Other current assets	
Increase (decrease) in operating liabilities:	
Accrued liabilities and accounts payable	
Income taxes payable	
Net cash provided by operating activities	
Cash flows used in investing activities:	
Purchases of property and equipment	
Purchases of investments	
Payments related to acquisition of management contracts	(
Net cash used in investing activities	(
Cash flows provided by financing activities:	
Proceeds from long-term debt	
Principal payments on long-term debt	
Payment of loan acquisition costs	
Proceeds from exercise of employee stock options	
Net cash provided by financing activities	
Net increase in cash and cash equivalents	

Cash and cash equivalents at the beginning of the period	
Cash and cash equivalents at the end of the period	$
Supplemental disclosures of cash flow information:	
Cash paid for:	
Income taxes	$
Interest	$
Non-cash investing and financing transactions:	
Loan acquisition costs withheld from long-term debt proceeds	$

See accompanying notes to condensed financial statements

Hennessy Advisors, Inc.
Notes to Condensed Financial Statements

Basis of Financial Statement Presentation

The accompanying condensed financial statements of Hennessy Advisors, Inc. (the "Company") are unaudited, but in the opinion of management, such financial statements have been presented on the same basis as the audited financial statements and include all adjustments consisting of only normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. 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, 2004, are not necessarily indicative of results which may be expected for the fiscal year ending September 30, 2004. For additional information, refer to the financial statements for the fiscal year ended September 30, 2003, which are included in the Company's annual report on Form 10-KSB, filed with the Securities and Exchange Commission on December 22, 2003.

The operating activities of the Company consist primarily of providing investment management services to five 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, Hennessy Total Return Fund and Hennessy Focus 30 Fund.

Management Contracts

Hennessy Advisors, Inc. has contractual management agreements with Hennessy Funds, Inc. for the Hennessy Balanced Fund and the Hennessy Total Return Fund and with Hennessy Mutual Funds, Inc. for the Hennessy Cornerstone Growth Fund, the Hennessy Cornerstone Value Fund and the Hennessy Focus 30 Fund.

The management agreements were renewed by the Board of Directors of Hennessy Funds, Inc. and Hennessy Mutual Funds, Inc., at their meeting on February 10, 2004 for a period of one year. The agreements may be renewed from year to year, as long as continuance is specifically approved at least annually in accordance with the requirements of the 1940 Act. Each management agreement will terminate in the event of its assignment, or it may be terminated by Hennessy Funds, Inc. or Hennessy Mutual Funds, Inc. (either by the Board of Directors or by vote of a majority of the outstanding voting securities of each Fund) or by Hennessy Advisors, upon 60 days' prior written notice.

Under the terms of the management agreements, each Fund bears all expenses incurred in its operation that are not specifically assumed by Hennessy Advisors, the administrator or the distributor. Hennessy Advisors bears the expense of providing office space, shareholder servicing, fullfilment, clerical and bookkeeping services and maintaining books and records of the Funds.

Hennessy Advisors, as deemed necessary or by contract, may be required to waive its management fee or subsidize other expenses for the Funds it manages. Hennessy Advisors has agreed to cap the expense ratio of the Hennessy Cornerstone Growth Fund, Hennessy Cornerstone Value Fund, Hennessy Total Return Fund and Hennessy Balanced Fund through June 2005 (these contractual expense caps were instituted under the terms of the proxy statement and prospectus dated December 8, 2003 for the reorganization of certain Lindner funds into certain Hennessy Funds)and to subsidize certain expenses. The expense ratios for each of the funds are well below the contractual cap and subsidy is not currently required.

Long-term Debt

On March 11, 2004, Hennessy Advisors, Inc. secured financing from US Bank National Association to acquire the management contracts for certain Lindner funds. The loan agreement requires fifty-nine (59) monthly payments in the amount of $94,060 plus interest at the bank's prime rate as it may change from time to time (4.0% at June 30, 2004), and is secured by the Company's assets. The final installment of the then outstanding principal and interest is due March 10, 2009.

In connection with securing the financing, Hennessy Advisors, Inc. incurred loan costs in the amount of $61,052. These costs are included in other assets and are being amortized on a straight-line basis over 60 months.

Investment Fee Revenue

Investment Advisory and Shareholder Service fees, which are the primary sources of revenue, are recorded when earned. The Company receives investment advisory fees monthly at an annual rate of 0.74% of the average daily net assets of the Hennessy Cornerstone Growth Fund and the Hennessy Cornerstone Value Fund. The annual advisory fee for the Hennessy Focus 30 Fund is 1.0%. The annual advisory fee for the Hennessy Balanced Fund and Hennessy Total Return Fund is 0.60%.

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 Hennessy Cornerstone Growth and Hennessy 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 Statement No. 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

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enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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 losses 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 rates of 38.7% and 39.0% for the three and nine months ended June 30, 2004, respectively, differ from the federal statutory rate of 34% primarily due to the effects of state income taxes.

Reclassification of Prior Period's Statements

Certain items previously reported have been reclassified to conform with the current period's presentation.

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, 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, 2004 and 2003:

	Three Months Ended June 30,	Nine M

	2004	2003	2004
Weighted Average common stock outstanding	1,628,840	1,626,142	1,627,038
Common stock equivalents - stock options	49,822	9,000	68,007
	1,678,662	1,635,142	1,695,045

Stock-Based Compensation

In December, 2002, FASB issued FASB Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" which amended FASB Statement 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, FASB Statement No. 148 amends the disclosure requirements of FASB Statement 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, FASB Statement No. 148 requires disclosure of pro-forma results on a quarterly basis as if the Company had applied the fair value recognition provisions of FASB Statement 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.

During the three month period ended June 30, 2004, there were 2,000 options granted. No compensation cost has been recognized for these grants. No options were granted during the three month period ended June 30, 2003. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement 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 during the three months ended June 30, 2004, was determined at the date of grant by using an options pricing model with an assumed risk-free interest rate of 2.84%, an expected life of 5 years, zero dividends and a volatility factor of 36.5%:

	Net Income	Ba E
For the three months ended June 30, 2004		
Net income	$ 777,344	$
Fair value of stock options - net of tax	10,992	
Proforma net income	$ 766,352	$

During the nine month period ended June 30, 2004, there were 14,500 options granted. No compensation cost has been recognized for these grants. No options were granted during the nine-month period ended June 30, 2003. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement 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 during the nine months ended June 30, 2004, was determined at the date of grant by using an options pricing model with an assumed risk-free interest rate of 2.84%, an expected life of 5 years, zero dividends and a volatility factor of 36.5%:

	Net Income	Ba E
For the nine months ended June 30, 2004		
Net income	$ 1,977,623	$
Fair value of stock options - net of tax	23,817	
Proforma net income	$ 1,953,806	$

Subsequent Events

On August 2, 2004, the Company granted 3,500 options to one employee.

Item 2. Management's Discussion and Analysis

Overview

Hennessy Advisors, Inc. ("Hennessy Advisors"), a California corporation, is a publicly traded investment management firm. The Company's principal business activity is managing and marketing mutual funds. Hennessy Advisors is the investment manager of the Hennessy Funds, a family of five no-load mutual funds. Each of the Hennessy Funds employs a unique mutual fund money management approach combining time-tested stock selection formulas.

Neil J. Hennessy, Chairman, President and CEO of Hennessy Advisors also serves as the Portfolio Manager, President and Director of the Hennessy Funds. Mr. Hennessy also 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. Hennessy Advisors, under the direction of Neil Hennessy, provides advisory services to the Hennessy Funds, including investment research, supervision of investments, conducting 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.

Hennessy Funds pay fees to Hennessy Advisors for these services, which are charged as a percentage of the average daily net value of the assets under management in the funds. Fees paid to Hennessy Advisors are based on the value of the funds managed and fluctuate with changes in the total value of the assets under management. Hennessy Advisors' total assets under management were $1.324 billion as of June 30, 2004, of which $1.285 billion were mutual fund assets. Hennessy Advisors also provides shareholder servicing for the Hennessy Funds, which consists primarily of providing a call center to respond to shareholder inquiries, including specific mutual fund account information.

Hennessy Advisors' principal business activities are affected by many factors, including redemptions by mutual fund shareholders, general economic and financial conditions, movement of interest rates and competitive conditions. 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 net income from period to period.

Hennessy Advisors distributes its funds through third-party broker/dealers and independent financial institutions such as Charles Schwab, Inc., Fidelity, TD Waterhouse and Pershing. These distribution platforms are considered an integral part of Hennessy Advisors' sales/distribution strategy. Hennessy Advisors participates in "no transaction fee" ("NTF") programs with these companies, which allow customers to purchase the Hennessy Funds through third party distribution channels without paying a transaction fee. The use of "NTF" programs and expansion of these programs have been, and continue to be, an important part of our business growth strategy. Hennessy Advisors compensates these third party distributors under a pre-determined contractual agreement.

The principal assets on our balance sheet represent the capitalized costs of investment advisory agreements with all five mutual funds. As of June 30, 2004, the management contracts asset had a net balance of $14,142,520 and includes the capitalized Lindner transaction, which began on February 27, 2004 and completed on March 11, 2004 with a total cost of $8,464,931.

The principal liabilities on our balance sheet represent the financed portion of the investment advisory agreements incurred for the SYM Select Growth Fund acquisition represented by a note payable in the amount of $527,912 due and payable on September 18, 2004 and long-term debt incurred for the acquisition of the Lindner Funds contract.

On March 11, 2004, Hennessy Advisors, Inc. secured financing from US Bank National Association to acquire the management contracts for certain Lindner funds. The agreement requires fifty-nine (59) monthly payments in the amount of $94,060 plus interest at the bank's prime rate as it may change from time to time (4.0% at June 30, 2004). The final installment of the then outstanding principal and interest is due March 10, 2009.

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, 2004 and 2003:

	Three Months Ended June 30,		
	2004		2003
	Amounts	Percent of Total Revenue	Amoun
Revenue:			
Investment advisory fees	$ 2,324,616	89.3%	$ 1,070
Shareholder service fees	269,980	10.4	140
Other	7,139	0.3	7
Total revenue	2,601,735	100.0	1,218
Operating expenses:			
Compensation and benefits	579,462	22.3	359
General and administrative	194,450	7.5	158
Mutual fund distribution	471,590	18.1	224
Amortization and depreciation	9,891	0.4	4
Total operating expenses	1,255,393	48.3	747
Operating income	1,346,342	51.7	470
Interest expense	77,982	3.0	
Income before income tax expense	1,268,360	48.7	470
Income tax expense	491,016	18.8	185
Net income	$ 777,344	29.9%	$ 285

Total revenue increased $1,383,625 (+113.6%) in the three months ended June 30, 2004, from $1,218,110 in the same period of 2003, primarily due to fees earned from increased mutual fund assets under management, resulting from increased net cash inflows, acquisition of assets from Lindner Asset Management, Inc. and higher market valuations. In total, assets in the mutual funds we manage increased $621.5 million to $1.285 billion as of June 30, 2004, compared to $663.2 million as of June 30, 2003 (+93.7%). The Lindner acquisition added assets of $301.0 million (48.4%), market valuations contributed $256.7 million (41.3%) and net cash inflows accounted for the remaining $63.8 million in increased assets (10.3%). The revenue we earn from the funds we manage increased $1,253,879 (+117.1%) in the three months ended June 30, 2004, while shareholder service fees increased $129,636 (+92.4%).

Total operating expenses increased $508,156 (+ 68.0%) in the three months ended June 30, 2004, from $747,237 in the same period of 2003. 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 48.3% in the three months ended June 30, 2004, compared to 61.3% in the prior comparable period.

Compensation and benefits increased $220,313 (+61.3%) in the three months ended June 30, 2004, from $359,149 in the prior comparable period. The increase resulted from the addition of a marketing director and salary increases

and performance incentives for officers and staff. As a percentage of total revenue, compensation and benefits decreased to 22.3% for the three months ended June 30, 2004, compared to 29.5% in the prior comparable period.

General and administrative expense increased $35,812 (+22.6%), in the three months ended June 30, 2004, from $158,638 in the three months ended June 30, 2003, due to increases in business promotion activities, marketing programs, participation in industry conferences, insurance costs and office rent. As a percentage of total revenue, general and administrative expense decreased to 7.5% in the three months ended June 30, 2004, from 13.0% in the prior comparable period.

Mutual fund distribution expenses increased $247,081 (+110.1%) in the three months ended June 30, 2004, from $224,509 in the three months ended June 30, 2003. As a percentage of total revenue, distribution expenses decreased to 18.1% for the three months ended June 30, 2004, compared to 18.4% in the prior comparable period. The value of mutual fund assets to which distribution expenses relate increased approximately 81.7% from June 30, 2003 to June 30, 2004. Additionally, fees charged by Charles Schwab, Inc. increased to 40 basis points in the three months ended June 30, 2004 compared to 35 basis points in the prior comparable period. Fees charged by TD Waterhouse increased to 35 basis points on January 1, 2004, compared to 25 basis points in the prior comparable period.

Amortization and depreciation expense increased $4,950 in the three months ended June 30, 2004, from $4,941 for the three months ended June 30, 2003, resulting from amortization of loan acquisition costs and purchases of furniture and equipment.

Interest expense of $77,982 was generated from the US Bank $7.9 million loan used to acquire assets from Lindner Asset Management, Inc. Interest accrues at the prime rate in effect as it may change from time to time (4.0% at June 30, 2004).

For the three months ended June 30, 2004, the provision for income taxes increased $305,225 resulting from an increase in pre-tax income of $797,487.

Net income increased $492,262 to $777,344 in the three months ended June 30, 2004, compared to $285,082 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, 2004 and 2003:

	Nine Months Ended June 30,		
	2004		2003
	Amounts	Percent of Total Revenue	Amoun
Revenue:			
Investment advisory fees	$ 6,234,999	89.0%	$ 2,78
Shareholder service fees	749,888	10.7	36
Expert witness fees	-	-	
Other	19,099	0.3	2
Total revenue	7,003,986	100.0	3,18
Operating expenses:			
Compensation and benefits	1,604,259	23.0	95
General and administrative	645,645	9.2	51
Mutual fund distribution	1,395,232	19.9	54
Amortization and depreciation	22,905	0.3	1
Total operating expenses	3,668,041	52.4	2,03
Operating income	3,335,945	47.6	1,15
Interest expense	92,353	1.3	
Income before income tax expense	3,243,592	46.3	1,15
Income tax expense	1,265,969	18.1	47
Net income	$ 1,977,623	28.2%	$ 67

Total revenue increased $3,822,182 (+120.1%) in the nine months ended June 30, 2004, from $3,181,804 in the same period of 2003, primarily due to fees earned from increased mutual fund assets under management, resulting from increased net cash inflows, acquisition of assets from Lindner Asset Management, Inc. and higher market valuations. In total, assets in the mutual funds we manage increased $621.5 million to $1.285 billion as of June 30, 2004, compared to $663.2 million as of June 30, 2003 (+93.7%). The Lindner acquisition added assets of $301.0 million (48.4%), market valuations contributed $256.7 million (41.3%) and net cash inflows accounted for the remaining $63.8 million in increased assets (10.3%). The revenue we earn from the funds we manage increased $3,446,342 (+123.6%) in the nine months ended June 30, 2004, while shareholder service fees increased $385,293 (+105.7%).

There were no expert witness fees earned in the nine months ended June 30, 2004, a decrease of $7,150 from the nine months ended June 30, 2003. 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 $1,637,753 (+80.7%) in the nine months ended June 30, 2004, from $2,030,288 in the same period of 2003. 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 52.4% in the nine months ended June 30, 2004, compared to 63.8% in the prior comparable period.

Compensation and benefits increased $651,817 (+68.4%) in the nine months ended June 30, 2004, from $952,442 in the prior comparable period. The increase resulted from the addition of a marketing director and salary increases and performance incentives for officers and staff. As a percentage of total revenue, compensation and benefits decreased to 23.0% for the nine months ended June 30, 2004, compared to 29.9% in the prior comparable period.

General and administrative expense increased $130,949 (+25.4%), in the nine months ended June 30, 2004, from $514,696 in the nine months ended June 30, 2003, due to increases in business promotion activities, marketing programs, participation in industry conferences, insurance costs and office rent. As a percentage of total revenue, general and administrative expense decreased to 9.2% in the nine months ended June 30, 2004, from 16.2% in the prior comparable period.

Mutual fund distribution expenses increased $847,918 (+154.9%) in the nine months ended June 30, 2004, from $547,314 in the nine months ended June 30, 2003. As a percentage of total revenue, distribution expenses increased to 19.9% for the nine months ended June 30, 2004, compared to 17.2% in the prior comparable period. The value of mutual fund assets to which distribution expenses relate increased 81.7% from June 30, 2003 to June 30, 2004. Additionally, fees charged by Charles Schwab, Inc. increased to 40 basis points in the nine months ended June 30, 2004 compared to 35 basis points in the prior comparable period. Fees charged by TD Waterhouse increased to 35 basis points on January 1, 2004, compared to 25 basis points previously.

Amortization and depreciation expense increased $7,069 in the nine months ended June 30, 2004, from $15,836 for the nine months ended June 30, 2003, resulting from amortization of loan acquisition costs and purchases of furniture and equipment.

Interest expense of $92,353 was generated from the US Bank $7.9 million loan used to acquire assets from Lindner Asset Management, Inc. Interest accrues at the prime rate in effect as it may change from time to time (4.0% at June 30, 2004).

For the nine months ended June 30, 2004, the provision for income taxes increased $793,958 resulting from an increase in pre-tax income of $2,092,076.

Net income increased $1,298,118 to $1,977,623 in the nine months ended June 30, 2004, compared to $679,505 in the prior comparable period, as a result of the factors discussed above.

Liquidity and Capital Resources

As of June 30, 2004, Hennessy Advisors, Inc. had cash and cash equivalents of $4,193,756.

Total assets at June 30, 2004 of $19,456,578 include liquid assets of $5,116,769 (26.3%), consisting primarily of cash and receivables derived from mutual fund asset management activities.

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, 2004, will be sufficient to meet short-term capital requirements. To the extent that liquid resources and cash provided by operations are not adequate to meet long-term capital requirements, management plans 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.

In September, 2003, Hennessy Advisors, Inc., completed the acquisition of the management contract for the SYM Select Growth Fund (SYM a Mid-cap growth fund) with $34.7 million in assets. On September 18, 2003, the assets of the SYM Select Growth Fund were merged into the Hennessy Focus 30 Fund. Under the terms of the Asset Purchase Agreement the management contract acquisition was funded through cash from Hennessy Advisors, Inc. in the amount of $629,413 and an interest free note from SYM Financial Corporation, in the amount of $527,912. The note is due and payable on September 18, 2004.

On March 11, 2004, Hennessy Advisors, Inc. completed the acquisition of the management contract for the majority of the mutual fund assets managed by Lindner Asset Management, Inc. ("Lindner"), based in Deerfield, Illinois. In conjunction with the Asset Purchase Agreement, the assets of five of Lindner's mutual funds were merged into four of the five Hennessy Funds. The purchase price was equal to 2.625% of those assets valued by the Lindner Funds custodian at closing. The transaction was funded through a credit facility provided by US Bank, St. Louis, Missouri. The loan agreement requires fifty-nine (59) monthly payments in the amount of $94,060 plus interest at the bank's prime rate which may change from time to time (4.0% at June 30, 2004). The final installment of the then outstanding principal and interest is due March 10, 2009.

Forward Looking Statements

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

Our business activities are affected by many factors, including redemptions by mutual fund shareholders, general economic and financial conditions, movement of interest rates, competitive conditions, industry regulation, and others, for example:

- Continuing volatility in the equity markets have caused the levels of our assets under management to fluctuate significantly.
- Weak market conditions or loss of investor confidence in the mutual fund industry may lower our assets under management and reduce our revenues and income.
- We face strong competition from numerous and sometimes larger companies.
- Changes in the distribution channels on which we depend could reduce our revenues or hinder our growth.

- For the next several years, insurance costs are likely to increase materially and we may not be able to obtain the same types or amounts of coverage.
- For the next several years, professional service fees are likely to increase due to increased securities industry legislation.
- Business growth through asset acquisitions may not proceed as planned and result in significant expenses adversely affecting earnings.
- Retaining the mutual fund assets associated with acquired management contracts may prove difficult and result in lower than expected revenues.
- International conflicts and the ongoing threat of terrorism may adversely affect the general economy, financial and capital markets and our business.
- During the next several years, interest rate fluctuations, particularly increases in the prime rate, may increase our debt service payments.

Although we seek to maintain cost controls, a significant portion of our expenses are fixed and do not vary greatly. As a result, substantial fluctuations in our revenue can directly impact our net income from period to period. Risk factors are described in more detail in the "Risk Factors" section of the Company's Annual Report, filed on Form 10-KSB with the U.S. Securities and Exchange Commission on December 22, 2003.

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 has been no significant change in our internal controls over financial reporting identified in connection with the foregoing evaluation that occurred during the last quarter and that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Part II. OTHER INFORMATION AND SIGNATURES

There were no reportable events for items 1 through 5.

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 Form 8-K during the quarter ended June 30, 2004, as follows:

--Form 8-K, furnished May 12, 2004, Earnings Release for the second quarter ended March 31, 2004.

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 10, 2004

By: /s/ Teresa M. Nilsen

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

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EXHIBIT INDEX

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