HENNESSY ADVISORS INC
Form DEF 14A
December 14, 2012
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

HENNESSY ADVISORS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, schedule or registration statement No.:

(3) Filing party:

(4) Date filed:

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LETTER FROM OUR PRESIDENT

AND

PROXY STATEMENT

Year Ended September 30, 2012

Hennessy Advisors, Inc.

7250 Redwood Boulevard, Suite 200

Novato, California 94945

800-966-4354

www.hennessyadvisors.com

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Dear Hennessy Advisors Shareholder: December, 2012

2012 was quite a year. The New York Giants won the superbowl, LeBron James and his Miami Heat were NBA Champions, London hosted the Olympics, and our local underrated team, the San Francisco Giants, capped three weeks of come-from-behind victories with a World Series win. It was also a year jam-packed with politics, continued economic uncertainty in the United States and around the world, and of course the tragic effects of Super Storm Sandy will be felt for some time to come.

Since the economic crisis of 2008, most Americans seem to take a glass half empty view and now seem to expect gloom. Talking about America s decline has become a popular pastime around the world, and even Americans are jumping into the discussion. In fact, it feels like the United States has become an underdog, while China and other emerging nations are coined as the new world economic leaders. But the reality is that the U.S. remains the world s largest economy, and the stock market hasn t been too shabby either. Since the crisis in 2008: the Dow Jones Industrial Average was up 23% in 2009, up 14% in 2010, and up 8% in 2011. I believe that Americans (individuals, business leaders, and political leaders) have remained resilient and continue to exhibit the character to work hard and succeed.

I am not saying that our economy isn t without issues. What I would like to share with you are the facts about our economy, those facts that transcend the rhetoric. In last year s shareholder letter, I told you that the major obstacle facing the U.S. economy and the stock market was clarity from our leaders in Washington on taxes, regulation and healthcare. With the elections behind us, we have the clarity that President Obama will be our leader for another four years. We know that the Democrats have the majority in the Senate and the Republicans have the majority in the House. Where does that leave our economy, the financial markets, investors and Hennessy Advisors?

Post-election economy: The moment the last ballot was cast in November, the media began its talk of the Fiscal Cliff. The dramatic use of the word Cliff is making everyone nervous. I keep picturing the old Road Runner cartoons with the Coyote plummeting off a cliff and landing in a cloud of dust. In my opinion, that s just what we should do, drive right off the Fiscal Cliff and force our policy makers to get things right and not compromise for the sake of a compromise. I believe that if we fell off the Cliff, in six months time our leaders would work together to create better policies and long-term results than the policies and results that will come out of any quick fixes on these important issues.

The election, the Fiscal Cliff, and slow earnings growth are beginning to erode the confidence of our business leaders who have cut costs and driven profits in order to lead us out of the recession. Super Storm Sandy is also creating a strain on our economy in the near-term. However, companies here in the U.S. are still sitting on record amounts of cash. Businesses require faith in their government to enact strategies that will move their cash (that is earning nothing) and put that capital to work, and to hire in earnest. Now that there is some clarity, it MUST be coupled with actionable policy on taxes and regulation for corporate attitudes and behavior to shift. Corporate America (and frankly most of America) is losing their tolerance with polarized and stagnant politics.

For better or worse, we will know what regulations we ll have to comply with, what our tax rates will be, and what our healthcare will cost. The writing is on the wall for higher taxes, and the Healthcare Reform Law is here to stay. This administration feels they have a green light to push the 200 regulations related to Dodd-Frank and the numerous policies outlined in the Healthcare Reform Law into law in the next four years. I know that innovative business leaders in this country will implement new strategies to remain profitable, because that s what we do; we have the character to succeed in any political or economic climate.

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Financial Markets: The stock market will be forced to wade through this murky economy as we continue to navigate the partisan political quagmire. Many companies comprising the Dow Jones Industrial Average index or the S& P 500 have strong balance sheets, respectable fundamentals, and reasonable returns. When our fiscal year ended on September 30, 2012, the Dow Jones was going strong at 12.19% year to date. Of course, after the election, the market rioted in order to force some decisions on the Fiscal Cliff. In fact, in the ten days after the election, we saw the Dow lose 4%. But in the long term, I believe the strengths of the economy will filter through to the markets. We are in the midst of a slow but steady recovery that I believe won t easily be derailed. I am, therefore, expecting another year with slow to moderate growth in the 8 to 12% range. There are still plenty of great stocks to buy. Through the portfolios we manage for our mutual funds, we are seeing improvement in many sectors, including the housing industry, and we still see strength in lower-end retailers.

Investors: Investors are still uncertain about putting their cash to work in the stock market and they continue to flock to fixed income products. Like business leaders, I believe that investors feel the same frustration with partisanship in Washington, and they need more answers in order to believe in the economic recovery. The strength of the lower-end retailers tells me that investors and consumers are still looking for value for their dollar. Many industry statistics report that Americans have been paying down their debt and saving more, even with interest rates at all-time lows. And like me, the average investor is finding some long-awaited comfort in the slow return of the housing market in our country. I know that the return of investors to the equity market will bode well for our economy.

Hennessy Advisors, Inc.: Total assets under management increased almost 23% from $749 million at the beginning of the fiscal year to $919 million at the end of the fiscal year, primarily driven by positive market impact. However, based on the timing of asset flow throughout the fiscal year, the average level of assets under management during the period dropped to $823 million from $883 million for the previous year. Despite strong returns for the major U.S. financial market indices and positive performance for each of the Hennessy Funds, we believe that investors are still fearful and that confidence has not yet fully returned, and as such, net flows into our Funds were roughly flat for the year. Throughout the economic downturn, I am proud that we were able to build our cash position and strengthen our balance sheet. We are confident that continuing to focus on our successful and proven business model, while showcasing the newly expanded Hennessy Funds line-up, positions the company well for today and for the future.

Throughout the year, we focused on strategic public relations efforts and in fact, Brian Peery, our Co-Portfolio Manager, and I were able to team up and brand our Hennessy Funds in a broad array of media outlets. This year, the Hennessy name has been seen in print, TV or radio on average once every three days.

Our business strategy is two-fold: to grow our mutual fund assets under management through marketing and sales and to strategically purchase management related assets. Fiscal 2012 brought a fantastic opportunity to Hennessy Advisors, Inc. to make a strategic purchase of assets. On March 30th, 2012, we submitted our first round offer to purchase the assets related to the management of the entire family of ten FBR funds. On October 26th, 2012, we successfully completed the transaction, bringing our total assets under management to $3.1 billion and our total number of shareholders in the mutual funds we manage to approximately 180,000. From start to successful conclusion, this transaction took 210 days. I was very proud of our team for driving every aspect of this transaction.

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The newly expanded Hennessy Family of Funds now includes sixteen mutual funds, including traditional domestic equity, sector and specialty, as well as more conservative balanced and fixed income products. We continue to aggressively seek purchases of management related assets and we look forward to growing the distribution, sales and marketing of our newly expanded product line-up.

Fiscal 2012 proved another difficult year for the economy, but I am confident that by remaining focused on our proven business model we will continue to show strong financial results. As investors regain their confidence and return to investing based on facts and fundamentals, I know we will return to steady, long-term market gains.

I would like to take a moment to reach out to the victims of Super Storm Sandy. No words can express the sorrow we feel for the families who lost loved ones, and we hope for swift recovery of homes, businesses, and communities that were devastated by this terrible storm.

Thank you for your continued confidence and investment in Hennessy Advisors, Inc. If you have any questions or want to speak with us directly, please don t hesitate to call us at (800) 966-4354.

Best regards,

Neil J. Hennessy

President, Chairman, and CEO

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HENNESSY ADVISORS, INC.

NOTICE AND PROXY STATEMENT

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JANUARY 17, 2013

TO THE HOLDERS OF OUR COMMON STOCK:

The annual meeting of shareholders of Hennessy Advisors, Inc. will be held on Thursday, January 17, 2013, at 6:30 pm, PST, at StoneTree Country Club, 9 StoneTree Lane, Novato, California 94945.

The meeting will be held for the following purposes:

1. To elect the following eight nominees as directors: Neil J. Hennessy, Teresa M. Nilsen, Daniel B. Steadman, Henry Hansel, Brian A. Hennessy, Daniel G. Libarle, Rodger Offenbach and Thomas L. Seavey.

2. To approve the Hennessy Advisors, Inc. 2013 Omnibus Incentive Plan.

3. To ratify the selection of Marcum LLP as the independent registered public accounting firm for Hennessy Advisors, Inc. for the fiscal year 2013.

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Our board of directors recommends a vote FOR Items 1, 2 and 3. Only shareholders of record at the close of business on December 3, 2012 will be entitled to vote at the annual meeting.

We hope you will be able to attend the meeting, but in any event we would appreciate if you date, sign and return the enclosed proxy as promptly as possible, or vote by calling toll-free (800) 652-8683 (if calling within the United States) or by voting over the Internet at www.Investorvote.com/HNNA. If you are able to attend the meeting, you may revoke your proxy and vote in person.

By Order of the Board of Directors,

/s/ Teresa M. Nilsen
Teresa M. Nilsen, Secretary

Dated: December 17, 2012

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Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on January 17, 2013. The notice, proxy statement, annual report and form of proxy are available at www.hennessyadvisors.com/proxy.htm.

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HENNESSY ADVISORS, INC.

7250 Redwood Boulevard, Suite 200

Novato, California 94945

PROXY STATEMENT FOR ANNUAL MEETING OF

SHAREHOLDERS TO BE HELD JANUARY 17, 2013

This proxy statement and the enclosed form of proxy are first being sent to shareholders of Hennessy Advisors, Inc. on or about December 17, 2012 in connection with the solicitation by our board of directors of proxies to be used at our 2013 annual meeting of shareholders. The meeting will be held on Thursday, January 17, 2013, at 6:30 pm, PST, at StoneTree Country Club, 9 StoneTree Lane, Novato, California 94945.

The board of directors has designated Neil J. Hennessy and Teresa M. Nilsen, and each or either of them, as proxy agents to vote the shares of common stock solicited on its behalf. If you sign and return the enclosed form of proxy, or give your proxy by calling toll-free (800) 652-8683 (if calling within the United States) or by voting over the Internet at www.Investorvote.com/HNNA, you may nevertheless revoke your proxy at any time insofar as it has not been exercised by: (1) giving written notice to our corporate secretary, (2) delivering a later dated proxy, or (3) attending the meeting and voting in person. The shares represented by your proxy will be voted unless the proxy is mutilated or otherwise received in such form or at such time as to render it not votable.

VOTING SECURITIES

The record of shareholders entitled to vote was taken at the close of business on December 3, 2012. As of December 3, 2012, we had outstanding and entitled to vote 5,771,984 shares of common stock. Each share of common stock entitles the holder to one vote. Holders of a majority of the outstanding common stock must be present in person or represented by proxy to constitute a quorum at the annual meeting.

If you are a record holder (*namely*, you own your common stock in certificate form), you can vote by marking your vote on the attached proxy card we have enclosed, signing and dating it, and mailing it in the postage-paid envelope we have provided, or you can vote by calling toll-free (800) 652-8683 (if calling within the United States) or by voting over the Internet at www.Investorvote.com/HNNA. If your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct them to vote your shares. Your broker, nominee, fiduciary or other custodian may permit you to vote by the Internet or by telephone. Whether you plan to attend the annual meeting or not, we urge you to vote your shares now.

Brokers holding shares of common stock for beneficial owners in street name must vote those shares according to any specific instructions they receive from the beneficial owner of the shares. However, brokers have discretionary authority to vote on routine matters, like the vote to ratify the independent registered public accounting firm, which means that in the brokers discretion they can vote on such matters if the beneficial owner does not provide specific instructions. In the case of non-routine matters, like the election of directors and the approval of the Hennessy Advisors, Inc. 2013 Omnibus Plan, brokers may not vote on such matters unless they receive specific instructions from the beneficial owners. Broker non-votes result when brokers are precluded from exercising their discretion on certain types of proposals. Broker non-votes are not counted as votes cast in the election of directors, the approval of the Hennessy Advisors, Inc. 2013 Omnibus Incentive Plan or the ratification of the independent registered public accounting firm. Broker non-votes will have no effect on the election of directors (except to the extent that they affect the total votes received by a candidate), and broker non-votes will have the same effect as a no vote with regard to the approval of the Hennessy Advisors, Inc. 2013 Omnibus Incentive Plan. Broker non-votes will be included in the determination of the number of shares present and voting for purposes of determining the presence or absence of a quorum for the transaction of business.

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Shares of common stock represented by proxies that are marked abstain will be included in the determination of the number of shares present and voting for purposes of determining the presence or absence of a quorum for the transaction of business. Abstentions are not counted as voted either for or against a proposal. So, abstentions are not counted as votes cast in the election of directors, the approval of the Hennessy Advisors, Inc. 2013 Omnibus Incentive Plan or the ratification of the independent registered public accounting firm. Abstentions will have no effect on the election of directors (except to the extent that they affect the total votes received by a candidate) or the ratification of the independent registered public accounting firm, and abstentions will have the same effect as a no vote with regard to the approval of the Hennessy Advisors, Inc. 2013 Omnibus Incentive Plan.

The following table shows information relating to the beneficial ownership as of December 3, 2012 of: (1) each person known to us to be the beneficial owner of more than 5% of our voting stock, (2) each director, (3) each of the executive officers named in the summary compensation table elsewhere in this proxy statement, and (4) all directors and executive officers as a group. Except as otherwise indicated, the shareholders listed exercise sole voting and dispositive power over the shares.

Amount and Nature of Shares Beneficially Owned

Name	Number of Shares Owned(2)	Percent of Class
Neil J. Hennessy(1)(3)	1,903,730	32.7%
Teresa M. Nilsen(1)(4)	92,816	1.6%
Daniel B. Steadman(1)(5)	35,672	0.6%
Henry Hansel(1)	140,888	2.4%
Brian A. Hennessy(1)(6)	239,812	4.1%
Daniel G. Libarle(1)(7)	89,188	1.5%
Rodger Offenbach(1)(8)	104,070	1.8%
Thomas L. Seavey(1)	80,188	1.4%
Charles M. Almond(9)	448,999	7.8%
All directors and executive officers (8 individuals)	2,686,364	46.5%

(1) The address of each director and executive officer is 7250 Redwood Boulevard, Suite 200, Novato, California 94945.
(2) Includes shares subject to presently exercisable options as follows:

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Name	Number of Options
Neil J. Hennessy	50,625
Teresa M. Nilsen	28,125
Daniel B. Steadman	11,062
Henry Hansel	59,063
Brian A. Hennessy	59,063
Daniel G. Libarle	59,063
Rodger Offenbach	59,063
Thomas L. Seavey	55,063

(3) Includes 1,829,355 shares held jointly with his spouse and over which Mr. Hennessy has shared voting and dispositive power and 3,500 shares held by Mr. Hennessy as custodian for his child, over which Mr. Hennessy has shared voting and dispositive power. 1,550,000 of these shares are pledged as security with respect to a margin account.

(4) Includes 63,005 shares held jointly with her spouse and over which Ms. Nilsen has shared voting and dispositive power and 674 shares held by her spouse as custodian for their minor children, over which Ms. Nilsen has shared voting and dispositive power.

(5) Includes 15,172 shares held jointly with his spouse and over which Mr. Steadman has shared voting and dispositive power.

(6) Includes 163,875 shares held jointly with his spouse and over which Mr. Hennessy has shared voting and dispositive power.

(7) Includes 30,125 shares held jointly with his spouse and over which Mr. Libarle has shared voting and dispositive power.

(8) Includes 34,375 shares held jointly with his spouse and over which Mr. Offenbach has shared voting and dispositive power.

(9) As reported by Mr. Almond, as of March 14, 2012, Charles M. Almond owned in the aggregate 448,999 shares of Hennessy Advisors, Inc. common stock. Mr. Almond s principal business address is PO Box 2100, Mill Valley, CA 94941.

ELECTION OF DIRECTORS

At the meeting, eight directors will be elected to serve for a one-year term, until their successors are elected and qualified. The board of directors has nominated each of our eight current directors to stand for reelection. Directors will be elected by a plurality of votes cast by shares entitled to vote at the meeting.

Cumulative voting does not apply unless a shareholder entitled to vote at the meeting gives notice at the meeting before the voting begins of the shareholder s intent to exercise cumulative voting. If cumulative voting applies, each shareholder has the right to distribute among one or more nominees the number of votes equal to the number of directors to be elected multiplied by the number of shares that the shareholder is entitled to vote at the meeting. The accompanying form of proxy solicited by the board of directors confers discretionary authority on the proxy agents to cumulate votes. The proxy agents, Neil J. Hennessy and Teresa M. Nilsen, do not, at this time, intend to exercise cumulative voting for the shares covered by the proxies solicited by this proxy statement unless a shareholder entitled to vote at the meeting gives the required notice in proper form at the annual meeting. In that case, the proxy agents intend to cumulatively vote all of the shares covered by the proxies solicited by this proxy statement in favor of the number of nominees named in this proxy statement as they may, in their discretion, determine is required to elect the maximum number of nominees named in this proxy statement.

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Proxies will be voted, if authority to do so is not withheld, for the election as directors of each of the board s nominees. Each nominee is presently available for election, and has consented to being named in this proxy and to serve, if elected. If any nominee should become unavailable, which is not now anticipated, the persons voting the accompanying proxy may, in their discretion, vote for a substitute.

Our board of directors recommends a vote FOR the election of each of its nominees. Proxies solicited by the board will be so voted unless shareholders specify in their proxies a contrary choice.

Information concerning all incumbent directors and nominees, based on data furnished by them, is set forth below. Before we provide the information for the incumbent directors, we wanted to take a moment to acknowledge our former director, Charles Bennett, and his amazing service to the shareholders of Hennessy Advisors, Inc. Mr. Bennett served as a director of Hennessy Advisors, Inc. from August of 2005 until he passed away in March of 2012. He served as an Independent member of the board, was a member of the Audit Committee and the Nominating Committee and served as Chairman of the Compensation Committee. Mr. Bennett was a dedicated member of our board, and of our community, and most importantly, he was an honorable man. The information presented below for our incumbent directors includes information each director has given us about his or her age, all positions he or she holds, his or her principal occupation and business experience for the past five years, and the names of other companies, some of which are publicly-held, of which he or she currently serves as a director or has served as a director during the past five years.

In addition to the information presented below regarding each nominee s specific experience, qualifications, attributes and skills that led our board to the conclusion that he or she should serve as a director, we also believe that all of our director nominees have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to the company and our board.

Neil J. Hennessy (age 56) has served as chairman of the board, president and chief executive officer of Hennessy Advisors since 1989 and as director and portfolio manager of our mutual funds since 1996. Mr. Hennessy started his financial career over 31 years ago as a broker at Paine Webber. He subsequently moved to Hambrecht & Quist and later returned to Paine Webber. From 1987 to 1990, Mr. Hennessy served as a nominated member of the National Association of Securities Dealers, Inc. s District 1 Business Conduct Committee. From January 1993 to January 1995, Mr. Hennessy served his elected term as chairman of the District 1 Business Conduct Committee. Mr. Hennessy earned a bachelor of business administration from the University of San Diego. Mr. Hennessy has amassed considerable business acumen in his career. Since founding the firm in 1989, he has successfully navigated the company through many economic cycles. His significant experience in managing the company enables him to provide the board with invaluable knowledge and guidance. Mr. Hennessy is the brother of Dr. Brian A. Hennessy.

Teresa M. Nilsen (age 46) has served as a director, executive vice president, chief financial officer and secretary of Hennessy Advisors since 1989, and received an additional officer designation as the chief operating officer in October 2010. Ms. Nilsen is also the executive vice president and treasurer of our mutual funds. Ms. Nilsen has worked in the securities industry for over 23 years, and earned a bachelor of arts in economics from the University of California, Davis. Ms. Nilsen s qualifications to serve on our board include her significant financial management, operational and leadership experience gained during her twenty-three year career in the securities industry.

Daniel B. Steadman (age 56) has served as a director and executive vice president of Hennessy Advisors since 2000, as the Chief Compliance Officer of Hennessy Advisors since 2010, and is currently the executive vice president and secretary of our mutual funds. Mr. Steadman has been in the banking and financial services industry for over 36 years, serving as vice president of WestAmerica Bank from 1995 through 2000, vice president of Novato National Bank from its organization in 1984 through 1995, assistant vice president and branch manager of Bank of Marin from 1980 through 1984 and banking services officer of Wells Fargo Bank from 1974 through 1980. Mr. Steadman s substantial experience in the financial services industry, as well as his significant experience in managing the strategic development of the company, enables him to provide the board with valuable insights and advice.

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Henry Hansel (age 64) has served as a director of Hennessy Advisors since 2001. He has been president of The Hansel Auto Group since 1982, which includes seven automobile dealerships. Mr. Hansel served as a director of the Bank of Petaluma since its organization in 1987 until it was sold in 2002. Mr. Hansel earned a bachelor of science degree in economics from the University of Santa Clara. Mr. Hansel s experience with running a large and economically cyclical business provides him with excellent financial statement and operational knowledge. His corporate business experience, combined with his attentive and thorough service as a director over the years, allows him to provide the board with valuable recommendations and ideas.

Brian A. Hennessy (age 59) has served as a director of Hennessy Advisors since 1989 and served as a director of our mutual funds from 1996 to 2001. Dr. Hennessy has been a self-employed dentist for more than 20 years, and is now retired. Dr. Hennessy is the brother of our chairman of the board, Neil J. Hennessy. Dr. Hennessy earned a bachelor of science in biology from the University of San Francisco and a D.D.S. from the University of the Pacific. Mr. Hennessy s qualifications to serve on our board include his considerable experience as a business owner. His years running his own practice have allowed him to navigate many business-related issues, making him a valuable source of knowledge. This combined with his prior service as a director of the mutual funds advised by the company, has provided him with a solid understanding of the company and the industry in which it operates.

Daniel G. Libarle (age 71) has served as a director of Hennessy Advisors since 2001. Mr. Libarle is the owner and president of Lace House Linen, Inc. and served as a director and chairman of the board of directors for Bank of Petaluma from its organization in 1987 until 2002 and served as a director of Greater Bay Bancorp and was a member of Greater Bay Bancorp s audit committee until its sale to Wells Fargo, a company listed on the New York Stock Exchange, in October 2007. In January 2008, Mr. Libarle became a director of the Exchange Bank, where he serves on the bank s audit and loan committees. Mr. Libarle earned a bachelor of arts in economics from the University of Oregon and San Jose State University. Mr. Libarle is an effective and knowledgeable member of our board of directors and brings with him years of essential business experience. Mr. Libarle employs his decades of experience on various boards and audit committees in the financial services industry to lead and guide our audit committee. He has extensive knowledge in reading and analyzing financial statements, and his role as a business owner also provides him with the operational knowledge to anticipate and mediate business-related issues.

Rodger Offenbach (age 61) has served as a director of Hennessy Advisors since 2001 and served as a director of our mutual funds from 1996 to 2001. Mr. Offenbach has been the owner of Ray s Catering and Marin-Sonoma Picnics since 1973, and has been retired since 2008. Mr. Offenbach earned a bachelor of science in business administration from California State University, Sonoma. Mr. Offenbach s long experience as an employer and businessman has honed his understanding of financial statements and the complex issues that confront businesses. This combined with his diligent and thoughtful service as a director over the years, along with his prior service as a director of the mutual funds advised by the company, has provided him with a solid understanding of the company and the industry in which it operates, enabling him to provide the board with valuable input and oversight.

Thomas L. Seavey (age 66) has served as a director of Hennessy Advisors since 2001. For the majority of Mr. Seavey s business career, he has been involved in the sales and marketing of athletic and leisure products, as well as marketing professional athletes. From 1981 to 1993, Mr. Seavey worked for Nike as the vice president of sales in the Midwest, as well as California, and spent three years at International Management Group as the vice president of products. In 1980, he formed Seavey Corp., now Continental Sports Group, which sells sport and leisure products. Mr. Seavey left Nike in 1993 and formally took over the management of Continental Sports Group, which he is still managing today. Mr. Seavey earned a bachelor of arts in English and history from Western Michigan University. Mr. Seavey s experience working for a large corporation, where he led worldwide marketing campaigns, provided him vast knowledge of the business world. His experience has sharpened his financial and operational knowledge, and he brings these assets to our board of directors in a relatable, effective way. This combined with his diligent, focused service as a director over the years has provided him with an excellent understanding of the company and the industry in which it operates, making him a valuable resource to our board.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers, directors or 10% shareholders to file reports of initial ownership of our common stock (on Form 3) and changes in such ownership (on Form 4) no later than the second business day after the date on which the transaction occurred, unless certain exceptions apply. Most transactions not reported on Form 4 must be reported on Form 5 within 45 days after the end of the company s fiscal year. Based upon a review of Form 4s filed with the Securities and Exchange Commission and information provided to us by our directors and officers during the fiscal year ended September 30, 2012, all required reports were filed on a timely basis.

Board of Directors and Standing Committees

The board held five regular meetings (and no special meetings) during the fiscal year ended September 30, 2012. All directors attended at least 75% of all meetings of the board and board committees on which they served during fiscal year 2012. All members of the board except Neil J. Hennessy, Teresa M. Nilsen, Daniel B. Steadman and Brian A. Hennessy are considered independent under NASDAQ rules.

The board of directors has established three standing committees: an audit committee, a compensation committee and a nominating committee, which are described below. Members of these committees are elected annually at the regular board meeting held in conjunction with the annual shareholders meeting.

Audit Committee. The audit committee presently is composed of Daniel G. Libarle (Chairman), Henry Hansel and Thomas L. Seavey, all of whom are considered independent under NASDAQ rules. The audit committee met four times during fiscal year 2012. The principal responsibilities of and functions to be performed by the audit committee are established in the audit committee charter. The audit committee s charter is available on our website at www.hennessyadvisors.com. The responsibilities and functions of the audit committee include reviewing our internal controls and the integrity of our financial reporting, approving the employment and compensation of and overseeing our independent auditors, and reviewing the quarterly reviews and annual audit with the auditors.

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Our board of directors has determined that Daniel G. Libarle, who has served as chairman of our audit committee since 2001, is an audit committee financial expert, as defined in the rules and regulations of the Securities and Exchange Commission (SEC), and is independent as defined by the rules adopted by the SEC and NASDAQ. Our board based its determination on the fact that Mr. Libarle has extensive experience evaluating financial statements prepared in accordance with generally accepted accounting principles and has also acquired an understanding of internal controls, procedures for financial reporting and audit committee functions as the founding chairman of the board of Bank of Petaluma from 1985 to 2002, as a member of the audit committee of the board of directors of Greater Bay Bancorp from 1999 to 2007, and as a director of the Exchange Bank, where he continues to serve on the bank s audit and loan committees.

Compensation Committee. The compensation committee presently is composed of Thomas L. Seavey (Chairman), Rodger Offenbach and Daniel G. Libarle, all of whom are considered independent under NASDAQ rules. The compensation committee did not meet during fiscal 2012. This committee has the responsibility of approving the compensation arrangements for our management, including annual bonus and long-term compensation, which was done on October 2, 2012, subsequent to year-end. It also recommends to the board of directors adoption of any compensation plans in which our officers and directors are eligible to participate, as well as makes grants of employee stock options and other stock awards under our incentive plan. Our executive officers do not play a role in determining their own compensation. However, the CEO recommends to the compensation committee the salary, bonus and equity compensation of our executive officers based on salary surveys, experience and performance of the executives. The compensation committee does not have any arrangements with compensation consultants. As a small company, we rely on industry compensation studies and relevant experience to determine executive compensation. Our compensation committee does not have a charter.

Nominating Committee. The nominating committee is composed of all directors who qualify as independent under NASDAQ rules, which directors are presently Henry Hansel, Daniel G. Libarle, Rodger Offenbach, and Thomas L. Seavey. The nominating committee met once during fiscal 2012. The principal responsibilities of and functions to be performed by the nominating committee, which includes making recommendations for director nominees to the full board of directors for the next annual meeting of shareholders, are established in the nominating committee charter. The nominating committee s charter is available on our website at www.hennessyadvisors.com.

Qualifications for consideration as a board nominee may vary according to the particular areas of expertise being sought as a complement to the existing board composition. However, in making its nominations, the nominating committee will consider, among other things, an individual s business experience, industry experience, financial background, breadth of knowledge about issues affecting Hennessy, time available for meetings and consultation regarding Hennessy matters and other particular skills and experience possessed by the individual. In considering the diversity of a candidate, the committee considers a variety of factors including but not limited to age, gender and ethnicity. We do not currently employ an executive search firm, or pay a fee to any other third party, to locate qualified candidates for director positions, although we may in the future retain a third party search firm, if the nominating committee deems it appropriate.

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Leadership Structure

Our board currently believes it is in the best interests of the company to combine the positions of Chairman and CEO because this provides the company with unified leadership and direction. In addition, our current Chairman and CEO has an in-depth knowledge of our business that enables him to effectively set appropriate board agendas and ensure appropriate processes and relationships are established with both management and the board of directors, as our board works together to oversee our management and affairs. The board has determined that its leadership structure is appropriate for the company.

Board Role in Risk Oversight

The board, together with the audit committee, has oversight for our risk management framework, both investment risk and operational risk, and is responsible for helping to ensure that our risks are managed in a sound manner. In this regard, the directors oversee an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and to enhance shareholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. The involvement of the full board in setting our business strategy is a key part of the directors assessment of management s appetite for risk and also a determination of what constitutes an appropriate level of risk for the company. The board has determined that its risk oversight is appropriate for the company.

Policies and Procedures for Submitting Recommendations for Potential Director Nominees and for Director Nominations by Shareholders for the 2014 Annual Meeting

Shareholder Recommendations to Nominating Committee for Potential Director Nominees

The nominating committee will consider recommendations for potential director nominees from many sources, including members of the board, advisors, and shareholders. The names of such suggested nominees, together with appropriate biographical information, should be submitted for nominating committee consideration to our principal executive offices no later than August 19, 2013. Any candidates duly submitted by a shareholder or shareholder group will be reviewed and considered in the same manner as all other candidates as a potential nominee for the slate nominated by our board of directors.

In order to be a valid submission for recommendation to the nominating committee for a potential nominee, the form of the recommendation must set forth:

- the name and address, as they appear on our records, of the shareholder recommending the persons, and the name and address of the beneficial owner, if any, on whose behalf the recommendation is made;

- the number of shares of our common stock that are owned beneficially and of record by the shareholder of record and by the beneficial owner, if any, on whose behalf the recommendation is made;

- any material interest or relationship that the shareholder of record and/or the beneficial owner, if any, on whose behalf the recommendation is made may respectively have with the nominee;

- any other information required to be disclosed in solicitations of proxies for election of directors or information otherwise required pursuant to Regulation 14A under the Securities Exchange Act of 1934 relating to nominations for election or re-election as a director; including the nominee s written consent to being named in the proxy statement as a nominee and to serving as a director, if nominated and elected; and

- with respect to (i) shareholders that have owned more than 5% of our common stock for at least one year as of the date the recommendation is made or (ii) a group of shareholders that, in the aggregate, have owned more than 5% of our common stock for at least one year as of the date the recommendation is made:

  - a written statement that the shareholder or group of shareholders have owned more than 5% of our common stock for more than one year; and

  - a written consent of the shareholder or group of shareholders to be named in our proxy statement.

The completed form of recommendation must be sent to the nominating committee at our principal executive offices: 7250 Redwood Boulevard, Suite 200, Novato, California 94945. The mailing envelope should contain a clear notation indicating that the enclosed letter is a Shareholder Recommendation for Director.

Director Nominations by Shareholders for 2014 Annual Meeting

A shareholder wishing to nominate their own candidate for election to our board at our 2014 annual meeting must submit a written notice, in the form specified below, of his or her nomination of a candidate to our corporate secretary at our principal executive offices. The submission must be received at our principal executive offices no later than August 19, 2013. To be timely in the case of a special meeting called for the election of directors or in the event that the date of the applicable annual meeting is changed by more than 30 days from the date of our last annual meeting, a shareholder s notice must be received at our principal executive offices no later than the close of business on the tenth day following the earlier of the day on which notice of the meeting date was mailed or public disclosure of the meeting date was made. In accordance with Article II, Section 16 of our amended and restated bylaws, shareholder nominations which do not comply with the submission deadline are not required to be recognized by the presiding officer at the annual meeting. Timely nominations will be brought before the meeting but will not be part of the slate nominated by our board of directors and will not be included in the Company s proxy materials.

In order to be valid, a submission for a shareholder director nomination must set forth:

- the name and address, as they appear on our records, of the shareholder nominating the persons, and the name and address of the beneficial owner, if any, on whose behalf the nomination is made;

- the class and number of shares of our capital stock that are owned beneficially and of record by the shareholder of record and by the beneficial owner, if any, on whose behalf the nomination is made;

- any material interest or relationship that the shareholder of record and/or the beneficial owner, if any, on whose behalf the nomination is made may respectively have with the nominee; and

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any other information required to be disclosed in solicitations of proxies for election of directors or information otherwise required pursuant to Regulation 14A under the Securities Exchange Act of 1934 relating to nominations for election or re-election as a director; including the nominee s written consent to being named in the proxy statement as a nominee and to serving as a director, if nominated and elected.

The completed form of notice must be sent to our corporate secretary at our principal executive offices: 7250 Redwood Boulevard, Suite 200, Novato, California 94945. The mailing envelope should contain a clear notation indicating that the enclosed letter is a Shareholder Nomination for Director.

Certain Transactions

During the fiscal years ended September 30, 2012 and 2011, there have been no transactions of more than $120,000 between Hennessy Advisors, Inc. and any shareholder, director or executive officer.

APPROVAL OF HENNESSY ADVISORS, INC. 2013 OMNIBUS INCENTIVE PLAN

At the annual meeting, we are asking our shareholders to approve the Hennessy Advisors, Inc. 2013 Omnibus Incentive Plan (the 2013 Plan). The maximum number of shares which may be issued under the 2013 Plan is 50% of the outstanding common stock, of which 300,000 shares may be issued as incentive stock option awards. Under the current Hennessy Advisors, Inc. 2001 Omnibus Plan (the Existing Plan), the maximum number of shares which may be issued is 25% of the outstanding common stock.

We believe that awards under the 2013 Plan will support the creation of long-term value and business returns for our shareholders. We further believe that the 2013 Plan strikes a proper balance between rewarding performance and limiting shareholder dilution. The two complementary purposes of the 2013 Plan are (1) to attract and retain outstanding individuals to serve as executive officers and other key employees, outside directors and advisors and (2) to increase shareholder value.

Key Terms

Participation:	Eligible officers or other employees, outside directors and advisors. As of December 3, 2012, approximately 25 persons were eligible to participate in the plan, including 5 outside directors and 3 executive officers.
Shares Authorized:	The maximum number of shares which may be issued under the 2013 Plan is 50% of the outstanding common stock.
Share Counting:	Shares authorized are depleted by number of granted awards of any type, and shares used to pay exercise price of options or withholding taxes do not replenish shares authorized.

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Award Types:	Stock options; Stock appreciation rights; Performance shares; Performance units; Restricted stock; Restricted stock units; Deferred stock rights; Dividend equivalent units; Annual incentive award; Long-term incentive award; and Other stock-based awards.
Individual Limits:	Fiscal year limits on awards of: options and stock appreciation rights of 50,000 shares;

restricted stock, restricted stock units and/or deferred stock rights of 50,000 shares;

performance shares and/or awards of performance units based on the fair market value of common stock of 50,000 shares;

performance units not based on the fair market value of common stock of $100,000;

other stock-based awards of 50,000 shares;

annual incentive awards of $100,000; and