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HENNESSY ADVISORS INC  
Form 10QSB  
January 27, 2005

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 December 31, 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  ; No .

The number of shares outstanding of each of the issuer's classes of common equity as of December 31, 2004 was 1,635,142.

Transitional Small Business Disclosure Format: Yes  ; No

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Balance Sheets as of December 31, 2004 and

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### Hennessy Advisors, Inc. Balance Sheets

	December 31, 2004 ---- (Unaudited)	Se
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,598,658	\$
Investments in marketable securities, at fair value	4,781	
Investment fee income receivable	949,722	
Prepaid expenses	128,669	
Other current assets	-	
	-----	-----
Total current assets	\$ 5,681,830	\$
	-----	-----
Property and equipment, net of accumulated depreciation of \$75,675 and \$100,200	\$ 88,976	\$
Management contracts, net of accumulated amortization of \$628,627	14,142,520	
Deferred income tax assets	126,900	
Other assets	59,620	
	-----	-----
Total assets	\$ 20,099,846	\$
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accrued liabilities and accounts payable	\$ 588,757	\$

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Income taxes payable	422,837	
Current portion of long-term debt	1,128,721	
	-----	-----
Total current liabilities	\$ 2,140,315	\$
	-----	-----
Long-term debt	\$ 5,925,787	\$
Deferred income tax liabilities	548,030	
	-----	-----
Total liabilities	\$ 8,614,132	\$
	-----	-----
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: 1,635,142 shares issued and outstanding at December 31, 2004 and September 30, 2004	6,881,205	
Additional paid-in capital	37,098	
Retained earnings	4,567,411	
	-----	-----
Total stockholders' equity	\$ 11,485,714	\$
	-----	-----
Total liabilities and stockholders' equity	\$ 20,099,846	\$
	=====	=====

See accompanying notes to condensed financial statements

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Hennessy Advisors, Inc.  
 Statements of Income  
 Three Months Ended December 31, 2004 and 2003  
 (Unaudited)

	2004	2003
	----	----
Revenue		
Investment advisory fees	\$ 2,401,371	\$ 1,783,648
Shareholder service fees	282,544	222,179
Other	16,349	5,691
	-----	-----
Total revenue	2,700,264	2,011,518
Operating expenses		
Compensation and benefits	594,974	474,560
General and administrative	234,783	227,819
Mutual fund distribution	472,266	442,066
Amortization and depreciation	11,039	5,750
	-----	-----
Total operating expenses	1,313,062	1,150,195
	-----	-----
Operating income	1,387,202	861,323
Interest expense	90,535	-
	-----	-----

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Income before income tax expense	1,296,667	861,323
Income tax expense	518,667	336,816
	-----	-----
Net income	\$ 778,000	\$ 524,507
	=====	=====
Basic earnings per share	\$ 0.48	\$ 0.32
	=====	=====
Diluted earnings per share	\$ 0.46	\$ 0.31
	=====	=====

See accompanying notes to condensed financial statements

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Hennessy Advisors, Inc.  
 Statements of Changes in Stockholders' Equity  
 Three Months Ended December 31, 2004  
 (Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital
	-----	-----	-----
Balances as of September 30, 2004	1,635,142	\$6,881,205	\$ 37,098
Net income for the three months ended December 31, 2004	-	-	-
	-----	-----	-----
Balances as of December 31, 2004	1,635,142	\$6,881,205	\$ 37,098
	=====	=====	=====

See accompanying notes to condensed financial statements

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Hennessy Advisors, Inc.  
 Statements of Cash Flows  
 Three Months Ended December 31, 2004 and 2003  
 (Unaudited)

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Cash flows from operating activities:	
Net income	\$ 77
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	(29)
Deferred income taxes	9
Unrealized gains on marketable securities	
(Increase) decrease in operating assets:	
Investment fee income receivable	(11)
Prepaid expenses	(6)
Other current assets	2
Increase (decrease) in operating liabilities:	
Accrued liabilities and accounts payable	(82)
Income taxes payable	42
	-----
Net cash provided by operating activities	28
	-----
Cash flows provided by (used) in investing activities:	
Purchases of property and equipment	(3)
Disposal of fully depreciated assets	3
Purchases of investments	
Payments related to acquisition of management contracts	
	-----
Net cash provided by (used) in investing activities	2
	-----
Cash flows used in financing activities:	
Principal payments on long-term debt	(28)
	-----
Net cash used in financing activities	(28)
	-----
Net increase in cash and cash equivalents	3
Cash and cash equivalents at the beginning of the period	4,56
	-----
Cash and cash equivalents at the end of the period	\$ 4,59
	=====
Supplemental disclosures of cash flow information: Cash paid for:	
Income taxes	\$
	=====
Interest	\$ 8
	=====

See accompanying notes to condensed financial statements

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### 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 months ended December 31, 2004, are not necessarily indicative of results which may be expected for the fiscal year ending September 30, 2005. For additional information, refer to the financial statements for the fiscal year ended September 30, 2004, which are included in the Company's annual report on Form 10-KSB, filed with the Securities and Exchange Commission on December 14, 2004.

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, fulfillment, 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

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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 (5.25% at December 31, 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.

### 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 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.

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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 rate of 40.0% for the three months ended

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December 31, 2004, differs 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 months ended December 31, 2004 and 2003:

	Three Months Ended December 31,	
	2004	2003
Weighted Average common stock outstanding	1,635,142	1,626,142
Common stock equivalents - stock options	56,349	46,675
	1,691,491	1,672,817

### Stock-Based Compensation

On May 2, 2001, the Company established an incentive plan (the Plan) providing for the issuance of options, stock appreciation rights, restricted stock, performance awards, and stock loans for the purpose of attracting and retaining executive officers and key employees. The maximum number of shares which may be issued under the Plan is 25% of the outstanding common stock of the Company, subject to adjustment by the compensation committee of the Board of Directors. The 25% limitation shall not invalidate any awards made prior to a decrease in the number of outstanding shares, even though such awards have resulted or may result in shares constituting more than 25% of the outstanding shares being available for issuance under the Plan. Shares available under the

Plan which are not awarded in one particular year may be awarded in subsequent years. The compensation committee of the Board of Directors has the authority to determine the awards granted under the Plan, including among other things, the individuals who receive the awards, the times when they receive them, vesting schedules, performance goals, whether an option is an incentive or nonqualified option and the number of shares to be subject to each award. However, no participant may receive options or stock appreciation rights under the Plan for



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an aggregate of more than 50,000 shares in any calendar year. The exercise price and term of each option or stock appreciation right will be fixed by the compensation committee except that the exercise price for each stock option which is intended to qualify as an incentive stock option must be at least equal to the fair market value of the stock on the date of grant and the term of the option cannot exceed 10 years. In the case of an incentive stock option granted to a 10% shareholder, the exercise price must be at least 110% of the fair market value on the date of grant and cannot exceed five years. Incentive stock options may be granted only within ten years from the date of adoption of the Plan. The aggregate fair market value (determined at the time the option is granted) of shares with respect to which incentive stock options may be granted to any one individual, which stock options are exercisable for the first time during any calendar year, may not exceed \$100,000. An optionee may, with the consent of the compensation committee, elect to pay for the shares to be received upon exercise of their options in cash or shares of common stock or any combination thereof.

As the exercise price of all options granted under the Plan were equal to the market price of the underlying common stock on the grant date, no stock-based employee compensation cost was recognized in net income. During the three months ended December 31, 2004, 77,000 options were granted. During the three months ended December 31, 2003, 12,500 options were granted. The following tables illustrate the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", 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.

As required under FASB Statement No. 123 and FASB Statement No. 148, "Accounting for Stock-based Compensation - Transition and Disclosure", the proforma effects of stock-based compensation on net income and earnings per common share have been estimated at the date of grant using the Black-Scholes option pricing model.

The value of options granted during the three months ended December 31, 2004, was determined at the date of grant by using an options pricing model with an assumed risk-free interest rate of 3.44%, an expected life of 5 years, zero dividends and a volatility factor of 16.15%:

	Net Income	Basic EPS
	-----	-----
For the three months ended December 31, 2004		
-----		
Net income	\$ 778,000	\$ 0.48
Fair value of stock options - net of tax	257,796	0.16
	-----	-----
Proforma net income	\$ 520,204	\$ 0.32
	=====	=====

The value of options granted during the three months ended December 31, 2003, 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

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dividends and a volatility factor of 0.0001%:

	Net Income	Basic EPS
For the three months ended December 31, 2003		
Net income	\$ 524,507	\$ 0.32
Fair value of stock options - net of tax	12,825	0.01
Proforma net income	\$ 511,682	\$ 0.31

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.

### 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. 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 \$1.419 billion as of December 31, 2004, of which \$1.376 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.

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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 December 31, 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 liability on our balance sheet is the 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 (5.25% at December 31, 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 December 31, 2004 and 2003:

	Three Months Ended December 31,		
	2004		2003
	Amounts	Percent of Total Revenue	Amounts
Revenue:			
Investment advisory fees	\$ 2,401,371	88.9%	\$ 1,783,648
Shareholder service fees	282,544	10.5	222,179
Other	16,349	0.6	5,691
Total revenue	2,700,264	100.0	2,011,518

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Operating expenses:			
Compensation and benefits	594,974	22.0	474,560
General and administrative	234,783	8.7	227,819
Mutual fund distribution	472,266	17.5	442,066
Amortization and depreciation	11,039	0.4	5,750
<hr style="border-top: 1px dashed black;"/>			
Total operating expenses	1,313,062	48.6	1,150,195
<hr style="border-top: 1px dashed black;"/>			
Operating income	1,387,202	51.4	861,323
Interest expense	90,535	3.4	-
<hr style="border-top: 1px dashed black;"/>			
Income before income tax expense	1,296,667	48.0	861,323
Income tax expense	518,667	19.2	336,816
<hr style="border-top: 1px dashed black;"/>			
Net income	\$ 778,000	28.8%	\$ 524,507
<hr style="border-top: 3px double black;"/>			

Total revenue increased \$688,746 (+34.2%) in the three months ended December 31, 2004, from \$2,011,518 in the same period of 2003, primarily due to fees earned from increased mutual fund assets under management. In total, assets in the mutual funds we manage increased to \$1.376 billion as of December 31, 2004, compared to \$1.013 billion as of December 31, 2003(+35.9%). The increase in assets under management was a direct result of increased market valuations of approximately \$166.6 million and net purchases and acquisitions of \$196.8 million. The revenue we earn from the funds we manage increased \$617,723 (+34.6%) in the three months ended December 31, 2004, while shareholder service fees increased \$60,365 (+27.2%).

Total operating expenses increased \$162,867 (+14.2%) in the three months ended December 31, 2004, from \$1,150,195 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 48.6% in the three months ended December 31, 2004, compared to 57.2% in the prior comparable period.

Compensation and benefits increased \$120,414 (+25.4%) in the three months ended December 31, 2004, from \$474,560 in the prior comparable period. The increase resulted from the addition of a Chief Compliance Officer and salary increases and performance incentives for officers and staff. As a percentage of total revenue, compensation and benefits decreased to 22.0% for the three months ended December 31, 2004, compared to 23.6% in the prior comparable period.

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General and administrative expense increased \$6,964 (+3.1%), in the three months ended December 31, 2004, from \$227,819 in the three months ended December 31, 2003, primarily due to increases in business promotion activities and insurance costs. As a percentage of total revenue, general and administrative expense decreased to 8.7% in the three months ended December 31, 2004, from 11.3% in the prior comparable period.

Mutual fund distribution expenses increased \$30,200 (+6.8%) in the

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three months ended December 31, 2004, from \$442,066 in the three months ended December 31, 2003. As a percentage of total revenue, distribution expenses decreased to 17.5% for the three months ended December 31, 2004, compared to 22.0% in the prior comparable period. The proportion of assets held by NTF providers has declined in relation to assets held at other financial institutions. This change in proportion has lowered the percentage of NTF expenses in relation to total revenues.

Amortization and depreciation expense increased \$5,289 in the three months ended December 31, 2004, from \$5,750 for the three months ended December 31, 2003, resulting from amortization of loan acquisition costs and purchases of furniture and equipment.

Interest expense of \$90,535 was generated from the US Bank National Association \$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 (5.25% at December 31, 2004).

For the three months ended December 31, 2004, the provision for income taxes increased \$181,851 resulting from an increase in pre-tax income of \$435,344.

Net income increased \$253,493 to \$778,000 in the three months ended December 31, 2004, compared to \$524,507 in the prior comparable period, as a result of the factors discussed above.

### Liquidity and Capital Resources

As of December 31, 2004, Hennessy Advisors, Inc. had cash and cash equivalents of \$4,598,658.

With the exception of property and equipment and management contracts acquired, which amount to a combined \$14,231,496 as of December 31, 2004, the remaining assets are very liquid, consisting primarily of cash and receivables derived from mutual fund asset management activities. Total assets as of December 31, 2004 were \$20,099,846, compared to \$19,913,879 at September 30, 2004, an increase of \$185,967 or 0.9%.

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 December 31, 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.

### 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

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completeness of these statements. There is no regulation requiring an update of any of the forward-looking statements after the date of this report to conform these statements to actual results or to changes in our expectations.

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

- o Continuing volatility in the equity markets have caused the levels of our assets under management to fluctuate significantly.
- o 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.
- o We face strong competition from numerous and sometimes larger companies.
- o Changes in the distribution channels on which we depend could reduce our revenues or hinder our growth.
- o For the next several years, insurance costs are likely to increase materially and we may not be able to obtain the same types or amounts of coverage.
- o For the next several years, professional service fees and compliance costs are likely to increase due to increased securities industry legislation.
- o Business growth through asset acquisitions may not proceed as planned and result in significant expenses adversely affecting earnings.
- o Retaining the mutual fund assets associated with acquired management contracts may prove difficult and result in lower than expected revenues.
- o International conflicts and the ongoing threat of terrorism may adversely affect the general economy, financial and capital markets and our business.
- o 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 14, 2004.

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### 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

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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

There were no reportable events for items 1 through 5.

Item 6. 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

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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: January 27, 2005

By: /s/ Teresa M. Nilsen

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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
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