

HENNESSY ADVISORS INC  
Form 10-K  
December 05, 2008  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended September 30, 2008

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-49872

**HENNESSY ADVISORS, INC.**

(Exact name of registrant as specified in its charter)

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**California**  
(State or other jurisdiction of  
incorporation or organization)

**68-0176227**  
(IRS Employer  
Identification No.)

**7250 Redwood Blvd., Suite 200**

**Novato, California**  
(Address of principal executive office)

**94945**  
(Zip Code)

**(415) 899-1555**

(Issuer's telephone number)

**Securities registered pursuant to Section 12(b) of the Act:**

**None.**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, no par value**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check

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one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of Common Stock held by non-affiliates (as affiliates are defined in Rule 12b-2 of the Exchange Act) of the Registrant, based on the closing price of \$7.90 on March 31, 2008, was \$27,419,786.

**APPLICABLE ONLY TO CORPORATE REGISTRANTS**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

As of October 31, 2008 there were 5,719,227 shares of Common Stock (no par value) issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the registrant's definitive proxy statement for its 2009 annual meeting of stockholders are incorporated by reference in Parts II and III.

**Table of Contents**

HENNESSY ADVISORS, INC.

FORM 10-K

For the Fiscal Year Ended September 30, 2008

Table of Contents:

**PART I**

ITEM 1.	<u>DESCRIPTION OF BUSINESS</u>	3
	<u>GENERAL</u>	3
	<u>BUSINESS OPERATIONS, PRODUCTS AND STRATEGIES</u>	4
	<u>EMPLOYEES</u>	14
ITEM 1A.	<u>RISK FACTORS</u>	14
ITEM 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	18
ITEM 2.	<u>DESCRIPTION OF PROPERTY</u>	18
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	18
ITEM 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	18

**PART II**

ITEM 5.	<u>MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	19
	<u>MARKET INFORMATION</u>	19
	<u>STOCK PERFORMANCE GRAPH</u>	20
	<u>HOLDERS</u>	20
	<u>DIVIDENDS</u>	21
	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	21
ITEM 6.	<u>SELECTED FINANCIAL DATA</u>	22
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	22
ITEM 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	29
ITEM 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	30
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	49
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	49
ITEM 9B.	<u>OTHER INFORMATION</u>	49

**PART III**

ITEM 10.	<u>DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE</u>	49
	<u>CODE OF ETHICS</u>	49
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	50
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	50
	<u>SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS</u>	50
ITEM 13.	<u>CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	51
ITEM 14.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	51

**PART IV**

ITEM 15.	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	52
	<u>SIGNATURES</u>	54

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**Table of Contents**

PART I

ITEM 1. DESCRIPTION OF BUSINESS  
GENERAL

Overview

We are a publicly traded investment management firm. Our principal business activity is managing, servicing and marketing our six open-end mutual funds. All of our mutual funds are no-load, meaning investors do not pay any upfront or deferred sales charges. We use quantitative stock selection strategies to manage each of the Hennessy Funds. In total, the net assets of the mutual funds we manage have increased by 352% from \$194 million on September 30, 2001 to \$876 million as of September 30, 2008. However, the current asset balance is a decrease of 49% from the prior year ending balance of \$1.7 billion due to volatility in the market place which has lead to increased redemptions and declining market performance.

Each of the Hennessy Funds pays fees to us for our management services. Management services include 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. The original class shares of all six of our mutual funds also pay fees to us for shareholder services. Shareholder services consist primarily of providing a call center to respond to shareholder inquiries, including inquiries regarding specific mutual fund account and investment information. The fees that we receive for management and shareholder services are based on a percentage of the average daily net asset values of our mutual funds.

Company History

We were founded in 1989 as a California corporation under the name Edward J. Hennessy Incorporated. We initially registered with the appropriate federal, state and self-regulatory organizations as a broker-dealer with a retail business. In addition, we were a member of the National Association of Securities Dealers, serving mainly individual investors, but we terminated this registration in July 2000 and are no longer engaged in the broker-dealer business. In 1990, we registered as an investment advisor. From 1990 to 1996, we provided management services to private clients and limited partnerships utilizing strategies similar to those we use in advising our mutual funds today. In 1996, we launched our first mutual fund, the Hennessy Balanced Fund. We initially managed the Hennessy Balanced Fund through The Hennessy Management Co., L.P., a California limited partnership for which we served as the general partner. As general partner, we performed all of the management functions on behalf of The Hennessy Management Co., L.P. for the Hennessy Balanced Fund.

In 1998, we launched our second mutual fund, the Hennessy Total Return Fund. We initially managed the Hennessy Total Return Fund through The Hennessy Management Co. 2, L.P., another California limited partnership for which we served as the general partner and as such, performed all of the management functions on behalf of The Hennessy Management Co. 2, L.P. for the Hennessy Total Return Fund.

In 2000, we began acquiring the rights to manage the assets of additional mutual funds by entering into agreements with the funds' investment advisors to acquire management contracts related to such funds. When we acquire the rights to manage the assets of a mutual fund, we generally either enter into a management agreement covering the mutual fund or reorganize the assets of the mutual fund into one of our existing mutual funds. An attractive acquisition target for us is a retail-oriented, no-load mutual fund with less than \$500 million in net assets.

In June 2000, we completed our first acquisition by entering into a management agreement covering the O Shaughnessy Cornerstone Growth Fund and O Shaughnessy Cornerstone Value Fund and changed the names of these funds to the Hennessy Cornerstone Growth Fund and the Hennessy Cornerstone Value Fund. In connection with this

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**Table of Contents**

acquisition, we obtained an exclusive, perpetual license to use the names and investment strategies of the Cornerstone Growth Fund and Cornerstone Value Fund from Netfolio, Inc. These two mutual funds had approximately \$197 million in combined net assets at the time we began managing them.

In May 2002, we completed our initial public offering, raising \$5.7 million in a non-underwritten offering at a split-adjusted price of \$2.97 and became a 1934 Act reporting company as a small-business issuer. At the time of our initial public offering, assets under management were approximately \$348 million. In connection with our initial public offering, the limited partners of The Hennessy Management Co., L.P. and The Hennessy Management Co. 2, L.P. agreed to merge their partnerships into our new public company, thereby allowing the consolidation of all our management activities directly into Hennessy Advisors, Inc.

In September 2003, we acquired the management agreement for the SYM Select Growth Fund. In connection with that acquisition, we launched our fifth mutual fund, the Hennessy Focus 30 Fund, into which we reorganized the assets of the SYM Select Growth Fund. At the time of this acquisition, the SYM Fund had approximately \$35 million in net assets.

In March 2004, we acquired the management agreements for five funds managed by Lindner Asset Management, Inc., which we refer to as the Lindner Funds. In connection with this acquisition, the assets of the Lindner Funds were reorganized into four of our existing mutual funds. At the time of this acquisition, the Lindner Funds had approximately \$301 million in combined net assets.

In July 2005, we acquired the management agreement for The Henlopen Fund and changed the name to the Hennessy Cornerstone Growth Fund, Series II. At the time of this acquisition, The Henlopen Fund had approximately \$299 million in net assets.

In November 2007, we opened the Hennessy Micro Cap Growth Fund, LLC, a non-registered private pooled investment fund. Hennessy Advisors, Inc. is the managing member and invested approximately \$0.5 million in the Micro Cap Growth Fund at inception.

In March 2008, we established an institutional share class for four of our mutual funds: the Hennessy Growth Fund, the Hennessy Growth Fund, Series II, the Hennessy Focus 30 Fund and the Hennessy Cornerstone Value Fund. The institutional shares require a minimum investment of \$0.25 million per fund, and net expenses do not exceed 0.98% of the average daily net assets of the Funds.

**BUSINESS OPERATIONS, PRODUCTS and STRATEGIES**

**Management Agreements and Fees**

We have entered into management agreements covering all of our mutual funds with the registered investment companies or trusts under which our mutual funds are organized. Our registered investment companies or trusts are currently Hennessy Funds, Inc., Hennessy Mutual Funds, Inc. and Hennessy Funds Trust. Our management agreement with: Hennessy Funds, Inc. covers the Hennessy Total Return Fund and Hennessy Balanced Fund; with Hennessy Mutual Funds, Inc. covers the Hennessy Cornerstone Growth Fund, the Hennessy Cornerstone Value Fund and the Hennessy Focus 30 Fund; and with Hennessy Funds Trust covers the Hennessy Cornerstone Growth Fund, Series II. Under these agreements, we are responsible for overall investment and management services, subject to the oversight of the applicable board of directors or trustees and according to each mutual fund's particular fundamental investment objectives and policies. The boards of each of Hennessy Funds, Inc., Hennessy Mutual Funds, Inc. and Hennessy Funds Trust consist of four individuals, including our chairman of the board and chief executive officer, Neil J. Hennessy, and three independent directors or trustees. Under the Investment Company Act of 1940, a majority of the independent directors or trustees must approve the entry into and continuation of our management agreements. The independent directors also have sole responsibility for selecting and nominating other independent directors or trustees.

We also provide any ordinary clerical and bookkeeping services needed by our mutual funds that are not provided by the funds' custodian, administrator or transfer agent. We fulfill requests for information about our mutual funds or pay the fulfillment expenses that our mutual funds would otherwise incur.

**Table of Contents**

In exchange for all of these services, we receive a management fee from each of our mutual funds, which is based on the amount of each fund's average daily net assets. The annual management fees payable to us by our mutual funds are as follows:

Fund	Management Fee (as a percentage of fund assets)
Hennessy Cornerstone Growth Fund (all classes)	0.74%
Hennessy Cornerstone Growth Fund, Series II (all classes)	0.74%
Hennessy Focus 30 Fund (all classes)	0.74%
Hennessy Cornerstone Value Fund (all classes)	0.74%
Hennessy Total Return Fund	0.60%
Hennessy Balanced Fund	0.60%

For the institutional share classes of the funds, we have a contractual obligation to waive the advisory fee to the extent necessary to ensure that net expenses do not exceed 0.98% of the average daily net assets of the funds.

Our management agreements must be renewed annually by a majority of the directors and trustees of the investment companies, and the majority must include a majority of all disinterested directors or trustees. Two other circumstances might lead to termination of the management agreements: the assignment of a management agreement to another advisor automatically terminates the agreement (assignment includes indirect assignment, which is the transfer of our common stock in sufficient quantities deemed to constitute a controlling block), and the termination of the agreement, via written notice, by our firm or by one of the funds' investment companies which causes termination after 60 days of the notice. The current management agreements were renewed by the Board of Directors of the Hennessy Funds, Inc. and Hennessy Mutual Funds, Inc. and by the trustees of the Hennessy Funds Trust on March 4, 2008 for a period of one year.

As of October 1, 2007, Hennessy Advisors, Inc. was also appointed the Managing Member of the Hennessy Micro Cap Growth Fund, LLC (the Fund). Hennessy Advisors, Inc. will serve as the Managing Member until its resignation or removal. The Managing Member may voluntarily resign with 30 days' prior written notice to the other members or 60 days' prior written notice if there is not then a remaining Managing Member. At any time, the Managing Member may designate an additional Managing Member or designate a successor Managing Member with no further consent or approval required from the other members. The Managing Member may be removed at any time, with or without cause, by the vote of the other members owning a majority-in-interest of the capital accounts of the Disinterested Members, defined as members other than members who are the Managing Member or affiliates of the Managing Member.

In the Hennessy Micro Cap Growth Fund, LLC, the annual advisory fee is 2.0% of the aggregate capital accounts of the members, but no management fee is charged to the capital account of the Managing Member. Additionally, an incentive allocation can potentially be earned on any member's balance, other than the Managing Member. The allocation is determined at the end of each calendar quarter as 20% of the amount by which net profits (defined as the amount by which the net asset value on the last day of a period exceeds the net asset value on the commencement of the same period), if any, exceed the positive balance, if any, of a member's loss carryforward (defined as a memorandum account kept for each member having an initial balance of zero that is increased by the net loss, if any, allocated to each member for each calendar period).

## **Table of Contents**

### Shareholder Services

In addition to our management agreements, we also have shareholder servicing agreements covering the original share classes of the Hennessy Cornerstone Growth Fund, Hennessy Cornerstone Growth Fund, Series II, Hennessy Focus 30 Fund, Hennessy Cornerstone Value Fund, Hennessy Total Return Fund and Hennessy Balanced Fund. We have provided shareholder services under a shareholder servicing agreement to the Hennessy Cornerstone Growth Fund and Hennessy Cornerstone Value Fund since October 2003, to the Hennessy Focus 30 Fund since June 30, 2005, to the Hennessy Cornerstone Growth Fund, Series II since July 1, 2005, and to the Hennessy Total Return Fund and Hennessy Balanced Fund since July 1, 2007. Under these agreements, we provide administrative support services to these funds, including, among other things, the following:

maintaining an 800 number that current fund shareholders may call to ask questions about the funds or their accounts with the funds;

assisting shareholders in processing exchange and redemption requests;

assisting shareholders in changing dividend options, account designations and addresses;

responding generally to shareholder questions; and

providing other similar services that the funds may request.

In exchange for these services, we receive an annual shareholder servicing fee from each of the above-named funds of 0.10% of the funds' average daily net assets.

### 12b-1 Plan

The Hennessy Total Return Fund and Hennessy Balanced Fund have each adopted a 12b-1 plan. Under Rule 12b-1 of the Investment Company Act of 1940, mutual funds can adopt a plan that allows them to make payments to third parties in connection with the distribution of their fund shares. Such distribution activities might include: advertising; compensation paid to financial institutions, broker-dealers, and others for sales and marketing; shareholder accounting services; the printing and mailing of prospectuses to other than existing shareholders; and the printing and mailing of sales literature. Mutual funds can also employ a distributor to distribute and market mutual fund shares. 12b-1 fees can be used to pay the distributor for expenses incurred for telephone costs, overhead costs, costs of employees who engage in or support the distribution of the fund shares, the printing of prospectuses and other reports for other than existing shareholders, advertising and the preparation and distribution of sales literature. The 12b-1 plan adopted by the Hennessy Total Return Fund and the Hennessy Balanced Fund authorizes each fund to make payments at an annual rate not to exceed 0.15% of each Fund's average daily net assets. The SEC has considered changes to Rule 12b-1 of the Investment Company Act of 1940 and although no specific proposals are currently pending, changes to Rule 12b-1 could restrict our current practices.

### Custodial and Brokerage Arrangements

All shareholder funds are held by third party custodians. Independent brokerage firms execute all trades for our funds, at our direction.

Currently, we participate in four soft dollar arrangements. This means that we receive research reports and real-time electronic research to assist us in trading and managing our mutual funds. Under these soft dollar arrangements, we pay brokerage commissions for securities trades on behalf of a mutual fund that may be higher than the commissions that we would pay through a different brokerage firm, but in exchange we receive research or other services that benefit our mutual funds. Our soft dollar arrangements comply with SEC guidance regarding soft dollars.

## Table of Contents

### License Agreement

Our ability to use the names and formulaic investment strategies of the funds now known as the Hennessy Cornerstone Growth Fund and Hennessy Cornerstone Value Fund are governed by the terms and conditions of a license agreement, dated as of April 10, 2000, with Netfolio, Inc. Under the license agreement, Netfolio, Inc. granted us a perpetual, paid-up, royalty-free, exclusive license to use certain trademarks, such as Strategy Indexing, Cornerstone Growth and Cornerstone Value, as well as the formula investment strategies used by the Hennessy Cornerstone Growth Fund and Hennessy Cornerstone Value Fund. All of our advertising, marketing, promotional and other materials incorporating or referring to the trademarks are subject to the prior written approval of Netfolio, Inc., except that we do not need Netfolio Inc.'s prior written approval to use the trademarks in a manner that is not substantially unchanged from any prior use by Netfolio, Inc. in its own business or from any prior use by us previously approved by Netfolio, Inc. We can assign the license to another person or entity if the assignee agrees in writing to be bound by the terms of the license agreement. There are no ongoing licensing fees associated with this license agreement and Netfolio, Inc. does not have any contractual rights to terminate the license agreement.

### Business Strategy

From 1996, when we started our first mutual fund, until September 30, 2008, we have grown our assets under management to \$876 million, with fluctuations during that time. Recent market conditions have created significant volatility in the equities markets, causing increased redemptions and negative performance. However, we strive to increase our profitability and assets under management by implementing the following key strategies:

Utilizing our branding and marketing campaign for growth.

We believe that we can attract investors to our mutual funds by effectively marketing our unique quantitative investment style. We believe that our investment philosophy appeals to investors who want to understand exactly how their investments are managed and who favor statistical analysis and empirical evidence as the basis for investment decisions. We will continue our efforts to make Hennessy a name readily recognizable by investors through frequent print media, radio and television appearances. We use our media appearances to convey to investors that we manage our funds with the discipline and consistency of an index fund by never straying from our strategies. We believe that a straightforward, quantitative approach is easily understood by investors and makes them more likely to recommend us to others by word of mouth. As our brand recognition broadens, we believe that our investment philosophy will generate organic growth through new investments in our mutual funds.

Expanding our distribution network to additional mutual fund supermarkets.

One of the ways that investors can buy shares of our mutual funds is through mutual fund supermarkets, principally Schwab, Fidelity, TD Ameritrade and Pershing. Mutual fund supermarkets can offer funds of many different investment companies to investors, often without a transaction fee or sales charge to the investor. Instead of charging a fee to investors, mutual fund supermarkets are reimbursed for their services by the applicable fund or that fund's investment advisor. This ability to purchase various mutual funds at no cost in a single location is very attractive to investors. Mutual fund supermarkets have been a significant source of our asset growth. Of the \$876 million of assets under management in our mutual funds as of September 30, 2008, approximately 67% of those assets came from mutual fund supermarkets. We see continued opportunities to form new relationships with mutual fund supermarkets, thereby enhancing the accessibility of our no-load mutual funds to investors.

Increasing our current base of investment professionals who utilize no-load mutual funds for their clients.

Investment professionals generally have a wide variety of investment products that they can recommend to their clients. A recommendation by an investment professional

## Table of Contents

to a client to buy one of our mutual funds can be very influential to that client. Thus, we believe that expanding our current base of investment professionals who utilize no-load funds for their clients will help us increase the amount of assets that we manage, which will in turn increase our revenues.

Securing participation in the platforms of national full-service firms that permit their investment professionals to utilize no-load funds for their clients.

We will strive to continue developing relationships with national full-service firms that permit their investment professionals to offer no-load funds to their clients as a way to increase the amount of assets that we manage, which will in turn increase our revenues.

Pursuing selective acquisitions.

We selectively consider strategic acquisitions of management agreements of additional mutual funds. Through our acquisition strategy, we have added over \$832 million of net assets to our family of mutual funds over a period of approximately five years. We believe there are a number of attractive acquisition opportunities from smaller mutual fund managers who are reaching retirement age or whose investment strategy does not lend itself to the economies of scale inherent in our strictly quantitative approach. We have been able to offer lower overall expense ratios to the shareholders of acquired funds as well as improved performance.

Deliver strong, high quality financial results.

We seek to manage our investment management business to the highest regulatory, ethical and business standards while strenuously controlling costs and creating high margins for the Hennessy shareholders. Because we apply quantitative investment strategies, we have been able to rapidly increase assets under management, through both acquisitions and organic growth, while maintaining a small staff.

Increasing our distribution to new and existing clients.

We recently hired Kevin Rowell, who also serves as President of Hennessy Funds, to build a distribution plan to generate organic growth in our Funds. The core of the distribution team centers around: internal wholesaling, relationship management and investment research analysis. The distribution effort is supported by the marketing department by providing institutional quality advisor materials and heightened brand awareness. The distribution team is working on building and maintaining a database covering key platforms, delivering content to the analyst community and developing a research center website for our Funds.

## Marketing

We generate all of our operating revenues by providing management and shareholder services to the mutual funds. The revenues that we receive from the mutual funds are based on the amount of average daily net assets in the funds and thus, we can increase our revenues by growing the amount of net assets in the funds. One of the best ways we can grow the assets of the mutual funds is by delivering strong investment performance, which we believe should:

result in an increase in the value of existing assets in the funds;

encourage more investors to buy shares of our mutual funds and decrease the number of investors who redeem their shares and leave our mutual funds; and

motivate current investors to invest additional money in our mutual funds.

We have developed an aggressive public relations outreach program to target audiences we would otherwise be unable to address. Our public relations outreach program has resulted in Hennessy Funds being mentioned in national print and broadcast media an average of once every two to three days in such vehicles as CNBC, Fox News, The Wall Street Journal, The New York Times, Smart Money, Barron's, and Investors Business Daily, to name a few. To facilitate our presence in the media, we installed LiveStudio, an in-house studio providing Mr. Hennessy with a direct link to the media broadcasts he frequents. The LiveStudio was completed and placed in service as of March 2008.



## **Table of Contents**

We also send quarterly information mailings, fund performance updates, news articles pertaining to the funds and commentaries from our portfolio manager, Neil J. Hennessy, to clients and prospective clients, and we exhibit at select investment advisor trade shows throughout the year.

### Acquisition Strategy and Market Opportunity

We believe that we are well positioned to experience organic growth, and possibly growth by acquisition, in the future. Our scalable business model allows us to increase our profit margins as assets under management grow, since we do not need to add personnel proportional to the increase in assets under management.

Together with organic growth, our growth strategy revolves around the acquisition of management agreements. An attractive acquisition target for us is a retail-oriented, no-load mutual fund with less than \$500 million in assets. We believe the regulatory burden imposed upon the mutual fund industry has compressed the margins of smaller mutual fund managers, making those managers more receptive to an acquisition. We believe that we are well positioned to benefit from these attractive acquisition trends and from the increasing supply of potential targets.

### Investment Strategy

Each of the Hennessy Funds employs a consistent and repeatable investment process, combining time-tested, purely quantitative stock selection formulas with a highly disciplined, team-managed approach. Our stock selection formulas have been tested over historical periods for hypothetical performance results, and we adhere to our proven formulas in all types of market conditions. A brief description of each of our mutual fund's objective and investment formula follows:

**Hennessy Cornerstone Growth Fund (HFCGX and HICGX).** The Hennessy Cornerstone Growth Fund seeks long-term growth of capital. While it has historically selected small cap companies, the formula may select mid and large cap companies. This fund screens a universe of stocks with a market capitalization of more than \$175 million, a price-to-sales ratio of less than 1.5, higher annual earnings than in the previous year and stock price appreciation, or positive relative strength, over the prior three- and six-month periods. The fund then invests in the 50 stocks with the highest one-year price appreciation.

**Hennessy Cornerstone Growth Fund, Series II (HENLX and HINLX).** The Hennessy Cornerstone Growth Fund, Series II seeks long-term capital appreciation. This fund utilizes the same investment formula as the Hennessy Cornerstone Growth Fund but rebalances its portfolio at a different time of the year, in an effort to create as different a portfolio of stocks as possible.

**Hennessy Focus 30 Fund (HFTFX and HIFTX).** The Hennessy Focus 30 Fund seeks long-term growth of capital by investing in mid-cap, growth-oriented companies. This fund screens a universe of stocks with a market capitalization of between \$1 to \$10 billion, excluding American Depository Receipts, a price-to-sales ratio of less than 1.5, higher annual earnings than in the previous year and positive stock price appreciation over a three- and six-month period. The fund then invests in the 30 stocks with the highest one-year price appreciation.

**Hennessy Cornerstone Value Fund (HFCVX and HICVX).** The Hennessy Cornerstone Value Fund seeks total return, consisting of capital appreciation and current income, by investing in large, dividend-paying companies. This fund screens a universe of stocks with above average market capitalization, shares outstanding and cash flow, and 12-month sales that are at least 50% higher than average. The fund then invests in the 50 stocks with the highest dividend yield, which is calculated as the annual dividends paid by a company divided by the per share price of its stock.

**Hennessy Total Return Fund (HDOGX).** The Hennessy Total Return Fund seeks total return, consisting of capital appreciation and current income, by investing approximately 75% of its assets in the 10 highest dividend-yielding common stocks of the Dow Jones Industrial Average (commonly referred to as the Dogs of the Dow) and the remaining 25% in U.S. Treasury securities with a maturity of less than one year.

**Table of Contents**

Hennessy Balanced Fund (HBF BX). The Hennessy Balanced Fund seeks a combination of capital appreciation and current income by investing approximately fifty percent of its assets in the Dogs of the Dow stocks and approximately fifty percent in U.S. Treasury securities with a maturity of less than one year.

Historical Fund Investment Performance

The following table presents the average annualized returns for each of our mutual funds and the relevant benchmark indices for the one-year, three-year, five-year, ten-year and since inception periods ended September 30, 2008. Although we did not begin managing the Hennessy Cornerstone Growth Fund and Hennessy Cornerstone Value Fund until June 2000, we have included historical performance information for these funds from their inception date of November 1, 1996 because the previous investment manager to these funds managed the funds using the same strategies that we still use today. Returns are presented net of all expenses borne by mutual fund shareholders, but are not net of fees waived or expenses borne by us. The past investment performance of our mutual funds is no guarantee of future performance and all of these mutual funds have experienced negative performance over various time periods in the past and may do so again in the future:

**Table of Contents**

	1 Year	3 Years	5 Years	10 Years	Since Inception (11/01/96)
<b>Hennessy Cornerstone Growth Fund</b>					
Institutional Class Share HICGX	-31.16%	-7.93%	2.85%	11.11%	10.19%
Original Class Share HFCGX	-31.29%	-7.99%	2.82%	11.09%	10.17%
S&P 400 Mid cap Index (2)(6)	-16.68%	1.78%	8.65%	10.29%	10.98%
S&P 500 (1)(2)	-21.98%	0.22%	5.17%	3.06%	6.08%
<b>Hennessy Cornerstone Growth Fund, Series II</b>					
Institutional Class Share HINLX	-41.05%	-12.46%	N/A	N/A	-11.64%
Original Class Share HENLX	-40.88%	-12.38%	N/A	N/A	-11.56%
Russell 2000 Growth Index (2)(3)	-17.07%	1.45%	N/A	N/A	3.13%
S&P 500 (1)(2)	-21.98%	0.22%	N/A	N/A	1.21%
<b>Hennessy Focus 30 Fund</b>					
Institutional Class Share HIFTX	-20.41%	0.40%	11.19%	N/A	10.10%
Original Class Share HFTFX	-20.25%	0.47%	11.23%	N/A	10.15%
S&P 400 Mid cap Index (2)(6)	-16.68%	1.78%	8.65%	N/A	7.99%
S&P 500 (1)(2)	-21.98%	0.22%	5.17%	N/A	4.52%
<b>Hennessy Cornerstone Value Fund</b>					
Institutional Class Share HICVX	-31.83%	-3.67%	3.12%	4.10%	4.28%
Original Class Share HFCVX	-31.83%	-3.67%	3.12%	4.10%	4.28%
Russell 1000 Index (2)(4)	-22.10%	0.13%	5.49%	3.49%	6.27%
S&P 500 (1)(2)	-21.98%	0.22%	5.17%	3.06%	6.08%
<b>Hennessy Total Return Fund</b>					
Original Class Share HDOGX	-20.90%	1.94%	3.68%	2.51%	2.56%
Dow Jones Industrial Average (2)(5)	-19.85%	3.34%	5.60%	5.45%	4.08%
S&P 500 (1)(2)	-21.98%	0.22%	5.17%	3.06%	2.02%
<b>Hennessy Balanced Fund</b>					
Original Class Share HBFBX	-14.49%	1.96%	2.14%	2.14%	3.75%
Dow Jones Industrial Average (2)(5)	-19.85%	3.34%	5.60%	5.45%	7.76%
S&P 500 (1)(2)	-21.98%	0.22%	5.17%	3.06%	6.76%

## Table of Contents

The performance shown for Institutional Class shares for the periods prior to March 3, 2008 represents the performance of the Original Class shares of each of the Funds. The inception dates of the Original Class shares are noted above, while the Institutional Class shares were first offered on March 3, 2008. Performance of the Institutional Class shares will differ from that of the Original Class shares to the extent that the classes have different expenses.

- (1) The S&P 500 is the Standard & Poor's Composite Index of 500 stocks, a widely recognized index of U.S. stocks.
  - (2) Reflects no deduction for fees or expenses.
  - (3) The Russell 2000 Index is a recognized small-cap index of the 2,000 smallest stocks of the Russell 3000 Index, which is comprised of the 3,000 largest U.S. stocks as determined by total market capitalization.
  - (4) The Russell 1000 Value Index is a recognized large-cap index of U.S. stocks.
  - (5) The Dow Jones Industrial Average is an index of common stocks comprised of major industrial companies and assumes reinvestment of dividends.
  - (6) The S&P Mid-cap 400 Index is a recognized mid-cap index of U.S. stocks.
- Development of New Investment Strategies

We begin developing new investment strategies by identifying client needs and reviewing asset allocation tables to determine where we can augment our family of mutual funds. Once we identify an attractive market segment, we develop a new investment strategy by screening the appropriate universe of stocks with a set of parameters that we believe identify stocks that will produce higher long-term returns with lower associated risk than their relative indices. We introduce new investment strategies into the marketplace by opening and directly marketing a new mutual fund, by acquiring the management agreement for an existing mutual fund and implementing our new strategy or by changing the investment strategy of one of our existing funds.

### Competition

We face substantial competition in the investment management industry. The investment management industry is characterized by a relatively low cost of entry and by the formation of new investment management entities that may compete directly with us. We compete directly with a large number of global and U.S. investment advisors, commercial banks, brokerage firms, broker-dealers, insurance companies and other financial institutions. These institutions range from small boutique firms to large financial service complexes. We compete on a wide variety of factors, including:

investment performance of our mutual funds;

expense ratio of our mutual funds;

product offerings;

quality of service;

brand recognition; and

business reputation.

We are considered a small investment management firm. Many competing firms are part of larger financial services companies and have greater marketing, financial, technical, research and other capabilities. Most larger firms offer a broader range of financial services than we do and compete with us for retail and institutional clients. Nonetheless, we have learned to compete successfully with these firms by creating unique investment strategies and by branding our investment style through public relations and outstanding customer service.

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**Table of Contents**

Our mutual funds also face competition, primarily from nationally and regionally distributed funds that offer equivalent financial products with returns equal to or greater than those we offer. The competition for new investors is intense, but we feel that by increasing our mutual funds distribution channels and continuing to brand our investment style, we can capture portions of the available investment business.

**Regulation**

Virtually all aspects of our business are subject to federal and state laws and regulations. These laws and regulations are intended to protect shareholders of registered investment companies and clients of registered investment advisors. We believe that we are in compliance in all material respects with all laws and regulations.

We are registered as an investment advisor with the Securities and Exchange Commission ( SEC ). As a registered investment advisor, we must comply with the requirements of the Investment Advisors Act of 1940 and related SEC regulations. Such requirements relate to, among other things, fiduciary duties to clients, engaging in transactions with clients, maintaining an effective compliance program, solicitation arrangements, conflicts of interest, advertising, limitations on agency cross and principal transactions between an advisor and advisory clients, recordkeeping and reporting requirements, disclosure requirements and general anti-fraud provisions. Our mutual funds are registered with the SEC under the Investment Company Act of 1940. The Investment Company Act of 1940 imposes additional obligations on both the funds and the advisor, including detailed operational requirements. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisors Act and Investment Company Act, ranging from fines and censures to termination of an investment advisor's registration. Our failure to comply with the SEC requirements could have a material adverse effect on us. We believe we are in compliance with SEC requirements.

In response to the 2001 to 2004 scandals in the financial services industry regarding late trading, market timing and the selective disclosure of portfolio information, the U.S. Congress and the various regulatory agencies that supervise our operations have adopted various legislative and regulatory proposals. The SEC, other regulators and Congress continue to investigate certain practices in our industry. In addition, we are subject to periodic examination by the SEC under SEC rules and regulations. The most recent SEC examination occurred in August, 2007 for the period of January 1, 2005 to June 30, 2007. The findings of the examination were minor in nature and had no effect on our financial statements.

At the end of 2003, the SEC adopted rules requiring investment advisors and investment companies to adopt written compliance programs designed to prevent violations of the federal securities laws. These compliance programs must be reviewed annually for adequacy and effectiveness. Investment advisors and investment companies must also designate a chief compliance officer to implement the compliance policies and procedures and to report directly to the fund's board of directors or trustees.

Over the past several years, Congress has occasionally advanced the ideas of eliminating asset-based distribution fees or Rule 12b-1 fees for open-end funds. The changes could prohibit revenue sharing, which allows a mutual fund company to pay for shelf space at brokerage firms or other intermediaries selling mutual shares. Although such reforms have been advanced, they have not been adopted. Should adoption occur, it may become more expensive for us to distribute and manage our mutual funds.

Because many regulations are subject to varying interpretations, our firm's compliance with these regulations subjects it to a number of risks. Regulators make periodic examinations and review annual, monthly and other reports on our operations, track record and financial condition. In the event that we violate or fail to comply with an applicable law or regulation, governmental regulators may institute administrative or judicial proceedings against us that could result in censures, fines, compensation orders, civil penalties, criminal penalties, the issuance of cease-and-desist orders, the deregistration or suspension of our firm, the suspension or

## **Table of Contents**

disqualification of our officers or employees and other adverse consequences. We have not experienced any such penalties to date. Such violations or non-compliance could also subject us and/or our employees to civil actions by private persons.

### **EMPLOYEES**

As of September 30, 2008, Hennessy Advisors, Inc. employed fourteen full-time employees.

Neil J. Hennessy is the Chairman of the Board, Chief Executive Officer and Portfolio Manager, as well as President of Hennessy Advisors. Teresa M. Nilsen is an Executive Vice President, Chief Financial Officer, Secretary and a Director. Daniel B. Steadman is an Executive Vice President in charge of expansion and a Director. Frank Ingarra is responsible for stock trading and is the Co-Portfolio Manager of our mutual funds. Other employees include Kevin Rowell, President of Hennessy Funds; Tania Kelley, Marketing Director; Harry Thomas, Chief Compliance Officer; Brian Peery, Director of Research; Adam Pennacchio, Research Analyst; Kathryn Walwyn, Controller; Ana Miner, Operations Specialist; Joseph Fahy, Relationship Manager; Michelle Hennessy, Sales Associate; and Lauren Puliafico, Receptionist.

### **ITEM 1A. RISK FACTORS**

#### **Risks relating to our business**

Our revenues decline when the value of the securities held by the mutual funds we manage declines.

We derive all of our operating revenues from management and shareholder servicing fees paid to us by the mutual funds we manage. These fees are calculated as a percentage of the average daily net assets of our mutual funds and vary from fund to fund. The securities markets are inherently volatile and may be affected by factors beyond our control, including global economic conditions, interest rate fluctuations, inflation rate increases and other factors, such as the sub-prime lending crisis, that are difficult to predict. Volatility in the securities markets, and the equity markets in particular, has reduced the net assets of our mutual funds and consequently reduced our revenues, and could continue to do so in the future. In addition to declines in the equity markets, failure of these markets to sustain prior levels of growth or continued short-term volatility in these markets has resulted in investors withdrawing their investments from our mutual funds and decreasing their rate of investment, both of which have adversely affected our revenues. This risk is further discussed and quantified in Item 7A in this Annual Report to form 10-K.

Investors in our mutual funds can redeem their investments in our funds at any time and for any reason, including poor investment performance. This adversely affects our revenues.

Fund investors may redeem their investments in any of our mutual funds at any time and for any reason without prior notice. Investors may also reduce the total amount of assets that they have invested with us for a number of reasons, including our investment performance, changes in prevailing interest rates and financial market performance. Success in the investment management and mutual fund business is dependent on investment performance, as well as distribution and client servicing. If our mutual funds perform poorly compared to the mutual funds of other investment management firms, we may experience a decrease in purchases of shares of our mutual funds and an increase in redemptions of shares of our mutual funds. A decrease in the net assets of our mutual funds adversely affects our revenues.

Adverse opinions of our mutual funds by third party rating agencies or industry analysts could decrease new investments in or accelerate redemptions from our mutual funds, which adversely affects our revenues.

Many investors rely heavily on the opinions of third party rating agencies and industry analysts when making decisions to purchase or redeem shares of mutual funds. Adverse opinions regarding our mutual funds could erode investor confidence, potentially

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**Table of Contents**

leading to a decrease in new investments and an increase in redemptions, thereby reducing the net assets of our mutual funds. A decrease in the net assets of our mutual funds adversely affects our revenues.

Investor behavior is influenced by short-term investment performance of mutual funds. Poor short-term performance of our mutual funds could cause a decrease in new investments in or accelerate redemptions from our mutual funds, which adversely affects our revenues.

Investor behavior may be based on many factors, including short-term investment performance. Poor short-term performance of our mutual funds, irrespective of longer-term success, could potentially lead to a decrease in new investments and an increase in redemptions, thereby reducing the net assets of our mutual funds. A decrease in the net assets of our mutual funds adversely affects our revenues.

We utilize quantitative investment strategies that require us to invest in specific portfolios of securities and hold these positions for approximately one year. Entering into, maintaining or liquidating one or more of these positions in accordance with our investment strategies could have a material adverse effect on the performance of our mutual funds.

We adhere to the investment strategies for each of our mutual funds during the annual rebalancing period and throughout the course of the year. Adhering to our investment strategies during the annual rebalancing of our mutual funds may result in the elimination of better performing assets from our funds' portfolios and an increase in investments with relatively lower total return. Additionally, we will maintain a position in a relatively poorly performing security throughout the course of the portfolio holding period. Either of these actions could result in relatively lower performance of our mutual funds and adversely affect the net assets of our mutual funds. A decrease in the net assets of our mutual funds adversely affects our revenues.

We depend upon Neil J. Hennessy to manage our business. The loss of Mr. Hennessy may adversely affect our business and financial condition.

Our success is largely dependent on the skills, experience and performance of key personnel, particularly Neil J. Hennessy, our chairman of the board, chief executive officer and president. Mr. Hennessy is primarily responsible for the marketing and management of the portfolio of each of our mutual funds, developing new investment strategies and executing each existing fund's investment program. Mr. Hennessy is also our spokesperson and spearheads our marketing and public relations campaign. The loss of Mr. Hennessy could have an adverse effect on our business, financial condition and results of operations.

Our business is extensively regulated and our failure to comply with regulatory requirements may harm our financial condition.

Our business is subject to extensive regulation in the United States, particularly by the SEC. Our failure to comply with applicable laws or regulations could result in fines, suspensions of personnel or other sanctions, including revocation of our registration as an investment advisor. The mutual fund industry has undergone increased scrutiny by the SEC and state regulators for the past several years, resulting in numerous enforcement actions, sweep examinations, and new rules and rule proposals. These actions have increased our costs in managing our mutual funds, and we could continue to experience higher costs if new rules and other regulatory actions or legislation require us to spend more time, hire additional personnel or buy new technology to comply with these rules and laws. Additional changes in laws or regulations, the interpretation or enforcement of existing laws and rules or governmental policies could also have a material adverse effect on us by limiting the sources of our revenues and increasing our costs. Our business may be materially affected not only by securities regulations, but also by regulations of general application. For example, the amount of net assets in our mutual funds in a given time period could be affected by, among other things, existing and proposed tax legislation and other governmental regulations and policies, including the interest rate policies of the Federal Reserve Board.

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## Table of Contents

Our management activities are also subject to contractual commitments and our mutual fund business involves compliance with numerous investment, asset valuation, distribution and tax requirements. Failure to adhere to these requirements could result in losses that a client could recover from us. We have installed procedures and utilize the services of experienced administrators, accountants and lawyers to assist in satisfying these requirements. However, there can be no assurance that these precautions will protect us from potential liabilities.

The costs of full compliance with new securities regulations may increase expenses and reduce earnings.

In order to comply with securities regulations, we may have additional expenses beyond our control, which may have a substantial impact on earnings per share. In October 2004, we hired a chief compliance officer as required by Rule 206(4)-7 of the Investment Advisors Act of 1940. Under Rule 38a-1 of the Investment Company Act of 1940, which pertains to mutual fund companies, our mutual funds were also required to hire a chief compliance officer. The individual serving as our chief compliance officer was also hired by our mutual funds to serve as their chief compliance officer. The mutual fund directors or trustees set the compensation for their chief compliance officer, but we have agreed to bear all of the related compensation expense.

In addition to requiring the hiring of a chief compliance officer, Rule 206(4)-7 of the Investment Advisors Act of 1940 required that we adopt written compliance policies and procedures. Under Rule 38a-1 of the Investment Company Act of 1940, our mutual funds were also required to adopt written compliance policies and procedures, including policies and procedures that provide for oversight of the funds' key service providers, including us. We may experience increases in audit, legal, internal technology and other expenses associated with Sarbanes-Oxley regulations, especially as they relate to internal controls and compliance with financial reporting.

Management contracts acquired by the Company are indefinite life assets subject to impairment analysis. The impairment analysis is based on subjective criteria, and an impairment loss could be recorded.

The management contracts acquired by the Company, currently a \$19.4 million asset on the balance sheet, are considered intangible assets with an indefinite useful life. The Company periodically reviews the carrying value of management contracts acquired to determine if any impairment has occurred. The analysis is based on anticipated future cash flows, which are calculated based on assets under management. Although the contracts are not currently impaired, there is always a possibility of impairment in the future, which could require the Company to write-off all or a portion of the contracts. A write-off, depending on the amount, could have a significant impact on earnings per share.

Acquisitions involve inherent risks that could adversely affect our operating results and financial condition as well as dilute the holdings of current shareholders.

As part of our business strategy, we intend to pursue additional acquisitions of management agreements for other mutual funds. Future acquisitions of management agreements would be accompanied by risks including, among others:

inability to secure enough affirmative votes to gain approval from the target fund's shareholders of a proposed acquisition;

the loss of mutual fund assets through redemptions by shareholders of newly acquired mutual funds;

higher than anticipated acquisition costs and expenses;

the potential diversion of our management's time and attention; and

dilution to our shareholders if the acquisition is made with our common stock.

If one or more of these risks occur, we may be unable to successfully complete an acquisition of a management agreement, we may experience an impairment of management agreement valuations and we may not achieve the expected return on investment. Any of these results could have an adverse effect on our business, financial condition and results of operations.



## **Table of Contents**

Our management and shareholder servicing agreements can be terminated on short notice and are subject to annual renewals.

We generate all of our operating revenues from our management and shareholder servicing agreements covering our mutual funds. Management and shareholder servicing agreements covering our mutual funds are terminable without penalty on 60 days notice and must be approved at least annually by a majority of each fund's board of directors or trustees and a majority of the disinterested members of each fund's board of directors or trustees. If any of these management or shareholder servicing agreements are terminated or not renewed, our revenues would substantially decline.

We face intense competition in attracting investors and retaining net assets in our mutual funds.

The investment management business is intensely competitive. We are considered a small investment management company, but must compete with a large number of global and U.S. investment advisors, commercial banks, brokerage firms, broker-dealers, insurance companies and other financial institutions for investors in our mutual funds. Many organizations are attempting to market to and service the same investors as we do, not only with mutual fund products and services, but also with a wide range of other financial products and services. Many of our competitors have greater marketing, financial, technical, research, distribution and other capabilities than we do and offer more product lines and services. These competitors would tend to have a substantial advantage over us during periods when our investment performance is not strong enough to counter these competitors' greater resources or due to a wide variety of other factors, such as the expense ratios of our mutual funds or our small number of mutual funds. If we are not able to attract investors and retain net assets in our mutual funds, our revenues could decline and our business, financial condition and results of operations would suffer.

Assets invested through mutual fund supermarkets have a higher risk of redemption due to more accessibility to alternative investment options.

The mutual fund assets held through mutual fund supermarkets, as opposed to assets directly invested in our mutual funds, can be more easily moved to investments in funds outside of our fund family. Mutual fund supermarkets are attractive to investors because of the ease of accessibility to a variety of funds, but this causes the investments to be more sensitive to fluctuations in performance, especially in the short-term. Our most recent asset acquisition (the Henlopen fund in July 2005) was largely an acquisition of assets held at mutual fund supermarkets, which has increased our risk of redemptions. If we are not able to retain the investor assets held through mutual fund supermarkets, it will cause decreased net assets in our mutual funds; as a result, our revenues could decline and our business, financial condition and results of operations would suffer.

Market pressure to lower our management fees could reduce our profit margin.

To the extent we are forced to compete on the basis of the management fees we charge our mutual funds, we may not be able to maintain our current fee structure. Historically, we have competed primarily on the performance of our mutual funds and not on the level of our management fees relative to those of our competitors. In recent years, however, there has been a trend toward lower fees in some segments of the investment management industry. In order for us to maintain our fee structure in a competitive environment, we must be able to provide our mutual fund shareholders with investment returns and service that will encourage them to invest in the mutual funds that pay our fees. We cannot be assured that we will succeed in providing investment returns that will allow us to maintain our current fee structure. Fee reductions on existing or future business could have a material adverse effect on our results of operations.

We may be required to forego all or a portion of our fees under our management agreements covering our mutual funds.

## **Table of Contents**

The board of directors or trustees of each of our mutual funds must make certain findings regarding the reasonableness of our fees. We monitor ratios of expenses to average daily net assets and waive management fees that we would otherwise receive from, or reimburse expenses incurred by, our mutual funds if we believe that our expense ratios might lead fund investors to redeem their shares in our mutual funds in order to seek lower expense ratios with other fund managers.

Changes in mutual fund supermarkets fee structures could reduce our revenues, increase our expenses and slow our growth.

We derive a significant portion of our sales through individual investors and investment advisors who utilize mutual fund supermarkets. Mutual fund supermarkets provide services to their customers, but instead of charging their customers for these services, they charge us and our mutual funds. Fees paid to mutual fund supermarkets may increase in the future. Higher payments to mutual fund supermarkets by us or our mutual funds could increase our expenses or reduce our revenues by decreasing our assets under management, either of which could slow our growth.

We depend on third party investment professionals and the distribution channels they utilize to market our mutual funds.

Our ability to distribute our mutual funds is highly dependent on access to the retail distribution systems and client bases of third party investment professionals that also offer competing investment products. These investment professionals who recommend our mutual funds may reduce or eliminate their involvement in marketing our funds at any time, or may elect to emphasize the investment products of competing sponsors or the proprietary products of their own firms. In addition, an investment professional may only distribute our mutual funds for so long as we continue to participate in the platforms of national full-service firms that permit their investment professionals to utilize no-load funds for their clients. These firms can terminate their relationships with us on short notice, limiting our participation in these platforms. Either of these events could cause the net assets of our mutual funds to decline, which would decrease our revenues and have a material adverse effect on our results of operations.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. DESCRIPTION OF PROPERTY

Our principal executive offices are located at 7250 Redwood Boulevard, Suite 200, Novato, California 94945, where we occupy approximately 13,728 square feet and have the right to use all common areas. The term expires on September 30, 2010, with one five-year extension available.

### ITEM 3. LEGAL PROCEEDINGS

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

**Table of Contents**

## PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY  
SECURITIES  
MARKET INFORMATION

Our common stock is traded on the OTC Bulletin Board under the trading symbol HNNA.OB. Our stock began trading July 15, 2002.

The following table sets forth the high and low sales prices for our common stock on the OTC Bulletin Board for the periods indicated. All per share amounts have been restated to reflect a 3-for-2 stock split that occurred on March 7, 2007:

Fiscal Year Ended September 30, 2008	Price Range		Dividends Paid per Share
	High	Low	
First Quarter	\$ 13.00	\$ 8.56	
Second Quarter	12.00	5.25	\$ 0.09(1)
Third Quarter	8.50	5.00	
Fourth Quarter	6.20	3.60	

  

Fiscal Year Ended September 30, 2007	Price Range		Dividends Paid per Share
	High	Low	
First Quarter	\$ 16.95	\$ 14.95	
Second Quarter	17.33	15.29	\$ 0.08(2)
Third Quarter	15.50	13.00	
Fourth Quarter	13.00	10.00	

(1) We paid a cash dividend on March 7, 2008 of \$0.09 per share.

(2) We paid a cash dividend on March 7, 2007 of \$0.08 per share.

On October 29, 2008, the last reported sale price of our common stock on the OTC Bulletin Board was \$3.25 per share.

## **Table of Contents**

### **STOCK PERFORMANCE GRAPH**

The following graph compares total stockholder returns of Hennessy Advisors, Inc. for the five-year period ended September 30, 2008, with the total returns of the Dow Jones Select MicroCap Index and an index of our identified peer group. The graph assumes that \$100 was invested September 30, 2003 in Hennessy Advisors, Inc. stock and equally across all stocks included in the indices, and covers the period through September 30, 2008. Total return includes reinvestment of all dividends.

The Dow Jones Select MircoCap ( DJSM ) Index is a composite of 250 publicly traded stocks whose market capitalizations fall within a range defined by the bottom two deciles of NYSE stocks. The stocks are screened by trading volume and financial indicators such as P/E ratio, trailing price/sales ratio, operations profit margins, per-share profit change for the previous quarter, and six-month total return to represent micro-cap stocks trading on the New York Stock Exchange. The DJSM Index was first published in June 2005, but includes results prior to this date based on back-tested information. The DJSM Index represents the closest available index to the Hennessy Advisors, Inc. stock based on the relatively low market capitalization and trading volume of the included stocks.

The peer group index includes other publicly traded asset management firms similar in nature to Hennessy Advisors, Inc. The following companies are included in the peer group: Eaton Vance, Janus Capital, T. Rowe Price, Blackrock, Franklin Resources, Gamco Investors, Federated Investors, Legg Mason, Calamos Asset Management, and Cohen & Steers. Calamos Asset Management began trading on October 27, 2004, and is therefore excluded from years ended September 30, 2004 and 2005. Cohen and Steers began trading on August 12, 2004, and is therefore excluded from year ended September 30, 2004. The returns of the peers are weighted based on their respective market capitalizations.

### **HOLDERS**

As of October 6, 2008, there were 165 holders of record of Common Stock of the Company. The 165 holders of record include several brokerage firm accounts which represent about 500 additional individual shareholders for an approximate total of about 765 shareholders as of October 6, 2008.

**Table of Contents**

## DIVIDENDS

We paid a cash dividend of \$0.09 per share on March 7, 2008.

The declaration and payment of dividends to holders of our common stock by us, if any, are subject to the discretion of our board of directors. Our board of directors will take into account such matters as general economic and business conditions, our strategic plans, our financial results and condition, contractual, legal and regulatory restrictions on the payment of dividends by us, and such other factors as our board of directors may consider relevant.

## PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

We purchased shares underlying vested RSU s throughout the year from employees to provide withholding and tax payments on behalf of our employees. The stock repurchases are presented in the following for the quarter ended September 30, 2008:

Period	Total number of shares purchased (a)	Average price paid per share (b)	Total number of shares purchased as part of publicly announced plans or programs (3) (c)	Maximum number of shares that may yet be purchased under the plans or programs (3) (d)
On the vesting date of August 2, 2008 (1)	312	\$ 5.30	0	0
Total (2)	312	\$ 5.30	0	0

- (1) The shares repurchased on August 2, 2008 were repurchased, according to the employee s instructions, to pay for tax expense and withholding on the compensation recognized for vested RSU s, granted on August 2, 2006.
- (2) The total shares repurchased were purchased at a weighted average price of \$5.30 per share.
- (3) The share repurchase was not completed pursuant to a plan or program, and is therefore not subject to a maximum per a plan or program. The share repurchase was done at the employee s request to pay for tax expense and withholding on behalf of the employee.

**Table of Contents**

## ITEM 6. SELECTED FINANCIAL DATA

The following financial information is derived from the Company's audited consolidated financial statements, included in the Company's annual reports, and should be read in conjunction therewith.

<b>Hennessy Advisors. Inc.</b>					
<b>Financial Highlights</b>					
<b>(In thousands, except per share amounts)</b>					
<b>Years Ended September 30,</b>					
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Income Statement Data:</b>					
Revenue	\$ 10,275	\$ 16,072	\$ 16,934	\$ 11,997	\$ 9,545
Net Income	\$ 1,611	\$ 4,133	\$ 4,403	\$ 3,139	\$ 2,765
<b>Balance Sheet Data:</b>					
Total Assets	\$ 34,335	\$ 35,704	\$ 33,107	\$ 29,107	\$ 19,914
Cash and cash equivalents	\$ 12,788	\$ 13,760	\$ 10,360	\$ 6,291	\$ 4,568
Long-Term Debt	\$ 4,417	\$ 6,508	\$ 8,599	\$ 10,690	\$ 6,208
<b>Per Share Data:</b>					
<b>Earnings per share:</b>					
Basic	\$ 0.29	\$ 0.73	\$ 0.79	\$ 0.57	\$ 0.50
Diluted	\$ 0.28	\$ 0.70	\$ 0.73	\$ 0.53	\$ 0.48
Cash dividends declared	\$ 0.09	\$ 0.08	\$ 0.06	\$ 0.04	

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

## Forward Looking Statements

This report contains forward-looking statements within the meaning of the securities laws, for which we claim the protection of the safe harbors for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements about, among other things, assets under management, our anticipated financial performance, business prospects, new developments and similar matters, and statements preceded by, followed by or including the words expect, anticipate, intend, may, plan, will, should, believe, estimate, predict, project, continue, seek or similar expressions. We have based these forward-looking statements on our current expectations and projections about future events, based on information currently available to us. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or means by, which such performance or results will be achieved. These forward-looking statements are subject to risks, uncertainties and assumptions, including those described in the section entitled "Risks Relating to Our Business" and elsewhere in this report that could cause actual performance or results to differ substantially from those expressed in or suggested by the forward-looking statements.

Factors that may affect the Company's actual results include those described in Item 1A under "Risks Relating to Our Business." There is no regulation requiring an update of any of the forward-looking statements after the date of this report and prior to our next Form 10-Q to conform these statements to actual results or to changes in our expectations.

**Table of Contents**

## Overview

We derive our operating revenues from management fees and shareholder servicing fees paid to us by the Hennessy Funds. These fees are calculated as a percentage of the average daily net assets in each of our mutual funds and vary from fund to fund. The fees we receive fluctuate with changes in the total net asset value of the assets in our mutual funds, which are affected by our investment performance, our completed acquisitions of management agreements, market conditions and the success of our marketing and distribution efforts. Total assets under management were \$876 million as of September 30, 2008.

The assets we manage have decreased as a result of net fund outflows and market depreciation. The following table illustrates the change by quarter in assets under management since the beginning of fiscal year 2006:

	Assets Under Management At Each Quarter End in Fiscal Year 2008			
	12/31/2007	3/31/2008	6/30/2008	9/30/2008
	(In Thousands)			
Beginning assets under management	\$ 1,720,763	\$ 1,425,531	\$ 1,098,695	\$ 1,094,791
Organic inflows	32,911	76,398	63,237	92,452
Redemptions	(242,867)	(199,018)	(105,092)	(85,497)
Market appreciation (depreciation)	(85,276)	(204,216)	37,951	(225,677)
Ending assets under management	\$ 1,425,531	\$ 1,098,695	\$ 1,094,791	\$ 876,069

	Assets Under Management At Each Quarter End in Fiscal Year 2007			
	12/31/2006	3/31/2007	6/30/2007	9/30/2007
	(In thousands)			
Beginning assets under management	\$ 2,056,253	\$ 2,032,736	\$ 1,899,944	\$ 1,913,870
Organic inflows	102,584	84,162	78,320	55,024
Redemptions	(296,568)	(259,026)	(200,095)	(161,591)
Market appreciation (depreciation)	170,467	42,072	135,701	(86,540)
Ending assets under management	\$ 2,032,736	\$ 1,899,944	\$ 1,913,870	\$ 1,720,763

**Table of Contents**

A significant portion of our expenses, including employee compensation, are fixed and have historically demonstrated minimal variation. To implement our business strategy, we have increased our staffing. As a result, our fixed expenses have increased in the current year. Additionally, we have had decreasing revenues, causing our fixed costs to become a larger percent of revenues and therefore further decreasing our profitability.

The principal asset on our balance sheet, management contracts net of accumulated amortization, represents the capitalized costs incurred in connection with the acquisition of management agreements. This asset had a net balance of \$19.4 million as of September 30, 2008.

The principal liability on our balance sheet is the long-term bank debt incurred in connection with the acquisition of management agreements for the Lindner and Henlopen Funds. As of September 30, 2008, this liability, including the current portion of long-term debt, had a balance of \$6.5 million.

**RESULTS OF OPERATIONS**

The following table sets forth information about components of our revenue and expense for the periods shown:

**Table of Contents**

	Fiscal Years Ended September 30,			
	2008		2007	
	(In thousands, except percentages)			
	Amounts	Percent of Total Revenue	Amounts	Percent of Total Revenue
<b>Revenue:</b>				
Investment advisory fees	\$ 9,025	87.8%	\$ 14,204	88.4%
Shareholder service fees	1,211	11.8	1,847	11.5
Other	39	0.4	21	0.1
<b>Total revenue</b>	<b>10,275</b>	<b>100.0</b>	<b>16,072</b>	<b>100.0</b>
<b>Operating expenses:</b>				
Compensation and benefits	3,032	29.5	3,320	20.7
General and administrative	2,181	21.2	1,885	11.7
Mutual fund distribution	1,799	17.5	3,078	19.2
Amortization and depreciation	527	5.2	656	4.0
<b>Total operating expenses</b>	<b>7,539</b>	<b>73.4</b>	<b>8,939</b>	<b>55.6</b>
Operating income	2,736	26.6	7,133	44.4
Interest expense	388	3.8	738	4.6
Other income	(407)	(4.0)	(524)	(3.2)
<b>Income before income tax expense</b>	<b>2,755</b>	<b>26.8</b>	<b>6,919</b>	<b>43.0</b>
Income tax expense	1,144	11.1	2,786	17.3
<b>Net income</b>	<b>\$ 1,611</b>	<b>15.7%</b>	<b>\$ 4,133</b>	<b>25.7%</b>

Revenues: Total revenue decreased by \$5.8 million, or 36.1%, in the year ended September 30, 2008, from \$16.1 mil