

HENNESSY ADVISORS INC  
Form 10-Q  
April 27, 2007

---

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

---

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Quarterly Period Ended March 31, 2007

**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)

**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)

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

Edgar Filing: HENNESSY ADVISORS INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

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

Yes  No

As of April 16, 2007 there were 5,701,415 shares of common stock issued and outstanding.

---

HENNESSY ADVISORS, INC. INDEX

	<b>Page Number</b>
PART I. Financial Information	
Item 1. Condensed Financial Statements	
<u>Condensed Balance Sheets as of March 31, 2007 (unaudited) and September 30, 2006</u>	3
<u>Condensed Statements of Income for the three and six months ended March 31, 2007 and 2006 (unaudited)</u>	4
<u>Condensed Statement of Changes in Stockholders' Equity for the six months ended March 31, 2007 (unaudited)</u>	5
<u>Condensed Statements of Cash Flows for the six months ended March 31, 2007 and 2006 (unaudited)</u>	6
<u>Notes to Condensed Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	19
PART II. <u>Other Information</u>	20
Item 1. Legal proceedings	20
Item 1A. Risk Factors	20
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3. Defaults Upon Senior Securities	20
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	20
Item 5. <u>Other Information</u>	20
Item 6. <u>Exhibits</u>	21
<u>Signatures</u>	22

## Hennessy Advisors, Inc.

## Condensed Balance Sheets

(In thousands, except share and per share amounts)

	March 31, 2007 (Unaudited)	September 30, 2006
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 11,205	\$ 10,360
Investments in marketable securities, at fair value	6	5
Investment fee income receivable	1,324	1,408
Prepaid expenses	135	232
Deferred income tax asset	258	259
Other current assets	30	16
<b>Total current assets</b>	<b>12,958</b>	<b>12,280</b>
Property and equipment, net of accumulated depreciation of \$142 and \$106	346	383
Management contracts, net of accumulated amortization of \$629	19,406	19,406
Non-compete agreement, net of accumulated amortization of \$943 and \$673	673	943
Other assets	97	95
<b>Total assets</b>	<b>\$ 33,480</b>	<b>\$ 33,107</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accrued liabilities and accounts payable	\$ 1,374	\$ 2,248
Income taxes payable	125	
Current portion of deferred rent	7	
Current portion of long-term debt	2,091	2,091
<b>Total current liabilities</b>	<b>3,597</b>	<b>4,339</b>
Long-term debt	7,554	8,599
Long-term portion of deferred rent	23	
Deferred income tax liability	1,251	1,219
<b>Total liabilities</b>	<b>12,425</b>	<b>14,157</b>
<b>Commitments and Contingencies (Note 8)</b>		
<b>Stockholders equity:</b>		
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:		
5,701,415 shares issued and outstanding at March 31, 2007 and 5,658,308 at September 30, 2006	7,903	7,551
Additional paid-in capital	738	652
Retained earnings	12,414	10,747
<b>Total stockholders equity</b>	<b>21,055</b>	<b>18,950</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 33,480</b>	<b>\$ 33,107</b>

See accompanying notes to condensed financial statements

## Hennessy Advisors, Inc.

## Condensed Statements of Income

Three and Six Months Ended March 31, 2007 and 2006

(Unaudited)

	Three Months		Six Months	
	2007	2006	2007	2006
<b>Revenue</b>				
Investment advisory fees	\$ 3,514	\$ 3,698	\$ 7,398	\$ 6,955
Shareholder service fees	448	478	946	900
Other	6	5	11	9
Total revenue	3,968	4,181	8,355	7,864
<b>Operating expenses</b>				
Compensation and benefits	876	808	1,770	1,471
General and administrative	428	413	900	845
Mutual fund distribution	769	831	1,636	1,572
Amortization and depreciation	163	158	326	309
Total operating expenses	2,236	2,210	4,632	4,197
Operating income	1,732	1,971	3,723	3,667
Interest expense	185	222	404	444
Other income	(118)	(68)	(235)	(86)
Income before income tax expense	1,665	1,817	3,554	3,309
Income tax expense	670	726	1,424	1,323
Net income	\$ 995	\$ 1,091	\$ 2,130	\$ 1,986
Earnings per share:				
Basic	\$ 0.18	\$ 0.19	\$ 0.38	\$ 0.36
Diluted	\$ 0.17	\$ 0.18	\$ 0.36	\$ 0.34
Weighted average shares outstanding:				
Basic	5,649,823	5,596,572	5,621,763	5,570,708
Diluted	6,019,956	5,927,174	5,962,250	5,864,565

See accompanying notes to condensed financial statements

## Hennessy Advisors, Inc.

## Condensed Statement of Changes in Stockholders' Equity

Six Months Ended March 31, 2007

(In thousands, except share data)

(Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders Equity
Balance as of September 30, 2006	5,658,308	\$ 7,551	\$ 652	\$ 10,747	\$ 18,950
Net income for six months ended March 31, 2007				2,130	2,130
Dividends paid				(456)	(456)
Employee and director stock options exercised	29,500	183			183
Employee and director restricted stock vested	14,625	179	(179)		
Repurchase of vested employee restricted stock for tax withholding	(918)	(10)		(5)	(15)
Employee restricted stock compensation			149		149
Tax benefit of RSU vesting and stock option exercises			116		116
Adjustment for fractional shares paid in cash	(100)			(2)	(2)
Balance as of March 31, 2007	5,701,415	\$ 7,903	\$ 738	\$ 12,414	\$ 21,055

See accompanying notes to condensed financial statements

## Hennessy Advisors, Inc.

## Condensed Statements of Cash Flows

(Unaudited)

	Six Months Ended March 31,	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 2,130	\$ 1,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	326	309
Loss on asset disposal		33
Deferred income taxes	33	121
Tax benefit from options exercised and restricted stock vested	116	267
Tax benefit from restricted stock unit compensation		78
Restricted stock units vested	(15)	
Deferred restricted stock unit compensation	149	
Unrealized gain on marketable securities	(1)	
Deferred rent	30	
(Increase) decrease in operating assets:		
Investment fee income receivable	84	(304)
Prepaid expenses	97	117
Other current assets	(14)	87
Other assets	(10)	(9)
Increase (decrease) in operating liabilities:		
Accrued liabilities and accounts payable	(874)	(588)
Income taxes payable	125	65
<b>Net cash provided by operating activities</b>	<b>2,176</b>	<b>2,162</b>
Cash flows used in investing activities:		
Purchases of property and equipment	(11)	(236)
<b>Net cash used in investing activities</b>	<b>(11)</b>	<b>(236)</b>
Cash flows used in financing activities:		
Principal payments on long-term debt	(1,045)	(1,045)
Proceeds from exercise of employee and director stock options	183	396
Dividend payment	(456)	(318)
Cash paid for fractional shares	(2)	
<b>Net cash used in financing activities</b>	<b>(1,320)</b>	<b>(967)</b>
<b>Net increase in cash and cash equivalents</b>	<b>845</b>	<b>959</b>
Cash and cash equivalents at the beginning of the period	10,360	6,291
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 11,205</b>	<b>\$ 7,250</b>
Supplemental disclosures of cash flow information:		
Cash paid for:		
Income taxes	\$ 1,080	\$ 770
Interest	\$ 426	\$ 440



See accompanying notes to condensed financial statements

Hennessy Advisors, Inc.

Notes to Condensed Financial Statements

(1) Basis of Financial Statement Presentation

The accompanying condensed financial statements of Hennessy Advisors, Inc. (the Company) are unaudited, but in the opinion of management, such financial statements have been presented on the same basis as the audited financial statements and include all adjustments consisting of only normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The condensed financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the three and six months ended March 31, 2007, are not necessarily indicative of results which may be expected for the fiscal year ending September 30, 2007. For additional information, refer to the financial statements for the fiscal year ended September 30, 2006, which are included in the Company's annual report on Form 10-KSB, filed with the Securities and Exchange Commission on December 8, 2006.

The operating activities of the Company consist primarily of providing investment management services to six open-end mutual funds (the Hennessy Funds). The Company serves as investment advisor 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.

(2) Management Contracts

As of March 31, 2007, Hennessy Advisors, Inc. had contractual management agreements with Hennessy Funds, Inc. for the Hennessy Balanced Fund and the Hennessy Total Return Fund; with Hennessy Mutual Funds, Inc. for the Hennessy Cornerstone Growth Fund, the Hennessy Cornerstone Value Fund and the Hennessy Focus 30 Fund; and with Hennessy Funds Trust for the Hennessy Cornerstone Growth Fund-Series II.

The management agreements were renewed by the Board of Directors of Hennessy Funds, Inc., Hennessy Mutual Funds, Inc. and Hennessy Funds Trust, at their meeting on March 6, 2007 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., Hennessy Mutual Funds, Inc., Hennessy Funds Trust (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 has, from time to time, had contractual obligations to waive all or part of its management fees for the Funds it manages, but such agreements are now expired. Hennessy Advisors may still choose to voluntarily waive part of its management fees in order to maintain competitive expense ratios for its funds.

(3) 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 required fifty-nine (59) monthly payments in the amount of \$94,060 plus interest at the bank's prime rate less one percent, as amended on February 1, 2007. The prime rate may change from time to time (currently 8.25%, in effect since June 29, 2006) and the loan is secured by the Company's assets. On July 1, 2005, the loan was amended to provide an additional \$6.7 million to fund acquisition of the management contract for the Henlopen Fund. The amended loan after payment of an installment of \$94,060 on July 10, 2005, requires 64 monthly payments in the amount of \$174,210 plus interest at the bank's prime rate (currently 8.25%), less one percent (effectively 7.25%) per a loan amendment dated February 1, 2007. The loan is secured by the Company's assets. The final installment of the then outstanding principal and interest is due September 30, 2010.

In connection with securing the financing discussed above, Hennessy Advisors, Inc. incurred loan costs in the amount of \$101,110. These costs are included in other assets and the unamortized balance of \$85,289 (as of the loan amendment date of July 1, 2005) is being amortized on a straight-line basis over 64 months.

(4) Investment Advisor and Shareholder Service 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, Hennessy Cornerstone Growth Fund-Series II, Hennessy Focus 30 Fund, and Hennessy Cornerstone Value Fund. The annual advisory fee for the Hennessy Balanced Fund and Hennessy Total Return Fund is 0.60%.

Fees for shareholder support services provided to the Hennessy Cornerstone Growth Fund, Hennessy Cornerstone Growth Fund- Series II, Hennessy Focus 30 Fund, and Hennessy Cornerstone Value Fund, are charged at an annual rate of 0.1% of average daily net assets.

(5) 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.

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 for the three and six months ended March 31, 2007, was 40.3% and 40.1%, respectively, and differs from the federal statutory rate of 34% primarily due to the effects of state income taxes.

(6) 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.

On January 25, 2007, our Board of Directors declared a three-for-two stock split which was implemented on March 7, 2007 for shareholders of record as of February 14, 2007. All disclosures in this report relating to shares of common stock, stock options, restricted share units and per share data have been adjusted to reflect this stock split.

On March 7, 2007, we paid a cash dividend of \$0.08 per share (post-split) for shareholders of record as of February 14, 2007.

(7) 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 an aggregate of more than 75,000 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 prices 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. There were no options granted during the three and six month periods ended March 31, 2007 and 2006.

During the six months ended March 31, 2007, the Company issued restricted stock units ( RSU ) under its 2001 Omnibus Plan. Under the Company's 2001 Omnibus Plan, participants may be granted RSU's, representing an unfunded, unsecured right to receive a

Company common share on the date specified in the recipient's award. The Company issues new shares for shares delivered for RSU recipients. The RSU granted under this plan vests over four years, at a rate of 25 percent per year. The Company recognizes compensation expense on a straight-line basis over the four-year vesting term of each award. RSU activity for the six months ended March 31, 2007 was as follows:

	<b>Restricted Stock Unit Activity Six Months Ended March 31, 2007</b>	
	<b>Number of Restricted Share Units</b>	<b>Weighted Avg. Fair Value at Grant Date</b>
Non-vested Balance at September 30, 2006	52,386	\$ 12.49
Granted	44,925	\$ 16.94
Vested	(11,313)	\$ 13.58
Forfeited		
Non-vested Balance at		
March 31, 2007	85,998	\$ 14.73

	<b>Restricted Stock Unit Compensation Six Months Ended March 31, 2007 (In Thousands)</b>	
Total expected compensation expense related to Restricted Stock Units	\$	1,611
Compensation Expense recognized as of March 31, 2007		(344)
Unrecognized compensation expense related to RSU's at March 31, 2007	\$	1,267

As of March 31, 2007, there was \$1.3 million of total RSU compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted-average vesting period of 3.3 years.

(8) Commitments and Contingencies

The Company's headquarters is located in leased office space under a single non-cancelable operating lease at 7250 Redwood Blvd., Suite 200, in Novato, California. The initial lease expires October 31, 2010 with one five-year extension available thereafter.

The Company's portfolio trading operation is located in leased office space under a non-cancelable lease at One Landmark Square, Suite 424, in Stamford, Connecticut. The lease expires September 30, 2008.

As of March 31, 2007, there were no material changes in leasing arrangements that would have a significant effect on future minimum lease payments reported in our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2006.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward Looking Statements**

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

Our business activities are affected by many factors, including redemptions by mutual fund shareholders, general economic and financial conditions, movement of interest rates, competitive conditions, industry regulation, and others, many of which are beyond the control of our management. Statements regarding the following subjects are forward-looking by their nature:

our business strategy, including our ability to identify and complete future acquisitions;

market trends and risks;

our estimates for future performance;

our estimates regarding anticipated revenues and operating expenses; and

our ability to retain the mutual fund assets we currently manage.

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.

### **Overview**

We derive our operating revenue 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, redemptions, completed acquisitions of management agreements, market conditions and the success of our marketing efforts. Total assets under management were \$1.90 billion as of March 31, 2007.

The assets we manage in total have decreased since March 31, 2006 as a result of increasing redemptions and market depreciation. The following table illustrates the changes in assets under management since March 31, 2006 through March 31, 2007:

	<b>Assets Under Management</b>				
	<b>At Each Quarter End, March 31, 2006 through March 31, 2007</b>				
	<b>3/31/2006</b>	<b>6/30/2006</b>	<b>9/30/2006</b>	<b>12/31/2006</b>	<b>3/31/2007</b>
	<b>(In Thousands)</b>				
Beginning assets under management	\$ 1,831,993	\$ 2,249,995	\$ 2,182,580	\$ 2,056,253	\$ 2,032,736
Organic inflows	262,441	268,615	165,112	102,584	84,162
Redemptions	(116,171)	(173,620)	(196,412)	(296,568)	(259,026)
Market appreciation (depreciation)	271,732	(162,410)	(95,027)	170,467	42,072
Ending assets under management	\$ 2,249,995	\$ 2,182,580	\$ 2,056,253	\$ 2,032,736	\$ 1,899,944

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. As of March 31, 2007, this asset had a net balance of \$19.4 million.

The principal liability on our balance sheet is the long-term bank debt incurred in connection with the acquisition of the management agreements for the Lindner Funds and the Henlopen Fund. As of March 31, 2007, this liability, including the current portion of long-term debt, had a balance of \$9.6 million.

## Results of Operations

The following table displays items in the statements of income as dollar amounts and as percentages of total revenue for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31, 2007		2006	
	Amounts	Percent of Total Revenue	Amounts	Percent of Total Revenue
<b>Revenue:</b>				
Investment advisory fees	\$ 3,514	88.6%	\$ 3,698	88.4%
Shareholder service fees	448	11.3	478	11.4
Other	6	0.1	5	0.2
<b>Total revenue</b>	<b>3,968</b>	<b>100.0</b>	<b>4,181</b>	<b>100.0</b>
<b>Operating expenses:</b>				
Compensation and benefits	876	22.1	808	19.3
General and administrative	428	10.8	413	9.9
Mutual fund distribution	769	19.4	831	19.9
Amortization and depreciation	163	4.1	158	3.8
<b>Total operating expenses</b>	<b>2,236</b>	<b>56.4</b>	<b>2,210</b>	<b>52.9</b>
Operating income	1,732	43.6	1,971	47.1
Interest expense	185	4.7	222	5.3
Other income	(118)	(3.0)	(68)	(1.6)
<b>Income before income tax expense</b>	<b>1,665</b>	<b>41.9</b>	<b>1,817</b>	<b>43.4</b>
Income tax expense	670	16.8	726	17.3
<b>Net income</b>	<b>\$ 995</b>	<b>25.1%</b>	<b>\$ 1,091</b>	<b>26.1%</b>

**Revenues:** Total revenue decreased by \$0.2 million or 5.1%, in the three months ended March 31, 2007, from \$4.2 million in the prior comparable period, primarily due to decreased average assets under management. Investment management fees decreased by \$0.2 million, or 5.0%, in the three months ended March 31, 2007, from \$3.7 million in the prior comparable period, and shareholder service fees decreased by \$0.03 million, or 6.3%, in the three months ended March 31, 2007 from \$0.5 million in the prior comparable period. These decreases resulted from decreases in the average daily net assets of our mutual funds, which can differ considerably from total net assets of our mutual funds at the end of an accounting period. Total net assets in our mutual funds decreased by \$350.1 million, or 15.6%, as of March 31, 2007, from \$2.250 billion as of the end of the prior comparable period. The \$350.1 million decrease in net mutual funds assets is attributable to redemptions of \$925.6 million and market depreciation of \$44.9 million, partly offset by organic inflows of \$620.4 million. Redemptions as a percentage of assets under management increased from an average of 2.0% per month to 4.4% per month during the same period, mainly due to increasing redemptions.

**Operating Expenses:** Total operating expenses increased by \$0.03 million, or 1.2%, in the three months ended March 31, 2007, from \$2.2 million in the prior comparable period. The increase resulted from increases in compensation and benefits, several components of general and administrative expense, and depreciation expense, partly offset by decreased mutual fund distribution expense. As a percentage of total revenue, total operating expenses increased by 3.5% to 56.4% in the three months ended March 31, 2007, as compared to 52.9% in the prior comparable period.



**Compensation and Benefits:** Compensation and benefits increased by \$0.07 million, or 8.4%, in the three months ended March 31, 2007, from \$0.8 million in the prior comparable period. The increase resulted primarily due to increased bonus accruals and increased RSU compensation expense due to new award grants in the current year. As a percentage of total revenue, compensation and benefits increased by 2.8% to 22.1% for the three months ended March 31, 2007, compared to 19.3% in the prior comparable period.

**General and Administrative Expenses:** General and administrative expense increased by \$0.02 million, or 3.6%, in the three months ended March 31, 2007, from \$0.4 million in the prior comparable period, primarily due to increases in business insurance and professional service expenses. As a percentage of total revenue, general and administrative expense increased by 0.9% to 10.8% in the three months ended March 31, 2007, from 9.9% in the prior comparable period.

**Mutual Fund Distribution Expenses:** Distribution expenses decreased by \$0.06 million, or 7.5%, in the three months ended March 31, 2007, from \$0.8 million in the prior comparable period. As a percentage of total revenue, distribution expenses decreased by 0.5% to 19.4% for the three months ended March 31, 2007, compared to 19.9% in the prior comparable period. The decreased costs are due to decreased assets held through mutual fund supermarkets such as Charles Schwab, Fidelity and TD Ameritrade.

**Amortization and Depreciation Expense:** Amortization and depreciation expense increased by \$0.05 million, or 3.2%, in the three months ended March 31, 2007, from \$0.2 million in the prior comparable period. The increase is related to a larger fixed asset balance being depreciated in the current period. As a percentage of total revenue, amortization and depreciation expenses increased by 0.3% to 4.1% for the three months ended March 31, 2007, compared to 3.8% in the prior comparable period.

**Interest Expense:** Interest expense decreased by \$0.04 million from the prior comparable period due to a loan amendment decreasing the interest rate to prime less one percent effective February 1, 2007. Additionally, the principal balance has decreased \$2.1 million since the prior period due to monthly payments. As a percentage of total revenue, interest expense decreased by 0.6% to 4.7% for the three months ended March 31, 2007, compared to 5.3% in the prior comparable period.

**Other Income:** Other income increased by \$0.05 million from the prior comparable period due to a higher cash balance earning interest. As a percentage of total revenue, other income increased by 1.4% to 3.0% for the three months ended March 31, 2007, compared to 1.6% in the prior comparable period.

**Income Taxes:** The provision for income taxes decreased by \$0.06 million, or 7.7%, in the three months ended March 31, 2007, from \$0.7 million in the prior comparable period.

**Net Income:** Net income decreased by \$0.1 million, or 8.8%, in the three months ended March 31, 2007, compared to \$1.1 million in the prior comparable period, as a result of the factors discussed above.

Edgar Filing: HENNESSY ADVISORS INC - Form 10-Q

The following table displays items in the statements of income as dollar amounts and as percentages of total revenue for the six months ended March 31, 2007 and 2006:

	Six Months Ended March 31, 2007		Six Months Ended March 31, 2006	
	Amounts	Percent of Total Revenue	Amounts	Percent of Total Revenue
<b>Revenue:</b>				
Investment advisory fees	\$ 7,398	88.5%	\$ 6,955	88.4%
Shareholder service fees	946	11.3	900	11.4
Other	11	0.2	9	0.2
<b>Total revenue</b>	<b>8,355</b>	<b>100.0</b>	<b>7,864</b>	<b>100.0</b>
<b>Operating expenses:</b>				
Compensation and benefits	1,770	21.2	1,471	18.7
General and administrative	900	10.8	845	10.7
Mutual fund distribution	1,636	19.6	1,572	20.0
Amortization and depreciation	326	3.8	309	4.0
<b>Total operating expenses</b>	<b>4,632</b>	<b>55.4</b>	<b>4,197</b>	<b>53.4</b>
Operating income	3,723	44.6	3,667	46.6
Interest expense	404	4.8	444	5.6
Other income	(235)	(2.8)	(86)	(1.1)
<b>Income before income tax expense</b>	<b>3,554</b>	<b>42.6</b>	<b>3,309</b>	<b>42.1</b>
Income tax expense	1,424	17.1	1,323	16.9
<b>Net income</b>	<b>\$ 2,130</b>	<b>25.5%</b>	<b>\$ 1,986</b>	<b>25.2%</b>

**Revenues:** Total revenue increased by \$0.5 million or 6.2%, in the six months ended March 31, 2007, from \$7.9 million in the prior comparable period, primarily due to fees earned from increased average assets under management. Investment management fees increased by \$0.4 million, or 6.4%, in the six months ended March 31, 2007, from \$7.0 million in the prior comparable period, and shareholder service fees increased by \$0.05 million, or 5.1%, in the six months ended March 31, 2007 from \$0.9 million in the prior comparable period. These increases resulted from increases in the average daily net assets of our mutual funds, which can differ considerably from total net assets of our mutual funds at the end of an accounting period. Total net assets in our mutual funds decreased by \$350.1 million, or 15.6%, as of March 31, 2007, from \$2.250 billion as of the end of the prior comparable period. The \$350.1 million decrease in net mutual funds assets is attributable to redemptions of \$925.6 million and market depreciation of \$44.9 million, partly offset by organic inflows of \$620.4 million. Redemptions as a percentage of assets under management increased from an average of 2.0% per month to 4.4% per month during the same period, mainly due to increasing redemptions.

**Operating Expenses:** Total operating expenses increased by \$0.4 million, or 10.4%, in the six months ended March 31, 2007, from \$4.2 million in the prior comparable period. The increase resulted from increases in compensation and benefits, several components of general and administrative expense, increased mutual fund distribution costs, and increased depreciation expense. As a percentage of total revenue, total operating expenses increased by 2.0% to 55.4% in the six months ended March 31, 2007, as compared to 53.4% in the prior comparable period.

**Compensation and Benefits:** Compensation and benefits increased by \$0.3 million, or 20.3%, in the six months ended March 31, 2007, from \$1.5 million in the prior comparable period. The increase is primarily due to increased bonus accruals, increased officer salaries and greater compensation expense related to restricted stock awards granted in the current period. As a percentage of total revenue, compensation and benefits increased by 2.5% to 21.2% for the six months ended March 31, 2007, compared to 18.7% in the prior comparable period.

**General and Administrative Expenses:** General and administrative expense increased by \$0.06 million, or 6.5%, in the six months ended March 31, 2007, from \$0.8 million in the prior comparable period, primarily due to increases in office rental and business insurance expenses. As a percentage of total revenue, general and administrative expense increased by 0.1% to 10.8% in the six months ended March 31, 2007, from 10.7% in the prior comparable period.

**Mutual Fund Distribution Expenses:** Distribution expenses increased by \$0.06 million, or 4.1%, in the six months ended March 31, 2007, from \$1.6 million in the prior comparable period. As a percentage of total revenue, distribution expenses decreased by 0.4% to 19.6% for the six months ended March 31, 2007, compared to 20.0% in the prior comparable period. The increased costs are due to increased assets held through mutual fund supermarkets such as Charles Schwab, Fidelity and TD Ameritrade.

**Amortization and Depreciation Expense:** Amortization and depreciation expense increased by \$0.02 million, or 5.5%, in the six months ended March 31, 2007, from \$0.3 million in the prior comparable period. The increase is related to a larger fixed asset balance being depreciated in the current period. As a percentage of total revenue, amortization and depreciation expense decreased by 0.2% to 3.8% for the six months ended March 31, 2007, compared to 4.0% in the prior comparable period.

**Interest Expense:** Interest expense decreased by \$0.04 million from the prior comparable period due to a loan amendment decreasing the interest rate to prime less one percent effective February 1, 2007. Additionally, the principal balance has decreased \$2.1 million since the prior period due to monthly payments. As a percentage of total revenue, interest expense decreased by 0.8% to 4.8% for the six months ended March 31, 2007, compared to 5.6% in the prior comparable period.

**Other Income:** Other income increased by \$0.1 million from the prior comparable period due to a higher cash balance earning interest. As a percentage of total revenue, other income increased by 1.7% to 2.8% for the six months ended March 31, 2007, compared to 1.1% in the prior comparable period.

**Income Taxes:** The provision for income taxes increased by \$0.1 million, or 7.6%, in the six months ended March 31, 2007, from \$1.3 million in the prior comparable period.

**Net Income:** Net income increased by \$0.1 million, or 7.3%, in the six months ended March 31, 2007, compared to \$2.0 million in the prior comparable period, as a result of the factors discussed above.

#### Critical Accounting Policies

In June 2001, the Financial Accounting Standards Board issued FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FASB No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, *Intangible Assets*. Under FASB Statement No. 142, goodwill and intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment. We consider the management agreements acquired to be intangible assets with an indefinite life. We fully implemented the provisions of FASB Statement No. 142 on October 1, 2002, at which time we ceased amortization of these intangible assets. Impairment analysis is conducted quarterly and coincides with our quarterly and annual financial reporting. Based on our detailed assessment of current fair market value, the value of the management agreements acquired has not been impaired. If future valuations in the marketplace decline significantly, the valuation of management agreements acquired may become impaired and net earnings would be negatively impacted by the resulting impairment adjustment.

In December 2004, the Financial Accounting Standards Board issued FASB Statement No. 123R, *Share-Based Payment*, which amended the provisions of FASB Statement No. 123 *Accounting for Stock-Based Compensation*. FASB Statement No. 123R requires public companies to recognize as an expense the fair value of stock-based payment arrangements at the date of grant, including stock options and employee stock purchase plans. The statement eliminates proforma accounting for share-based payments using the intrinsic value method previously allowed under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*.

Effective October 1, 2005, we adopted the fair value recognition of FASB Statement No. 123R under the *Modified Perspective* method in accordance with the transition and disclosure provisions of FASB Statement No. 148, *Accounting for Stock-based Compensation Transition and Disclosure*. All compensation costs related to restricted stock units vested during the three and six months ended March 31, 2007 and 2006 have been recognized in our financial statements.

In November, 2005, the FASB issued FASB Staff Position 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP 115-1 and 124-1), which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The guidance in FSP SFAS 115-1 and 124-1 amends FASB Statement No. 115, *Accounting for Certain Investments in Debit and Equity Securities*. We currently account for investments held in publicly traded mutual funds as trading securities under FASB Statement No. 115. Accordingly, any unrealized gains and losses on the investments are recognized currently in operations, and impairment is therefore not an issue.

In February, 2006, the FASB issued FASB Staff Position FAS 123R-4, *Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event*. FSP FAS 123R-4 addresses the classification of options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of a contingent event and amends paragraphs 32 and A229 of SFAS 123R. The adoption of FSP FAS 123R-4 has not had an impact on the Company's financial position or results of operations.

In July, 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48), which is a change in accounting for income taxes. FIN 48 provides guidance on the threshold for recognizing the financial statement effects of a tax position. This interpretation is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN 48 to have a material effect on our financial statements or results of operations.

In September, 2006, staff from the SEC issued Staff Accounting Bulletin 108, *Considering the effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ). SAB 108 requires quantification of financial statement errors based on a roll-over approach based on the amount of the error originating in the current year income statement as well as an iron curtain approach based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year. If the misstatement to the current year under either approach is material, a company is required to restate its financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. We do not expect the standard to have a material effect on our financial statements or results of operations.

In September, 2006, the FASB issued SFAS No 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ( FAS 158 ). FAS 158 requires companies to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. As we do not have defined benefit pensions or other postretirement plans, FAS 158 will have no impact on our financial statements or results of operations.

In October, 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( FAS 157 ). This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about the use of fair value to measure assets and liabilities. FAS 157 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of FAS 157 to have a material effect on our financial statements or results of operations.

In February, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( FAS 159 ). This standard permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply a complex hedge accounting provision. FAS 159 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of FAS 159 to have a material effect on our financial statements or results of operations.

#### Liquidity and Capital Resources

We continually review our capital requirements to ensure that we have sufficient funding available to support our growth strategies. Management anticipates that cash and other liquid assets on hand as of March 31, 2007 will be sufficient to meet our 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 or equity markets. There can be no assurance that we will be able to borrow funds or raise additional equity.

Total assets under management as of March 31, 2007 were \$1.900 billion, which was a decrease of \$156.3 million, or 7.6%, from September 30, 2006. Property and equipment, management agreements, and non-compete agreement acquired totaled \$20.4 million as of March 31, 2007. Our remaining assets are very liquid, consisting primarily of cash and receivables derived from mutual fund asset management activities. As of March 31, 2007, we had cash and cash equivalents of \$11.2 million.

**Our Bank Loan:** We have an outstanding bank loan with U.S. Bank National Association. We incurred \$7.9 million of indebtedness in connection with acquiring the management agreements for the Lindner Funds and an additional \$6.7 million of indebtedness in connection with acquiring the management agreement for The Henlopen Fund (now known as the Hennessy Cornerstone Growth Fund-Series II). The indebtedness we incurred to acquire the management agreement of The Henlopen Fund was rolled into a single loan with the indebtedness we incurred to acquire the management agreements of the Lindner Funds. We currently have \$9.6 million of principal outstanding under our bank loan, which bears interest at U.S. Bank National Association's prime rate, as set by U.S. Bank National Association from time to time (currently 8.25%, in effect since June 29, 2006), less one percent (effectively 7.25%) per a loan amendment dated February 1, 2007. The loan agreement requires us to make 64 monthly payments in the approximate amount of \$0.2 million, plus interest, with the final installment of the then outstanding principal and interest due on September 30, 2010.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We derive all of our operating revenues from management and shareholder service 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 that are difficult to predict. Volatility in the securities markets, and the equity markets in particular, could reduce the net assets of our mutual funds and consequently reduce our revenues. 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 could result in investors withdrawing their investments from our mutual funds or decreasing their rate of investment, either of which would likely adversely affect our revenues. Risk factors are described in more detail under the heading "Risk Relating to Our Business" in the Company's Annual Report, filed on Form 10-KSB with the U.S. Securities and Exchange Commission on December 8, 2006.

**Item 4. Controls and Procedures**

Under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective.

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

## Part II. OTHER INFORMATION

There were no reportable events for items 1 through 3.

**Item 4. Submission of Matters to a Vote of Security Holders**

- (a) The annual meeting of shareholders was conducted on Thursday, January 25, 2007.
- (b) The nine incumbent members of our Board of Directors were nominated and elected to serve one year terms, expiring at the annual meeting of shareholders to be held in year 2008. Votes cast by proxy or by ballot were tabulated and certified by the Inspector of Elections, as follows:

	<b>For</b>	<b>Withheld</b>
Neil J. Hennessy	3,255,927	250
Teresa M. Nilsen	3,255,927	250
Daniel B. Steadman	3,255,927	250
Charles W. Bennett	3,255,927	250
Henry Hansel	3,255,927	250
Brian A. Hennessy	3,255,827	350
Rodger Offenbach	3,255,927	250
Daniel G. Libarle	3,255,927	250
Thomas L. Seavey	3,255,927	250

**Item 5. Other Information**

- (a) On January 22, 2007 the Company issued additional restricted stock units ( RSU ) to officers and directors under its 2001 Omnibus Plan, as discussed in Note (7) above. The total expected compensation expense of \$1.6 million consists of \$0.5 million in officer compensation, \$0.5 million in director compensation, and \$0.6 million in employee compensation.

<b>Officer</b>	<b>RSU award</b>
Neil J. Hennessy	4,500
Teresa M. Nilsen	4,500
Daniel B. Steadman	4,500

<b>Director</b>	<b>RSU award</b>
Brian A. Hennessy	2,250
Henry Hansel	2,250
Rodger Offenbach	2,250
Daniel G. Libarle	2,250
Thomas L. Seavey	2,250
Charles W. Bennett	2,250

**Item 6. Exhibits**

- 3.1 Amended and Restated Articles of Incorporation (1)
- 3.2 Second Amended and Restated Bylaws (3)
- 10.1 Restated Management Agreement, dated June 30, 2000, between registrant and Hennessy Mutual Funds, Inc. (on behalf of the Cornerstone Growth Fund, the Cornerstone Value Fund and the Focus 30 Fund) (1)
- 10.2 License Agreement, dated April 10, 2000, between Edward J. Hennessy, Inc. and Netfolio, Inc. (1)
- 10.4 Hennessy Advisors, Inc. 2001 Omnibus Plan (1) (2)
- 10.4(a) Form of Option Award Agreement (1) (2)
- 10.5 Employment Agreement of Neil J. Hennessy (1) (2)
- 10.6 Amended and Restated Loan Agreement between the registrant and U.S. Bank National Association, dated July 1, 2005 (5)
- 10.7 Restated Investment Advisory Agreement, dated February 28, 2002, between the registrant and The Hennessy Funds, Inc. (on behalf of the Total Return Fund) (5)
- 10.8 Restated Investment Advisory Agreement, dated February 28, 2002, between the registrant and The Hennessy Funds, Inc. (on behalf of the Balanced Fund) (5)
- 10.9 Investment Advisory Agreement, dated July 1, 2005, between the registrant and Hennessy Funds Trust (on behalf of the Cornerstone Growth Fund, Series II) (5)
- 10.10 Servicing Agreement, dated October 1, 2002, between the registrant and The Hennessy Mutual Funds, Inc. (on behalf of the Cornerstone Growth Fund, the Cornerstone Value Fund and the Focus 30 Fund) (5)
- 10.10(a) Amendment to Servicing Agreement, dated June 30, 2005, between the registrant and The Hennessy Mutual Funds, Inc. with respect to the Focus 30 Fund (5)
- 10.11 Servicing Agreement, dated July 1, 2005 between the registrant and Hennessy Funds Trust (on behalf of the Cornerstone Growth Fund, the Cornerstone Value Fund and the Focus 30 Fund) (5)
- 10.12 Non-Competition Agreement, dated March 15, 2005, between the registrant and Michael L. Hershey (4)
- 10.13 Restricted Stock Unit Award Agreement for officers (2) (6)
- 10.14 Restricted Stock Unit Agreement for Directors (2) (6)
- 31.1 Rule 13a-14a Certification of the Chief Executive Officer
- 31.2 Rule 13a-14a Certification of the Chief Financial Officer
- 32.1 Written Statement of the Chief Executive Officer, Pursuant to 18 U.S.C. § 1350
- 32.2 Written Statement of the Chief Financial Officer, Pursuant to 18 U.S.C. § 1350



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: April 27, 2007

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

**EXHIBIT INDEX**

- 3.1 Amended and Restated Articles of Incorporation (1)
- 3.2 Second Amended and Restated Bylaws (3)
- 10.1 Restated Management Agreement, dated June 30, 2000, between registrant and Hennessy Mutual Funds, Inc. (on behalf of the Cornerstone Growth Fund, the Cornerstone Value Fund and the Focus 30 Fund) (1)
- 10.2 License Agreement, dated April 10, 2000, between Edward J. Hennessy, Inc. and Netfolio, Inc. (1)
- 10.4 Hennessy Advisors, Inc. 2001 Omnibus Plan (1) (2)
- 10.4(a) Form of Option Award Agreement (1) (2)
- 10.5 Employment Agreement of Neil J. Hennessy (1) (2)
- 10.6 Amended and Restated Loan Agreement between the registrant and U.S. Bank National Association, dated July 1, 2005 (5)
- 10.7 Restated Investment Advisory Agreement, dated February 28, 2002, between the registrant and The Hennessy Funds, Inc. (on behalf of the Total Return Fund) (5)
- 10.8 Restated Investment Advisory Agreement, dated February 28, 2002, between the registrant and The Hennessy Funds, Inc. (on behalf of the Balanced Fund) (5)
- 10.9 Investment Advisory Agreement, dated July 1, 2005, between the registrant and Hennessy Funds Trust (on behalf of the Cornerstone Growth Fund, Series II) (5)
- 10.10 Servicing Agreement, dated October 1, 2002, between the registrant and The Hennessy Mutual Funds, Inc. (on behalf of the Cornerstone Growth Fund, the Cornerstone Value Fund and the Focus 30 Fund) (5)
- 10.10(a) Amendment to Servicing Agreement, dated June 30, 2005, between the registrant and The Hennessy Mutual Funds, Inc. with respect to the Focus 30 Fund (5)
- 10.11 Servicing Agreement, dated July 1, 2005 between the registrant and Hennessy Funds Trust (on behalf of the Cornerstone Growth Fund, the Cornerstone Value Fund and the Focus 30 Fund) (5)
- 10.12 Non-Competition Agreement, dated March 15, 2005, between the registrant and Michael L. Hershey (4)
- 10.13 Restricted Stock Unit Award Agreement for officers (2) (6)
- 10.14 Restricted Stock Unit Agreement for Directors (2) (6)

- 31.1 Rule 13a 14a Certification of the Chief Executive Officer
- 31.2 Rule 13a 14a Certification of the Chief Financial Officer
- 32.1 Written Statement of the Chief Executive Officer, Pursuant to 18 U.S.C. § 1350
- 32.2 Written Statement of the Chief Financial Officer, Pursuant to 18 U.S.C. § 1350

Notes:

- (1) Incorporated by reference from the Company's Form SB-2 registration statement (SEC File No. 333-66970).
- (2) Management contract or compensatory plan or arrangement.
- (3) Incorporated by reference from the Company's Form 8-K (SEC File No. 000-49872).
- (4) Incorporated by reference from the Company's Form 10-QSB for the quarter ended March 31, 2005.
- (5) Incorporated by reference from the Company's Form S-1 registration statement filed July 26, 2005 (SEC File No. 333-126896).
- (6) Incorporated by reference from the Company's Form 10-QSB for the quarter ended March 31, 2006.