HENNESSY ADVISORS INC
Form 10QSB
May 12, 2004

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

Commission File Number 000-49872

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

California 68-0176227
(State or other jurisdiction (I.R.S. Employer
of incorporation or Identification No.)
organization)

750 Grant Avenue, Suite 100
Novato, California 94945
(Address of principal executive offices) (Zip Code)

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

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

The number of shares outstanding of each of the issuer's classes of common equity as of March 31, 2004 was 1,626,142.

Transitional Small Business Disclosure Format: Yes ; No X

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Hennessy Advisors, Inc.
Balance Sheets
March 31, 2004 and September 30, 2003

	March 31 2004 (Unaudited)
Assets	
Current assets:	
Cash and cash equivalents	$ 3,565,489
Investments in marketable securities, at fair value	4,727
Investment fee income receivable	914,420
Prepaid expenses	70,629
Total current assets	$ 4,555,265
Property and equipment, net of accumulated depreciation of $86,046 and $73,590	$ 84,498
Management contracts, net of accumulated amortization of $628,627	14,134,911
Deferred income tax assets	51,000
Other assets	68,779
Total assets	$ 18,894,453

Liabilities and Stockholders' Equity	
Current liabilities:	
Accrued liabilities and accounts payable	$ 1,182,283
Income taxes payable	1,705
Note payable	527,912
Current portion of long-term debt	1,128,721
Total current liabilities	$ 2,840,621
Long-term debt	$ 6,772,328
Deferred income tax liability	244,607
Total liabilities	$ 9,857,556
Stockholders' equity:	
Adjustable rate preferred stock, $25 stated value, 5,000,000 shares authorized: zero shares issued and outstanding	$ -
Common stock, no par value, 15,000,000 shares authorized: 1,626,142 shares issued and outstanding at March 31, 2004 and September 30, 2003	6,788,205
Additional paid-in capital	24,008
Retained earnings	2,224,684
Total stockholders' equity	$ 9,036,897
Total liabilities and stockholders' equity	$ 18,894,453

See accompanying notes to condensed financial statements

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

	Three Months Ended March 31, 2004	2003	
Revenue			
Investment advisory fees	$ 2,126,735	$ 886,582	$
Shareholder service fees	257,729	115,499	
Expert witness fees	-	-	
Other	6,269	6,458	
Total revenue	2,390,733	1,008,539	
Operating expenses			
Compensation and benefits	550,237	299,943	
General and administrative	223,376	182,460	

Mutual fund distribution	481,576	178,691	
Amortization and depreciation	7,264	5,625	
Total operating expenses	1,262,453	666,719	
Operating income	1,128,280	341,820	
Interest expense	14,371	-	
Income before income tax expense	1,113,909	341,820	
Income tax expense	438,137	177,362	
Net income	$ 675,772	$ 164,458	$
Basic earnings per share	$ 0.42	$ 0.10	$
Diluted earnings per share	$ 0.40	$ 0.10	$

See accompanying notes to condensed financial statements

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

	Common Shares	Common Stock	Additional Paid-in Capital
Balances as of September 30, 2003	1,626,142	$ 6,788,205	$ 24,008
Net income for the six months ended March 31, 2004	-	-	-
Balances as of March 31, 2004	1,626,142	$ 6,788,205	$ 24,008

See accompanying notes to condensed financial statements

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

Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	
Deferred income taxes	
Unrealized gains on marketable securities	
(Increase) decrease in operating assets:	
Investment fee income receivable	
Expert witness fees receivable	
Prepaid expenses	
Increase (decrease) in operating liabilities:	
Accrued liabilities and accounts payable	
Income taxes payable	
Net cash provided by operating activities	
Cash flows used in investing activities:	
Purchases of property and equipment	
Purchases of investments	
Payments related to acquisition of management contracts	(
Net cash used in investing activities	(
Cash flows provided by financing activities:	
Proceeds from long-term debt	
Net cash provided by financing activities	
Net increase in cash and cash equivalents	
Cash and cash equivalents at the beginning of the period	
Cash and cash equivalents at the end of the period	$
Supplemental disclosures of cash flow information:	
Cash paid for:	
Income taxes	$

Non-cash investing and financing disclosures:	
Costs related to acquisition of management contracts included in accrued liabilities	$
Loan acquisition costs withheld from long-term debt proceeds	$
Loan acquisition costs included in accrued liabilities	$

See accompanying notes to condensed financial statements

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Hennessy Advisors, Inc.
Notes to Condensed Financial Statements

Basis of Financial Statement Presentation

The accompanying condensed financial statements of Hennessy Advisors, Inc. (the "Company") are unaudited, but in the opinion of management, such financial statements have been presented on the same basis as the audited financial statements and include all adjustments consisting of only normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The condensed financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the three and six months ended March 31, 2004, are not necessarily indicative of results which may be expected for the fiscal year ending September 30, 2004. For additional information, refer to the financial statements for the fiscal year ended September 30, 2003, which are included in the Company's annual report on Form 10-KSB, filed with the Securities and Exchange Commission on December 22, 2003.

The operating activities of the Company consist primarily of providing investment management services to five open-end mutual funds (the "Hennessy Funds"). The Company serves as investment advisor of the Hennessy Cornerstone Growth Fund, Hennessy Cornerstone Value Fund, Hennessy Balanced Fund, Hennessy Total Return Fund and Hennessy Focus 30 Fund.

Management Contracts

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

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

Under the terms of the management agreements, each Fund bears all expenses incurred in its operation that are not specifically assumed by Hennessy Advisors, the administrator or the distributor. Hennessy Advisors bears the

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

Long-term Debt

On March 11, 2004, Hennessy Advisors, Inc. secured financing from US Bank National Association to acquire the management contracts for certain Lindner funds. The loan agreement requires fifty-nine (59) monthly payments in the amount of $94,060 plus interest at the bank's prime rate (4.0% per annum as of March 31, 2004). The final installment of the then outstanding principal and interest is due March 10, 2009.

In connection with securing the financing, Hennessy Advisors, Inc. incurred loan costs in the amount of $61,052. These costs are included in other assets and are being amortized on a straight-line basis over 60 months. Amortization for both the three and six months ended March 31, 2004 amounted to $557. Accumulated amortization amounted to $557 as of March 31, 2004.

Investment Fee Income

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

Effective October 1, 2002, the Board of directors of Hennessy Mutual Funds, Inc. authorized an additional monthly fee for shareholder support services provided to the Hennessy Cornerstone Growth and Hennessy Cornerstone Value Fund, at an annual rate of 0.1% of average daily net assets.

Expert Witness Fees

The Company receives fees for services provided by the Company's president and staff in mediating, reviewing, and consulting on various cases within the securities industry. Such fees are recognized when earned.

Income Taxes

Income taxes are accounted for under the asset and liability method, in accordance with the provisions of FASB Statement No. 109 "Accounting For Income Taxes".

Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between

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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 rates of 39.3% and 39.2% for the three and six months ended March 31, 2004, respectively, differ from the federal statutory rate of 34% primarily due to the effects of state income taxes.

Reclassification of Prior Period's Statements

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

Earnings per Share

Basic earnings per share is determined by dividing net earnings by the weighted average number of shares of common stock outstanding, while diluted earnings per share is determined by dividing the weighted average number of shares of common stock outstanding adjusted for the dilutive effect of common stock equivalents.

The weighted average common shares outstanding used in the calculation of basic earnings per share, and the weighted average common shares outstanding, adjusted for common stock equivalents, used in the computation of diluted earnings per share, were as follows for the three and six months ended March 31, 2004 and 2003:

	Three Months Ended March 31,		S
	2004	2003	2004

Weighted Average common stock outstanding	1,626,142	1,626,142	1,626,142
Common stock equivalents - stock options	55,512	4,854	62,483
	1,681,654	1,630,996	1,688,625

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Stock-Based Compensation

In December, 2002, FASB issued FASB Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" which amended FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FASB Statement No. 148 amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Effective for interim periods beginning after December 15, 2002, FASB Statement No. 148 requires disclosure of pro-forma results on a quarterly basis as if the Company had applied the fair value recognition provisions of FASB Statement No. 123. The Company continues to account for its stock option plan under the intrinsic value recognition and measurement principles of APB Opinion No. 25 and related interpretations.

During the six month period ended March 31, 2004, there were 12,500 options granted. No compensation cost has been recognized for these grants. No options were granted during the six month period ended March 31, 2003. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, as amended, to options granted under the stock option plan. Because the estimated value is determined as of the date of grant, the actual value ultimately realized by the employee may be significantly different. The value of options granted during the six months ended March 31, 2004, was determined at the date of grant by using an options pricing model with an assumed risk-free interest rate of 2.84%, an expected life of 5 years, zero dividends and a volatility factor of 0.0001%:

	Net Income	B
For the six months ended March 31, 2004		
Net income	$ 1,200,279	$
Fair value of stock options - net of tax	12,825	
Proforma net income	$ 1,187,454	$

Item 2. Management's Discussion and Analysis

Overview and General Industry Conditions

Our primary sources of revenue are investment fees derived from managing our five mutual funds. Advisory services include investment research, supervision of investments, conducting clients' 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. Shareholder services primarily include providing a call center to respond to shareholder inquiries, including specific mutual fund account information.

Investment advisory fees and shareholder service fees are charged as a specified percentage of the average daily net value of the assets under management. Hennessy's total assets under management were $1.352 billion as of March 31, 2004, of which $1.314 billion were mutual fund assets. Approximately 99% of Hennessy's total revenues were attributable to the five Hennessy mutual funds for the six months ended March 31, 2004.

Neil J. Hennessy, our Chief Executive Officer, President and Chairman of the Board served as expert witness and mediator in securities cases in the past. Mr. Hennessy has limited his mediation activities to devote more time to managing the investment advisory business of Hennessy Advisors, Inc.,

resulting in significant reduction of revenue from these activities compared to prior periods.

The principal assets on our balance sheet represent the capitalized costs of investment advisory agreements with all five mutual funds. As of March 31, 2004, the management contracts asset had a net balance of $14,134,911 including the capitalized Lindner transaction, begun on February 27, 2004 and completed on March 11, 2004 with a total cost of $8,457,322.

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

On March 11, 2004, Hennessy Advisors, Inc. secured financing from US Bank National Association to acquire the management contracts for certain Lindner funds. The agreement requires fifty-nine (59) monthly payments in the amount of $94,060 plus interest at the bank's prime rate (4.0% per annum as of March 31, 2004). The final installment of the then outstanding principal and interest is due March 10, 2009.

Results of Operations

The following table reflects items in the statements of income as dollar amounts and as percentages of total revenue for the three months ended March 31, 2004 and 2003:

	Three Months Ended March 31,		
	2004		2003
	Amounts	Percent of Total RevenueE	Amounts
Revenue:			
Investment advisory fees	$ 2,126,735	89.0%	$ 886,582
Shareholder service fees	257,729	10.8	115,499
Other	6,269	0.2	6,458
Total revenue	2,390,733	100.0	1,008,539
Operating expenses:			
Compensation and benefits	550,237	23.0	299,943
General and administrative	223,376	9.4	182,460
Mutual fund distribution	481,576	20.1	178,691
Amortization and depreciation	7,264	0.3	5,625
Total operating expenses	1,262,453	52.8	666,719
Operating income	1,128,280	47.2	341,820
Interest expense	14,371	0.6	-
Income before income tax expense	1,113,909	46.6	341,820
Income tax expense	438,137	18.3	177,362
Net income	$ 675,772	28.3%	$ 164,458

Three Months Ended March 31, 2004 Compared to the Three Months Ended March 31, 2003:

Total revenue increased $1,382,194 (+137.0%) in the three months ended March 31, 2004, from $1,008,539 in the same period of 2003, primarily due to fees earned from increased mutual fund assets under management, resulting from increased net cash inflows, acquisition of assets from Lindner Asset Management, Inc. and higher market valuations. In total, assets in the mutual funds we manage increased $816.1 million to $1.314 billion as of March 31, 2004, compared to $498.0 million as of March 31, 2003 (+163.9%). Net cash inflows accounted for $124.5 million (15%) of increased assets, the Lindner acquisition added assets of $301.0 million (37%) and market valuations contributed the remaining $390.6 million (48%). The revenue we earn from the funds we manage increased $1,240,153 (+139.9%) in the three months ended March 31, 2004, while shareholder service fees increased $142,230 (+123.1%).

Total operating expenses increased $595,734 (+ 89.4%) in the three months ended March 31, 2004, from $666,719 in the same period of 2003. The increase resulted from higher compensation expense, increases in several components of general and administrative expense and mutual fund distribution costs. As a percentage of total revenue, total operating expenses decreased to 52.8% in the three months ended March 31, 2004, compared to 66.1% in the prior comparable period.

Compensation and benefits increased $250,294 (+83.4%) in the three months ended March 31, 2004, from $299,943 in the prior comparable period. The increase resulted from the addition of one employee and implementation of salary increases and performance incentives for officers and staff. As a percentage of total revenue, compensation and benefits decreased to 23.0% for the three months ended March 31, 2004, compared to 29.7% in the prior comparable period.

General and administrative expense increased $40,916 (+22.4%), in the three months ended March 31, 2004, from $182,460 in the three months ended March 31, 2003, due to increases in business promotion, marketing programs, investor communication services, travel expenses and office rent. As a percentage of total revenue, general and administrative expense decreased to 9.4% in the three months ended March 31, 2004, from 18.1% in the prior comparable period.

Mutual fund distribution expenses increased $302,885 (+169.5%) in the three months ended March 31, 2004, from $178,691 in the three months ended March 31, 2003. As a percentage of total revenue, distribution expenses increased to 20.1% for the three months ended March 31, 2004, compared to 17.7% in the prior comparable period. The value of mutual fund assets to which distribution expenses relate increased approximately 103.4% from March 31, 2003 to March 31, 2004. Additionally, fees charged by Charles Schwab, Inc. increased to 40 basis points in the three months ended March 31, 2004 compared to 35 basis points in the prior comparable period. Fees charged by TD Waterhouse increased to 35 basis points on January 1, 2004, compared to 25 basis points in the prior comparable period. These expenses represent "no transaction fee" (NTF) programs through which Hennessy mutual fund shares are distributed. These expenses increase as assets under management grow through use of "NTF" programs, and expansion of these programs has been and continues to be an integral part of management's business growth strategy.

Amortization and depreciation expense increased a modest $1,639 in the three months ended March 31, 2004, from $5,625 for the three months ended March 31, 2003, resulting from amortization of loan acquisition costs and limited purchases of furniture and equipment.

Interest expense of $14,371 was accrued for the seventeen days from March 15th through March 31, 2004, and represents interest due on the $7.9 million loan from US Bank at the prime rate (4.0% as of March 31, 2004).

For the three months ended March 31, 2004, the provision for income taxes increased $260,775, resulting from an increase in pre-tax income of $772,089.

Net income increased $511,314 to $675,772 in the three months ended March 31, 2004, compared to $164,458 in the prior comparable period, as a result of the factors discussed above.

The following table reflects items in the statements of income as dollar amounts and as percentages of total revenue for the six months ended March 31, 2004 and 2003:

	Six Months Ended March 31,		
	2004		2003
	Amounts	Percent of Total RevenueE	Amounts
Revenue:			
Investment advisory fees	$ 3,910,383	88.8%	$ 1,717,920
Shareholder service fees	479,908	10.9	224,251
Expert witness fees	-	-	7,150
Other	11,960	0.3	14,373
Total revenue	4,402,251	100.0	1,963,694
Operating expenses:			
Compensation and benefits	1,024,797	23.3	593,293
General and administrative	451,195	10.2	356,058
Mutual fund distribution	923,642	21.0	322,805
Amortization and depreciation	13,014	0.3	10,895
Total operating expenses	2,412,648	54.8	1,283,051
Operating income	1,989,603	45.2	680,643
Interest expense	14,371	0.3	-
Income before income tax expense	1,975,232	44.9	680,643
Income tax expense	774,953	17.6	286,220
Net income	$ 1,200,279	27.3%	$ 394,423

Six Months Ended March 31, 2004 Compared to the Six Months Ended March 31, 2003:

Total revenue increased $2,438,557 (+124.2%) in the six months ended March 31, 2004, from $1,963,694 in the same period of 2003, primarily due to fees earned from increased mutual fund assets under management, resulting from increased net cash inflows, acquisition of assets from Lindner Asset Management, Inc. and higher market valuations. In total, assets in the mutual funds we manage increased $816.1 million to $1.314 billion as of March 31, 2004, compared to $498.0 million as of March 31, 2003 (+163.9%). Net cash inflows accounted for $124.5 million (15%) of increased assets, the Lindner acquisition added assets of $301.0 million (37%)and market valuations contributed the remaining $390.6 million (48%). The revenue we earn from the funds we manage increased $2,192,463 (+127.6%) in the six months ended March 31, 2004, while shareholder service fees increased $255,657 (+114.0%).

There were no expert witness fees earned in the six months ended March 31, 2004, a decrease of $7,150 from the six months ended March 31, 2003. Mr. Hennessy is working in a limited capacity as a securities litigation mediator, devoting the majority of his time to managing Hennessy Advisors, Inc.

Total operating expenses increased $1,129,597 (+88.0%) in the six months ended March 31, 2004, from $1,283,051 in the same period of 2003. The

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increase resulted from higher compensation expense, increases in several components of general and administrative expense and mutual fund distribution costs. As a percentage of total revenue, total operating expenses decreased to 54.8% in the six months ended March 31, 2004, compared to 65.3% in the prior comparable period.

Compensation and benefits increased $431,504 (+72.7%) in the six months ended March 31, 2004, from $593,293 in the prior comparable period. The increase resulted from the addition of one employee and implementation of salary increases and performance incentives for officers and staff. As a percentage of total revenue, compensation and benefits decreased to 23.3% for the six months ended March 31, 2004, compared to 30.2% in the prior comparable period.

General and administrative expense increased $95,137 (+26.7%), in the six months ended March 31, 2004, from $356,058 in the six months ended March 31, 2003, due to increases in advertising and business promotion, marketing programs, investor communication services, printing projects, travel expenses and office rent. As a percentage of total revenue, general and administrative expense decreased to 10.2% in the six months ended March 31, 2004, from 18.1% in the prior comparable period.

Mutual fund distribution expenses increased $600,837 (+186.1%) in the six months ended March 31, 2004, from $322,805 in the six months ended March 31, 2003. As a percentage of total revenue, distribution expenses increased to 21.0% for the six months ended March 31, 2004, compared to 16.4% in the prior comparable period. The value of mutual fund assets to which distribution expenses relate increased approximately 103.4% from March 31, 2003 to March 31, 2004. Additionally, fees charged by Charles Schwab, Inc. increased to 40 basis points in the six months ended March 31, 2004 compared to 35 basis points in the prior comparable period. Fees charged by TD Waterhouse increased to 35 basis points on January 1, 2004, compared to 25 basis point previously. These expenses represent "no transaction fee" (NTF) programs through which Hennessy mutual fund shares are distributed. These expenses increase as assets under management grow through use of "NTF" programs, and expansion of these programs has been and continues to be an integral part of management's business growth strategy.

Amortization and depreciation expense increased a modest $2,119 in the six months ended March 31, 2004, from $10,895 for the six months ended March 31, 2003, resulting from amortization of loan acquisition costs and limited purchases of furniture and equipment.

For the six months ended March 31, 2004, the provision for income taxes increased $488,733 resulting from an increase in pre-tax income of $1,294,589.

Interest expense of $14,371 was accrued for the seventeen days from March 15th through March 31, 2004, and represents interest due on the $7.9 million loan from US Bank at the prime rate (4.0% as of March 31, 2004).

Net income increased $805,856 to $1,200,279 in the six months ended March 31, 2004, compared to $394,423 in the prior comparable period, as a result of the factors discussed above.

Liquidity and Capital Resources

As of March 31, 2004, Hennessy Advisors, Inc. had cash and cash equivalents of $3,565,489.

Total assets at March 31, 2004 of $18,894,453 include liquid assets of $4,484,636 (23.9%), consisting primarily of cash and receivables derived from mutual fund asset management activities.

Capital requirements for Hennessy Advisors, Inc. are continually reviewed to ensure that sufficient funding is available to support business growth strategies. The management of Hennessy Advisors, Inc. anticipates that cash and other liquid assets on hand as of March 31, 2004, will be sufficient to meet short-term capital requirements. To the extent that liquid resources and cash provided by operations are not adequate to meet long-term capital requirements, management plans to raise additional capital through debt and/or equity markets. There can be no assurance that Hennessy Advisors, Inc. will be able to borrow funds or raise additional equity.

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

On March 11, 2004, Hennessy Advisors, Inc. completed the acquisition of the management contract for the majority of the mutual fund assets managed by Lindner Asset Management, Inc. ("Lindner"), based in Deerfield, Illinois. In conjunction with the Asset Purchase Agreement, the assets of five of Lindner's mutual funds were merged into four of the five Hennessy Funds. The purchase price was equal to 2.625% of those assets valued by the Lindner Funds custodian at closing. The transaction was funded through the credit facility provided by US Bank, St. Louis, Missouri.

Forward Looking Statements

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

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

- Continuing volatility in the equity markets have caused the levels of our assets under management to fluctuate significantly.
- Weak market conditions or loss of investor confidence in the mutual fund industry may lower our assets under management and reduce our revenues and income.

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

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

Item 3. Controls and Procedures

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

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

Part II. OTHER INFORMATION AND SIGNATURES

There were no reportable events for items 1 through 3 or 5 and 6.

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

(a) The annual meeting of shareholders was conducted on Wednesday, January 28, 2004.

(b) The eight current 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 2005. Votes cast by proxy or by ballot were tabulated and certified by the Inspector of Elections, as follows:

	For	Withheld
Neil J. Hennessy	1,245,492	3,500
Teresa M. Nilsen	1,245,492	3,500
Daniel B. Steadman	1,245,492	3,500
Henry Hansel	1,247,992	1,000
Brian A. Hennessy	1,245,492	3,500
Rodger Offenbach	1,247,992	1,000
Daniel G. Libarle	1,247,992	1,000
Thomas L. Seavey	1,247,992	1,000

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 10.6 Loan Agreement between the Registrant and U.S. Bank National Association, dated March 15, 2004.

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

Exhibit 31.2 Rule 13a - 14a Certification of the Chief Financial Officer

Exhibit 32.1 Written Statement of the Chief Executive Officer, Pursuant to 18 U.S.C. ss. 1350

Exhibit 32.2 Written Statement of the Chief Financial Officer, Pursuant to 18 U.S.C. ss. 1350

(b) Reports on Form 8-K

Hennessy Advisors, Inc. furnished Forms 8-K during the quarter ended March 31, 2004, as follows:

--Form 8-K, furnished January 29, 2004, Earnings Release for the first quarter ended December 31, 2003.

--Form 8-K, furnished February 27, 2004, Press Release regarding the Lindner acquisition.

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: May 12, 2004

By: /s/ Teresa M. Nilsen

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

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