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, 2022

☐ **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 001-36423

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 Boulevard, Suite 200 **Novato, California** (Address of principal executive office)	**94945** (Zip code)

(415) 899-1555
(Registrant's telephone number)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, no par value	**HNNA**	**The Nasdaq Stock Market LLC**
4.875% Notes due 2026	**HNNAZ**	**The Nasdaq Stock Market LLC**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

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 May 9, 2022, there were 7,480,180 shares of common stock issued and outstanding.

HENNESSY ADVISORS, INC.

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1: Unaudited Condensed Financial Statements

Balance Sheets
(In thousands, except share and per share amounts)

	March 31, 2022 (Unaudited)	September 30, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 55,835	$ 15,836
Investments in marketable securities, at fair value	10	10
Investment fee income receivable	2,603	2,795
Prepaid expenses	636	788
Other accounts receivable	299	277
Total current assets	59,383	19,706
Property and equipment, net of accumulated depreciation of $1,953 and $1,850, respectively	309	311
Operating lease right-of-use asset	830	1,010
Management contracts	80,643	80,643
Other assets	152	235
Total assets	$ 141,317	$ 101,905
Liabilities and Stockholders' Equity		
Current liabilities		
Accrued liabilities and accounts payable	$ 2,473	$ 4,151
Operating lease liability	363	359
Income taxes payable	425	1,050
Total current liabilities	3,261	5,560
Notes payable, net of issuance costs	38,728	—
Long-term operating lease liability	463	646
Net deferred income tax liability	13,471	12,437
Total liabilities	55,923	18,643
Commitments and contingencies (Note 9)		
Stockholders' equity		
Common stock, no par value, 22,500,000 shares authorized; 7,480,064 shares issued and outstanding as of March 31, 2022, and 7,469,584 as of September 30, 2021	20,642	19,964
Retained earnings	64,752	63,298
Total stockholders' equity	85,394	83,262
Total liabilities and stockholders' equity	$ 141,317	$ 101,905

See Notes to Unaudited Condensed Financial Statements

Statements of Income
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
Revenue				
Investment advisory fees	$ 7,186	$ 7,347	$ 15,124	$ 14,555
Shareholder service fees	559	587	1,155	1,168
Total revenue	7,745	7,934	16,279	15,723
Operating expenses				
Compensation and benefits	2,111	2,252	4,373	4,356
General and administrative	1,163	1,132	2,563	2,440
Mutual fund distribution	178	120	333	241
Sub-advisory fees	1,570	1,804	3,447	3,589
Depreciation	50	63	103	125
Total operating expenses	5,072	5,371	10,819	10,751
Net operating income	2,673	2,563	5,460	4,972
Interest expense	490	—	998	—
Other income	(1)	—	(3)	(1)
Income before income tax expense	2,184	2,563	4,465	4,973
Income tax expense	582	677	950	1,314
Net income	$ 1,602	$ 1,886	$ 3,515	$ 3,659
Earnings per share				
Basic	$ 0.21	$ 0.26	$ 0.47	$ 0.50
Diluted	$ 0.21	$ 0.26	$ 0.46	$ 0.50
Weighted average shares outstanding				
Basic	7,478,707	7,360,928	7,475,660	7,359,389
Diluted	7,548,335	7,382,854	7,535,154	7,372,708
Cash dividends declared per share	$ 0.14	$ 0.14	$ 0.28	$ 0.28

See Notes to Unaudited Condensed Financial Statements

Statements of Changes in Stockholders' Equity
(In thousands, except share data)
(Unaudited)

	Six Months Ended March 31, 2022			
	Common Stock		Retained	Total Stockholders'
	Shares	Amount	Earnings	Equity
Balance at September 30, 2021	7,469,584	$19,964	$63,298	$ 83,262
Net income	—	—	1,913	1,913
Dividends paid			(1,027)	(1,027)
Employee restricted stock vested	10,000	—	—	—
Repurchase of vested employee restricted stock for tax withholding	(3,458)	(31)	(6)	(37)
Shares issued for auto-investments pursuant to the 2021 Dividend Reinvestment and Stock Purchase Plan	193	2	—	2
Shares issued for dividend reinvestment pursuant to the 2021 Dividend Reinvestment and Stock Purchase Plan	1,729	19	—	19
Stock-based compensation	—	388	—	388
Employee restricted stock forfeiture	—	(3)		(3)
Balance at December 31, 2021	7,478,048	$20,339	$64,178	$ 84,517
Net income	—	—	1,602	1,602
Dividends paid	—	—	(1,028)	(1,028)
Shares issued for auto-investments pursuant to the 2021 Dividend Reinvestment and Stock Purchase Plan	64	1	—	1
Shares issued for dividend reinvestment pursuant to the 2021 Dividend Reinvestment and Stock Purchase Plan	1,952	19	—	19
Stock-based compensation	—	295	—	295
Employee restricted stock forfeiture	—	(12)	—	(12)
Balance at March 31, 2022	7,480,064	$20,642	$64,752	$ 85,394

	Six Months Ended March 31, 2021			
	Common Stock		Retained	Total Stockholders'
	Shares	Amount	Earnings	Equity
Balance at September 30, 2020	7,356,822	$18,705	$59,473	$ 78,178
Net income	—	—	1,773	1,773
Dividends declared	—	—	(1,011)	(1,011)
Shares issued for auto-investments pursuant to the 2018 Dividend Reinvestment and Stock Purchase Plan	652	6	—	6
Shares issued for dividend reinvestment pursuant to the 2018 Dividend Reinvestment and Stock Purchase Plan	2,165	19	—	19
Stock-based compensation	—	352	—	352
Balance at December 31, 2020	7,359,639	$19,082	$60,235	$ 79,317
Net income	—	—	1,886	1,886
Dividends declared	—	—	(1,012)	(1,012)
Shares issued for auto-investments pursuant to the 2018 Dividend Reinvestment and Stock Purchase Plan	306	3	—	3
Shares issued for auto-investments pursuant to the 2021 Dividend Reinvestment and Stock Purchase Plan	838	7	—	7
Shares issued for dividend reinvestment pursuant to the 2021 Dividend Reinvestment and Stock Purchase Plan	2,298	19	—	19
Stock-based compensation	—	351	—	351
Balance at March 31, 2021	7,363,081	$19,462	$61,109	$ 80,571

See Notes to Unaudited Condensed Financial Statements

Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended March 31, 2022	Six Months Ended March 31, 2021
Cash flows from operating activities		
Net income	$ 3,515	$ 3,659
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	103	125
Unrealized gain on marketable securities	—	(1)
Change in right-of-use asset and operating lease liability	1	(35)
Amortization of note issuance costs	120	—
Deferred income taxes	1,034	627
Deferred offering costs	—	(7)
Employee restricted stock forfeiture	(15)	—
Stock-based compensation	683	703
Change in operating assets and liabilities		
Investment fee income receivable	192	(369)
Prepaid expenses	152	103
Other accounts receivable	(22)	92
Other assets	83	(1)
Accrued liabilities and accounts payable	(1,678)	(1,171)
Income taxes payable	(625)	(102)
Net cash provided by operating activities	3,543	3,623
Cash flows from investing activities		
Purchases of property and equipment	(100)	(133)
Net cash used in investing activities	(100)	(133)
Cash flows from financing activities		
Proceeds from issuance of notes, net of underwriting discount	39,042	—
Payment of issuance costs on notes	(435)	—
Repurchase of vested employee restricted stock for tax withholding	(37)	—
Proceeds from shares issued pursuant to the 2018 Dividend Reinvestment and Stock Repurchase Plan	—	9
Proceeds from shares issued pursuant to the 2021 Dividend Reinvestment and Stock Repurchase Plan	3	7
Dividend payments	(2,017)	(1,985)
Net cash provided by (used in) financing activities	36,556	(1,969)
Net increase in cash and cash equivalents	39,999	1,521
Cash and cash equivalents at the beginning of the period	15,836	9,955
Cash and cash equivalents at the end of the period	$ 55,835	$ 11,476
Supplemental disclosures of cash flow information		
Cash paid for income taxes	$ 541	$ 790
Cash paid for interest	$ 878	$ —
Dividend reinvestment issued in shares	$ 38	$ 38

See Notes to Unaudited Condensed Financial Statements

HENNESSY ADVISORS, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

(1) Basis of Financial Statement Presentation

The accompanying condensed balance sheet as of September 30, 2021, which has been derived from audited financial statements, and the unaudited interim condensed financial statements as of and for the three and six months ended March 31, 2022, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and include the accounts of Hennessy Advisors, Inc. (the "Company," "we," "us," or "our"). Certain information and footnote disclosures in these unaudited interim condensed financial statements, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission for Quarterly Reports on Form 10-Q. In the opinion of management, the unaudited interim condensed financial statements reflect all adjustments necessary for a fair statement of the Company's financial position at March 31, 2022, the Company's operating results for the three and six months ended March 31, 2022 and 2021, and the Company's cash flows for the three and six months ended March 31, 2022 and 2021. These unaudited interim condensed financial statements and notes should be read in conjunction with the Company's audited financial statements and notes thereto for fiscal year 2021, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

The preparation of financial statements requires management to make estimates and assumptions. Making estimates requires management to exercise significant judgment. Accordingly, the actual results could differ substantially from those estimates.

The Company's operating activities consist primarily of providing investment advisory services to 16 open-end mutual funds branded as the Hennessy Funds. The Company serves as the investment advisor to all classes of the Hennessy Cornerstone Growth Fund, the Hennessy Focus Fund, the Hennessy Cornerstone Mid Cap 30 Fund, the Hennessy Cornerstone Large Growth Fund, the Hennessy Cornerstone Value Fund, the Hennessy Total Return Fund, the Hennessy Equity and Income Fund, the Hennessy Balanced Fund, the Hennessy Energy Transition Fund, the Hennessy Midstream Fund, the Hennessy Gas Utility Fund, the Hennessy Japan Fund, the Hennessy Japan Small Cap Fund, the Hennessy Large Cap Financial Fund, the Hennessy Small Cap Financial Fund, and the Hennessy Technology Fund. The Company also provides shareholder services to investors in the Hennessy Funds.

The Company's operating revenues consist of contractual investment advisory and shareholder service fees paid to it by the Hennessy Funds. The Company earns investment advisory fees from each Hennessy Fund by, among other things:

- acting as portfolio manager for the fund or overseeing the sub-advisor acting as portfolio manager for the fund, which includes managing the composition of the fund's portfolio (including the purchase, retention, and disposition of portfolio securities in accordance with the fund's investment objectives, policies, and restrictions), seeking best execution for the fund's portfolio, managing the use of soft dollars for the fund, and managing proxy voting for the fund;

- performing a daily reconciliation of portfolio positions and cash for the fund;
- monitoring the liquidity of the fund;
- monitoring the fund’s compliance with its investment objectives and restrictions and federal securities laws;
- maintaining a compliance program (including a code of ethics), conducting ongoing reviews of the compliance programs of the fund’s service providers (including any sub-advisor), including their codes of ethics, as appropriate, conducting onsite visits to the fund’s service providers (including any sub-advisor) as feasible, monitoring incidents of abusive trading practices, reviewing fund expense accruals, payments, and fixed expense ratios, evaluating insurance providers for fidelity bond, directors and officers and errors and omissions insurance, and cybersecurity insurance coverage, managing regulatory examination compliance and responses, conducting employee compliance training, reviewing reports provided by service providers, and maintaining books and records;
- if applicable, overseeing the selection and continued employment of the fund’s sub-advisor, reviewing the fund’s investment performance, and monitoring the sub-advisor’s adherence to the fund’s investment objectives, policies, and restrictions;
- overseeing service providers that provide accounting, administration, distribution, transfer agency, custodial, sales, marketing, public relations, audit, information technology, and legal services to the fund;
- maintaining in-house marketing and distribution departments on behalf of the fund;
- preparing or directing the preparation of all regulatory filings for the fund, including writing and annually updating the fund’s prospectus and related documents;
- for each annual report of the fund, preparing or reviewing a written summary of the fund’s performance during the most recent 12-month period;
- monitoring and overseeing the accessibility of the fund on third-party platforms;
- paying the incentive compensation of the fund’s compliance officers and employing other staff such as legal, marketing, national accounts, distribution, sales, administrative, and trading oversight personnel, as well as management executives;
- providing a quarterly compliance certification to the Board of Trustees of Hennessy Funds Trust (the “Funds’ Board of Trustees”); and
- preparing or reviewing materials for the Funds’ Board of Trustees, presenting to or leading discussions with the Funds’ Board of Trustees, preparing or reviewing all meeting minutes, and arranging for training and education of the Funds’ Board of Trustees.

The Company earns shareholder service fees from Investor Class shares of the Hennessy Funds by, among other things, maintaining a toll-free number that the current investors in the Hennessy Funds may call to ask questions about their accounts or the funds or to get help with processing exchange and redemption requests or changing account options. These fee revenues are earned and calculated daily by the Hennessy Funds' accountants at U.S. Bank Global Fund Services and are subsequently reviewed by management. The fees are computed and billed monthly, at which time they are recognized in accordance with Accounting Standards Codification 606 — Revenue from Contracts with Customers.

The Company waived a portion of its fees with respect to the Hennessy Energy Transition Fund through the expiration of the fund's expense limitation agreement on October 25, 2020. The Company continues to waive a portion of its fees with respect to the Hennessy Midstream Fund and the Hennessy Technology Fund to comply with contractual expense ratio limitations. The fee waivers are calculated daily by the Hennessy Funds' accountants at U.S. Bank Global Fund Services, reviewed by management, and then charged to expense monthly as offsets to the Company's revenues. Each waived fee is then deducted from investment advisory fee income and reduces the aggregate amount of advisory fees the Company receives from such fund in the subsequent month. To date, the Company has only waived fees based on contractual obligations, but the Company has the ability to waive fees at its discretion. Any decision to waive fees would apply only on a going-forward basis.

The Company's contractual agreements for investment advisory and shareholder services prove that a contract exists with fixed and determinable fees, and the services are rendered daily. The collectability is deemed probable because the fees are received from the Hennessy Funds in the month subsequent to the month in which the services are provided.

(2) Management Contracts Purchased

Throughout its history, the Company has completed 10 purchases of the assets related to the management of 30 different mutual funds, some of which were reorganized into already existing Hennessy Funds. In accordance with Financial Accounting Standards Board ("FASB") guidance, the Company periodically reviews the carrying value of its management contracts asset to determine if any impairment has occurred. The fair value of the management contracts asset was estimated as of September 30, 2021, by applying the income approach and is based on management estimates and assumptions, including third-party valuations that utilize appropriate valuation techniques. It was determined there was no impairment as of such date. As of March 31, 2022, management performed a qualitative analysis and determined it was more likely than not that there continued to be no impairment.

Under Accounting Standards Codification 350 — Intangibles – Goodwill and Other, intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment. The Company reviews the useful life of the management contracts each reporting period to determine if they continue to have an indefinite useful life.

(3) Investment Advisory Agreements

The Company has investment advisory agreements with Hennessy Funds Trust under which it provides investment advisory services to all classes of the 16 Hennessy Funds.

The investment advisory agreements must be renewed annually (except in limited circumstances) by (a) the Funds' Board of Trustees or the vote of a majority of the outstanding shares of the applicable Hennessy Fund and (b) the vote of a majority of the trustees of Hennessy Funds Trust who are not interested persons of the Hennessy Funds. If an investment advisory agreement is not renewed, it terminates automatically. There are two additional circumstances in which an investment advisory agreement terminates. First, an investment advisory agreement automatically terminates if the Company assigns them to another advisor (assignment includes "indirect assignment," which is the transfer of the Company's common stock in sufficient quantities deemed to constitute a controlling block). Second, an investment advisory agreement may be terminated prior to its expiration upon 60 days' written notice by either the applicable Hennessy Fund or the Company.

As provided in each investment advisory agreement, the Company receives investment advisory fees monthly based on a percentage of the applicable fund's average daily net asset value.

The Company has entered into sub-advisory agreements for the Hennessy Focus Fund, the Hennessy Equity and Income Fund, the Hennessy Japan Fund, and the Hennessy Japan Small Cap Fund. Prior to January 31, 2022, the Company also had a sub-advisory agreement for the Hennessy Energy Transition Fund and the Hennessy Midstream Fund. Under each of these sub-advisory agreements, the sub-advisor is responsible for the investment and reinvestments of the assets of the applicable Hennessy Fund in accordance with the terms of such agreement and the applicable Hennessy Fund's Prospectus and Statement of Additional Information. The sub-advisors are subject to the direction, supervision, and control of the Company and the Funds' Board of Trustees. The sub-advisory agreements must be renewed annually (except in limited circumstances) in the same manner as, and are subject to the same termination provisions as, the investment advisory agreements.

In exchange for the sub-advisory services, the Company (not the Hennessy Funds) pays sub-advisory fees to the sub-advisors out of its own assets. Sub-advisory fees are calculated as a percentage of the applicable sub-advised fund's average daily net asset value.

Effective January 31, 2022, the Company and BP Capital Fund Services, LLC mutually agreed to terminate the sub-advisory agreement for the Hennessy Energy Transition Fund and the Hennessy Midstream Fund. Those funds are now managed internally by the Company.

(4) Fair Value Measurements

The Company applies Accounting Standards Codification 820 — Fair Value Measurement for all financial assets and liabilities, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." It also establishes a fair value hierarchy consisting of the following three levels that prioritize the inputs to the valuation techniques used to measure fair value:

- Level 1 – Unadjusted, quoted prices in active markets for identical assets or liabilities that an entity has the ability to access at the measurement date;
- Level 2 – Other significant observable inputs (including, but not limited to, quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets); and
- Level 3 – Significant unobservable inputs (including the entity's own assumptions about what market participants would use to price the asset or liability based on the best available information) when observable inputs are not available.

Based on the definitions, the following tables represent the Company's assets categorized in the Level 1 to Level 3 hierarchies:

	March 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In thousands)		
Money market fund deposits	$52,100	$ —	$ —	$52,100
Mutual fund investments	10	—	—	10
Total	$52,110	$ —	$ —	$52,110
Amounts included in:				
Cash and cash equivalents	$52,100	$ —	$ —	$52,100
Investments in marketable securities	10	—	—	10
Total	$52,110	$ —	$ —	$52,110

	September 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In thousands)		
Money market fund deposits	$11,554	$ —	$ —	$11,554
Mutual fund investments	10	—	—	10
Total	$11,564	$ —	$ —	$11,564
Amounts included in:				
Cash and cash equivalents	$11,554	$ —	$ —	$11,554
Investments in marketable securities	10	—	—	10
Total	$11,564	$ —	$ —	$11,564

There were no transfers between levels during the six months ended March 31, 2022, or the year ended September 30, 2021.

The fair values of receivables, payables, and accrued liabilities approximate their book values given the short-term nature of those instruments.

The fair value of the 2026 Notes (see Note 7) was approximately $40.6 million as of March 31, 2022, based on the last trading price of the notes on that date (Level 1).

(5) Leases

The Company determines if an arrangement is an operating lease at inception. Operating leases are included in operating lease right-of-use assets and current and long-term operating lease liabilities on the Company's balance sheet. During the quarter ended March 31, 2021, the Company renewed the lease for its office in Novato, California for an additional three years, which created a long-term operating lease as of such date. Upon renewal of the lease, the Company recorded a right-of-use asset of $1.1 million on its balance sheet. The renewed lease expires on July 31, 2024. There were no other long-term operating leases as of March 31, 2022, and September 30, 2021.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Company uses its incremental borrowing rate based on the information available at the lease commencement date. The Company's lease terms may include options to extend the lease when it is reasonably certain that it will exercise any such options. For its leases, the Company concluded that it is not reasonably certain that any renewal options would be exercised, and, therefore, the amounts are not recognized as part of operating lease right-of-use assets or operating lease liabilities. Leases with initial terms of 12 months or less, and certain office equipment leases that are deemed insignificant, are not recorded on the balance sheet and are expensed as incurred and included within rent expense under general and administrative expense. Lease expense related to operating leases is recognized on a straight-line basis over the expected lease terms.

The Company's most significant leases are real estate leases of office facilities. The Company leases office space under non-cancelable operating leases. Its principal executive office is located in Novato, California, and it has additional offices in Austin, Texas, Boston, Massachusetts, and Chapel Hill, North Carolina. Only the office lease in Novato, California has been capitalized because the other operating leases have terms of 12 months or less, including leases that are month-to-month in nature. The classification of the Company's operating lease right-of-use assets and operating lease liabilities and other supplemental information related to the Company's operating leases are as follows:

	March 31, 2022 (In thousands, except years and percentages)
Operating lease right-of-use assets	$ 830
Current operating lease liability	$ 363
Long-term operating lease liability	$ 463
Weighted average remaining lease term	2.3
Weighted average discount rate	0.90%

For the six months ended March 31, 2022, total rent expense for all offices, which is recorded under general and administrative expense in the statements of income, totaled $0.2 million.

The undiscounted cash flows for future maturities of the Company's operating lease liabilities and the reconciliation to the balance of operating lease liabilities reflected on the Company's balance sheet are as follows:

	March 31, 2022 (In thousands)
Remainder of fiscal year 2022	$ 182
Fiscal year 2023	374
Fiscal year 2024	286
Total undiscounted cash flows	842
Present value discount	(16)
Total operating lease liabilities	$ 826

(6) Accrued Liabilities and Accounts Payable

Details relating to accrued liabilities and accounts payable reflected on the Company's balance sheet are as follows:

	March 31, 2022	September 30, 2021
	(In thousands)	
Accrued bonus liabilities	$ 1,324	$ 2,738
Accrued sub-advisor fees	494	628
Other accrued expenses	655	785
Total accrued liabilities and accounts payable	$ 2,473	$ 4,151

(7) Debt Outstanding

On October 20, 2021, the Company completed a public offering of 4.875% notes due 2026 in the aggregate principal amount of $40,250,000 (the "2026 Notes"), which included the full exercise of the underwriters' overallotment option. The initial net proceeds received were approximately $38,607,000 after considering the impact of issuance costs and underwriter discounts. The 2026 Notes bear interest at 4.875% per annum, payable on the last day of each calendar quarter and at maturity, beginning December 31, 2021. The 2026 Notes mature on December 31, 2026.

The 2026 Notes are direct unsecured obligations, rank equally in right of payment with any of the Company's future unsecured unsubordinated indebtedness, senior to any of the Company's future indebtedness that expressly provides that it is subordinate to the 2026 Notes, effectively subordinate to all of the Company's existing and future secured indebtedness, and structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's future subsidiaries.

(8) Income Taxes

The Company's effective income tax rates for the six months ended March 31, 2022 and 2021, were 21.3% and 26.4%, respectively. For the six months ended March 31, 2022, the effective income tax rate was lower than the federal statutory rate due to the recognition of a tax benefit related to a California tax refund of $0.2 million.

The Company is subject to income tax in the U.S. federal jurisdiction and various state jurisdictions. As of March 31, 2022, the Company has identified 22 state tax jurisdictions in which it is subject to income tax.

(9) Commitments and Contingencies

Other than the operating leases discussed in Note 5, the Company has no commitments and no significant contingencies with original terms in excess of one year.

(10) Equity

Amended and Restated 2013 Omnibus Incentive Plan

The Company has adopted, and the Company's shareholders have approved, the Amended and Restated 2013 Omnibus Incentive Plan (the "Omnibus Plan"). Under the Omnibus Plan, participants may be granted RSUs, each of which represents an unfunded, unsecured right to receive a share of the Company's common stock on the date specified in the recipient's award. The Company issues new shares of its common stock when it is required to deliver shares to an RSU recipient. The RSUs granted under the Omnibus Plan vest over four years at a rate of 25% per year. The Company recognizes stock-based compensation expense on a straight-line basis over the four-year vesting term of each award.

A summary of RSU activity is as follows:

	Six Months Ended March 31, 2022	
	Shares	Weighted Average Grant Date Fair Value per Share
Non-vested balance at beginning of period	323,810	$ 8.87
Granted	—	—
Vested (1)	(72,392)	(9.43)
Forfeited	(7,917)	(8.76)
Non-vested balance at end of period	243,501	$ 8.70

(1) Represents partially vested RSUs for which the Company already has recognized the associated compensation expense but has not yet issued to employees the related shares of common stock.

Additional information related to RSUs is as follows:

	March 31, 2022 (In thousands, except years)
Total expected compensation expense related to RSUs	$ 17,117
Recognized compensation expense related to RSUs	(14,998)
Unrecognized compensation expense related to RSUs	$ 2,119
Weighted average remaining years to expense for RSUs	2.6

Dividend Reinvestment and Stock Purchase Plan

In January 2021, the Company adopted a Dividend Reinvestment and Stock Purchase Plan (the "DRSPP"), replacing the previous Dividend Reinvestment and Stock Purchase Plan that had been in place since 2018. The DRSPP provides shareholders and new investors with a convenient and economical means of purchasing shares of the Company's common stock and reinvesting cash dividends paid on the Company's common stock. Under the DRSPP and its predecessor plans, the Company issued 3,938 and 6,259 shares of common stock during the six months ended March 31, 2022 and 2021, respectively. The maximum number of shares that may be issued under the DRSPP is 1,470,000, of which 1,456,519 shares remained available for issuance as of March 31, 2022.

Stock Buyback Program

In August 2010, the Company adopted a stock buyback program. The program provides that the Company may repurchase up to 1,500,000 shares of its common stock and has no expiration date. Share repurchases may be made in the open market, in privately negotiated transactions, or otherwise. A total of 596,368 shares remains available for repurchase under the stock buyback program. The Company did not repurchase any shares of its common stock pursuant to the stock buyback program during the six months ended March 31, 2022.

(11) Earnings per Share and Dividends 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 net earnings by the weighted average number of shares of common stock outstanding adjusted for the dilutive effect of common stock equivalents, which consist of restricted stock units ("RSUs").

For the three months ended March 31, 2022, all common stock equivalents were dilutive and therefore included in the diluted earnings per share calculation. For the six months ended March 31, 2022, the Company excluded 357 common stock equivalents from the diluted earnings per share calculations because they were not dilutive. For the three and six months ended March 31, 2021, the Company excluded 74,352 and 227,410 common stock equivalents, respectively, from the diluted earnings per share calculations because they were not dilutive. In all cases, the excluded common stock equivalents consisted of non-vested RSUs.

The Company paid a quarterly cash dividend of $0.1375 per share on March 4, 2022, to shareholders of record as of February 22, 2022.

(12) Recently Issued and Adopted Accounting Standards

The Company has reviewed accounting pronouncements issued between the filing date of its most recent Form 10-K, which was November 24, 2021, and the filing date of this Form 10-Q and has determined that no accounting pronouncements issued would have a material impact on the Company's financial position, results of operations, or disclosures.

(13) Subsequent Events

The Company has evaluated subsequent events through the date these financial statements were issued and has concluded that no material events occurred during this period that require recognition or disclosure, other than disclosed below.

On April 20, 2022, the Company entered into a month-to-month operating lease for office space in Dallas, Texas. The term of the lease commences June 1, 2022.

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

Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of the securities laws, for which we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by terminology such as "expect," "anticipate," "intend," "may," "plan," "will," "should," "could," "would," "assume," "believe," "estimate," "predict," "potential," "project," "continue," "seek," and similar expressions, as well as statements in the future tense. We have based these forward-looking statements on our current expectations and projections about future events, based on information currently available to us. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at which, or means by which, such performance or results will be achieved.

Forward-looking statements are subject to risks, uncertainties, and assumptions, including those described in the section titled "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021. Unforeseen developments could cause actual performance or results to differ substantially from those expressed in or suggested by the forward-looking statements. Management does not assume responsibility for the accuracy or completeness of these forward-looking 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, without limitation, redemptions by mutual fund shareholders, taxes, general economic and business conditions, interest rate movements, competitive conditions, industry regulation, and fluctuations in the stock market, many of which are beyond the control of our management. Further, the business and regulatory environments in which we operate remain complex, uncertain, and subject to change. We expect that regulatory requirements and developments will cause us to incur additional administrative and compliance costs. Notwithstanding the variability in our economic and regulatory environments, we remain focused on the investment performance of the Hennessy Funds and on providing high-quality customer service to investors.

Our business strategy centers on (a) the identification, completion, and integration of future acquisitions and (b) organic growth, through both the retention of the mutual fund assets we currently manage and the generation of inflows into the mutual funds we manage. The success of our business strategy may be influenced by the factors discussed in the section titled "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021. All statements regarding our business strategy, as well as statements regarding market trends and risks and assumptions about changes in the marketplace, are forward-looking by their nature.

Overview

Our primary business activity is providing investment advisory services to a family of open-end mutual funds branded as the Hennessy Funds. We manage 12 of the 16 Hennessy Funds internally. For the remaining four funds, we have delegated the day-to-day portfolio management responsibilities to sub-advisors, subject to our oversight. We oversee the selection and continued employment of each sub-advisor, review each fund's investment performance, and monitor each sub-advisor's adherence to each applicable fund's investment objectives, policies, and restrictions. In addition, we conduct ongoing reviews of the compliance programs of sub-advisors and make onsite visits to sub-advisors, as feasible. Our secondary business activity is providing shareholder services to investors in the Hennessy Funds.

Prior to January 31, 2022, the day-to-day management of two Hennessy Funds, the Hennessy Energy Transition Fund and the Hennessy Midstream Fund, was performed by a sub-advisor, BP Capital Fund Services, LLC. Effective as of that date, we mutually agreed with BP Capital Fund Services, LLC to terminate the sub-advisory agreement for those funds.

We derive our operating revenues from investment advisory fees and shareholder service fees paid to us by the Hennessy Funds. These fees are calculated as a percentage of the average daily net assets of each Hennessy Fund. The percentage amount of the investment advisory fees varies by fund. The percentage amount of the shareholder service fees is consistent across all funds, but shareholder service fees are charged on Investor Class shares only. The dollar amount of the fees we receive fluctuates with changes in the average net asset value of each Hennessy Fund, which is affected by each fund's investment performance, purchases and redemptions of shares, general market conditions, and the success of our marketing, sales, and public relations efforts.

The Dow Jones Industrial Average (the "Dow") posted total returns of -4.10% and 3.44% for the three and six months ended March 31, 2022, respectively. Equities rallied into the beginning of the 2022 calendar year with the Dow and the S&P 500 Index hitting all time record closing highs in the first two trading days of 2022, only to drop precipitously through the first part of March and recover somewhat by the end of the quarter. While the Russian invasion of Ukraine exacerbated the downturn, concerns about inflation and rising interest rates weighed heavily on market sentiment. With the Federal Reserve moving interest rates higher for the first time since 2018, we expect interest rates and inflation and their effects on the U.S. economy to be the primary drivers of a volatile market. However, we believe that much of the market is trading at reasonable valuations for long-term investors like ourselves, and we remain encouraged by the strength of the economy and the low unemployment rate. The U.S. unemployment rate, after having peaked at 14.7% in April 2020, is at a mere 3.6% as of March 2022. The U.S. has experienced unemployment rates lower than this only three times in the past 50 years.

Long-term U.S. bond yields increased dramatically during the three months ended March 31, 2022, while the Federal Reserve increased its benchmark federal funds rate by a quarter percentage point on March 16, 2022. Additionally, the Federal Reserve has communicated its intent to implement multiple rate hikes and a dramatic reduction of its balance sheet over the next few years in an effort to stave off inflation. We believe the success of these moves will depend on how quickly inflation can be reduced while not overly slowing down economic growth in the U.S.

The Japanese equity market, as measured by the Tokyo Stock Price Index (the “TOPIX”), posted total returns of -6.24% and -10.69% (in U.S. dollar terms) for the three and six months ended March 31, 2022, respectively. Much of the decline can be attributed to worries about the impact of aggressive policy tightening by the U.S. Federal Reserve, the global economic effects of the conflict in Ukraine, and lockdowns in China. However, on a relative basis, equity valuations in Japan appear attractive, with the TOPIX trading at close to 12x 2022 estimated earnings.

In the one-year period ended March 31, 2022, 12 of the 16 Hennessy Funds (Investor Class shares) generated positive returns. Over the long term, all of the Hennessy Funds posted positive annualized returns in each of the three-year, five-year, ten-year (where available), and since inception periods ended March 31, 2022, with the sole exception of the Hennessy Midstream Fund, which posted slightly negative annual returns of -1.38% and -0.81% in the five-year and since inception periods, respectively.

As always, we are committed to providing superior service to investors and employing a consistent and disciplined approach to investing based on a buy-and-hold philosophy that rejects the idea of market timing. Our goal is to provide products that investors can have confidence in, knowing their money is invested as promised and with their best interests in mind. Accordingly, we continually seek new and improved ways to support investors in the Hennessy Funds, including by providing market insights, sector highlights, and other resources to help them manage their mutual fund investments with confidence. We operate a robust and leading-edge marketing automation and customer relationship management (CRM) system, with a database of over 100,000 financial advisors in addition to retail investors. We utilize this technology both to help retain assets and drive new purchases into the Hennessy Funds. We employ a comprehensive marketing and sales program consisting of content, digital, social media, and traditional marketing initiatives and proactive meetings. In addition, our consistent annual public relations campaign has resulted in the Hennessy brand name appearing on TV, radio, print, or online media on average once every two to three days.

We provide service to over 150,000 mutual fund accounts nationwide, including accounts held by investors who employ financial advisors to assist them with investing as well as accounts held by retail investors who invest directly with us. We serve approximately 12,600 financial advisors who utilize the Hennessy Funds on behalf of their clients, including over 180 who purchased one of our Funds for the first time during the most recent quarter. Approximately 17% of such advisors own two or more Hennessy Funds, and nearly 500 advisors hold a position of over $500,000. The number of accounts nationwide and number of financial advisors utilizing the Hennessy Funds have been declining in recent years, but the number of advisors who own two or more Hennessy Funds or hold a position of over $500,000 has remained relatively steady. We believe this demonstrates brand loyalty among our top tier of advisors.

Total assets under management as of March 31, 2022, was $3.8 billion, a decrease of $0.2 billion, or 5.5%, compared to March 31, 2021. The decrease was attributable to net outflows, but was moderately offset by market appreciation.

The following table illustrates the quarter-by-quarter changes in our assets under management since March 31, 2021:

	Fiscal Quarter Ended				
	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
			(In thousands)		
Beginning assets under management	$4,072,849	$4,065,922	$ 4,117,560	$4,023,364	$3,832,551
Acquisition inflows	—	—	—	—	—
Organic inflows	209,842	147,461	94,871	301,731	208,253
Redemptions	(346,572)	(240,160)	(222,467)	(351,897)	(369,846)
Market appreciation (depreciation)	(132,091)	99,626	75,958	144,362	352,406
Ending assets under management	$3,804,028	$4,072,849	$ 4,065,922	$4,117,560	$4,023,364

As stated above, the fees we receive for providing investment advisory and shareholder services are based on average assets under management. The following table shows average assets under management by share class for each quarter since March 31, 2021:

	Fiscal Quarter Ended				
	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
			(In thousands)		
Investor Class	$2,265,309	$2,365,152	$ 2,385,204	$2,505,402	$2,378,675
Institutional Class	1,564,037	1,734,121	1,717,046	1,646,013	1,539,714
Total	$3,829,346	$4,099,273	$ 4,102,250	$4,151,415	$3,918,389

The principal asset on our balance sheet, management contracts, represents the capitalized costs incurred in connection with the purchase of the assets related to the management of mutual funds. As of March 31, 2022, this asset had a net balance of $80.6 million, unchanged since September 30, 2021.

On October 20, 2021, we completed a public offering of the 2026 Notes in the aggregate principal amount of $40.25 million, which included the full exercise of the underwriters' overallotment option. The 2026 Notes mature on December 31, 2026, and may be redeemed in whole or in part at any time or from time to time at our option on or after December 31, 2023. The 2026 Notes bear interest at 4.875% per annum, payable on the last day of each calendar quarter and at maturity, beginning December 31, 2021. The 2026 Notes are direct unsecured obligations, rank equally in right of payment with any of our future unsecured unsubordinated indebtedness, senior to any of our future indebtedness that expressly provides that it is subordinate to the 2026 Notes, effectively subordinate to all of our existing and future secured indebtedness, and structurally subordinated to all existing and future indebtedness and other obligations of any future subsidiaries of ours.

The 2026 Notes are the principal liability on our balance sheet at $38.7 million, net of issuance costs.

Results of Operations

The following tables set forth items in the statements of income as dollar amounts and as percentages of total revenue:

	Three Months Ended March 31,			
	2022		2021	
	Amounts	Percent of Total Revenue	Amounts	Percent of Total Revenue
	(In thousands, except percentages)			
Revenue				
Investment advisory fees	$ 7,186	92.8%	$ 7,347	92.6%
Shareholder service fees	559	7.2	587	7.4
Total revenue	7,745	100.0	7,934	100.0
Operating expenses				
Compensation and benefits	2,111	27.3	2,252	28.4
General and administrative	1,163	15.0	1,132	14.3
Mutual fund distribution	178	2.3	120	1.5
Sub-advisory fees	1,570	20.3	1,804	22.7
Depreciation	50	0.6	63	0.8
Total operating expenses	5,072	65.5	5,371	67.7
Net operating income	2,673	34.5	2,563	32.3
Interest expense	490	6.3	—	—
Other income	(1)	(0.0)	—	—
Income before income tax expense	2,184	28.2	2,563	32.3
Income tax expense	582	7.5	677	8.5
Net income	$ 1,602	20.7%	$ 1,886	23.8%

	Six Months Ended March 31,			
	2022		2021	
	Amounts	Percent of Total Revenue	Amounts	Percent of Total Revenue
	(In thousands, except percentages)			
Revenue				
Investment advisory fees	$15,124	92.9%	$14,555	92.6%
Shareholder service fees	1,155	7.1	1,168	7.4
Total revenue	16,279	100.0	15,723	100.0
Operating expenses				
Compensation and benefits	4,373	26.9	4,356	27.7
General and administrative	2,563	15.7	2,440	15.5
Mutual fund distribution	333	2.0	241	1.5
Sub-advisory fees	3,447	21.2	3,589	22.8
Depreciation	103	0.7	125	0.9
Total operating expenses	10,819	66.5	10,751	68.4
Net operating income	5,460	33.5	4,972	31.6
Interest expense	998	6.1	—	—
Other income	(3)	(0.0)	(1)	(0.0)
Income before income tax expense	4,465	27.4	4,973	31.6
Income tax expense	950	5.8	1,314	8.3
Net income	$ 3,515	21.6%	$ 3,659	23.3%

Revenue – Investment Advisory Fees and Shareholder Service Fees

Total revenue comprises investment advisory fees and shareholder service fees. Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, total revenue decreased by 2.4%, from $7.9 million to $7.7 million, investment advisory fees decreased by 2.2%, from $7.3 million to $7.2 million, and shareholder service fees decreased by 4.8% from $0.59 million to $0.56 million.

In the three-month period, the decrease in investment advisory fees was due to decreased average daily net assets of the Hennessy Funds, and the decrease in shareholder service fees was due to a decrease in the average daily net assets held in Investor Class shares of the Hennessy Funds. Assets held in Investor Class shares of the Hennessy Funds are subject to a shareholder service fee, whereas assets held in Institutional Class shares of the Hennessy Funds are not subject to a shareholder service fee.

Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, total revenue increased by 3.5%, from $15.7 million to $16.3 million, investment advisory fees increased by 3.9%, from $14.6 million to $15.1 million, and shareholder service fees decreased by 1.1% to $1.2 million.

In the six-month period, the increase in investment advisory fees was due to increased average daily net assets held in Institutional Class shares of the Hennessy Funds. The decrease in shareholder service fees was due to a decrease in the average daily net assets held in Investor Class shares of the Hennessy Funds, which are subject to a shareholder service fee.

We collect investment advisory fees from each of the Hennessy Funds at differing annual rates. These annual rates range between 0.40% and 1.25% of average daily net assets. Average daily net assets of the Hennessy Funds for the three months ended March 31, 2022, was $3.8 billion, which represents a decrease of $0.09 billion, or 2.3%, compared to the three months ended March 31, 2021, and average daily net assets for the six months ended March 31, 2022, was $4.0 billion, which represents an increase of $0.1 billion, or 3.0%, compared to the six months ended March 31, 2021. The Hennessy Fund with the largest average daily net assets for the three and six months ended March 31, 2022, was the Hennessy Focus Fund, with $1.0 billion and $1.1 billion, respectively. We collect an investment advisory fee from the Hennessy Focus Fund at an annual rate of 0.90% of average daily net assets. However, we pay a sub-advisory fee at an annual rate of 0.29% to the fund’s sub-advisor, which reduces the net operating profit contribution of the fund to our financial operations. The Hennessy Fund with the second largest average daily assets for the three and six months ended March 31, 2022, was the Hennessy Japan Fund, with $0.7 billion and $0.8 billion, respectively. We collect an investment advisory fee from the Hennessy Japan Fund at an annual rate of 0.90% of average daily net assets. However, we pay a sub-advisory fee at an annual rate in the range of 0.35% to 0.42% (depending on asset level) to the fund’s sub-advisor, which reduces the net operating profit contribution of the fund to our financial operations.

Total assets under management as of March 31, 2022, was $3.8 billion, a decrease of $0.2 billion, or 5.5%, compared to March 31, 2021. The decrease was attributable to net outflows, but was moderately offset by market appreciation.

The Hennessy Funds with the three largest amounts of net inflows were as follows:

Three Months Ended March 31, 2022		Six Months Ended March 31, 2022	
Fund Name	**Amount**	**Fund Name**	**Amount**
Hennessy Cornerstone Value Fund	$17 million	Hennessy Cornerstone Value Fund	$13 million
Hennessy Gas Utility Fund	$10 million	Hennessy Midstream Fund	$ 3 million
Hennessy Midstream Fund	$ 3 million	Hennessy Energy Transition Fund	$ 3 million

The Hennessy Funds with the three largest amounts of net outflows were as follows:

Three Months Ended March 31, 2022		Six Months Ended March 31, 2022	
Fund Name	**Amount**	**Fund Name**	**Amount**
Hennessy Japan Fund	$(82) million	Hennessy Focus Fund	$(113) million
Hennessy Focus Fund	$(67) million	Hennessy Japan Fund	$ (85) million
Hennessy Japan Small Cap Fund	$ (5) million	Hennessy Gas Utility Fund	$ (16) million

Redemptions as a percentage of assets under management decreased from an average of 3.2% per month during the three months ended March 31, 2021, to an average of 3.0% per month during the three months ended March 31, 2022. Redemptions as a percentage of assets under management decreased from an average of 3.4% per month during the six months ended March 31, 2021, to an average of 2.5% per month during the six months ended March 31, 2022.

Operating Expenses

Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, total operating expenses decreased by 5.6%, from $5.4 million to $5.1 million. The decrease in operating expenses was due to decreases in all expense categories other than general and administrative expense and mutual fund distribution expense, which moderately increased. As a percentage of total revenue, total operating expenses decreased 2.2 percentage points to 65.5%.

Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, total operating expenses remained flat at $10.8 million. Decreases in sub-advisory fees and depreciation expense offset slight increases in other expense categories. As a percentage of total revenue, total operating expenses decreased 1.9 percentage points to 66.5%.

Compensation and Benefits Expense: Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, compensation and benefits expense decreased by 6.3%, from $2.3 million to $2.1 million. As a percentage of total revenue, compensation and benefits expense decreased 1.1 percentage points to 27.3%. The decrease in compensation and benefits expense was due primarily to a decrease in salaries due to lower head count and a decrease in stock-based compensation due to lower grant values for stocks vesting in the current period.

Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, compensation and benefits expense remained flat at $4.4 million. As a percentage of total revenue, compensation and benefits expense decreased 0.8 percentage points to 26.9%. Compensation and benefits expense remained flat for the six-month period despite an increase in total revenue for the same reasons that it decreased in the three-month period.

General and Administrative Expense: Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, general and administrative expense increased by 2.7% from $1.1 million to $1.2 million. As a percentage of total revenue, general and administrative expense increased 0.7 percentage points to 15.0%.

Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, general and administrative expense increased by 5.0% from $2.4 million to $2.6 million. As a percentage of total revenue, general and administrative expense increased 0.2 percentage points to 15.7%.

In both the three and six month periods ended March 31, 2022, the increase in general and administrative expense was primarily due to an increase in conference and other industry event attendance, as well as increased employee business travel expense (though still below pre-pandemic levels).

Mutual Fund Distribution Expense: Mutual fund distribution expense consists of fees paid to various financial institutions that offer the Hennessy Funds as potential investments to their clients. When the Hennessy Funds are purchased through one of these financial institutions, the institution typically charges an asset-based fee, which is recorded as mutual fund distribution expense on our statement of operations to the extent paid by us. When the Hennessy Funds are purchased directly, we do not incur any such expense. These fees generally increase or decrease in line with the net assets of the Hennessy Funds held through these financial institutions, which are affected by inflows, outflows, and fund performance. In addition, some financial institutions charge a minimum fee if the average daily net assets of a Hennessy Fund held by such an institution are less than a threshold amount. In such cases, we pay the minimum fee.

Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, mutual fund distribution expense increased by 48.3%, from $0.12 million to $0.18 million. As a percentage of total revenue, mutual fund distribution expense increased 0.8 percentage points to 2.3%.

Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, mutual fund distribution expense increased by 38.2% from $0.24 million to $0.33 million. As a percentage of total revenue, mutual fund distribution expense increased 0.5 percentage points to 2.0%.

Mutual fund distribution expenses are affected by many factors, including the following:

- average daily net assets held by financial institutions;
- the split of average daily net assets held by financial institutions in Institutional Class shares of the Hennessy Funds versus Investor Class shares of the Hennessy Funds; and
- fee minimums at various financial institutions.

In both the three and six month periods ended March 31, 2022, the increase in mutual fund distribution expenses was primarily due to recently expanding a relationship with a financial institution for which we pay a portion of platform fees.

Sub-Advisory Fees Expense: Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, sub-advisory fees expense decreased by 13.0%, from $1.8 million to $1.6 million. As a percentage of total revenue, sub-advisory fees expense decreased 2.4 percentage points to 20.3%.

Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, sub-advisory fees expense decreased by 4.0%, from $3.6 million to $3.4 million. As a percentage of total revenue, sub-advisory fees expense decreased 1.6 percentage points to 21.2%.

In both the three and six month periods ended March 31, 2022, the decrease in sub-advisory fees expense was due to decreased average daily net assets held in the sub-advised Hennessy Funds, with a slight additional decrease as a result of the Company no longer paying sub-advisory fees with respect to the Hennessy Energy Transition Fund and the Hennessy Midstream Fund after January 31, 2022.

Depreciation Expense: Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, depreciation expense decreased by 20.6%, from $0.06 million to $0.05 million. As a percentage of total revenue, depreciation expense decreased 0.2 percentage points to 0.6%.

Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, depreciation expense decreased by 17.6%, from $0.13 million to $0.10 million. As a percentage of total revenue, depreciation expense decreased 0.2 percentage points to 0.7%.

In both the three and six month periods ended March 31, 2022, the decrease in depreciation expense resulted from fewer fixed asset purchases.

Interest Expense

Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, interest expense increased from $0 to $0.5 million. Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, interest expense increased from $0 to $1.0 million.

In both the three and six month periods ended March 31, 2022, the increase in interest expense was due to our issuance of the 2026 Notes on October 20, 2021, for which we make interest payments quarterly, with the first interest payment made on December 31, 2021.

Income Tax Expense

Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, income tax expense decreased by 14.0%, from $0.7 million to $0.6 million. Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, income tax expense decreased by 27.7%, from $1.3 million to $1.0 million.

In both the three and six month periods ended March 31, 2022, the decrease in income tax expense was due primarily to lower net operating income in the current period and secondarily to a lower effective income tax rate as previously discussed in the notes to the financial statements.

Net Income

Comparing the three months ended March 31, 2021, to the three months ended March 31, 2022, net income decreased by 15.1%, from $1.9 million to $1.6 million. Comparing the six months ended March 31, 2021, to the six months ended March 31, 2022, net income decreased by 3.9%, from $3.7 million to $3.5 million.

In both the three and six month periods ended March 31, 2022, the decrease in net income was primarily due to the interest expense related to our bond debt in the current period.

Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States, which require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. These accounting policies, methods, and estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods, and estimates are particularly sensitive because of their significance to the financial statements and because future events affecting them may differ markedly from management's current judgment. For a discussion of the accounting policies that we believe are most critical to understanding our results of operations and financial position, see the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

Liquidity and Capital Resources

We continually review our capital requirements to ensure that we have funding available to support our business model. Management anticipates that cash and other liquid assets on hand as of March 31, 2022, will be sufficient to meet our capital requirements for one year from the issuance date of this report, as well as our longer-term capital requirements for periods beyond one year from the issuance date of this report. 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 by seeking to increase our borrowing capacity or accessing the capital markets, or by pursuing both of these options. There can be no assurance that we will be able to raise additional capital.

Our total assets under management as of March 31, 2022, was $3.8 billion, a decrease of $0.2 billion, or 5.5%, compared to March 31, 2021. The primary sources of our revenue, liquidity, and cash flow are our investment advisory fees and shareholder service fees, which are based on and generated by our average assets under management. Our average assets under management for the six months ended March 31, 2022, was $4.0 billion, an increase of $0.1 billion, or 3.0%, compared to the six months ended March 31, 2021. As of March 31, 2022, we had cash and cash equivalents of $55.8 million.

The following table summarizes key financial data relating to our liquidity and use of cash:

	For the Six Months Ended March 31, 2022	2021
	(In thousands)	
Net cash provided by operating activities	$ 3,543	$ 3,623
Net cash used in investing activities	(100)	(133)
Net cash provided by (used in) financing activities	36,556	(1,969)
Net increase in cash and cash equivalents	$39,999	$ 1,521

The decrease in cash provided by operating activities of $0.08 million was primarily due to decreased operating income.

The decrease in cash used in investing activities of $0.03 million was due to decreased purchases of property and equipment in the current period.

The increase in cash provided by financing activities of $38.5 million was due to the issuance of the 2026 Notes on October 20, 2021.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on such evaluation, management, including the Company's principal executive officer and principal financial officer, concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting as defined in Rules 13a-15(f) of the Exchange Act that occurred during the fiscal quarter ended March 31, 2022, and that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2021, except for the addition of the risk factor set forth below.

Global or regional catastrophic events may adversely impact our business and financial performance.

Our business could be adversely affected by terrorist acts, widespread outbreaks of infectious diseases (such as the COVID-19 pandemic), changes in trade policies, military conflicts, and disruptions in the financial markets. The occurrence of such events can adversely affect the global economy or specific markets, which could have an adverse impact on our business, financial condition, or results of operations.

Item 6. Exhibits

Set forth below is a list of all exhibits to this Quarterly Report on Form 10-Q.

31.1 Rule 13a-14a Certification of the Principal Executive Officer.

31.2 Rule 13a-14a Certification of the Principal Financial Officer.

32.1 Written Statement of the Principal Executive Officer, Pursuant to 18 U.S.C. § 1350.

32.2 Written Statement of the Principal Financial Officer, Pursuant to 18 U.S.C. § 1350.

101 Financial statements from the Quarterly Report on Form 10-Q of Hennessy Advisors, Inc. for the quarter ended March 31, 2022, filed on May 11, 2022, formatted in XBRL: (i) the Condensed Balance Sheets; (ii) the Condensed Statements of Income; (iii) the Condensed Statements of Changes in Stockholders' Equity; (iv) the Condensed Statements of Cash Flows; and (v) the Notes to Unaudited Condensed Financial Statements.

104 The cover page for the Company's Quarterly Report on Form 10-Q has been formatted in Inline XBRL and contained in Exhibit 101.

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 11, 2022

By: /s/ Teresa M. Nilsen

Teresa M. Nilsen
President

<u>Exhibit 31.1</u>

Rule 13a – 14a Certification of the Principal Executive Officer

I, Teresa M. Nilsen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hennessy Advisors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Teresa M. Nilsen
Teresa M. Nilsen, President
Hennessy Advisors, Inc.

Date: May 11, 2022

Exhibit 31.2

Rule 13a – 14a Certification of the Principal Financial Officer

I, Kathryn R. Fahy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hennessy Advisors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Kathryn R. Fahy

Kathryn R. Fahy, Chief Financial Officer
Hennessy Advisors, Inc.

Date: May 11, 2022

Exhibit 32.1

Written Statement of the Principal Executive Officer
Pursuant to 18 U.S.C. § 1350

Solely for the purposes of complying with 18 U.S.C. § 1350, I, the undersigned President of Hennessy Advisors, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2022 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Teresa M. Nilsen
Teresa M. Nilsen, President
Hennessy Advisors, Inc.

Date: May 11, 2022

Exhibit 32.2

Written Statement of the Principal Financial Officer
Pursuant to 18 U.S.C. § 1350

Solely for the purposes of complying with 18 U.S.C. § 1350, I, the undersigned Chief Financial Officer of Hennessy Advisors, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2022 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kathryn R. Fahy
Kathryn R. Fahy, Chief Financial Officer
Hennessy Advisors, Inc.

Date: May 11, 2022