

HENNESSY ADVISORS INC
Form 10-Q
August 02, 2017
Table of Contents

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 June 30, 2017

**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	68-0176227 (IRS Employer
incorporation or organization)	Identification No.)
7250 Redwood Blvd., Suite 200 Novato, California (Address of principal executive office)	94945 (Zip Code)
(415) 899-1555 (Registrant's telephone number)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 (Do not check if a smaller reporting company)	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 July 26, 2017, there were 7,690,888 shares of common stock issued and outstanding.

Table of Contents

HENNESSY ADVISORS, INC.

INDEX

	Page Number
<u>PART I.</u> <u>Financial Information</u>	
<u>Item 1.</u> <u>Unaudited Condensed Financial Statements</u>	
<u>Balance Sheets</u>	3
<u>Statements of Income</u>	4
<u>Statement of Changes in Stockholders' Equity</u>	5
<u>Statements of Cash Flows</u>	6
<u>Notes to Unaudited Condensed Financial Statements</u>	7
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4.</u> <u>Controls and Procedures</u>	32
<u>PART II.</u> <u>Other Information</u>	
<u>Item 6.</u> <u>Exhibits</u>	33
<u>Signatures</u>	34

Table of Contents**PART I: FINANCIAL INFORMATION****Item 1: Unaudited Condensed Financial Statements****Hennessy Advisors, Inc.****Balance Sheets****(In thousands, except share and per share amounts)**

	June 30, 2017 (Unaudited)	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,327	\$ 3,535
Investments in marketable securities, at fair value	8	8
Investment fee income receivable	4,360	4,230
Prepaid expenses	627	1,175
Deferred income tax asset	607	607
Other accounts receivable	554	580
Total current assets	18,483	10,135
Property and equipment, net of accumulated depreciation of \$867 and \$940, respectively	243	296
Management contracts	74,524	74,359
Deferred offering costs	13	13
Other assets	133	137
Total assets	\$ 93,396	\$ 84,940
Liabilities and Stockholders Equity		
Current liabilities:		
Accrued liabilities and accounts payable	\$ 5,701	\$ 6,578
Income taxes payable		383
Deferred rent	210	32
Current portion of long-term debt, net of discount and debt issuance costs	4,228	4,228
Total current liabilities	10,139	11,221
Long-term debt, net of discount and debt issuance costs and current portion	22,785	25,957
Deferred income tax liability	11,780	10,431
Total liabilities	44,704	47,609

Commitments and Contingencies (Note 8)

Stockholders' equity:

Adjustable rate preferred stock, \$25 stated value, no par value, 7,500,000 shares authorized: zero shares issued and outstanding

Common stock, no par value, 22,500,000 shares authorized: 7,690,875 shares

issued and outstanding at June 30, 2017, and 7,661,968 at September 30, 2016

Retained earnings

Total stockholders' equity

Total liabilities and stockholders' equity

14,824

13,279

33,868

24,052

48,692

37,331

\$ 93,396

\$ 84,940

See accompanying notes to unaudited condensed financial statements

Table of Contents**Hennessy Advisors, Inc.****Statements of Income****(In thousands, except share and per share amounts)****(Unaudited)**

	Three Months Ended June 30,		Nine Months Ended	
	2017	2016	June 30,	2016
			2017	2016
Revenue:				
Investment advisory fees	\$ 12,020	\$ 11,747	\$ 36,192	\$ 34,561
Shareholder service fees	1,158	1,248	3,516	3,779
Total revenue	13,178	12,995	39,708	38,340
Operating expenses:				
Compensation and benefits	3,124	3,017	9,613	8,873
General and administrative	1,332	1,301	4,122	4,245
Mutual fund distribution	80	231	213	682
Sub-advisor fees	2,281	2,225	6,862	6,429
Amortization and depreciation	91	88	275	265
Total operating expenses	6,908	6,862	21,085	20,494
Net operating income	6,270	6,133	18,623	17,846
Interest expense	281	279	825	949
Other income	(3)	(1)	(3)	(2)
Income before income tax expense	5,992	5,855	17,801	16,899
Income tax expense	2,032	1,961	6,217	6,072
Net income	\$ 3,960	\$ 3,894	\$ 11,584	\$ 10,827
Earnings per share:				
Basic	\$ 0.51	\$ 0.51	\$ 1.51	\$ 1.43
Diluted	\$ 0.51	\$ 0.50	\$ 1.49	\$ 1.41
Weighted average shares outstanding				
(prior periods restated for stock split, see Note 6):				
Basic	7,690,443	7,599,812	7,688,397	7,597,737
Diluted	7,788,456	7,731,141	7,785,536	7,703,648

See accompanying notes to unaudited condensed financial statements

Table of Contents**Hennessy Advisors, Inc.****Statement of Changes in Stockholders Equity****Nine Months Ended June 30, 2017****(In thousands, except share data)****(Unaudited)**

	Common Stock		Retained	Total
	Shares	Amount	Earnings	Stockholders
				Equity
Balance at September 30, 2016	7,661,968	\$ 13,279	\$ 24,052	\$ 37,331
Net income			11,584	11,584
Dividends paid			(1,642)	(1,642)
Employee and director restricted stock vested	34,875			
Repurchase of vested employee restricted stock for tax withholding	(7,445)	(66)	(102)	(168)
Shares issued for auto-investments pursuant to the 2015 Dividend Reinvestment and Stock Purchase Plan	146	3		3
Shares issued for dividend reinvestment pursuant to the 2015 Dividend Reinvestment and Stock Purchase Plan	1,387	24	(24)	
Stock-based compensation		1,585		1,585
Adjustment for fractional shares paid in cash in connection with stock split	(56)	(1)		(1)
Balance at June 30, 2017	7,690,875	\$ 14,824	\$ 33,868	\$ 48,692

See accompanying notes to unaudited condensed financial statements

Table of Contents**Hennessy Advisors, Inc.****Statements of Cash Flows****(In thousands)****(Unaudited)**

	Nine Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 11,584	\$ 10,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	275	265
Deferred income taxes	1,349	1,484
Tax effect from restricted stock units		95
Restricted stock units repurchased for employee tax withholding	(168)	(98)
Stock-based compensation	1,585	1,049
Deferred rent	178	(45)
Unrealized gains on marketable securities		(1)
Amortization of loan fee payments	(110)	(110)
Change in operating assets and liabilities:		
Investment fee income receivable	(130)	(208)
Prepaid expenses	548	277
Other accounts receivable	26	(56)
Other assets	4	110
Accrued liabilities and accounts payable	(877)	679
Income taxes payable	(383)	(1,097)
Net cash provided by operating activities	13,881	13,171
Cash flows from investing activities:		
Purchases of property and equipment	(112)	(121)
Deferred offering costs		(1)
Payments related to management contracts	(165)	(326)
Net cash used in investing activities	(277)	(448)
Cash flows from financing activities:		
Principal payments on bank loan	(3,172)	(3,282)
Proceeds from shares issued pursuant to the 2015 Dividend Reinvestment and Stock Repurchase Plan	3	22
Dividend payments	(1,642)	(1,115)
Payment of loan fees		(15)
Cash paid for fractional shares in connection with stock split	(1)	

Edgar Filing: HENNESSY ADVISORS INC - Form 10-Q

Net cash used in financing activities	(4,812)	(4,390)
Net increase in cash and cash equivalents	8,792	8,333
Cash and cash equivalents at the beginning of the period	3,535	3,086
Cash and cash equivalents at the end of the period	\$ 12,327	\$ 11,419
Supplemental disclosures of cash flow information:		
Cash paid for:		
Income taxes	\$ 4,643	\$ 5,350
	&nb	