HILTON HOTELS CORP
Form 10-Q
August 02, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2005

OR

o	**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 1-3427

HILTON HOTELS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-2058176**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9336 Civic Center Drive, Beverly Hills, California	**90210**
(Address of principal executive offices)	(Zip code)

(310) 278-4321

(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 twelve 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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes x No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of July 29, 2005 Common Stock, $2.50 par value 380,965,072 shares.

PART I FINANCIAL INFORMATION

Company or group of companies for which report is filed:

HILTON HOTELS CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Income

(in millions, except per share amounts)

	Three Months Ended June 30, 2004 (unaudited)	2005	Six Months Ended June 30, 2004 (unaudited)	2005
Revenue				
Owned hotels	$ 546	575	1,028	1,070
Leased hotels	29	31	55	59
Management and franchise fees	97	117	186	219
Timeshare and other income	107	148	227	302
	779	871	1,496	1,650
Other revenue from managed and franchised properties	286	305	563	602
	1,065	1,176	2,059	2,252
Expenses				
Owned hotels	380	391	751	767
Leased hotels	25	27	50	53
Depreciation and amortization	83	78	166	158
Impairment loss and related costs		5		7
Other operating expenses	89	116	190	238
Corporate expense	25	26	44	50
	602	643	1,201	1,273
Other expenses from managed and franchised properties	285	303	559	596
	887	946	1,760	1,869
Operating income from unconsolidated affiliates	10	16	20	26
Operating Income	188	246	319	409
Interest and dividend income	7	4	17	8
Interest expense	(72)	(66)	(142)	(130)
Net interest from unconsolidated affiliates and non-controlled interests	(8)	(7)	(14)	(13)
Net gain (loss) on asset dispositions and other	3	61	(1)	72
Loss from non-operating affiliates		(4)		(9)
Income Before Taxes and Minority and Non-Controlled Interests	118	234	179	337
Provision for income taxes	(40)	(25)	(61)	(61)
Minority and non-controlled interests, net	(3)	(7)	(6)	(10)
Net Income	$ 75	202	112	266
Basic Earnings Per Share	$ .20	.53	.29	.69
Diluted Earnings Per Share	$ .19	.49	.28	.65

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See notes to consolidated financial statements

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Hilton Hotels Corporation and Subsidiaries
Consolidated Balance Sheets
(in millions)

	December 31, 2004	June 30, 2005 (unaudited)
ASSETS		
Current Assets		
Cash and equivalents	$ 303	267
Restricted cash	163	424
Accounts receivable, net	269	360
Inventories	144	165
Deferred income taxes	85	89
Current portion of notes receivable, net	68	42
Other current assets	74	69
Total current assets	1,106	1,416
Investments, Property and Other Assets		
Investments and notes receivable, net	635	655
Property and equipment, net	3,510	3,343
Management and franchise contracts, net	336	320
Leases, net	111	109
Brands	970	970
Goodwill	1,240	1,224
Other assets	334	327
Total investments, property and other assets	7,136	6,948
Total Assets	$ 8,242	8,364
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 611	690
Current maturities of long-term debt	14	14
Income taxes payable	4	16
Total current liabilities	629	720
Long-term debt	3,633	3,596
Non-recourse debt of non-controlled entity	100	100
Deferred income taxes and other liabilities	1,312	1,326
Stockholders equity	2,568	2,622
Total Liabilities and Stockholders Equity	$ 8,242	8,364

See notes to consolidated financial statements

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Hilton Hotels Corporation and Subsidiaries
Consolidated Statements of Cash Flow
(in millions)

	Six Months Ended June 30, 2004	2005
	(unaudited)	
Operating Activities		
Net income	$ 112	266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	166	158
Amortization of loan costs	4	4
Net loss (gain) on asset dispositions	1	(72)
Loss from non-operating affiliates		9
Impairment loss and related costs		7
Change in working capital components:		
Inventories	29	(22)
Accounts receivable	(42)	(88)
Other current assets	(5)	3
Accounts payable and accrued expenses	9	74
Income taxes payable	39	12
Restricted cash	(53)	6
Change in deferred income taxes	26	61
Change in other liabilities	59	(27)
Unconsolidated affiliates distributions in excess of (less than) earnings	10	(4)
Change in timeshare notes receivable	(50)	(49)
Other	6	
Net cash provided by operating activities	311	338
Investing Activities		
Capital expenditures	(66)	(255)
Additional investments	(29)	(21)
Proceeds from asset dispositions	51	364
Asset disposition proceeds held in escrow as restricted cash		(267)
Payments received on notes and other	34	35
Net cash used in investing activities	(10)	(144)
Financing Activities		
Change in revolving loans	(160)	
Long-term borrowings		14
Reduction of long-term debt	(7)	(7)
Issuance of common stock	41	49
Repurchase of common stock		(271)
Cash dividends	(15)	(15)
Net cash used in financing activities	(141)	(230)
Increase (Decrease) in Cash and Equivalents	160	(36)
Cash and Equivalents at Beginning of Year	9	303
Cash and Equivalents at End of Period	$ 169	267

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1: General

The consolidated financial statements presented herein have been prepared by Hilton Hotels Corporation in accordance with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2004 and should be read in conjunction with the Notes to Consolidated Financial Statements which appear in that report.

The consolidated financial statements for the three and six months ended June 30, 2004 and 2005 are unaudited; however, in the opinion of management, all adjustments (which include normal recurring accruals) have been made which are considered necessary to present fairly the operating results and financial position for the unaudited periods.

Note 2: Earnings Per Share

Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. The weighted average number of common shares outstanding totaled 383 million and 382 million for the three and six months ended June 30, 2004 and 381 million and 384 million for the three and six months ended June 30, 2005, respectively. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. The dilutive effect of stock-based compensation and convertible securities increased the weighted average number of common shares by 34 million for both the three and six months ended June 30, 2004 and 35 million and 34 million for the three and six months ended June 30, 2005, respectively. In addition, the increase to net income resulting from interest on convertible securities assumed to have not been paid was $3 million for the three month periods ended June 30, 2004 and 2005, and $6 million for the six month periods ended June 30, 2004 and 2005. The sum of EPS for the first two quarters of 2004 and 2005 differs from the year to date EPS due to the required method of computing EPS in the respective periods.

Note 3: Stock-Based Compensation

We apply Accounting Principles Board (APB) Opinion 25 and related interpretations in accounting for our stock-based compensation plans. Prior to 2004, our stock-based compensation consisted primarily of stock options. No compensation cost is reflected in our net income related to our stock option awards for the periods presented, as all stock options had an exercise price greater than or equal to the market value of the underlying common stock on the date of grant.

We granted 400,000 stock options with an exercise price of $22.19 per share and an estimated fair value of approximately $13.12 per share in 2005. No stock options were granted in 2004. For disclosure purposes, we estimated the fair value of each stock option grant on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005: dividend yield of one percent; expected volatility of 55 percent; risk-free interest rate of 4.1 percent and expected life of 8 years.

During the first quarter of 2005, we granted 1,272,000 stock units and 811,000 performance units, both with a grant date fair value of approximately $22.19 per share. Stock units and performance units settle for shares of our common stock on a one-for-one basis. The stock units vest annually in a straight-line manner over four years. The performance units vest in full at the end of a three-year period, and are payable from 0% to 150% of the target amount based on the extent that pre-determined performance measures are achieved. In accordance with APB Opinion 25, compensation expense for the stock units is measured at the fair value of the underlying stock at the date of grant, and compensation expense associated with performance units is subject to adjustment for changes in the underlying stock price over the vesting period, as well as changes in estimates relating to whether the performance objectives will be achieved. Compensation expense for both stock units and performance units is amortized over the respective vesting periods. Consolidated compensation expense related to stock units and performance units was approximately $3 million for both the three and six months ended June 30, 2004 and $6 million and $11 million for the three and six months ended June 30, 2005, respectively.

We also provide supplemental retirement benefits to eligible senior officers in the form of stock units that settle for shares of our common stock on a one-for-one basis. The compensation expense associated with the benefits is expensed over the four-year vesting period. The pre-tax expense under these plans totaled approximately $1 million and $3 million for the three and six months ended June 30, 2004. The expense for the three and six months ended June 30, 2005 was less than $1 million.

Had the expense for all forms of our stock-based compensation been determined using the fair value based method defined in Financial Accounting Standard (FAS) 123, Accounting for Stock-Based Compensation, our net income and net income per share would have been reduced to the pro forma amounts indicated below. These pro forma results may not be indicative of the future results for the full fiscal year due to potential grants, vesting and other factors:

	Three months ended June 30,		**Six months ended June 30,**	
	2004	**2005**	**2004**	**2005**
	(in millions, except per share amounts)			
Net income:				
As reported	$ 75	202	112	266
Add back: Compensation expense included in reported net income, net of tax	3	4	4	7
Deduct: Fair-value compensation expense for all awards, net of tax	(6)	(6)	(10)	(12)
As adjusted	$ 72	200	106	261
Basic earnings per share:				
As reported	$ .20	.53	.29	.69
As adjusted	$ .19	.52	.28	.68
Diluted earnings per share:				
As reported	$ .19	.49	.28	.65
As adjusted	$ .18	.49	.27	.64

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Note 4: Comprehensive Income

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
	(in millions)		(in millions)	
Net income	$ 75	202	$ 112	266
Change in unrealized gains and losses, net of tax	2	2		
Cash flow hedge adjustment, net of tax	2		5	1
Cumulative translation adjustment, net of tax		(1)		(1)
Comprehensive income	$ 79	203	$ 117	266

Note 5: Synthetic Fuel Investment

In August 2004, we acquired a 24 percent minority interest in a coal-based synthetic fuel facility for approximately $32 million. Our investment is accounted for using the equity method as we lack a controlling financial interest. The facility produced operating losses, our proportionate share of which totaled approximately $4 million and $9 million for the three and six months ended June 30, 2005, respectively. These losses are reflected in loss from non-operating affiliates in the accompanying consolidated statements of income.

The synthetic fuel produced at this facility qualifies for tax credits (based on Section 29 of the Internal Revenue Code) which reduce our provision for income taxes. The Section 29 credits are expected to be available for fuel produced at the facility through 2007. The tax credits, combined with the tax benefit associated with the operating losses, totaled approximately $6 million and $12 million for the three and six months ended June 30, 2005. As a result, the net benefit to our net income from the investment was approximately $2 million and $3 million for the three and six months ended June 30, 2005, respectively.

In the second quarter of 2005, we were informed that the IRS has issued a notice of proposed adjustment challenging the placed-in-service date of the facility. One of the conditions to qualify for the Section 29 credits is that the facility must have been placed in service before July 1, 1998. We believe that the facility meets the placed-in-service requirement and that this issue will be resolved in favor of the synthetic fuel joint venture partners. The joint venture is examining various procedural alternatives for pursuing this issue to resolution.

Note 6: Derivative Instruments and Hedging Activities

We have an outstanding swap agreement which qualifies for hedge accounting as a cash flow hedge of a foreign currency denominated liability. The gain or loss on the change in the fair value of the derivative is included in earnings to the extent it offsets the earnings impact of changes in the fair value of the hedged obligation. Any difference is deferred in accumulated other comprehensive income, a component of stockholders equity.

We have an interest rate swap on certain fixed rate senior notes which qualifies as a fair value hedge. This derivative impacts earnings to the extent of increasing or decreasing actual interest expense on the hedged notes to simulate a floating interest rate. Changes in the fair value of the derivative are offset by an adjustment to the value of the hedged notes.

We assess on a quarterly basis the effectiveness of our hedges in offsetting the variability in the cash flow or fair value of the hedged obligations. There were no amounts recognized or reclassified into earnings for the three and six months ended June 30, 2004 or 2005 due to hedge ineffectiveness or due to excluding from the assessment of effectiveness any component of the derivatives.

Concurrent with our investment in a synthetic fuel facility in August 2004, we entered into a derivative contract covering 2.5 million barrels of oil, which is effective for the calendar year ending December 31, 2005. The derivative contract involves two call options that provide for net cash settlement at expiration based on the full year 2005 average trading price of oil in relation to the strike price of each option. If the average price of oil in 2005 is less than $55 per barrel, the derivative will yield no payment. If the average price of oil exceeds $55 per barrel, the derivative will yield a payment equal to the excess of the average price over $55 per barrel, multiplied by the number of barrels covered, up to a maximum price per barrel of $68. The purpose of the transaction is to provide economic protection against an increase in oil prices that could limit the amount of tax credits available under Section 29 of the Internal Revenue Code. The strike prices of the two call options are intended to approximate the price ranges under which the tax credit could be reduced or eliminated by an increase in oil prices. This agreement does not qualify for hedge accounting and, as a result, changes in the fair value of the derivative agreement are reflected in earnings. Results for the three and six months ended June 30, 2005 include a pre-tax loss of $2 million and a pre-tax gain of $3 million, respectively, resulting from adjustments to the market value of this derivative contract. These amounts are included in net gain on asset dispositions and other in the accompanying consolidated statements of income.

Note 7: New Accounting Standards

In September 2004, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus regarding accounting issues related to certain features of contingently convertible debt and the effect on diluted earnings per share (EITF Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share). In November 2004, the EITF changed the transition provisions of the consensus to require that the guidance be applied to reporting periods ending after December 15, 2004. Under previous interpretations of FAS 128, Earnings per Share, issuers of contingently convertible debt excluded the potential common shares underlying the debt instrument from the calculation of diluted earnings per share until the contingency was met. The EITF consensus requires that potential shares underlying the debt instrument should be included in diluted earnings per share computations (if dilutive) regardless of whether the contingency has been met.

Our consolidated debt balance includes $575 million of contingently convertible debt, which was issued in the second quarter of 2003. As required, the consensus has been retroactively applied to all periods during which the instrument was outstanding. Our calculation of diluted earnings per share for the three and six month periods ended June 30, 2004 and 2005 reflects the impact of the required implementation of EITF 04-8, which resulted in a reduction of previously reported diluted EPS for the six months ended June 30, 2004 from $.29 per share to $.28 per share. There was no impact to the amount previously reported for the three months ended June 30, 2004.

In December 2004, the FASB issued FAS 123R, Share-Based Payment, which eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires that such transactions be accounted for using a fair-value-based method. Pro forma disclosure is no longer an alternative. FAS 123R also requires that the tax benefit associated with these share-based payments be classified as financing activities in the statement of cash flow rather than operating activities as currently permitted. In April 2005, the Securities and Exchange Commission adopted a rule that delayed the compliance dates for adoption of FAS 123R, which we had previously been required to adopt no later than July 1, 2005. The SEC s rule allows companies to implement FAS 123R at the beginning of their next fiscal year. As a result, we intend to adopt FAS 123R effective January 1, 2006.

As permitted by FAS 123, we currently account for share-based payments to employees using APB Opinion 25 s intrinsic value method and, as such, generally recognize no compensation expense for employee stock options. The adoption of FAS 123R will result in increased compensation expense in our reported results. Had we adopted FAS 123R in prior periods, the impact of the standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 3.

In December 2004, the FASB issued FAS 152, Accounting for Real Estate Time-Sharing Transactions. FAS 152 amends existing accounting guidance to reference the financial accounting and reporting guidance for real estate time-sharing transactions provided in AICPA Statement of Position 04-02, Accounting for Real Estate Time-Sharing Transactions. FAS 152 will be effective for our financial statements issued after January 1, 2006. The new accounting guidance requires, among other things, that costs incurred to sell timeshare units generally be charged to expense as incurred, including marketing expenses. This is consistent with our existing accounting treatment and is not expected to impact our reported results. The new standard will also require a change in the classification of certain items currently reported as expenses, requiring these items to be reflected as reductions of revenue. The impact to reported revenue is not expected to be significant and timeshare operating income will not be affected.

FAS 152 will also impact the timing of expense recognition when pre-sales of projects under construction occur and we use the percentage of completion method of accounting. We are currently allowed to defer sales and marketing expenses in the same proportion as the deferred revenue during construction. FAS 152 allows only the deferral of direct sales and marketing expenses. This will result in earlier recognition of sales and marketing expenses during the construction period, but will not impact the total sales and marketing expenses recognized. The impact of this change is dependent on the timing and duration of construction and the extent of pre-sales; however, it is not expected to affect reported results in 2006.

Note 8: Variable Interest Entities

We manage two hotels in which we have variable interests, as defined in FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46R), due to the terms of performance guarantees. The performance guarantee associated with one of the hotel management agreements does not expose us to the majority of expected cash flow variability; therefore, we are not the primary beneficiary and this hotel is not consolidated. Our maximum exposure to loss on this contract consists of future management fees and our potential obligation to fund the performance guarantee which, as of June 30, 2005, totaled approximately $40 million through 2012.

The second of the two contracts contains provisions that expose us to the majority of expected cash flow variability. As a result, we are considered to be the primary beneficiary under FIN 46R, and are required to consolidate the balance sheet and results of operations of the hotel. Our consolidated balance sheets at both December 31, 2004 and June 30, 2005 include the assets and liabilities of this non-controlled hotel, including approximately $10 million of cash and equivalents (reflected as restricted cash) and $100 million of debt which is non-recourse to us. The debt is secured by the fixed assets of the hotel with a historical cost of approximately $85 million. The net equity of the hotel is a retained deficit of approximately $60 million as of both dates and is reflected on our consolidated balance sheets in other assets. The revenue and operating expenses of this property are included in other revenue and expenses from managed and franchised properties in the consolidated statements of income. Our financial exposure to this property consists of the fees we earn under the management agreement and costs we may incur under the performance guarantee. The net effect of the other earnings of this property, which belongs to the hotel owners, is eliminated from our consolidated results through minority and non-controlled interests expense in the consolidated statements of income.

In the second quarter of 2005, we completed two transactions whereby we will acquire land on Hawaii s Big Island. In April 2005, we completed a transaction whereby we will acquire the fee interest in 62 acres of land on which the Hilton Waikoloa Village is located. The purchase price for this transaction is approximately $115 million. We had previously leased the land pursuant to an agreement expiring in 2061. In May 2005, we completed a transaction whereby we will acquire 112 acres of undeveloped land for approximately $65 million. This land is adjacent to one of two championship golf courses located within the Waikoloa Beach Resort. We are likely to utilize this land for future timeshare development, however specific plans are still being determined.

Both land acquisitions are expected to be effectuated through a reverse Internal Revenue Code Section 1031 tax-deferred exchange with one or more of the owned assets sold or expected to be sold during the second and third quarters of 2005 (see Note 10). As such, the acquisitions were completed through an exchange facilitator that retains legal title to the land until the exchange is completed or unwound. The cash to complete the acquisitions by the exchange facilitator was funded entirely by Hilton. The entities that hold title to the land qualify as variable interest entities of which Hilton is the primary beneficiary. As a result, the land acquired pursuant to these arrangements is reflected in our consolidated balance sheet as of June 30, 2005.

Note 9: Segment Information

Our operations consist of three reportable segments which are based on similar products or services: Hotel Ownership, Managing and Franchising, and Timeshare. Segment results are presented net of consolidating eliminations for fee-based services, which is the basis used by management to evaluate segment performance. Managing and Franchising revenue includes reimbursements from managed properties and franchisees for certain costs incurred on their behalf, which are included in other revenue from managed and franchised properties in the consolidated statements of income. Segment results are as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2004	**2005**	**2004**	**2005**
	(in millions)		**(in millions)**	
Revenue				
Hotel Ownership	$ 584	618	1,103	1,149
Managing and Franchising	383	422	749	821
Timeshare	98	136	207	282
	$ 1,065	1,176	2,059	2,252
Operating income:				
Hotel Ownership	$ 122	145	190	221
Managing and Franchising	86	108	166	203
Timeshare	26	38	52	78
Corporate and other unallocated expenses	(46)	(45)	(89)	(93)
Total operating income	188	246	319	409
Interest and dividend income	7	4	17	8
Interest expense	(72)	(66)	(142)	(130)
Net interest from unconsolidated affiliates and non-controlled interests	(8)	(7)	(14)	(13)
Net gain (loss) on asset dispositions and other	3	61	(1)	72
Loss from non-operating affiliates		(4)		(9)
Income before taxes and minority and non-controlled interests	118	234	179	337
Provision for income taxes	(40)	(25)	(61)	(61)
Minority and non-controlled interests, net	(3)	(7)	(6)	(10)
Net Income	$ 75	202	112	266

Note 10: Asset Dispositions

In the 2005 first quarter, we sold the Hilton Tarrytown in New York for total cash consideration of approximately $9 million. The sale resulted in a pre-tax gain of approximately $5 million. After the sale, the hotel was converted to a Doubletree under a long-term franchise agreement.

In April 2005, we completed the sale of the Red Lion Austin in Texas for cash consideration of approximately $6 million. As the purchase price approximated our carrying value, no gain or loss was recorded on the sale. In May 2005, we completed the sale of two Homewood Suites by Hilton properties for total cash consideration of approximately $17 million, resulting in a pre-tax loss of approximately $1 million. We will continue to manage both hotels under long-term management agreements.

In June 2005, we completed the sale of seven wholly-owned and one majority-owned hotel. The Hilton Suites Phoenix in Arizona, Hilton Suites Anaheim in California and Embassy Suites Cleveland-Beachwood in Ohio were sold for cash consideration totaling approximately $72 million, resulting in a pre-tax gain totaling approximately $16 million. Each of the hotels will continue to operate under long-term franchise agreements. In addition, we will continue to manage the Hilton Suites Phoenix under a long-term management agreement. A pre-tax gain totaling approximately $13 million on the Hilton Suites Phoenix has been deferred, due to our continuing involvement in management of the hotel, and will be recognized over the life of the five-year management contract retained on this property. These three properties were sold to the RLJ Urban Lodging Fund, a hotel investment fund created by RLJ Development, LLC (RLJ). Robert L. Johnson, a director of the Company, is the Chairman and Chief Executive Officer of RLJ. In addition, we have a limited partnership interest in the RLJ Urban Lodging Fund totaling approximately $4 million at June 30, 2005, which is accounted for as a cost basis investment.

The Doubletree Bellevue in Washington was sold for approximately $49 million in cash, resulting in a pre-tax loss of approximately $13 million. The Hilton Suites Brentwood in Tennessee was sold for approximately $6 million in cash, resulting in a pre-tax loss of approximately $5 million. The Hilton Alexandria in Virginia was sold for cash totaling approximately $93 million, resulting in a pre-tax gain of approximately $37 million, and the Hilton Charlotte in North Carolina was sold for cash totaling approximately $56 million, resulting in a pre-tax gain of approximately $5 million. The sale of the Hilton Charlotte resulted in a reduction in our consolidated goodwill balance of approximately $3 million. We have retained long-term franchise agreements on each of the aforementioned properties.

Also in June 2005, we sold the majority-owned Hilton Glendale in California for cash consideration totaling approximately $80 million, resulting in a pre-tax gain of approximately $30 million. Amounts attributable to the minority partner, totaling approximately $7 million on a pre-tax basis, are reflected in the consolidated statements of income, net of tax, in minority and non-controlled interests, net. We have retained a long-term franchise agreement on the hotel. In addition, we will manage the hotel on a short-term basis during a transition period; therefore the gain has not been deferred.

In addition to the sales of wholly-owned and majority-owned hotels, we sold our minority or non-controlling interests in five joint venture hotel properties in the second quarter. Proceeds totaled approximately $26 million, resulting in a pre-tax gain of approximately $6 million.

The $61 million net gain on asset dispositions and other in our consolidated statement of income for the 2005 second quarter also includes a $2 million unrealized loss on our oil futures derivative (see Note 6) based on the market value of the contract at June 30, 2005 and a net gain of $1 million on the sale of other assets. The asset dispositions in the second quarter of 2005 generated capital gains for tax purposes which enabled us to utilize capital loss tax carryforwards that had been fully reserved. The utilization of these capital loss carryforwards resulted in a net benefit to our income tax provision of approximately $34 million in the 2005 second quarter.

In January 2005, we engaged Eastdil Realty Company, LLC to act as our real estate investment banker for the sale of certain of our owned hotels. Fees earned by Eastdil related to owned hotels sold in the second quarter of 2005 totaled approximately $2 million. Benjamin V. Lambert, a director of the Company, is the Chairman and Chief Executive Officer of Eastdil.

The $1 million loss on asset dispositions in the first half of 2004 is primarily due to a $4 million loss related to the write-off of values assigned to certain long-term management and franchise agreements that were terminated in the period, net of a $3 million gain from the sale of our investment in Travelweb.

In the 2004 first quarter, we sold the Doubletree La Posada Resort - Scottsdale in Arizona for total consideration of approximately $30 million, including approximately $6 million in cash and a note receivable for approximately $24 million. The note receivable was repaid in the first quarter of 2005. No book gain or loss was realized on the sale; however, the transaction generated a capital gain for tax purposes, which enabled us to utilize existing capital loss tax carryforwards that had been fully reserved in prior periods. The transaction resulted in a net benefit to our income tax provision of approximately $2 million.

In the second quarter of 2004, we sold the Doubletree Modesto and Doubletree Bakersfield, both in California. Total consideration from the sale of both hotels was approximately $40 million in cash. Gains of approximately $3 million on Modesto and approximately $2 million on Bakersfield were deferred and, due to our continuing involvement with each hotel, will be recognized over the life of the long-term management agreement retained on each hotel. Both management agreements are for a term of ten years. The transaction also generated a capital gain for tax purposes, which enabled us to utilize existing capital loss tax carryforwards that had been fully reserved in prior periods. The transaction resulted in a net benefit to our income tax provision of approximately $4 million.

We consider properties to be held for sale when management approves and commits to a formal plan to actively market a property for sale, executes a formal sales contract, allows the buyer to complete its due diligence review, and receives a non-refundable deposit. Unless necessary approvals have been received and substantive conditions to the buyer s obligation to perform have been satisfied, we do not consider a sale to be probable.

Upon designating a property as an asset held for sale, we review the carrying value of the property and, as appropriate, adjust its value to the lower of its carrying value or its estimated fair value less estimated cost to sell, and we stop recording depreciation expense. In June 2005, the Palmer House Hilton met these criteria and is classified as held for sale within property and equipment, net in our June 30, 2005 consolidated balance sheet. Since the contracted purchase price, less cost to sell, exceeds the carrying value of this property, no adjustment to the carrying value was required.

The sale of the Palmer House Hilton is expected to be completed in the third quarter of 2005. We anticipate that this sale will be effectuated through a reverse Internal Revenue Code Section 1031 tax-deferred exchange with the two land acquisitions completed in the second quarter of 2005 on Hawaii s Big Island (see Note 8). As such, the sale will be completed through an exchange facilitator that will receive and hold the cash proceeds for our benefit until the exchange is completed or unwound. In addition to the anticipated sale of the Palmer House, certain of the owned hotel sales closed in the second quarter of 2005 were also completed through an exchange facilitator in order to serve as potential substitutes to the Palmer House in completing the exchange with the land acquired in Hawaii or to facilitate a separate exchange pursuant to which other property is acquired. As a result, approximately $267 million of sale proceeds from asset sales completed in the second quarter of 2005 are held for our benefit by the exchange facilitator at June 30, 2005. This cash is reflected as restricted cash in our June 30, 2005 consolidated balance sheet. We anticipate that all exchange activity will be completed or unwound during the third and fourth quarters of 2005. At such time, the cash will be used to acquire other property or will become unrestricted.

To the extent we realize a gain from the sale of real estate and maintain significant continuing involvement in the form of a long-term management contract, the gain is deferred and recognized in earnings over the term of the contract. Results in the three months ended June 30, 2004 and 2005 include the recognition of pre-tax deferred gains totaling $4 million in each period, and results in the six months ended June 30, 2004 and 2005 include the recognition of pre-tax deferred gains totaling $8 million in each period.

Note 11: Impairment Loss and Related Costs

Results in the 2005 second quarter include pre-tax impairment loss and related costs totaling $5 million. This charge reduced the value of an owned hotel and our minority interest in eight joint venture hotels to their estimated fair values. The hotel and joint venture interest were sold in July 2005 (see Note 17). The charge for the six months ended June 30, 2005 also includes a $2 million pre-tax charge in the first quarter, representing the write down of a non-hotel cost basis investment to its estimated fair value.

Note 12: Stock Repurchases

In the second quarter of 2005, we repurchased approximately 5.1 million shares of our common stock at a total cost of approximately $113 million. In the first half of 2005, we repurchased a total of 12.3 million shares at a total cost of approximately $271 million. No shares were repurchased in the 2004 first half. The timing of stock purchases is at the discretion of management. In March 2005, we announced that our Board of Directors authorized the repurchase of up to an additional 50 million shares of common stock. As of June 30, 2005, approximately 44.7 million shares remained authorized for repurchase under this authority.

Note 13: Guarantees

We have established franchise financing programs with third party lenders to support the growth of our Hilton Garden Inn, Homewood Suites by Hilton, Hampton and Embassy Suites brands. As of June 30, 2005, we have provided guarantees of $33 million on loans outstanding under the programs. In addition, we have guaranteed $36 million of debt and other obligations of unconsolidated affiliates and third parties, bringing our total guarantees to $69 million. Our outstanding guarantees have remaining terms of one to seven years. We also have commitments under letters of credit totaling $56 million as of June 30, 2005. We believe it is unlikely that material payments will be required under our outstanding guarantees or letters of credit.

In addition, we remain a guarantor on 12 operating leases sold to WestCoast Hospitality Corporation as part of the sale of the Red Lion hotel chain in 2001. However, we have entered into an indemnification and reimbursement agreement with WestCoast, which requires WestCoast to reimburse us for any costs and expenses incurred in connection with the guarantee. The minimum lease commitment under these 12 operating leases totals approximately $5 million annually through 2020.

We have also provided performance guarantees to certain owners of hotels which we operate under management contracts. Most of these guarantees allow us to terminate the contract rather than fund shortfalls if specified performance levels are not achieved. In limited cases, we are obligated to fund performance shortfalls. At June 30, 2005, we have two contracts containing performance guarantees with possible cash outlays totaling approximately $173 million through 2012. Funding under these performance guarantees totaled approximately $4 million in 2004, and is expected to total approximately $4 million in 2005. Funding under these guarantees in future periods is dependent on the operating performance levels of these hotels over the remaining term of the performance guarantee. Although we anticipate that the future operating performance levels of these hotels will be largely achieved, there can be no assurance that this will be the case. In addition, we do not anticipate losing a significant number of management contracts in 2005 pursuant to these guarantees.

Our consolidated financial statements at June 30, 2005 include liabilities of approximately $3 million for potential obligations under our outstanding guarantees.

Note 14: Employee Benefit Plans

We have a noncontributory retirement plan (Basic Plan) which covers many of our non-union employees. Benefits are based upon years of service and compensation, as defined. Since December 31, 1996, employees have not accrued additional benefits under the Basic Plan. We do not expect to make any material contributions to the Basic Plan in 2005. Our net periodic benefit cost for the three and six months ended June 30, 2004 and 2005 consisted of the following:

	Three months ended June 30,		**Six months ended June 30,**	
	2004	**2005**	**2004**	**2005**
	(in millions)		**(in millions)**	
Expected return on plan assets	$ 5	4	10	9
Interest cost	(4)	(4)	(8)	(8)
Amortization of prior service cost			(1)	(1)
Net periodic benefit cost	$ 1		1	

Note 15: Provision for Income Taxes

In addition to the synthetic fuel tax credits (see Note 5) and the utilization of capital loss tax carryforwards (see Note 10), our provision for income taxes in the second quarter of 2005 reflects a net benefit of $28 million from the reversal of tax reserves no longer required as the result of the completion of IRS audits of our 1997 through 2001 Federal income tax returns, partially offset by increases in state tax reserves and deferred tax liabilities principally attributable to statutory tax increases in various jurisdictions.

In accordance with the provisions of FAS 109, the reversal of reserve balances arising from the completion of the IRS audits that relate to our acquisition of Promus Hotel Corporation in 1999 were reflected as an adjustment of goodwill and did not impact our tax provision in the second quarter. These adjustments resulted in a reduction of goodwill totaling $13 million.

Note 16: Reclassifications

Our consolidated statement of cash flow for the six months ended June 30, 2004 has been reclassified to present the net change in timeshare notes receivable in cash provided by operating activities. We previously reflected the issuance of timeshare notes and the related payments received within investing activities. This reclassification resulted in a decrease in net cash provided by operating activities totaling $50 million in the 2004 first half, with a corresponding reduction in net cash used in investing activities. The reclassification has no impact on our previously reported consolidated statement of income or consolidated balance sheet.

Note 17: Subsequent Events

In July 2005, we sold the Hilton East Brunswick for cash consideration totaling approximately $43 million. Results in the quarter ended June 30, 2005 include an impairment charge of $2 million to reduce this asset to its fair market value. We will manage the hotel on a short-term basis and have retained a long-term franchise agreement. Also in July 2005, we sold our minority interest in eight joint venture hotels. Proceeds totaled approximately $2 million. Results for the quarter ended June 30, 2005 include an impairment charge of $3 million to reduce the joint venture investment to its fair market value.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company

We are engaged in the ownership, management and development of hotels, resorts and timeshare properties and the franchising of lodging properties. At June 30, 2005, our system contained 2,311 properties with approximately 364,000 rooms. Our brands include Hilton, Hilton Garden Inn, Doubletree, Embassy Suites, Hampton, Homewood Suites by Hilton and Conrad. In addition, we develop and operate timeshare resorts through Hilton Grand Vacations Company and its related entities. We are also engaged in various other activities related or incidental to the operation of hotels.

The number of properties and rooms at June 30, 2005 by brand and by type are as follows:

Brand	**Properties**	**Rooms**	**Type**	**Properties**	**Rooms**			
Hilton	237	90,668	Owned[1]	38	27,733			
Hilton Garden Inn	232	31,639	Leased	6	2,245			
Doubletree	153	39,995	Joint Venture	60	18,860	Net income	14,942	14,942

Dividends paid			(2,243)	(2,243)
Employee and director restricted stock vested	152,322			
Repurchase of vested employee restricted stock for tax withholding	(39,820)	(489)	(164)	(653)
Shares issued for auto-investments pursuant to the 2015 Dividend Reinvestment and Stock Purchase Plan	183	3		3
Shares issued for dividend reinvestment pursuant to the 2015 Dividend Reinvestment and Stock Purchase Plan	1,965	33		33
Stock-based compensation		2,118		2,118
Adjustment for fractional shares paid in cash in connection with stock split	(56)	(1)		(1)
Balance at September 30,	7,776,563	$ 14,943	$ 36,587	$ 51,530

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See accompanying notes to financial statements

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Hennessy Advisors, Inc.

Statements of Cash Flows

(In thousands)

	Fiscal Year Ended September 30,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net income	$ 14,942	$ 14,367	$ 11,389
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation	219	206	265
Deferred income taxes	1,717	1,359	1,308
Tax effect from restricted stock units		456	178
Restricted stock units repurchased for employee tax withholding	(653)	(518)	(139)
Stock-based compensation	2,118	1,416	692
Unrealized gains on marketable securities		(1)	
Amortization of loan fee payments	147	147	
Change in operating assets and liabilities:			
Investment fee income receivable	(95)	(178)	(910)
Prepaid expenses	(439)	(126)	(448)
Other accounts receivable	(4)	(45)	(91)
Other assets	4		(10)
Accrued liabilities and accounts payable	775	1,879	1,161
Income taxes payable	292	(714)	1,097
Current portion of deferred rent	170	(62)	(48)
Net cash provided by operating activities	19,193	18,186	14,444
Cash flows from investing activities:			
Purchases of property and equipment	(176)	(184)	(258)
Payments related to management contracts	(269)	(11,678)	(192)
Net cash used in investing activities	(445)	(11,862)	(450)
Cash flows from financing activities:			
Principal payments on bank loan	(4,375)	(4,375)	(3,750)
Payoff of previous bank loan			(22,972)
Proceeds from new bank loan			35,000
Loan fee payments on bank loan		(15)	(392)
Proceeds from shares issued pursuant to the 2015 Dividend Reinvestment and Stock Repurchase Plan	3	15	
Dividend payments	(2,210)	(1,500)	(1,383)
			(25,056)

Repurchase of common stock pursuant to self-tender offer, including costs of $55,655			
Cash paid for fractional shares in connection with stock split	(1)		
Net cash used in financing activities	(6,583)	(5,875)	(18,553)
Net increase (decrease) in cash and cash equivalents	12,165	449	(4,559)
Cash and cash equivalents at the beginning of the period	3,535	3,086	7,645
Cash and cash equivalents at the end of the period	$ 15,700	$ 3,535	$ 3,086
Supplemental disclosures of cash flow information:			
Cash paid for:			
Income taxes	$ 6,680	$ 6,960	$ 5,194
Interest	$ 1,109	$ 1,190	$ 1,004

See accompanying notes to financial statements

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Notes to Financial Statements

(1) Summary of the Organization, Description of Business and Significant Accounting Policies
(a) Organization and Description of Business

Hennessy Advisors, Inc. was founded on February 1, 1989, as a California corporation under the name Edward J. Hennessy, Incorporated. In 1990, the Company became a registered investment advisor and on April 15, 2001, the Company changed its name to Hennessy Advisors, Inc.

The Company s operating activities consist primarily of providing investment advisory services to 14 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 Gas Utility Fund, the Hennessy Small Cap Financial Fund, the Hennessy Large Cap Financial Fund, the Hennessy Technology Fund, the Hennessy Japan Fund, and the Hennessy Japan Small Cap Fund. The Company also provides shareholder services to the entire family of the Hennessy Funds. Prior to March 1, 2015, the Company only earned shareholder service fees from some of 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), ensuring compliance with 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 fund s compliance with its investment objectives and restrictions and federal securities laws;

performing activities such as maintaining a compliance program, conducting ongoing reviews of the compliance programs of the fund s service providers (including its sub-advisor, as applicable), conducting on-site visits to the fund s service providers (including its sub-advisor, as applicable), monitoring incidents of abusive trading practices, reviewing fund expense accruals, payments, and fixed expense ratios, evaluating insurance providers for fidelity bond coverage, D&O/E&O and cybersecurity insurance coverage, conducting employee compliance training, reviewing reports provided by service providers, maintaining books and records, and preparing an annual compliance report to the Board of Trustees of Hennessy Funds Trust (the Funds Board of Trustees);

overseeing the selection and continued employment of the fund s sub-advisor, if applicable, monitoring such sub-advisor s adherence to the fund s investment objectives, policies, and restrictions, and reviewing the fund s investment performance;

overseeing service providers that provide accounting, administration, distribution, transfer agency, custodial, sales and marketing, public relations, audit, information technology, and legal services to the fund;

maintaining in-house marketing and distribution departments on behalf of the fund;

being actively involved with preparing all regulatory filings for the fund, including writing and annually updating the fund s prospectus and related documents;

preparing or reviewing a written summary of the fund s performance for the most recent 12-month period for each annual report of the fund;

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 and distribution, sales, administrative, and trading oversight personnel, as well as management executives;

providing a quarterly compliance certification to Hennessy Funds Trust; and

preparing or reviewing materials for the Funds Board of Trustees, presenting or leading discussions to or with the Funds Board of Trustees, preparing or reviewing 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 an 800 number that the current investors of the Hennessy Funds may call to ask questions about the Hennessy Funds or their accounts, 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. Bancorp Fund Services, LLC. The fees are computed and billed monthly, at which time they are recognized in accordance with Accounting Standard Codification 605 Revenue Recognition.

Effective February 28, 2017, the Company waives fees with respect to the Hennessy Technology Fund to comply with a contractual expense ratio limitation. The fee waiver is calculated daily by the Hennessy Funds accountants at U.S. Bancorp Fund Services, LLC and is charged to expense monthly by the Company as an offset to revenues. The waived fee is deducted from investment advisory fee income and reduces the aggregate amount of advisory fees received by the Company 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 voluntarily would not apply to previous periods, but would only apply on a going forward basis.

The Company s contractual agreements for investment advisory and shareholder services provide persuasive evidence that an arrangement exists with fixed and determinable fees, and the services are rendered daily. The collectability is probable as the fees are received from the Hennessy Funds in the month subsequent to the month in which the services are provided.

(b) Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less that are readily convertible into cash.

(c) Investments

Investments in highly liquid financial instruments with remaining maturities of less than one year are classified as short-term investments. Financial instruments with remaining maturities of greater than one year are classified as long-term investments. A table of investments is included in Footnote 4.

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The Company holds investments in publicly traded mutual funds, which are accounted for as trading securities. Accordingly, unrealized gains of less than $1,000 per year were recognized in operations for fiscal years 2017, 2016, and 2015.

Dividend income is recorded on the ex-dividend date. Purchases and sales of marketable securities are recorded on a trade date basis, and realized gains and losses recognized on sale are determined on a specific identification/average cost basis.

(d) Management Contracts Purchased

Throughout its history, the Company has completed eight purchases of assets related to the management of 25 different mutual funds, some of which were reorganized into already existing Hennessy Funds. In accordance with FASB guidance, the Company periodically reviews the carrying value of its purchased management contracts to determine if any impairment has occurred. The fair value of management contracts are based on management estimates and assumptions, including third-party valuations that utilize appropriate valuation techniques. The fair value of the management contracts was estimated by applying the income approach. It is the opinion of the Company s management that there was no impairment as of September 30, 2017, 2016, or 2015.

Under the FASB guidance on 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 life of the management contracts each reporting period to determine if they continue to have an indefinite useful life. The Company considers the mutual fund management contracts to be intangible assets with an indefinite useful life and are not impaired as of September 30, 2017.

The Company completed its most recent asset purchase on September 23, 2016, when it purchased the assets related to the management of the Westport Fund and the Westport Select Cap Fund. This asset purchase added approximately $435 million to the Company s assets under management. The purchase was consummated in accordance with the terms and conditions of that certain Transaction Agreement, dated as of May 2, 2016, between the Company and Westport Advisers, LLC. The purchase price of $11.3 million was funded with available cash and was based on the aggregate average assets under management for the Westport Fund and the Westport Select Cap Fund as measured at the close of business on the effective date of the Transaction Agreement and on each of the two trading days immediately preceding the date of the Transaction Agreement. The total capitalized costs related to the purchase were $11.5 million.

(e) Fair Value of Financial Instruments

The FASB guidance on Disclosures about Fair Value of Financial Instruments requires disclosures regarding the fair value of all financial instruments for financial statement purposes. The estimates presented in these financial statements are based on information available to management as of September 30, 2017, 2016, and 2015. Accordingly, the fair values presented in the Company s financial statements as of September 30, 2017, 2016, and 2015, may not be indicative of amounts that could be realized on disposition of the financial instruments. The fair value of receivables, accounts payable and notes payable has been estimated at carrying value due to the short maturity of these instruments. The fair value of purchased management contracts is estimated at the cost of the purchase. The fair value of marketable securities and money market accounts is based on closing net asset values as reported by securities exchanges registered with the SEC.

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(f) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally one to 10 years.

(g) Income Taxes

The Company, under the FASB guidance on Accounting for Uncertainty in Income Tax, uses a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a company s income tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company utilizes a two-step approach for evaluating uncertain tax positions. Step one, recognition, requires a company to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. Step two, measurement, is based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement.

The Company believes the positions taken on the tax returns are fully supported, but tax authorities may challenge these positions, which may not be fully sustained on examination by the relevant tax authorities. Accordingly, the income tax provision includes amounts intended to satisfy assessments that may result from these challenges. Determining the income tax provision for these potential assessments and recording the related effects requires management judgement and estimates. The amounts ultimately paid on resolution of an audit could be materially different from the amounts previously included in the income tax provision, and, therefore, could have a material impact on our income tax provision, net income and cash flows. The accrual for uncertain tax positions is attributable primarily to uncertainties concerning the tax treatment of our domestic operations, including the allocation of income among different jurisdictions. For a further discussion on taxes, refer to Note 8 to the Financial Statements.

The Company files U.S. federal and state tax returns and has determined that its major tax jurisdictions are the United States, California, District of Columbia, Florida, Massachusetts, Texas, New Hampshire, North Carolina, Illinois, Maryland, Michigan, Minnesota, and New York. The tax years ended in 2014 through 2016 remain open and subject to examination by the appropriate governmental agencies in the U.S.; the tax years ended in 2013 through 2016 remain open in California; the tax years ended in 2014 through 2016 remain open in Massachusetts, North Carolina, and New Hampshire; the tax years ended 2015 and 2016 remain open for Illinois, District of Columbia, Maryland, Michigan, Minnesota, New York, and Texas. For any unfiled tax returns the statute of limitations will be open indefinitely.

The Company s effective tax rate of 35.7%, 36.3%, and 39.4% for fiscal year 2017, 2016, and 2015, respectively, differ from the federal statutory rate primarily due to the effects of state income taxes. The effective income tax rate was lower for fiscal year 2017 due to recognition of uncertain tax position benefits from the finalization of state regulations.

(h) 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 net earnings by the weighted average number of shares of common stock outstanding adjusted for the dilutive effect of common stock equivalents.

All common stock equivalents were dilutive and therefore included in the diluted earnings per share calculation for fiscal years 2017, 2016, and 2015.

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On January 26, 2017, the Company s Board of Directors declared a 3-for-2 stock split, which was effected on March 6, 2017, for shareholders of record as of February 10, 2017. All disclosures in this report relating to shares of common stock, restricted stock units, and per share data have been adjusted to reflect this stock split.

(i) Equity

Amended and Restated 2013 Omnibus Incentive Plan

Effective January 17, 2013, the Company established, and the Company s shareholders approved, the 2013 Omnibus Incentive Plan providing for the issuance of options, stock appreciation rights, restricted stock, restricted stock units, performance awards, and other equity awards for the purpose of attracting and retaining executive officers, key employees, and outside directors and advisors and increasing shareholder value. On March 26, 2014, the Company adopted, and the Company s shareholders approved, the Amended and Restated 2013 Omnibus Incentive Plan (the Omnibus Plan), pursuant to which amounts that a participant in the Omnibus Plan is entitled to receive with respect to certain types of awards were increased as compared to the limitations included in the prior 2013 Omnibus Incentive Plan. The maximum number of shares that may be issued under the Omnibus Plan is 50% of the number of outstanding shares of common stock of the Company, subject to adjustment by the compensation committee of the Board of Directors of the Company upon the occurrence of certain events. The 50% limitation does not invalidate any awards made prior to a decrease in the number of outstanding shares, even if such awards have result or may result in shares constituting more than 50% of the outstanding shares being available for issuance under the Omnibus Plan. Shares available under the Omnibus Plan that are not awarded in one particular year may be awarded in subsequent years.

The compensation committee of the Board of Directors of the Company has the authority to determine the awards granted under the Omnibus Plan, including among other things, the individuals who receive the awards, the times when they receive them, vesting schedules, performance goals, whether an option is an incentive or nonqualified option and the number of shares to be subject to each award. However, no participant may receive options or stock appreciation rights under the Omnibus Plan for an aggregate of more than 75,000 shares in any calendar year. The exercise price and term of each option or stock appreciation right is fixed by the compensation committee except that the exercise price for each stock option that is intended to qualify as an incentive stock option must be at least equal to the fair market value of the stock on the date of grant and the term of the option cannot exceed 10 years. In the case of an incentive stock option granted to a 10% or more shareholder, the exercise price must be at least 110% of the fair market value on the date of grant and cannot exceed five years. Incentive stock options may be granted only within 10 years from the date of adoption of the Omnibus Plan. The aggregate fair market value (determined at the time the option is granted) of shares with respect to which incentive stock options may be granted to any one individual, which stock options are exercisable for the first time during any calendar year, may not exceed $100,000. An optionee may, with the consent of the compensation committee, elect to pay for the shares to be received upon exercise of his or her options in cash, shares of common stock or any combination thereof.

Under the Omnibus Plan, participants may be granted restricted stock units (RSUs), representing 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 compensation expense on a straight-line basis over the four-year vesting term of each award. There were 130,900, 132,300, and 273,750 RSUs granted during fiscal years 2017, 2016, and 2015, respectively.

All compensation costs related to RSUs vested during fiscal years 2017, 2016, and 2015 have been recognized in the financial statements.

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The Company has available up to 3,888,281 shares of the Company s common stock in respect of granted stock awards, in accordance with terms of the Omnibus Plan.

RSU activity for fiscal years 2017, 2016, and 2015 was as follows:

	Restricted Stock Unit Activity Years Ended September 30, 2017, 2016, and 2015		
	Number of Restricted Share Units		Weighted Avg. Fair Value at Each Date
Non-vested Balance at September 30, 2014	169,445	$	8.35
Granted	273,750	$	14.08
Vested (1)	(75,054)	$	9.22
Forfeited	(900)	$	6.01
Non-vested Balance at September 30, 2015	367,241	$	12.45
Granted	132,300	$	21.67
Vested (1)	(120,077)	$	11.79
Forfeited		$	
Non-vested Balance at September 30, 2016	379,464	$	16.19
Granted	130,900	$	14.38
Vested (1)	(152,073)	$	13.93
Forfeited		$	
Non-vested Balance at September 30, 2017	358,291	$	16.48

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(1) The restricted share units vested includes partially vested shares. Shares of common stock have not been issued for the partially vested shares, but the related compensation costs have been charged to expense. There were 112,503, 60,252, and 27,222 shares of common stock issued for restricted stock units vested in fiscal years 2017, 2016, and 2015, respectively.

RSU Compensation

Fiscal Year Ended September 30, 2017

		(In Thousands)
Total expected compensation expense related to RSUs	$	12,490
Compensation expense recognized as of September 30, 2017		(6,584)
Unrecognized compensation expense related to RSUs at September 30, 2017	$	5,906

As of September 30, 2017, there was $5.9 million of total RSU compensation expense related to non-vested awards not yet recognized that is expected to be recognized over a weighted-average vesting period of 2.9 years.

Dividend Reinvestment and Stock Purchase Plan

In March 2015, the Company established a Dividend Reinvestment and Stock Purchase Plan (the DRSPP) to provide 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, the Company issued 2,148, 1,649, and 195 shares of common stock in fiscal years 2017, 2016, and 2015, respectively. The maximum number of shares that may be issued under the DRSPP is 1,500,000 shares, of which 1,496,008 shares remain available for issuance.

(j) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(2) Investment Advisory Agreements

The Company has management contracts with Hennessy Funds Trust, under which it provides investment advisory services to all classes of the 14 Hennessy Funds.

The management contracts must be renewed annually (except in limited circumstances) by (i) the Funds Board of Trustees or by the vote of a majority of the outstanding shares of the applicable Hennessy Fund and (ii) by the vote of a majority of the trustees of Hennessy Funds Trust who are not interested persons of the Hennessy Funds (the disinterested trustees). If the management contracts are not renewed annually as described above, they will terminate automatically. There are two additional circumstances in which the management contracts would terminate. First, the management contracts would automatically terminate if the Company assigned 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, each management contract may be terminated prior to its expiration upon 60 days notice by either the Company or the applicable Hennessy Fund.

As provided in the management contracts with the 14 Hennessy Funds, the Company receives investment advisory fees monthly based on a percentage of the respective fund s average daily net assets.

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. Under each of these sub-advisory agreements, the sub-advisor is responsible for the investment and re-investment 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 in the same manner as, and are subject to the same termination provisions as, the management contracts.

In exchange for the sub-advisory services, the Company (not the Hennessy Funds) pays sub-advisor fees to the sub-advisors based on the amount of each applicable Hennessy Fund s average daily net assets.

(3) Fair Value Measurement

The Company applies the FASB standard Fair Value Measurements 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).

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.

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Based on the definitions, the following table represents the Company s assets categorized in the Level 1 to 3 hierarchies as of the end of fiscal years 2017, 2016, and 2015:

	Fair Value Measurements at September 30, 2017 (In thousands)			
	Level 1	Level 2	Level 3	Total
Money market fund deposits	$ 13,832	$	$	$ 13,832
Mutual fund investments	8			8
Total	$ 13,840	$	$	$ 13,840
Amounts included in:				
Cash and cash equivalents	$ 13,832	$	$	$ 13,832
Investments in marketable securities	8			8
Total	$ 13,840	$	$	$ 13,840

	Fair Value Measurements at September 30, 2016 (In thousands)			
	Level 1	Level 2	Level 3	Total
Money market fund deposits	$ 320	$	$	$ 320
Mutual fund investments	8			8
Total	$ 328	$	$	$ 328
Amounts included in:				
Cash and cash equivalents	$ 320	$	$	$ 320
Investments in marketable securities	8			8
Total	$ 328	$	$	$ 328

	Fair Value Measurements at September 30, 2015 (In thousands)			
	Level 1	Level 2	Level 3	Total
Money market fund deposits	$ 1,592	$	$	$ 1,592
Mutual fund investments	7			7
Total	$ 1,599	$	$	$ 1,599
Amounts included in:				
Cash and cash equivalents	$ 1,592	$	$	$ 1,592
Investments in marketable securities	7			7

Total	$	1,599	$		$		$	1,599

There were no transfers between levels during any of such fiscal years.

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(4) Investments

The cost, gross unrealized gains, gross unrealized losses, and fair market value of the Company s trading investments at the end of fiscal years 2017, 2016, and 2015 was as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total
		(In thousands)		
2017				
Mutual fund investments	$ 4	$ 18	$ (14)	$ 8
Total	4	18	(14)	8
2016				
Mutual fund investments	$ 4	$ 18	$ (14)	$ 8
Total	4	18	(14)	8
2015				
Mutual fund investments	4	16	(13)	7
Total	$ 4	$ 16	$ (13)	$ 7

The mutual fund investments are included as a separate line item in current assets on the Company s balance sheets.

(5) Property and Equipment

Property and equipment were comprised of the following for fiscal years 2017 and 2016:

	September 30, 2017	2016
	(In thousands)	
Equipment	$ 214	$ 343
Leasehold improvements	123	123
Furniture and fixtures	371	349
IT Infrastructure	61	61
Software	407	360
	1,176	1,236
Less: accumulated depreciation	(922)	(940)
	$ 254	$ 296

During fiscal years 2017 and 2016, depreciation expense was $0.22 million and $0.21 million, respectively.

(6) Management Contracts
The costs related to the Company s purchase of assets related to management contracts are capitalized as incurred. The management contract asset was $74.6 million as of the end of fiscal year 2017, compared to $74.4 million at the end of fiscal year 2016. The costs are defined as an intangible asset per FASB standard Intangibles Goodwill and Other. The management contract purchase costs include legal fees, shareholder vote fees and percent of asset costs to purchase the assets related to management contracts.

(7) Bank Loan
The Company has an outstanding bank loan with U.S. Bank National Association (U.S. Bank), as administrative agent and as a lender, and California Bank & Trust, as syndication agent and as a lender, which replaced and refinanced the bank loan previously entered into by the Company and U.S. Bank on October 26, 2012, and amended on November 1, 2013. Immediately prior to September 17, 2015, the Company s bank loan with U.S. Bank had an outstanding principal balance of $23.0 million. On September 17, 2015, in anticipation of the repurchase of up to 1,000,000 shares of the Company s common stock at $25 per share pursuant to its self-tender offer, the Company entered into a new term loan agreement to fund in part its self-tender offer, thereby increasing its total loan balance to $35.0 million (consisting of a $20.0 million promissory note to U.S. Bank and a $15.0 million promissory note to California Bank & Trust). Then, on September 19, 2016, the Company entered into an amendment to its term loan agreement with U.S. Bank and California Bank & Trust to allow it to consummate the purchase of assets related to the management of the Westport Fund and the Westport Select Cap Fund. In addition, the amendment revised one of the financial covenants in the term loan agreement.

The current term loan agreement requires 48 monthly payments of $364,583 plus interest based on, at our option:

(1) LIBOR plus a margin that ranges from 2.75% to 3.25%, depending on the Company s ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization (excluding, among other things, certain non-cash gains and losses) (EBITDA), or

(2) the sum of (a) the highest of the prime rate set by U.S. Bank from time to time, the Federal Funds Rate plus 0.50%, or one-month LIBOR plus 1.00%, and (b) a margin that ranges from 0.25% to 0.75%, depending on the Company s ratio of consolidated debt to consolidated EBITDA.

From the effective date of the current term loan agreement through February 29, 2016, the interest rate in effect was U.S. Bank s prime rate plus a margin based on the Company s ratio of consolidated debt to consolidated EBITDA. Effective March 1, 2016, the Company converted $32.8 million of its principal loan balance to a one-month LIBOR contract, which has been renewed each subsequent month. As of September 30, 2017, the effective rate is 4.237%, which is comprised of the LIBOR rate of 1.237% as of September 1, 2017, plus a margin of 3.0% based on the Company s ratio of consolidated debt to consolidated EBITDA as of June 30, 2017. The Company intends to renew the one-month LIBOR contract on a monthly basis provided that the LIBOR-based interest rate remains favorable to the prime rate-based interest rate.

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All borrowings under the term loan agreement are secured by substantially all of the Company s assets. The final installment of the then-outstanding principal and interest is due September 17, 2019. The note maturity schedule is as follows:

Years ended September 30: (In thousands)	
2018	$ 4,375
2019	21,875
Total	$ 26,250

The previous amended loan agreement included, and the current term loan agreement includes, certain reporting requirements and loan covenants requiring the maintenance of specified financial ratios. The Company was in compliance for fiscal years 2017, 2016, and 2015.

The Company did an evaluation of the debt modification and determined that the portion of the loan refinanced with the same creditor (the $20.0 million with U.S. Bank) is not considered substantially different from the original loan with U.S. Bank per the conditions set forth in ASC 470-50 Debt; Modifications and Extinguishments. Furthermore, due to the variable nature of the interest rate, this feature of the loan was examined for potential bifurcation as an embedded derivative, and it was determined that the feature does not require bifurcation from the host contract.

In connection with securing the financings discussed above, the Company incurred loan costs in the amount of $0.41 million. These costs were reclassified to offset debt liability per ASU 2015-03 as of March 31, 2017, and the balance is being amortized on a straight-line basis, which approximates the effective interest basis, over 48 months. Amortization expense during for fiscal years 2017, 2016, and 2015 was $0.1 million for each period. The unamortized balance of the loan fees was $0.3 million as of September 30, 2017. The following is a reconciliation of the reclassification:

	Gross Debt at September 30, 2017	**Debt Issuance Cost (In thousands)**	**Debt, Net of Discount, September 30, 2017**
Current portion of debt	$ 4,375	$ (147)	$ 4,228
Long-term portion of debt	21,875	(147)	21,728
Total Debt	$ 26,250	$ (294)	$ 25,956

	Gross Debt at September 30, 2016	**Debt Issuance Cost (In thousands)**	**Debt, Net of Discount, at September 30, 2016**
Current portion of debt	$ 4,375	$ (147)	$ 4,228

Long-term portion of debt	26,250	(294)	25,956
Total Debt	$ 30,625	$ (441)	$ 30,184

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(8) Income Taxes

As of both September 30, 2017 and 2016, the Company s gross liability for unrecognized tax benefits related to uncertain tax positions was $0.35 million and $0.5 million, respectively, of which $0.2 million and $0.3 million would decrease the Company s effective income tax rate if the tax benefits were recognized. The Company has recognized $0.14 million of the gross liability due to finalization of state regulations. A reconciliation of the activity related to the liability for gross unrecognized tax benefits during fiscal year 2017 are as follows:

	2017 (In thousands)
Beginning year balance	$ 493
Decrease related to prior year tax positions	(140)
Increase related to current year tax positions	
Settlements	
Lapse of statutes of limitations	
Ending year balance	**$ 353**

The Company s net liability for accrued interest and penalties was $0.14 million as of September 30, 2017. The Company has elected to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense.

The total amount of unrecognized tax benefits can change due to final regulations, audit settlements, tax examinations activities, lapse of applicable statutes of limitations and the recognition and measurement criteria under the guidance related to accounting for uncertainly in income taxes. The Company is unable to estimate what this change could be within the next 12 months, but does not believe it would be material to its financial statements.

Income tax expense was comprised of the following for fiscal years 2017, 2016, and 2015:

	2017	2016	2015
		(In thousands)	
Current			
Federal	$ 6,088	$ 6,324	$ 5,017
State	493	511	1,089
	6,581	6,835	6,106
Deferred			
Federal	1,606	1,539	1,444
State	120	(181)	(136)
	1,726	1,358	1,308
Total	**$ 8,307**	**$ 8,193**	**$ 7,414**

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The principal reasons for the differences from the federal statutory rate are as follows:

	2017	2016	2015
Federal tax at statutory rate	35.0%	35.0%	35.0%
True-up of prior year s tax provision	-0.1	-1.8	-2.1
State tax at statutory rate	2.5	2.6	3.9
Permanent and other differences	0.2	0.3	0.2
Uncertain tax position allowance	-0.5	0.2	2.4
Amendment of prior period tax return	-0.7		
Early adoption of ASU 2016-09	-0.7		
Effective Tax Rate	**35.7%**	**36.3%**	**39.4%**

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of September 30, 2017, 2016, and 2015, are presented below:

	2017	2016	2015
		(In thousands)	
Current deferred tax assets:			
Accrued compensation	$ 130	$ 61	$ 69
Stock Compensation	140	138	137
State taxes	399	408	476
Capital loss carryforward	10	10	11
Total deferred tax assets	679	617	693
Less: disallowed capital loss	(10)	(10)	(10)
Net deferred tax assets	669	607	683
Noncurrent deferred tax liabilities:			
Property and equipment	(24)	(50)	(55)
Management contracts	(12,186)	(10,381)	(9,093)
Total deferred tax liabilities	(12,210)	(10,431)	(9,148)
Net deferred tax liabilities	**$ (11,541)**	**$ (9,824)**	**$ (8,465)**

The Company elected to early adopt ASU 2016-09 using a modified retrospective approach, effective as if adopted the first day of the fiscal year, October 1, 2016. As a result of the early adoption, income tax benefits of approximately $0.4 million were recognized. The Company has elected to continue to estimate the number of stock-based awards expected to vest, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur. As such, this has no cumulative effect on retained earnings for the prior year. With the early adoption of ASU 2016-09, the Company has elected to present the cash flow statement on a prospective transition method and no prior periods have been adjusted.

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(9) Earnings Per Share

The weighted average common shares outstanding used in the calculation of basic earnings per share and weighted average common shares outstanding, adjusted for common stock equivalents, used in the computation of diluted earnings per share were as follows for fiscal years 2017, 2016, and 2015:

	September 30,		
	2017	2016	2015
Weighted average common stock outstanding	7,691,937	7,600,583	8,831,094
Common stock equivalents - stock options and RSU s	98,590	117,382	109,940
	7,790,527	7,717,965	8,941,034

All common stock equivalents were dilutive and therefore included in the diluted earnings per share calculation for fiscal years 2017, 2016, and 2015.

On January 26, 2017, the Company s Board of Directors declared a 3-for-2 stock split, which was effected on March 6, 2017, for shareholders of record as of February 10, 2017. All disclosures in this report relating to shares of common stock, restricted stock units, and per share data have been adjusted to reflect this stock split.

(10) Commitments and Contingencies

The Company s headquarters is located in leased office space under a single non-cancelable operating lease at 7250 Redwood Boulevard, Suite 200, in Novato, California. The lease expires on June 30, 2021, with one five-year extension available thereafter. The minimum future rental commitment as of September 30, 2017, is $1.8 million for the remaining term of the current and amended leases. The rent expense is $31,787 per month for the remaining term of the current and amended leases.

The Company also has office space under a single non-cancelable operating lease at 101 Federal Street, Suite 1900, Boston, Massachusetts 02110. The initial term of our lease expired on November 30, 2015, but automatically renews for successive one-year periods unless either party terminates the lease by providing at least three months notice of termination to the other party prior to the next renewal date. The future rental commitment under this lease, as of September 30, 2017, is $13,251 for the remaining term of the most recent automatic renewal and $79,503 for the next automatic renewal. The rent expense is $6,625 per month for the remaining term of the most recent automatic renewal.

The Company also has office space under a single non-cancelable operating lease at 1340 Environ Way, #305, Chapel Hill, North Carolina 27517. The initial term of our lease expired on November 30, 2014, but automatically renews for successive three-month periods unless either party terminates the lease by providing at least two months notice of termination to the other party prior to the next renewal date. The future rental commitment under this lease, as of September 30, 2017, is $3,421 for the remaining term of the most recent automatic renewal and $5,131 for the next automatic renewal. The rent expense is $1,710 per month for the remaining term of the most recent automatic renewal.

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The annual minimum future rental commitments under the foregoing leases as of September 30, 2017, are as follows:

Fiscal Year		**(In thousands)**
2018	$	469
2019		395
2020		382
2021		286
Total	$	1,532

(11) Retirement Plan
The Company has a 401(k) retirement plan covering eligible employees. Employees are eligible to participate if they are over 21 years of age and have completed a minimum of 1 month of service with 80 hours in that month. The Company has also made discretionary profit sharing contributions of $180,233, $158,865, and $137,608 in fiscal years 2017, 2016, and 2015, respectively. To be eligible for the discretionary profit sharing contribution, an employee must be over 21 years of age and have completed a minimum of 6 consecutive months of service with 80 hours of service in each month.

(12) Concentration of Credit Risk
The Company maintains its cash accounts with three commercial banks that, at times, may exceed federally insured limits. The amount on deposit at September 30, 2017, exceeded the insurance limits of the Federal Deposit Insurance Corporation by approximately $1.6 million. In addition, total cash and cash equivalents include $13.7 million held in the First American U.S. Government Money Market Fund that is not federally insured. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

(13) Recently Issued and Adopted Accounting Standards
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). In addition, the FASB issued related revenue recognition guidance in five ASUs: principal versus agent considerations (ASU 2016-08), identifying performance obligations and licensing (ASU 2016-10), a revision of certain SEC staff observer comments (ASU 2016-11), implementation guidance (ASU 2016-12), and technical corrections and improvements (ASU 2016-20). ASU 2014-09 is a comprehensive new revenue recognition standard that supersedes nearly all revenue recognition guidance under GAAP, provides enhancements to the quality and consistency of how revenue is reported, and improves comparability in financial statements presented under GAAP and International Financial Reporting Standards. This new standard is effective for fiscal years and interim periods within those years beginning after December 15, 2017 (our fiscal year 2019). The adoption of this standard is not expected to have a material impact on our financial condition, results of operations, or cash flows.

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In August 2015, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Cost Associated with Line-of-Credit Arrangements, which simplifies the presentation of debt issuance costs. Under the new guidance, debt issuance costs related to term loans should be presented as a direct deduction from the carrying amount of the associated debt liability. This new standard is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2015 (our fiscal year 2017). The impact of adopting ASU 2015-15 on our financial statements was the classification of all deferred financing costs as a deduction to the corresponding debt in addition to the reclassification of deferred financing costs in other current and long-term assets to short and long-term notes payable as of September 30, 2016, within the balance sheets to conform to the new presentation. Other than these reclassifications and additional disclosures, the adoption of ASU 2015-15 did not have a material impact on our financial statements.

In November 2015, the FASB issued ASU No. 2015-17 Balance Sheet Classifications of Deferred Taxes. The standard simplifies the presentation of deferred income taxes under U.S. GAAP by requiring that all deferred tax assets and liabilities be classified as non-current. This new standard is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2016 (our fiscal year 2018). The adoption of this standard is not expected to have a material impact on our financial condition, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments under this pronouncement will change the way all leases with duration of one year of more are treated. Under this guidance, lessees will be required to capitalize virtually all leases on the balance sheet as a right-of-use asset and an associated financing lease liability or capital lease liability. This update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2018 (our fiscal year 2020). We are currently evaluating the impact this standard will have on our policies and procedures pertaining to our existing and future lease arrangements, disclosure requirements and on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09 Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The standard simplifies several aspects of the accounting for share-based payment award transactions, including (1) income tax consequences, (2) classification of awards as either equity or liabilities, and (3) classification on the statement of cash flows. This new standard is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2016 (our fiscal year 2018). Early adoption is permitted for any interim or annual period. The changes in the new standard eliminate the recognition of excess tax benefits or tax deficiencies from the statement of stockholders equity. Under the new guidance, all excess tax benefits and tax deficiencies resulting from stock-based compensation awards vesting and exercises are recognized prospectively within income tax expense, and excess tax benefits are recognized regardless of whether they reduce current taxes payable. This will increase the volatility of our effective tax rate. As of March 31, 2017, we elected to early adopt ASU 2016-09, using a modified retrospective approach, effective as if adopted the first day of the fiscal year, October 1, 2016. As a result of early adoption of ASU 2016-09, income tax benefits of approximately $0.004 million and $0.2 million were recognized as discrete events in the quarterly periods ended March 31, 2017, and December 31, 2016, respectively. We have elected to continue to estimate the number of stock-based awards expected to vest, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur. As such, this has no cumulative effect on retained earnings for the prior year. With the early adoption of 2016-09, we have elected to present the cash flow statement on a prospective transition method and no prior periods have been adjusted.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), a consensus of the FASB s Emerging Issues Task Force, which provides guidance intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This ASU is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2016 (our fiscal year 2018). The adoption of this standard is not expected to have a material impact on our financial condition, results of operations, or cash flows.

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In January 2017, the FASB issued ASU No. 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. Based on feedback that the definition of business is being applied too broadly, the update adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This new standard is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2017 (our fiscal year 2019). The adoption of this standard is not expected to have a material impact on our financial condition, results of operations, or cash flows.

In May 2017, the FASB issued an update to ASU No. 2017-09 Compensation Stock Compensation (Topic 718): Scope of Modification Accounting. The update was issued to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718. This update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2017 (our fiscal year 2019). It is not expected to have a material impact on our financial condition, results of operations, or cash flows.

There have been no other significant changes in the Company s critical accounting policies and estimates during fiscal year 2017.

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(14) Quarterly Financial Data Schedule (Unaudited)

Hennessy Advisors. Inc.
Quarterly Financial Data
(In thousands, except per share amounts)

	Year Ended September 30, 2017				
	12/31/16	**3/31/17**	**6/30/17**	**9/30/17**	**Fiscal Year**
Revenue	$ 13,294	$ 13,236	$ 13,178	$ 13,247	$ 52,955
Operating expense	7,052	7,125	6,908	7,524	28,609
Operating income	6,242	6,111	6,270	5,723	24,346
Interest Expense	266	278	281	284	1,109
Other (income) expense, net			(3)	(9)	(12)
Income before income tax expense	5,976	5,833	5,992	5,448	23,249
Income tax expense	1,980	2,205	2,032	2,090	8,307
Net Income	3,996	3,628	3,960	3,358	14,942
Earnings per share:					
Basic	$ 0.52	$ 0.47	$ 0.51	$ 0.44	$ 1.94
Diluted	0.52	0.47	0.51	0.42	1.92

	Year Ended September 30, 2016				
	12/31/15	**3/31/16**	**6/30/16**	**9/30/16**	**Fiscal Year**
Revenue	$ 13,153	$ 12,192	$ 12,995	$ 13,070	$ 51,410
Operating expense	6,892	6,740	6,862	7,126	27,620
Operating income	6,261	5,452	6,133	5,944	23,790
Interest Expense	361	309	279	283	1,232
Other (income) expense, net		(1)	(1)		(2)
Income before income tax expense	5,900	5,144	5,855	5,661	22,560
Income tax expense	2,250	1,861	1,961	2,121	8,193
Net Income	3,650	3,283	3,894	3,540	14,367
Earnings per share:					
Basic	$ 0.48	$ 0.43	$ 0.51	$ 0.47	$ 1.89
Diluted	0.48	0.43	0.50	0.45	1.86

(15) Pending Asset Purchase of the Rainier U.S. Funds
On May 11, 2017, the Company announced that it signed a definitive agreement with Manning & Napier Group, LLC and Rainier Investment Management, LLC to purchase the assets related to the management of three Rainier Funds, including the Rainier Mid Cap Equity Fund, the Rainier Small/Mid Cap Equity Fund, and the Rainier Large Cap Equity Fund (collectively, the Rainier U.S. Funds). The Company filed a Current Report on Form 8-K regarding this transaction on each of May 11, 2017, and September 27, 2017.

The definitive agreement includes customary representations, warranties and covenants of the Company and Rainier Investment Management, LLC, and provides for a payment upon closing based on the net assets of the Rainier U.S. Funds at the close of business on the trading day immediately preceding the closing date (yet to be determined).

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Upon completion of the transaction, which is subject to the approval of the shareholders of the Rainier Funds, the assets related to the Rainier Large Cap Equity Fund will merge into the Hennessy Cornerstone Large Growth Fund and the assets related to the Rainier Mid Cap Equity Fund and the Rainier Small/Mid Cap Equity Fund will merge into the Hennessy Cornerstone Mid Cap 30 Fund. The transaction is subject to customary closing conditions, including the approval of the Rainier U.S. Funds shareholders.

(16) Subsequent Events

As of the file date of December 4, 2017, management evaluated the existence of events occurring subsequent to the fiscal year end of September 30, 2017, and determined the following to be subsequent events:

On October 31, 2017, the Company announced an additional cash dividend of $0.075 per share to be paid on December 8, 2017, to shareholders of record as of November 15, 2017. The declaration and payment of dividends to holders of our common stock by us, if any, are subject to the discretion of our Board of Directors. Our Board of Directors will take into account such matters as general economic and business conditions, our strategic plans, our financial results and condition, contractual, legal and regulatory restrictions on the payment of dividends by us, and such other factors as our Board of Directors may consider relevant.

On November 16, 2017, we entered into an amendment to our term loan agreement with U.S. Bank and California Bank & Trust to revise the excess cash flow prepayment requirements.

On November 30, 2017, we entered into an amendment to our term loan agreement with U.S. Bank and California Bank & Trust to allow us to consummate the purchase of assets related to the management of the Rainier U.S. Funds.

On December 1, 2017, the Company purchased the assets related to the management of the Rainier Large Cap Equity Fund and the Rainier Mid Cap Equity Fund, adding approximately $122 million in assets under management. The purchase was consummated in accordance with the terms and conditions of that certain Transaction Agreement, dated as of May 11, 2017, as amended, between the Company and Manning & Napier Group, LLC and Rainier Investment Management, LLC. The purchase price of $1.0 million was funded with available cash and was based on the total net assets under management of the Rainier Large Cap Equity Fund and the Rainier Mid Cap Equity Fund as measured at the close of business on November 30, 2017. The shareholder meeting for the Rainier Small/Mid Cap Equity Fund has been adjourned to December 26, 2017.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management s report on internal control over financial reporting set forth in Item 8, Financial Statements and Supplementary Data, above, is incorporated herein by reference.

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ATTESTATION REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The attestation report of our independent registered public accounting firm regarding internal control over financial reporting set forth in Item 8, Financial Statements and Supplementary Data, above, is incorporated herein by reference.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as of September 30, 2017, were effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and (2) accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROLS

There have been no changes in internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934 that occurred during the fiscal quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information regarding our executive officers and directors, Section 16 compliance, and the members of the Audit Committee and the Audit Committee financial expert can be found in our Proxy Statement for our 2018 Annual Meeting (Proxy Statement) under the captions Election of Directors, Corporate Governance and Executive Officers, respectively. Such information is incorporated by reference as if fully set forth herein.

CODE OF ETHICS

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, executive vice presidents, directors, and all employees. The code has been designed in accordance with the Sarbanes-Oxley Act of 2002 to promote honest and ethical conduct. The code also applies to Hennessy Funds Trust. The Code of Ethics is posted on our website at www.hennessyadvisors.com. In the event the Company amends or waives any of the provisions of the Code of Ethics, the Company intends to disclose these actions on its website. We are not including the information contained on our website as part of, or incorporating it by reference into, this report.

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Any person may obtain a copy of the Hennessy Advisors, Inc. Code of Ethics, at no cost, by forwarding a written request to:

Hennessy Advisors, Inc.

7250 Redwood Blvd., Suite 200

Novato, CA 94945

Attention: Teresa Nilsen

ITEM 11. EXECUTIVE COMPENSATION

Information regarding compensation committee interlocks and compensation we paid to our directors and our named executive officers during our most recent fiscal year can be found in the Proxy Statement under the captions Compensation Committee Interlocks and Insider Participation, Compensation Committee Report, Compensation Discussion and Analysis, and Compensation of Executive Officers and Directors. Such information is incorporated by reference as if fully set forth herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding our principal securities holders and the security holdings of our directors and executive officers can be found in the Proxy Statement under the caption Voting Securities. Such information is incorporated by reference as if fully set forth herein.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of September 30, 2017, with respect to our equity compensation plans pursuant to which shares of our common stock may be issued. We do not have any equity compensation plans that have not been approved by our shareholders:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (2) (a)	Weighted-average exercise price of outstanding options, warrants and rights (2) (b)	Number of securities remaining for issuance under compensation plans (excluding securities reflected in column (a)) (1) (c)
	395,313	$ 0.00	1,879,401

Equity compensation plans approved by security holders			
Equity compensation plans not approved by security holders	0	0	0
Total	395,313	$ 0.00	1,879,401

(1) The maximum number of shares of common stock that may be issued under the Omnibus Plan is 50% of our outstanding common stock, or 3,888,282 shares, as of fiscal year 2017.

(2) The number of securities to be issued includes 395,313 shares relating to RSUs to be issued according to the vesting schedule of 25% per year. The exercise price for RSUs is zero, which is included in the weighted average exercise price of outstanding securities.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding the Company s related person transactions, related person transactions policy, and director independence can be found in the Proxy Statement under the caption Corporate Governance. Such information is incorporated by reference as if fully set forth herein.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding the fees billed to the Company by Marcum LLP for professional services can be found in the Proxy Statement under the caption Independent Registered Public Accounting Firm. Such information is incorporated by reference as if fully set forth herein.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The financial statements and financial statement schedules for Hennessy Advisors, Inc. are included under Item 8, Financial Statements and Supplementary Data, above.

Exhibit Index

Set forth below is a listing of all exhibits to this Annual Report on Form 10-K, including those incorporated by reference.

Exhibits

2.1	Transaction Agreement, dated as of May 10, 2017, among Hennessy Advisors, Inc., Rainier Investment Management, LLC, and Manning & Napier Group, LLC. (16)*
2.2	Transaction Agreement, dated May 2, 2016, between the registrant and Westport Advisers, LLC (11)*
3.1	Amended and Restated Articles of Incorporation (15)
3.2	Fourth Amended and Restated Bylaws (9)
10.1	License Agreement, dated April 10, 2000, between Edward J. Hennessy, Inc. and Netfolio, Inc. (2)
10.2	Investment Advisory Agreement, dated March 23, 2009, between the registrant and Hennessy Funds Trust (on behalf of the Hennessy Cornerstone Large Growth Fund) (3)
10.3	Investment Advisory Agreement, dated October 25, 2012, between the registrant and Hennessy Funds Trust (on behalf of the Hennessy Focus Fund, the Hennessy Equity and Income Fund, the Hennessy Core Bond Fund, the Hennessy Gas Utility Fund, the Hennessy Small Cap Financial Fund, the Hennessy Large Cap Financial Fund and the Hennessy Technology Fund) (4)
10.4	Investment Advisory Agreement, dated February 28, 2014, between the registrant and Hennessy Funds Trust (on behalf of the Hennessy Cornerstone Growth Fund, the Hennessy Cornerstone Mid Cap 30 Fund, the

Hennessy Cornerstone Value Fund, the Hennessy Total Return Fund, the Hennessy Balanced Fund, the Hennessy Japan Fund, and the Hennessy Japan Small Cap Fund) (7)

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10.5	Amendment to Investment Advisory Agreement, dated March 1, 2016, between the registrant and Hennessy Funds Trust (on behalf of the Hennessy Cornerstone Growth Fund, the Hennessy Cornerstone Mid Cap 30 Fund, the Hennessy Cornerstone Value Fund, the Hennessy Total Return Fund, the Hennessy Balanced Fund, the Hennessy Japan Fund, and the Hennessy Japan Small Cap Fund) (14)
10.6	Sub-Advisory Agreement, dated October 25, 2012, between the registrant and Broad Run Investment Management, LLC (for the Hennessy Focus Fund) (4)
10.7	Sub-Advisory Agreement, dated October 25, 2012, between the registrant and The London Company of Virginia, LLC (for the Hennessy Equity and Income Fund (equity sleeve)) (4)
10.8	Sub-Advisory Agreement, dated October 25, 2012, between the registrant and Financial Counselors, Inc. (for the Hennessy Equity and Income Fund (fixed income sleeve)) (4)
10.9	Sub-Advisory Agreement, dated February 28, 2014, between the registrant and SPARX Asset Management Co., Ltd. (for the Hennessy Japan Fund and the Hennessy Japan Small Cap Fund) (7)
10.10	Amended and Restated Servicing Agreement, dated February 28, 2014, between the registrant and Hennessy Funds Trust (on behalf of the Hennessy Cornerstone Growth Fund, the Hennessy Cornerstone Mid Cap 30 Fund, the Hennessy Cornerstone Large Growth Fund, the Hennessy Cornerstone Value Fund, the Hennessy Large Value Fund, the Hennessy Total Return Fund, the Hennessy Balanced Fund, the Hennessy Japan Fund, and the Hennessy Japan Small Cap Fund) (7)
10.11	First Amendment to Amended and Restated Servicing Agreement, dated March 1, 2015, between the registrant and Hennessy Funds Trust (on behalf of all Funds) (10)
10.12	Hennessy Advisors, Inc. Amended and Restated 2013 Omnibus Incentive Plan (6)
10.13	Form of Restricted Stock Unit Award Agreement for Employees (1)(5)
10.14	Form of Restricted Stock Unit Award Agreement for Directors (1)(5)
10.15	Form of Stock Option Award Agreement for Employees (1)(5)
10.16	Form of Stock Option Award Agreement for Directors (1)(5)
10.17	Amended and Restated Bonus Agreement, dated as of October 10, 2016, between the registrant and Teresa M. Nilsen (1)(13)
10.18	Amended and Restated Bonus Agreement, dated as of October 10, 2016, between the registrant and Daniel B. Steadman (1)(13)
10.19	Third Amended and Restated Employment Agreement, dated as of October 10, 2016, between the registrant and Neil J. Hennessy (1)(13)
10.20	Term Loan Agreement among the registrant, U.S. Bank National Association and California Bank & Trust, dated September 17, 2015 (8)*
10.21	First Amendment to Term Loan Agreement among the registrant, U.S. Bank National Association and California Bank & Trust, dated September 19, 2016 (12)*

10.22	Second Amendment to Term Loan Agreement among the registrant, U.S. Bank National Association and California Bank & Trust, dated November 16, 2017 (17)
10.23	Third Amendment to Term Loan Agreement among the registrant, U.S. Bank National Association and California Bank & Trust, dated November 30, 2017 (18)*
23.1	Consent of Marcum LLP, Independent Registered Public Accounting Firm
31.1	Rule 13a-14a Certification of the Chief Executive Officer
31.2	Rule 13a-14a Certification of the Chief Financial Officer
32.1	Written Statement of the Chief Executive Officer, Pursuant to 18 U.S.C. § 1350
32.2	Written Statement of the Chief Financial Officer, Pursuant to 18 U.S.C. § 1350
101	Financial statements from the Annual Report on Form 10-K of the registrant for the year ended September 30, 2017, filed on December 4, 2017, formatted in XBRL: (i) the Balance Sheets; (ii) the Statements of Income and Comprehensive Income; (iii) the Statements of Changes in Stockholders Equity; (iv) the Statements of Cash Flows; and (v) the Notes to Financial Statements.

Notes:

* The related schedules to the agreement are not being filed herewith. The registrant agrees to furnish supplementally a copy of any such schedules to the Securities and Exchange Commission upon request.

(1) Management contract or compensatory plan or arrangement.

(2) Incorporated by reference from the Company s Form SB-2 registration statement (SEC File No. 333-66970) filed August 6, 2001.

(3) Incorporated by reference from the Company s Form 10-K for the fiscal year ended September 30, 2009 (SEC File No. 000-49872), filed December 4, 2009.

(4) Incorporated by reference from the Company s Form 10-Q for the quarter ended December 31, 2012 (SEC File No. 000-49872), filed January 17, 2013.

(5) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 000-49872) filed September 18, 2013.

(6) Incorporated by reference to Annex A of the Company s definitive proxy statement on Schedule 14A for the Company s Special Meeting of Shareholders held on March 26, 2015 (SEC File No. 000-49872), filed February 21, 2014.

(7) Incorporated by reference from the Company s Form 10-Q for the quarter ended June 30, 2014 (SEC File No. 001-36423), filed August 6, 2014.

(8) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed September 23, 2015.

(9) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed November 2, 2015.

(10) Incorporated by reference from the Company s Form 10-K for the fiscal year ended September 30, 2015 (SEC File No. 001-36423), filed November 30, 2015.
(11) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed May 3, 2016.
(12) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed September 23, 2016.
(13) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed October 13, 2016.
(14) Incorporated by reference from the Company s Form 10-K for the fiscal year ended September 30, 2016 (SEC File No. 001-36423), filed December 1, 2016.
(15) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed March 7, 2017.
(16) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed May 11, 2017.
(17) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed November 20, 2017.
(18) Incorporated by reference from the Company s Current Report on Form 8-K (SEC File No. 001-36423) filed December 4, 2017.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

(Registrant)

By: /s/ Neil J. Hennessy Dated: December 4, 2017

Neil J. Hennessy

Chief Executive Officer and President

(As a duly authorized Officer on behalf of the

Registrant and as Principal Executive Officer and Chairman of the Board of Directors)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

By: /s/ Teresa M. Nilsen Dated: December 4, 2017

Teresa M. Nilsen

Chief Financial Officer, Secretary and Director

(Principal Financial and Accounting Officer)

By: /s/ Daniel B. Steadman Dated: December 4, 2017

Daniel B. Steadman

Executive Vice President and Director

By: /s/ Kathryn R. Fahy Dated: December 4, 2017

Kathryn R. Fahy

Director of Finance

By:	/s/ Henry Hansel	Dated: December 4, 2017
	Henry Hansel	
	Director	
By:	/s/ Brian A. Hennessy	Dated: December 4, 2017
	Brian A. Hennessy	
	Director	
By:	/s/ Daniel G. Libarle	Dated: December 4, 2017
	Daniel G. Libarle	
	Director	
By:	/s/ Rodger Offenbach	Dated: December 4, 2017
	Rodger Offenbach	
	Director	
By:	/s/ Susan Pomilia	Dated: December 4, 2017
	Susan Pomilia	
	Director	
By:	/s/ Thomas L. Seavey	Dated: December 4, 2017
	Thomas L. Seavey	
	Director	