

HENNESSY ADVISORS INC
Form S-1/A
September 02, 2005
Table of Contents

As filed with the Securities and Exchange Commission on September 2, 2005

Registration No. 333-126896

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Hennessy Advisors, Inc.

(Exact name of registrant as specified in its charter)

California	6282	68-0176227
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

750 Grant Avenue, Suite 100

Novato, California 94945

(415) 899-1555

(Address, including zip code, and telephone number, including area code of Registrant's principal executive offices.)

Neil J. Hennessy

Chief Executive Officer

Hennessy Advisors, Inc.

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750 Grant Avenue, Suite 100

Novato, California 94945

(415) 899-1555

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Linda Y. Kelso

John F. Hartigan

Foley & Lardner LLP

Morgan, Lewis & Bockius LLP

One Independent Drive, Suite 1300

300 South Grand Avenue, Twenty-Second Floor

Jacksonville, Florida 32202-5017

Los Angeles, California 90071-3132

(904) 359-2000

(213) 612-2500

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement is declared effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered ⁽¹⁾	Proposed	Proposed	Amount of Registration Fee ⁽³⁾
		Maximum Offering Price Per Share	Maximum Aggregate Offering Price ⁽²⁾	
Common stock	1,822,463 shares	\$ (2)	\$ 48,554,038	\$ 5,714.81

(1) Includes 237,713 shares that are subject to the underwriter's over-allotment option.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933 and based upon the average of the high and low prices of the common stock as reported on the OTC Bulletin Board of \$26.00 on August 26, 2005 for 22,463 shares added pursuant to this amendment and \$26.65 on July 22, 2005 for 1,800,000 shares covered by the initial filing on July 26, 2005.

(3) Of this amount, \$5,646.07 was previously paid in connection with the initial filing of this registration statement on July 26, 2005.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the

Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 2, 2005

PRELIMINARY PROSPECTUS

1,584,750 Shares

Common Stock

We are offering 1,250,000 shares of our common stock, and the selling shareholders named in this prospectus are offering 334,750 shares of our common stock. We will not receive any proceeds from the sale of the shares of our common stock being sold by the selling shareholders. Our common stock is currently traded on the OTC Bulletin Board under the symbol HNNA.OB. The last reported sale price of our common stock on the OTC Bulletin Board on August 31, 2005 was \$24.50 per share. We have applied for quotation of our common stock on The NASDAQ National Market under the symbol HNNA.

Investing in our common stock involves a high degree of risk. Before buying any shares, you should carefully consider the material risks of investing in our common stock described in Risk Factors beginning on page 9 of this prospectus.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$
Proceeds, before expenses, to the selling shareholders	\$	\$

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The underwriters may also purchase up to an additional 237,713 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about _____, 2005.

A.G. EDWARDS

FRIEDMAN BILLINGS RAMSEY

JANNEY MONTGOMERY SCOTT LLC

The date of this prospectus is _____, 2005.

Table of Contents

TABLE OF CONTENTS

Prospectus

	Page
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	9
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	15
<u>Use of Proceeds</u>	16
<u>Price Range of Common Stock</u>	17
<u>Dividend Policy</u>	17
<u>Capitalization</u>	17
<u>Selected Financial Data</u>	18
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Business</u>	29
<u>Management</u>	40
<u>Executive Compensation</u>	42
<u>Principal and Selling Shareholders</u>	46
<u>Description of Capital Stock</u>	47
<u>Underwriting</u>	48
<u>Legal Matters</u>	51
<u>Experts</u>	51
<u>Where You Can Find More Information</u>	51
<u>Index to Financial Statements</u>	F-1

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the respective dates as of which the information is given.

Table of Contents

PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that you should consider before investing in our common stock. To understand the terms of the securities being offered by this prospectus, you should read this entire prospectus carefully, including the section entitled *Risk Factors*, the documents identified in the prospectus under the caption *Where You Can Find More Information* and our financial statements and the notes to those statements. In this prospectus, the terms *Hennessy*, *we*, *us* and *our* refer to Hennessy Advisors, Inc. and the terms *our mutual funds* or the *Hennessy Funds* refers to the six mutual funds that we manage. All share and per share amounts have been restated to reflect a 3-for-2 stock split that occurred on March 8, 2005. Unless expressly provided otherwise, all information assumes that the underwriters do not exercise their over-allotment option.*

Overview

We are a publicly traded investment management firm. Our principal business activity is managing, servicing and marketing our six open-end mutual funds. All of our mutual funds are no-load, meaning investors do not pay any upfront or deferred sales charges. We use quantitative stock selection strategies to manage each of the Hennessy Funds. The net assets of the mutual funds we manage have increased by 802% from \$194 million on September 30, 2001 to \$1.75 billion as of July 31, 2005, including approximately \$299 million in net assets added on July 1, 2005 in connection with the acquisition of the management agreement for The Henlopen Fund, which we renamed the Hennessy Cornerstone Growth Fund, Series II.

Each of the Hennessy Funds pay fees to us for our management services. Management services include investment research, supervision of investments, conducting investment programs, including evaluation, sale and reinvestment of assets, the placement of orders for purchase and sale of securities, solicitation of brokers to execute transactions and the preparation and distribution of reports and statistical information. Some of our mutual funds also pay fees to us for shareholder servicing. Shareholder servicing consists primarily of providing a call center to respond to shareholder inquiries, including inquiries regarding specific mutual fund account and investment information. The fees that we receive for management services and shareholder servicing are based on a percentage of the average daily net asset value of our mutual funds.

History

We have been an investment advisor since 1990. From 1990 until 1996, we provided management services to private clients and limited partnerships utilizing strategies similar to those we use in advising our mutual funds today. In 1996, we launched our first mutual fund, the Hennessy Balanced Fund. In 1998, we launched our second mutual fund, the Hennessy Total Return Fund.

In 2000, we began acquiring the rights to manage the assets of additional mutual funds by entering into agreements with the funds' investment advisors to purchase certain assets related to such funds. When we acquire the rights to manage the assets of a mutual fund, we generally either enter into a management agreement covering the mutual fund or reorganize the assets of the mutual fund into one of our existing mutual funds. In this prospectus, we refer to either of these types of transactions as acquiring a management agreement.

In June 2000, we completed our first acquisition by entering into a management agreement covering the O Shaughnessy Cornerstone Growth Fund and the O Shaughnessy Cornerstone Value Fund and changed the names of these funds to the Hennessy Cornerstone Growth Fund and the Hennessy Cornerstone Value Fund. In

Table of Contents

connection with this acquisition, we obtained an exclusive, perpetual license to use the names and investment strategies of the Cornerstone Growth Fund and Cornerstone Value Fund from Netfolio, Inc. These two mutual funds had approximately \$197 million in combined net assets at the time we began managing them.

In September 2003, we acquired the management agreement for the SYM Select Growth Fund. In connection with that acquisition, we launched our fifth mutual fund, the Hennessy Focus 30 Fund, into which we reorganized the assets of the SYM Select Growth Fund. At the time of this acquisition, the SYM Fund had approximately \$35 million in net assets.

In March 2004, we acquired the management agreements for five funds, which we refer to as the Lindner Funds in this prospectus, that were managed by Lindner Asset Management, Inc. In connection with this acquisition, the assets of the Lindner Funds were reorganized into four of our existing mutual funds. At the time of this acquisition, the Lindner Funds had approximately \$301 million in combined net assets.

On July 1, 2005, we acquired the management agreement for The Henlopen Fund and changed the name to the Hennessy Cornerstone Growth Fund, Series II. At the time of this acquisition, The Henlopen Fund had approximately \$299 million in net assets.

Operating Platform

Business Strategy. We intend to increase our revenues by increasing our assets under management and to increase our profitability through the following key business strategies.

Utilize Our Branding and Marketing Campaign for Growth. We will continue our efforts to make Hennessy a name readily recognizable by investors through frequent print media, radio and television appearances. We appear in national print or broadcast media an average of once every three to four days. We believe that the breadth and consistency of this campaign will continue to enhance investor awareness of our mutual funds and of the Hennessy name.

Expand Our Distribution Network. New investors can invest in our mutual funds through direct investments, mutual fund supermarkets and third party investment professionals. We are working to increase accessibility to investors of our mutual funds by (1) expanding our distribution network to additional mutual fund supermarkets, (2) increasing our current base of investment professionals that utilize no-load mutual funds for their clients and (3) securing participation in the platforms of national full-service firms that permit their investment professionals to utilize no-load funds for their clients.

Grow Organically. We seek to attract new investors who make investments in our mutual funds. We believe that our mutual funds appeal to investors who favor statistical analysis and empirical evidence as the basis for investment decisions.

Pursue Selective Acquisitions. We intend to continue acquiring management agreements for mutual funds while managing the acquisition process to be highly accretive to our shareholders.

Deliver Strong, High Quality Financial Results. We seek to manage our investment management business to the highest regulatory, ethical and business standards while strenuously controlling costs and creating high margins for the Hennessy shareholders. For the year ended September 30, 2004, we had a pre-tax operating margin of 48.1%.

Investment Strategy. We manage each of the Hennessy Funds using a quantitative stock selection strategy that we have evaluated and tested over historical periods for hypothetical performance results. We manage our funds according to strict, formulaic investment strategies and do not try to outsmart or time the market. We purchase a portfolio of securities for each of our mutual funds, as dictated by the funds' strategies, and only

Table of Contents

adjust or rebalance those portfolios approximately once a year. A brief description of each of our mutual funds follows.

Hennessy Cornerstone Growth Fund (HFCGX). The Hennessy Cornerstone Growth Fund seeks long-term growth of capital by investing primarily in small-cap, growth-oriented companies.

Hennessy Cornerstone Growth Fund, Series II (formerly known as The Henlopen Fund) (HENLX). The Hennessy Cornerstone Growth Fund, Series II seeks long-term capital appreciation. This fund utilizes the same investment strategy as the Hennessy Cornerstone Growth Fund but selects its portfolio at a different time of the year, thus creating a substantially different portfolio of stocks.

Hennessy Cornerstone Value Fund (HFCVX). The Hennessy Cornerstone Value Fund seeks total return, consisting of capital appreciation and current income, by investing in dividend-paying, large-cap companies.

Hennessy Total Return Fund (HDOGX). The Hennessy Total Return Fund seeks total return, consisting of capital appreciation and current income, and seeks to exceed, in the long run, the returns of the Dow Jones Industrial Average but with lower associated risk. Through the defined strategy of the fund, approximately 75% of its return is based on the 10 highest dividend yielding common stocks of the Dow Jones Industrial Average and the remaining 25% of its return is based on U.S. Treasury securities with a maturity of less than one year. The 10 highest dividend yielding common stocks in the Dow Jones Industrial Average are commonly referred to as the Dogs of the Dow stocks.

Hennessy Focus 30 Fund (HFTFX). The Hennessy Focus 30 Fund seeks long-term growth of capital by investing in mid-cap, growth-oriented companies.

Hennessy Balanced Fund (HBF BX). The Hennessy Balanced Fund seeks a combination of capital appreciation and current income by investing in a balance of the Dogs of the Dow stocks and U.S. Treasury securities with a maturity of less than one year.

Historical Fund Investment Performance. The following table presents the average annualized returns for each of our mutual funds and the relevant benchmark indices for the one-year, three-year, five-year and since inception periods ended July 31, 2005. Although we did not begin managing the Hennessy Cornerstone Growth Fund and Hennessy Cornerstone Value Fund until June 2000, we have included historical performance information for these funds from their inception date of November 1, 1996 because these funds were previously managed according to the same strategies that we use today. We have not included performance information for the Hennessy Cornerstone Growth Fund, Series II because we only began managing that fund on July 1, 2005 and the previous manager did not follow the Cornerstone Growth strategy. Returns are presented net of all expenses borne by mutual fund shareholders, but are not net of fees waived or expenses borne by us. The past investment performance of our mutual funds is no guarantee of future performance. All of these funds have experienced negative performance over various time periods in the past and may do so again in the future.

	1 Year	3 Years	5 Years	Since Inception (11/01/96)
Hennessy Cornerstone Growth Fund				
Average Annual Total Return	30.46%	22.17%	14.14%	17.00%
S&P 500 (1)(2)	14.05%	12.61%	(1.35%)	8.30%
Russell 2000 Index (2)(3)	24.78%	21.60%	7.71%	9.65%
Hennessy Cornerstone Value Fund	1 Year	3 Years	5 Years	

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				Since Inception
				(11/01/96)
Average Annual Total Return	10.70%	11.04%	8.34%	7.17%
S&P 500 (1)(2)	14.05%	12.61%	(1.35%)	8.30%
Russell 1000 Index (2)(4)	16.20%	13.46%	(0.80%)	8.58%

Table of Contents

Hennessy Total Return Fund	1 Year	3 Years	5 Years	Since Inception (07/29/98)
Average Annual Total Return	5.07%	7.11%	5.95%	3.12%
S&P 500 (1)(2)	14.05%	12.61%	(1.35%)	2.87%
Dow Jones Industrial Average (2)(5)	7.29%	9.21%	2.28%	4.53%
90-Day U.S. Treasury Securities (2)(6)	2.20%	1.50%	2.44%	3.17%

Hennessy Focus 30 Fund	1 Year	3 Years	5 Years	Since Inception (09/17/03)
Average Annual Total Return	45.07%	N/A	N/A	24.63%
S&P 500 (1)(2)	14.05%	N/A	N/A	12.32%
S&P 400 Mid-cap (2)(7)	25.89%	N/A	N/A	19.76%

Hennessy Balanced Fund	1 Year	3 Years	5 Years	Since Inception (03/08/96)
Average Annual Total Return	1.33%	3.23%	3.23%	4.54%
S&P 500 (1)(2)	14.05%	12.61%	(1.35%)	9.08%
Dow Jones Industrial Average (2)(5)	7.29%	9.21%	2.28%	9.38%
90-Day U.S. Treasury Securities (2)(6)	2.20%	1.50%	2.44%	3.66%

- (1) The S&P 500 is the Standard & Poor's Composite Index of 500 stocks, a widely recognized index of common stocks.
- (2) Reflects no deduction for fees or expenses.
- (3) The Russell 2000 Index is a recognized small-cap index of the 2,000 smallest stocks of the Russell 3000 Index, which is comprised of the 3,000 largest U.S. stocks as determined by total market capitalization.
- (4) The Russell 1000 Index is comprised of large-cap U.S. stocks and is commonly used as a benchmark for U.S. large-cap funds.
- (5) The Dow Jones Industrial Average is an index of common stocks comprised of major industrial companies and assumes reinvestment of dividends.
- (6) We believe 90-day U.S. Treasury securities most closely approximate the treasury securities held by the Total Return Fund and Balanced Fund because the Total Return Fund and Balanced Fund purchase treasury securities having a maturity of less than one year.
- (7) The S&P 400 Mid-Cap Index is a widely recognized index of common stocks.

Net Assets of Our Mutual Funds. We generate all of our operating revenues by providing management and shareholder services to our mutual funds. The revenues that we receive from our mutual funds are based on the amount of average daily net assets in the funds. Following is a table showing the amount of net assets of each of our funds as of July 31, 2005.

	Net Assets
	(In thousands)
Cornerstone Growth Fund	\$ 1,061,699
Cornerstone Growth Fund, Series II	300,795
Cornerstone Value Fund	192,694
Total Return Fund	90,652
Focus 30 Fund	84,411
Balanced Fund	21,283

Total	\$ 1,751,534
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Table of Contents

Development of New Investment Strategies. We begin developing new investment strategies by identifying client needs and reviewing asset allocation tables to determine where we can augment our family of mutual funds. Once we identify an attractive market segment, we develop a new investment strategy by screening the appropriate universe of stocks with a set of parameters that we believe identify stocks that will produce higher long-term returns with lower associated risk than their relative indices. We introduce new investment strategies into the marketplace by opening and directly marketing a new mutual fund, by acquiring the management agreement for an existing mutual fund and implementing our new strategy or potentially by changing the investment strategy of one of our existing funds.

Acquisition Strategy and Market Opportunity. We began acquiring management agreements in June 2000. We primarily focus on acquiring retail-oriented, no-load mutual funds with less than \$500 million in assets. The overall U.S. market for retail-oriented, no-load mutual funds consists of over 2,400 different funds with assets ranging from less than \$1 million to over \$100 billion. Of these 2,400 funds, more than 1,700 meet our acquisition size criteria with less than \$500 million in assets. An active market for the acquisition of mutual fund management agreements has developed in recent years, with over 70 such acquisitions pending or completed since the beginning of 2000. Additionally, we believe the regulatory burden imposed upon the mutual fund industry has compressed the margins of smaller mutual fund managers, making those managers more receptive to an acquisition. We believe that we are well positioned to benefit from these attractive acquisition trends and from the increasing supply of potential targets.

Following are the net assets added to our mutual funds through completed acquisitions (in thousands):

Date of Acquisition	Pre-Acquisition Mutual Fund Name	Net Assets of Acquired Mutual Fund on Date of Acquisition	Mutual Fund After Closing
June 30, 2000	O Shaughnessy Cornerstone Growth Fund	\$177,200	Hennessy Cornerstone Growth Fund
June 30, 2000	O Shaughnessy Cornerstone Value Fund	19,367	Hennessy Cornerstone Value Fund
September 17, 2003	SYM Select Growth Fund	34,928	Hennessy Focus 30 Fund
February 26, 2004	Lindner Growth and Income Fund	179,368	Hennessy Cornerstone Value Fund
February 26, 2004	Lindner Large Cap Growth Fund	96,448	Hennessy Total Return Fund
February 26, 2004	Lindner Communications Fund	8,218	Hennessy Cornerstone Growth Fund
February 26, 2004	Lindner Small-Cap Growth Fund	7,134	Hennessy Cornerstone Growth Fund
March 11, 2004	Lindner Market Neutral Fund	10,046	Hennessy Balanced Fund
July 1, 2005	The Henlopen Fund	299,225	Hennessy Cornerstone Growth Fund, Series II
Total		\$831,934	

Competitive Strengths

We are well positioned to take advantage of our key competitive strengths, which are summarized below.

Quantitative Portfolio Management Strategy. We believe our quantitative investment philosophy appeals to investors who favor statistical analysis and empirical evidence as the basis for investment decisions. As our brand recognition continues to grow, we believe that we will increase organic growth through new investments in our mutual funds.

Scalable Business Model. By adhering to our quantitative portfolio management philosophy, we are able to test new investment strategies against historical data quickly and cost effectively and implement them without significant cost. We expect to maintain strong margins as our assets under management grow since we do not foresee the need to add personnel proportional to the increase in assets under management.

Table of Contents

Demonstrable Acquisition Expertise. Since June 2000, we have successfully acquired and integrated nine mutual funds into our operating platform. This equates to the addition of over \$832 million in net assets to our family of mutual funds over a period of approximately five years, based on the net assets of the relevant funds at the time we completed each acquisition.

Acquisitions and organic growth through new investments in our mutual funds combined to increase the net assets of the mutual funds that we manage by over six times from September 30, 2001 to September 30, 2004. During that same period, our revenues grew at a similar rate, as would be expected, but the low cost structure and scalability of our business model allowed our net income to increase by nearly 14 times.

The address of our principal executive office is 750 Grant Avenue, Suite 100, Novato, California 94945, and our general telephone numbers are (800) 966-4354 and (415) 899-1555. Our website address is www.hennessyadvisors.com. The information on, or that can be accessed through, our website is not part of this prospectus.

Table of Contents

The Offering

Common Stock offered by us	1,250,000 shares of common stock, or 1,487,713 shares if the underwriters exercise their overallotment option in full.
Common Stock offered by the selling shareholders	334,750 shares of common stock.
Shares of common stock outstanding after the offering	3,740,213 shares of common stock, or 3,977,926 shares if the underwriters exercise their overallotment option in full.
Use of proceeds	<p>We estimate that we will use the net proceeds that we receive from the sale of the shares of common stock sold by us in the offering of approximately \$28.2 million to:</p> <p>repay in full our bank loan in the aggregate principal amount of \$12.9 million as of August 31, 2005;</p> <p>fund acquisitions of management agreements that we may identify from time to time; and</p> <p>for general corporate purposes.</p> <p>We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders. For more information, see Use of Proceeds on page 16.</p>
Voting rights	Each share of our common stock entitles its holder to one vote on all matters to be voted on by stockholders generally.
Dividend policy	We paid an annual dividend in March 2005 of \$0.10 per share. Upon the successful completion of this offering, we intend to begin paying quarterly dividends.
Risk factors	The Risk Factors section included in this prospectus contains a discussion of factors that you should carefully read and consider before deciding to invest in shares of our common stock.
Listing	Our shares are currently traded on the OTC Bulletin Board under the symbol HNNA.OB . We have applied for quotation of our common stock on The NASDAQ National Market under the symbol HNNA .

Table of Contents**Summary Financial Data**

The statement of operations data set forth below for the fiscal years ended September 30, 2002, 2003 and 2004 are derived from our audited financial statements, which are included in this prospectus. The statement of operations data for the fiscal years ended September 30, 2000 and 2001 have been derived from our audited financial statements not included in this prospectus. The following summary interim financial data as of June 30, 2005 and for the nine months ended June 30, 2004 and 2005 are unaudited and are derived from the interim financial statements included in this prospectus. In the opinion of management, the unaudited data have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for fair presentation. Results for interim periods are not indicative of results for a full year. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Selected Financial Data and our financial statements and notes to our financial statements included in this prospectus.

	Year Ended September 30,					Nine Months Ended	
						June 30,	
	2000	2001	2002	2003	2004	2004	2005
							(Unaudited)
	(In thousands, except per share data)						
Statement of Operations Data:							
Total revenue	\$ 663	\$ 1,674	\$ 2,270	\$ 4,787	\$ 9,545	\$ 7,004	\$ 8,318
Operating income	26	448	500	1,783	4,773	3,336	4,335
Net income (loss)	(47)	199	309	1,062	2,765		