

Risk Factors Comparison 2024-12-11 to 2023-12-07 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

Many competitors offer similar products to the Hennessy Funds, and the failure or negative performance of competitors' products could lead to a loss of confidence in the corresponding products in the Hennessy Funds lineup, irrespective of the performance of the Hennessy Funds. Any loss of confidence in a product type could lead to redemptions in the Hennessy Fund within such product type, which could have a material adverse effect on our business, results of operations, and financial condition. Our business and operations are subject to adverse effects from market reactions to the outbreak of contagious diseases. The outbreak and spread of contagious diseases ~~may such as COVID-19 has adversely impacted~~ **impact** global commercial activity, ~~contributed~~ **contribute** to significant volatility in global equity and debt markets, and ~~disrupted~~ **disrupt** supply chains, operations, and economic activity. ~~Such outbreaks may~~ **The COVID-19 pandemic adversely impacted** ~~impact~~ the value and performance of the Hennessy Funds, which ~~may resulted~~ **result** in declines in our revenues ~~and~~ **It also limited** ~~limit~~ our ability to source and pursue potential acquisitions. Future outbreaks of contagious diseases could have ~~similar~~ **adverse impacts on our business and financial performance.** **RISKS RELATING TO OUR INDUSTRY Investor behavior is influenced by short- term investment performance. Investor behavior may be based on many factors, including short- term investment performance. Poor short - term performance of the Hennessy Funds, irrespective of longer - term success, could potentially lead to a decrease in purchases of shares of the Hennessy Funds and an increase in redemptions, thereby reducing our assets under management and adversely affecting our revenues. Assets invested through financial institutions can be quickly redeemed, which could reduce our revenues. Financial institutions are attractive to investors because of the ease of accessibility to a variety of funds, but this may cause the investments to be more sensitive to fluctuations in performance, especially in the short term. If we were unable to retain the assets of the Hennessy Funds held through financial institutions, our assets under management would be reduced. As a result, our revenues could decline and our business, results of operations, and financial condition could be materially adversely affected.** **22 We face intense competition in attracting investors and retaining net assets in the Hennessy Funds. The investment advisory industry is intensely competitive and new participants are continually entering the industry. We compete directly with numerous global and U.S. investment advisors, commercial banks, savings and loan associations, brokerage and investment banking firms, broker- dealers, insurance companies, and other financial institutions that often provide investment products with similar features and objectives to those we offer. These institutions range from small boutique firms to large financial services complexes. We are considered a small investment advisory company. Many competing companies are part of larger financial services companies that conduct business in more markets and have greater marketing, financial, technical, research, and distribution resources and other capabilities than we do. Most of the larger firms offer a broader range of financial services to the same retail and institutional investors that we seek to serve. If we are unable to attract investors and retain net assets in the Hennessy Funds due to increased competition, our revenues could decline and we could experience a material adverse effect on our business, results of operations, and financial condition. For more information regarding competitive factors, see the "Competition" subheading in Item 1, "Business."** **We may be unable to develop or acquire new products and the development of new products may expose us to reputational harm, additional costs, or operational risk. Our continued financial performance may depend on our ability to react to changes in the asset management industry, respond to evolving investor demands and develop, market, and manage new investment products. Conversely, the development and introduction of new products** requires continued innovative effort on our part and may require significant time and resources, as well as ongoing support and investment. Substantial risks and uncertainties are associated with the introduction of new products, including the implementation of new and appropriate operational controls and procedures, shifting investor and market preferences, the introduction of competing products, constraints on our ability to manage growth, and compliance with regulatory and disclosure requirements. A growing number of new products also depend on data provided by third parties as analytical inputs and are subject to additional risks, including with respect to data quality, cost, availability, and provider relationships. There can be no assurance that we will be able to develop or acquire new products that address the needs of investors on the timescale they require. Any failure to successfully develop or acquire new products, or effectively manage associated operational risks, could harm our reputation and expose us to additional costs, which may reduce our assets under management and adversely affect our revenues. Market consolidation and industry trends could negatively impact our business. In recent years, there have been several instances of industry consolidation in both the distribution and investment management areas. Further consolidation may occur in these areas in the future. The increasing size and market influence of certain distributors of our products and of certain direct competitors may have a negative impact on our ability to compete at the same levels of profitability in the future. Additionally, the market environment has increasingly led some investors to favor lower - fee, passive products. As a result, investment advisors that emphasize passive products have gained, and may continue to gain, market share from active managers like us. Industry trends and market pressure to lower our investment advisory fees could reduce our profit margin. Our profits are highly dependent on the fees we are able to charge to the Hennessy Funds for investment advisory services. To the extent we are forced to compete on the basis of the investment advisory fees we charge to the Hennessy Funds, we may not be able to maintain our current fee structures. We have historically competed primarily on the performance of the Hennessy Funds and not on the level of our investment advisory fees relative to those of our competitors. ~~In recent years,~~ **but** ~~however,~~ there has been **downward pressure on** a trend toward lower fees in the investment advisory

industry **for many years**. To maintain our fee structures in a competitive environment, we must be able to provide investors in the Hennessy Funds with investment returns and service that will adequately compensate them for investing in our funds with our current fee structures. We may not succeed in maintaining our current fee structures, and fee reductions on existing or future business could have a material adverse effect on our results of operations. Higher insurance premiums and increased insurance coverage risks could increase our costs and reduce our profitability. We carry insurance in amounts and under terms that we believe are appropriate, but we cannot guarantee that our insurance policies will cover all liabilities and losses to which we may be exposed or, if covered, that such liabilities and losses will not exceed insurance coverage limits or that our insurers will remain solvent and meet their obligations. In addition, insurance premiums and required retentions have increased in the past and may do so again in the future. **27 We** **23 We** are subject to regulatory and governmental inquiries and civil litigation. An adverse outcome of any such proceeding could involve substantial financial penalties. Various claims may also arise against us in the ordinary course of business, such as employment-related claims. There has been increased incidence of litigation and regulatory investigations in the financial services industry in recent years, including customer claims and class action suits alleging substantial monetary damages. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As our insurance policies come up for renewal, we may need to assume higher deductibles or co-insurance liabilities, or pay higher premiums, which would increase our expenses and have a material adverse effect on our results of operations. We depend on information technology, and any failures of or damage to, attack on or unauthorized access to our information technology systems or facilities, or those of third parties with which we do business, including as a result of cyber-attacks, could result in significant limits on our ability to conduct our operations and activities, costs, and reputational damage. We use software and related technologies throughout our business and also utilize third-party vendors who use software and related technologies to provide services to us and the Hennessy Funds. We are dependent on the effectiveness of our information and cybersecurity policies, procedures, and capabilities we maintain to protect our computer and telecommunications systems and the data that resides on or is transmitted through them, including data provided by third parties that is significant to our business. An information security incident, such as a cyber-attack involving a phishing scam, business email compromise, malware, or ransomware attack, or an internally caused incident or disruption, such as misuse or a failure to control access to sensitive systems, could materially interrupt our business operations or cause disclosure or modification of sensitive or confidential investor or competitive information. Moreover, our growing reliance on mobile and cloud technology and any failure by mobile technology and cloud service providers to adequately safeguard their systems and prevent cyber-attacks could disrupt our operations and result in misappropriation, corruption, or loss of personal, confidential, or proprietary information or third-party data. Additionally, although we take precautions to password protect and encrypt our laptops and other mobile electronic hardware, if such hardware is stolen, misplaced, or left unattended, it may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly actions. Furthermore, there is a risk that encryption and other protective measures may be circumvented, particularly to the extent that new computing technologies increase the speed and computing power available. The financial services industry has been the subject of cyber-attacks involving the dissemination, theft, and destruction of corporate information or other assets as a result of failure to follow procedures by employees or as a result of actions by third parties, including actions by terrorist organizations and nation-state actors. Although we have implemented policies and controls to prevent and address potential data breaches, inadvertent disclosures, increasingly sophisticated cyber-attacks, and cyber-related fraud, there can be no assurance that any of these measures will prove effective. Because the techniques used to obtain unauthorized access, disable, or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques, to implement adequate preventative measures, or to address them until they are discovered. In addition, a successful cyber-attack may persist for an extended period of time before being detected, and it may take a considerable amount of time for an investigation to be completed and the severity and potential impact to be known. While such an investigation is ongoing, we may not necessarily know the extent of the harm or how best to remediate it, certain errors or actions could be repeated or compounded before they are discovered and remediated, and communication to the public, regulators, shareholders, and investors in the Hennessy Funds may be inaccurate, any or all of which could further increase the costs and consequences of an information security incident. If any of these events were to occur, we could suffer a financial loss, a disruption of our business, liability to the Hennessy Funds and their investors, regulatory intervention, or reputational damage, any of which could have a material adverse effect on our business, results of operations, and financial condition. We also may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures. In addition, our cybersecurity insurance may not cover all losses and damages from such events and our ability to maintain or obtain sufficient insurance coverage in the future may be limited. Finally, cybersecurity and data privacy have become high priorities for regulators, and many jurisdictions are enacting laws and regulations in these areas. Enactment of privacy laws or regulations could, among other things, result in additional costs of compliance or litigation. In addition, while we strive to comply with the relevant laws and regulations, any failure to comply could result in regulatory investigations and penalties as well as negative publicity, which could materially adversely affect our business, results of operations, and financial condition. **28 We** are exposed to legal risk and litigation, which could increase our expenses and reduce our profitability. We are subject to a number of sources of potential legal liability, including, by way of example, investors in the Hennessy Funds, our own shareholders, our employees, or regulators. Lawsuits or investigations that we may become involved in could be very expensive and highly damaging to our reputation, even if the underlying claims are without merit. Our business is extensively regulated, which increases our costs of doing business, and our failure to comply with regulatory requirements may harm our financial condition. Our business is subject to extensive regulation in the United States, particularly by the SEC. We are subject to regulation under the Securities Act of 1933, as amended, the Exchange Act, the 1940 Act, the Advisers Act, and various other statutes. The laws to which we are subject are designed primarily to protect investors in the Hennessy Funds as opposed to our

shareholders. In addition to an increased number of applicable laws, the investment fund industry has undergone increased scrutiny by the SEC and state regulators in recent years, resulting in numerous enforcement actions and sweep examinations. Increased regulation has increased our costs in managing the Hennessy Funds, and we could continue to experience higher costs if new laws require us to spend more time, hire additional personnel, or buy new technology to comply effectively. Any change in law could also have a material adverse effect on us by limiting the sources of our revenues and increasing our costs. In addition to securities regulations, our business also may be materially adversely affected by other types of laws and policies. Any determination of a failure to comply with applicable laws, rules, or regulations could expose us or our employees to civil liability, criminal liability, or disciplinary or enforcement action, with penalties that could include the disgorgement of fees, fines, sanctions, suspensions, or censure of individual employees, or revocation or limitation of business activities or registration, and may result in monetary losses that are not covered by insurance in adequate amounts or at all, any of which could have an adverse impact on our financial condition and results of operations. Further, if we or our employees were to fail to comply with applicable laws, rules, or regulations, or be named as a subject of an investigation or other regulatory action, the public announcement and potential publicity surrounding any such investigation or action could have an adverse effect on our reputation and our stock price and result in increased costs, even if we or our employees were found not to have violated such laws, rules, or regulations. Changes to U.S. or state tax laws, our failure to adequately comply with U.S. or state tax laws, or the outcome of any audits or regulatory disputes with respect to our compliance with U.S. or state tax laws could adversely affect us. Changes to U.S. or state tax law could be enacted in the future that could have a material adverse effect on our business, results of operations, and financial condition. Further, we are subject to potential tax audits in various jurisdictions and in such event, tax authorities may disagree with certain positions we have taken and assess penalties or additional taxes. While we assess regularly the likely outcomes of these potential audits, there can be no assurance that we will accurately predict the outcome of a potential audit, and an audit could have a material adverse impact on our business, results of operations, and financial condition. Our investment advisory agreements require us to adhere to the investment policies and strategies of the Hennessy Funds; any failure to comply with such requirements could result in claims, losses, or regulatory sanctions. Our investment advisory agreements with the Hennessy Funds contain contractual provisions that require us to comply with the investment policies and strategies of the Hennessy Funds when we provide our investment advisory services. We are also required to comply with numerous investment, asset valuation, distribution, and tax requirements under applicable law and regulations. Any allegation of a failure to adhere to these requirements could result in investor claims, reputational damage, withdrawal of assets, and potential regulatory sanctions, any of which could negatively impact our revenues and earnings. We have implemented procedures and utilize the services of experienced administrators, accountants, and lawyers to assist in satisfying these requirements, but there can be no assurance that these precautions will protect us from potential liabilities. ~~29~~We ~~24~~We may need to raise additional capital to fund new business initiatives, and resources may not be available to us in sufficient amounts or on acceptable terms, which could have an adverse impact on our business. Our ability to meet our future cash needs is dependent upon our ability to generate cash. Although we have been successful in generating sufficient cash in the past, we may not be successful in the future. We may need to raise additional capital to fund new business initiatives or repay the 2026 Notes, and financing may not be available to us in sufficient amounts, on acceptable terms, or at all. Our ability to access bank financing or capital markets efficiently depends on a number of factors, including the state of credit and equity markets, interest rates, and credit spreads. If we are unable to access sufficient capital on acceptable terms, our business could be adversely impacted. Failure to establish adequate controls and risk management policies, as well as circumvention of established controls and policies by employees, could harm us by impairing our ability to attract and retain investors in the Hennessy Funds and by subjecting us to significant legal liability, regulatory scrutiny, and reputational harm. Our reputation is critical to attracting and retaining investors in the Hennessy Funds. In recent years, there have been a number of highly publicized cases involving fraud, conflicts of interest, or other misconduct by individuals in the financial services industry. **We have implemented controls and risk management policies to monitor and manage risks, but we cannot be certain that such controls and policies will successfully identify and manage internal and external risks. Further, although we strive to conduct our business in accordance with the highest ethical standards and emphasize the importance of doing so to our employees, there is a risk that our employees could engage in misconduct that adversely affects our business. For example, if an employee were to engage in, or be accused of engaging in, illegal or suspicious activity (such as improper trading, disclosure of confidential information, or breach of fiduciary duties), we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial position, and ability to maintain and grow the number of investors in the Hennessy Funds. The historical performance of the Hennessy Funds should not be considered indicative of the future results of the Hennessy Funds or of any returns expected on our common stock. The historical performance of the Hennessy Funds is relevant to returns on our common stock only insofar as the fees we have earned in the past and may earn in the future, which are based on average assets under management, may impact the performance of our common stock. Positive performance of the Hennessy Funds typically increases our revenues, which in turn could positively affect our business, and poor performance typically reduces our revenues, which in turn could adversely affect our business. However, the historical and potential future returns of the Hennessy Funds are not directly linked to returns on our common stock, such that positive performance of the Hennessy Funds will not necessarily result in positive returns on our common stock and poor performance of the Hennessy Funds will not necessarily result in negative returns on our common stock. Moreover, the historical performance of the Hennessy Funds should not be considered indicative of the future results that should be expected from such funds.** RISKS RELATING TO OUR BUSINESS MODEL AND OPERATIONS We derive a substantial portion of our revenues from a limited number of the Hennessy Funds. For the past several years, approximately 75 % of our assets under management has been concentrated in five ~~or six~~ of our funds. During fiscal year ~~2023~~ **2024**, our average assets under management was concentrated in the following five funds: (i) the Hennessy ~~Focus~~ **Cornerstone Mid Cap 30** Fund (23

27 % of average assets under management); (ii) the Hennessy **Focus Gas Utility** Fund (17-18 % of average assets under management); (iii) the Hennessy **Gas Utility Cornerstone Midcap 30** Fund (15-12 % of average assets under management); (iv) the Hennessy Japan Fund (10 % of average assets under management); and (v) the Hennessy Cornerstone **Value Growth** Fund (10-9 % of average assets under management). Consequently, our revenues followed a similar pattern of concentration: (a) the Hennessy **Focus-Cornerstone Mid Cap 30** Fund (27-26 % of total revenue); (b) the Hennessy **Focus Cornerstone Midcap 30** Fund (15-21 % of total revenue); (c) the Hennessy **Japan Gas Utility** Fund (10 % of total revenue); (d) the Hennessy Cornerstone **Value-Growth** Fund (10-9 % of total revenue); and (e) the Hennessy **Japan-Cornerstone Value** Fund (10-8 % of total revenue). As a result, our operating results are particularly dependent upon the performance of a very small number of funds and our ability to maintain and grow assets under management in these funds. These funds have **from time to time** experienced significant redemptions in recent years and may continue to do so **again in the future. A significant increase in redemptions for any reason would** the future. This has reduced, and may continue to reduce, our assets under management and revenues. We **pursue strategic asset purchases as part** utilize unaffiliated sub-advisors to manage the portfolio composition of **our regular business strategy** certain of the Hennessy Funds, and any matters **such acquisitions involve inherent risks** that have an adverse impact on their businesses or any change in our relationships with our sub-advisors could lead to a reduction in assets under management, which would adversely affect our **operating results and financial condition and potentially dilute** revenues. We utilize unaffiliated sub-advisors to manage the **holdings portfolio composition of current shareholders** some of the Hennessy Funds. Although **As part of our regular business strategy, we perform due diligence on our sub-advisors pursue strategic purchases of the assets related to the management of additional funds. This strategy is accompanied by risks including, among others, the possibility of the following:**

- the potential unavailability of attractive acquisition opportunities;
- a high level of competition from other companies that may have greater financial resources than we do;
- not manage their day-to-day business activities. Our financial condition and profitability may be adversely affected by situations that are specific to such sub-advisors, such as disruption of their operations, their exposure to disciplinary action, or our inability reputational harm to them. We periodically **value potential asset purchases accurately and** negotiate the **acceptable purchase terms**;
- and conditions of these sub-advisory relationships, and there can be no assurance that such terms will remain acceptable to us or **our inability to obtain quorum and secure enough affirmative** our sub-advisors. These relationships may also be terminated by us or the applicable sub-advisor without penalty on 60 days' notice. In addition, each sub-advisory agreement must be renewed annually by the Funds' Board of Trustees (or by the vote **votes** of a majority of the outstanding shares of the applicable Hennessy Fund), including a majority of the disinterested trustees. Furthermore, a sub-advisory agreement automatically terminates if it is assigned. Assignment is generally defined under the 1940 Act and the Advisers Act to **gain** include direct assignments as well as assignments..... related sub-advisory agreements without shareholder approval **of the proposed fund reorganization**. This is because we recently sought and received an exemptive order from the **target SEC to operate under a manager of..... On the other hand, if the fund's operating investors;**
- the loss of fund assets paid for in an asset purchase through redemptions by investors of the funds involved in the asset purchase;
- higher than anticipated asset purchase expenses;
- 25 • increase (other than Excluded Fees), this will lead to a reduction in our **inability** revenues from the fund. We depend on key personnel to manage our **successfully integrate and maintain adequate infrastructure to support** business, and **growth;**
- increasing our leverage;
- the loss-potential diversion of our management any key person's services, combined **time and attention;**
- dilution to our shareholders if we fund an asset purchase in whole or in part with our inability to identify **common stock;** and
- retain a suitable replacement for such person, could materially adversely **adverse affect effects** us. Additionally, the cost to retain our key personnel could put pressure on our **earnings if purchased intangible assets become impaired** operating margins. Our success is largely..... many of which are beyond our control. Changes in the distribution channels on which we depend could reduce our net revenues and hinder our growth. Our primary source of distribution of the Hennessy Funds is through a variety of financial institutions. Our success is highly dependent on access to these various distribution channels. We cannot guarantee we will be able to retain access to these channels at similar pricing or at all. Increasing competition for these distribution channels could cause our distribution costs to rise, which could have a material adverse effect on our net income. These financial institutions generally can terminate their relationships with us on short notice. Mergers and other corporate transactions among distributors also may affect our relationships with financial institutions. Certain of the financial institutions upon whom we rely to distribute the Hennessy Funds also sell their own competing proprietary investment products, which could limit the distribution of our products. Investors increasingly rely on external consultants and other third parties for advice on the choice of investment manager. These consultants and third parties tend to exert a significant degree of influence over their clients' choices, and they may favor one of our competitors as better meeting their particular clients' needs. There is no assurance that the Hennessy Funds will be among their recommended choices in the future. Additionally, particularly in the United States, certain financial institutions have substantially reduced the number of investment funds they make available to their clients. If a material portion of the financial institutions with whom we do business were to substantially narrow their product offerings, it could have a significant adverse effect on our assets under management, revenues, and net income. More broadly, in both retail and institutional channels, financial institutions (distribution firms and consultants) are seeking to reduce the number of investment management firms with which they do business. This poses risks of additional lost business if a particular financial institution chooses to stop or significantly reduce its business relationship with us. Any failure to maintain strong business relationships with these financial institutions and the consultant community due to any of the above-described factors would impair our ability to distribute the Hennessy Funds, which in turn would have a negative effect on our assets under management, revenues, and net income **are** invested in securities listed on the Japanese stock market, which exposes these funds to risks that are not typically associated with an investment in a U.S. issuer. The values of these funds fluctuate with changes in the value of the Japanese yen versus the U.S. dollar. Investments in Japanese securities also expose these funds to the economic uncertainties

affecting Japan, which may differ from those affecting the United States. Further, Japanese financial accounting standards and practices may differ, and there may be less information on Japanese companies available publicly. If these circumstances result in a reduction in the total assets of the Hennessy Japan Fund and the Hennessy Japan Small Cap Fund, our assets under management would be reduced, which would adversely affect our revenues. We utilize quantitative investment strategies for some of the Hennessy Funds that require us to invest in specific portfolios of securities and hold these positions for a specified period of time regardless of performance. Our formula-driven funds adhere to quantitative investment strategies, and the portfolios of stocks held by such funds are rescreened and rebalanced at designated times in accordance with such investment strategies. Adhering to our investment strategies regardless of any adverse developments that may arise could result in substantial losses to the formula-driven Hennessy Funds if, for example, the stocks selected for a fund are experiencing financial difficulty **or**. Management contracts purchased by us are currently classified as an indefinite-life asset subject to impairment analysis. The impairment analysis is based on subjective criteria, and an impairment loss could be recorded. The management contracts we have purchased, an \$ ~~81-82~~ 3 million asset on the balance sheet as of the end of fiscal year ~~2023-2024~~, are considered an intangible asset with an indefinite useful life. Management reviews the indefinite life classification of our management contract asset each reporting period. If the management contract asset is ever reclassified as an asset with a definite life, we would begin amortizing the management contracts over their remaining useful life. If the management contract asset continues to be classified as an indefinite-life asset, we will continue to periodically review the carrying value to determine if any impairment has occurred. The impairment analysis is based on anticipated future cash flows, which are calculated based on assets under management. Although the management contract asset is not currently impaired, there is always a possibility of impairment in the future, which could require us to write off all or a portion of the asset. A write-off, depending on the amount, could have operational risks and could have a significant impact on the value of our equity and our earnings per share. ~~24~~ We have debt and may incur additional debt, which may increase the risk of investing in us and may harm our financial condition and results of operations. Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and therefore increase the risks associated with investing in our securities. ~~23~~ ~~On~~ ~~29~~ On October 20, 2021, we completed a public offering of the 2026 Notes in the aggregate principal amount of \$ 40.25 million, which included the full exercise of the underwriters' overallotment option. The 2026 Notes mature on December 31, 2026, and may be **redeemed in whole** ~~required to forego all or a portion of our~~ **or fees under in part at any time** ~~our~~ **or investment advisory agreements from time to time at our option on or after December 31, 2023. The 2026 Notes bear interest at 4.875% per annum, payable on the last day of each calendar quarter and at maturity, beginning December 31, 2021. The 2026 Notes are direct unsecured obligations, rank equally in right of payment** with the Hennessy Funds. ~~On an any~~ annual basis, the Funds' Board of Trustees must assess the reasonableness of our **future unsecured unsubordinated indebtedness** investment advisory fees. While the Funds' Board of Trustees has found our investment advisory fees to be reasonable in the past, we cannot guarantee **senior to any of our future indebtedness that expressly provides** that it will continue **is subordinate** to do so. Additionally, we regularly analyze the **2026 Notes, effectively subordinate** expense ratios of the Hennessy Funds and have the right to waive fees **all of our future secured indebtedness, and structurally subordinated** to compete with **all future indebtedness and other funds with lower expense ratios obligations of any future subsidiaries of ours. We may incur additional debt in the future. Our indebtedness could (although in-i) decrease our ability to obtain additional financing for working capital, capital expenditures, general corporate or the other** ~~past we have only waived fees based purposes, (ii) limit our flexibility to make acquisitions, (iii) increase our cash requirements to support the payment of interest, (iv) limit our flexibility in planning for, or reacting to, changes in our business and our industry, and (v) increase our vulnerability to adverse changes in general economic and industry conditions. Our ability to make payments of principal and interest on contractual obligations).~~ Any waiver of or our indebtedness depends upon reduction in fees would cause our revenues **future performance, which is subject to decline general economic conditions and financial,** could adversely affect our business, results of **and other factors affecting our** operations, **many of** and financial condition. Any fee waiver would apply only on a going-forward basis. The Hennessy Japan Fund and the Hennessy Japan Small Cap Fund invest in the Japanese stock market in yen, which involves foreign exchange and economic uncertainties. The Hennessy Japan Fund and the Hennessy Japan Small Cap Fund are **beyond** invested in securities listed on the Japanese..... a fund are experiencing financial difficulty **or our control** are out of favor with investors in a given period. This could, in theory, result in relatively low performance of the formula-driven Hennessy Funds and adversely affect the net assets of such Hennessy Funds. A decrease in the net assets of the Hennessy Funds would adversely affect our revenues. We pursue strategic asset purchases as part of our regular business strategy, and such acquisitions involve inherent risks that could adversely affect our operating results and financial condition and potentially dilute the holdings of current shareholders. As part of our regular business strategy, we pursue strategic purchases of the assets related to the management of additional funds. This strategy is accompanied by risks including, among others, the possibility of the following: ● the potential unavailability of attractive acquisition opportunities; ● a high level of competition from other companies that may have greater financial resources than we do; ● our inability to value potential asset purchases accurately and negotiate acceptable purchase terms; ● our inability to obtain quorum and secure enough affirmative votes to gain approval of the proposed fund reorganization from the target fund's investors; ● the loss of fund assets paid for in an asset purchase through redemptions by investors of the funds involved in the asset purchase; ● higher than anticipated asset purchase expenses; ~~25~~ ● our inability to successfully integrate and maintain adequate infrastructure to support business growth; ● increasing our leverage; ● the potential diversion of our management's time and attention; ● dilution to our shareholders if we fund an asset purchase in whole or in part with our common stock; and ● adverse effects on our earnings if purchased intangible assets become impaired. While we seek to mitigate these risks through, among other things, due diligence and indemnification provisions, these or other risk-mitigating measures that we put in place may not be sufficient to address these risks. If one or more of these risks occur, we may be unable to successfully complete a purchase of management-related assets (thereby

requiring us to write off any related expenses), we may experience an impairment of our management contract asset, we may receive negative publicity or suffer other negative impacts on our reputation, and we may not achieve the expected return on investment. Any of these results could have an adverse effect on our business, results of operations, and financial condition. Our investment advisory and shareholder servicing..... that should be expected from such funds. RISKS RELATING TO OUR COMMON STOCK Ownership of a large percentage of our common stock is concentrated with a small number of shareholders, which could increase the volatility in our stock trading and significantly affect our share price and causes us to experience limited trading volume in our securities. We have a limited number of shareholders, and a large percentage of our common stock is held by an even fewer number of shareholders. If our larger shareholders were to decide to liquidate their ownership positions, it could cause significant fluctuations in the share price of our common stock. Having a limited number of shareholders also causes us to experience limited trading volume in our securities. 30We intend to pay regular dividends to our shareholders, but our ability to do so is subject to the discretion of our Board of Directors. We have consistently paid dividends each year since 2005, but the declaration, amount, and payment of dividends to our shareholders by us are subject to the discretion of our Board of Directors. Our Board of Directors takes into account general economic and business conditions, our strategic plans, our financial results and condition, any contractual, legal, and regulatory restrictions on our payment of dividends, and such other factors as our Board of Directors deems relevant to determining whether to declare dividends and the amount of such dividends. **Certain provisions in our employment agreements and bonus agreements with key personnel could delay or discourage an acquisition of the Company. Our employment agreements with key personnel provide for certain payments in the event of certain terminations of employment of such persons or changes of control of the Company The obligation of the Company to make such payments upon the occurrence of such events could significantly increase the cost of an acquisition of the Company and make potential acquirers hesitant to proceed.** ITEM 1C. CYBERSECURITY We have policies and procedures for identifying, assessing, and managing material risks associated with cybersecurity threats. We seek to address cybersecurity risks through a comprehensive approach focused on preserving the confidentiality, security, and availability of the information that we collect and store by identifying, preventing, and mitigating cybersecurity threats and effectively responding to cybersecurity incidents when they occur. We implement and maintain technical and physical safeguards and other organizational measures, including, for example, the use of antivirus software, intrusion prevention and detection systems, virtual private networks, firewalls, email security, link protection, the regular deployment of updates and patches as they become available, a general policy against providing access to our network to any third party (with the exception of our third - party information technology vendor), the use of a third - party service to conduct mandatory online training for all employees regarding identifying and mitigating cybersecurity risks, regular phishing testing, regular penetration testing, regular reviews of access to systems and networks, and routine monitoring of compliance with our written information security plan. We also maintain cybersecurity insurance that provides for certain protection against potential losses arising from a cybersecurity incident. We have an Information Technology committee that meets at least quarterly and includes members of our management team and compliance team. The members of the Information Technology committee have gained cybersecurity experience through years of training, internal and external discussions, and the development, implementation, and periodic evaluation of our cybersecurity policies. We have not experienced a material cybersecurity incident, any expenses we have incurred from cybersecurity breaches have been immaterial, and we are not aware of any cybersecurity incidents that are reasonably likely to materially affect our business. Our business strategy, results of operations and financial condition have not been materially affected by risks from cybersecurity threats, including as a result of previously identified cybersecurity incidents. However, future incidents could have a material and adverse impact on our business strategy, results of operations, or financial condition. For additional discussion of the risks posed by cybersecurity threats, see Item 1A, “Risk Factors.” Our Board of Directors oversees cybersecurity risk management as part of its general oversight function. **The Company’s management team provides updates to the Board of Directors regarding cybersecurity as appropriate.** ITEM 2. PROPERTIES. Our principal executive office is located at 7250 Redwood Boulevard, Suite 200, Novato, California 94945, where we occupy approximately 13-14, 728-000 square feet and have the right to use all common areas. We also lease office space in Austin, Texas, Dallas, Texas, Boston, Massachusetts, and Chapel Hill, North Carolina. We consider these arrangements to be suitable and adequate for the management and operations of our business. We do not own any real property. ITEM 3. LEGAL PROCEEDINGS.