

U S GLOBAL INVESTORS INC

Form 10-Q

May 09, 2007

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

☐ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended March 31, 2007**

**OR**

☐ **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 0-13928  
U.S. GLOBAL INVESTORS, INC.**  
(Exact name of registrant as specified in its charter)

**Texas**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**74-1598370**  
(IRS Employer Identification Number)

**7900 Callaghan Road  
San Antonio, Texas**  
(Address of Principal Executive Offices)

**78229-1234**  
(Zip Code)

**(210) 308-1234**  
(Registrant's Telephone Number, Including Area Code)  
Not Applicable

(Former Name, Former Address, and Former Fiscal Year, if Changed since Last Report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☐

On April 30, 2007, there were 12,866,898 shares of Registrant's class A nonvoting common stock issued and 12,191,921 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's class B nonvoting common shares outstanding, and 2,992,650 shares of Registrant's class C common stock issued and outstanding.

## Table of Contents

|                                                                                                                                                 |        |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <u>Part I. Financial Information</u>                                                                                                            | 1      |
| <u>Item 1. Financial Statements</u>                                                                                                             | 1      |
| <u>Consolidated Balance Sheets (Unaudited)</u>                                                                                                  | 1      |
| <u>Consolidated Statements of Operations and Comprehensive Income (Unaudited)</u>                                                               | 3      |
| <u>Consolidated Statements of Cash Flows (Unaudited)</u>                                                                                        | 4      |
| <u>Notes To Consolidated Financial Statements (Unaudited)</u>                                                                                   | 5      |
| <u>Item 1a. Risk Factors</u>                                                                                                                    | 12     |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                            | 12     |
| <u>Item 3. Market Risk Disclosures</u>                                                                                                          | 16     |
| <u>Item 4. Controls and Procedures</u>                                                                                                          | 16     |
| <br><u>Part II. Other Information</u>                                                                                                           | <br>17 |
| <u>Item 2. Issuer Purchases of Equity Securities</u>                                                                                            | 17     |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u>                                                                              | 17     |
| <u>Item 6. Exhibits</u>                                                                                                                         | 18     |
| <br><u>SIGNATURES</u>                                                                                                                           | <br>19 |
| <br>Exhibit (3)(i) - Fourth Amended and Restated Articles of Incorporation of U.S. Global Investors, Inc.                                       | <br>20 |
| <br>Exhibit 31 - Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | <br>29 |
| <br>Exhibit 32 - Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | <br>31 |
| <u>Fourth Amended and Restated Articles of Incorporation</u>                                                                                    |        |
| <u>Certifications of CEO and CFO Pursuant to Section 302</u>                                                                                    |        |
| <u>Certifications of CEO and CFO Pursuant to Section 906</u>                                                                                    |        |

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 1 of 32

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Consolidated Balance Sheets**

|                                                         | <b>MARCH 31,<br/>2007<br/>(UNAUDITED)</b> | <b>JUNE 30,<br/>2006</b> |
|---------------------------------------------------------|-------------------------------------------|--------------------------|
| <b>Assets</b>                                           |                                           |                          |
| <b>Current Assets</b>                                   |                                           |                          |
| Cash and cash equivalents                               | \$ 12,798,359                             | \$ 10,056,043            |
| Trading securities, at fair value                       | 5,830,740                                 | 4,659,824                |
| Receivables                                             |                                           |                          |
| Advisory, net                                           | 5,315,792                                 | 11,290,240               |
| Employees                                               | 5,058                                     | 7,669                    |
| Other                                                   | 449,929                                   | 184,962                  |
| Prepaid expenses and other                              | 1,206,368                                 | 580,813                  |
| <b>Total Current Assets</b>                             | <b>25,606,246</b>                         | <b>26,779,551</b>        |
| <b>Net Property and Equipment</b>                       | <b>2,228,283</b>                          | <b>2,122,889</b>         |
| <b>Other Assets</b>                                     |                                           |                          |
| Long-term deferred tax asset                            | 47,038                                    | 62,211                   |
| Investment securities available-for-sale, at fair value | 848,984                                   | 82,202                   |
| <b>Total Other Assets</b>                               | <b>896,022</b>                            | <b>144,413</b>           |
| <b>Total Assets</b>                                     | <b>\$ 28,730,551</b>                      | <b>\$ 29,046,853</b>     |

The accompanying notes are an integral part of this statement.

**Table of Contents**

U.S. Global Investors, Inc.  
 March 31, 2007, Quarterly Report on Form 10-Q

Page 2 of 32

|                                                                                                                                                                       | <b>MARCH 31,<br/>2007<br/>(UNAUDITED)</b> | <b>JUNE 30,<br/>2006</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------|
| <b>Liabilities and Shareholders Equity</b>                                                                                                                            |                                           |                          |
| <b>Current Liabilities</b>                                                                                                                                            |                                           |                          |
| Accounts payable                                                                                                                                                      | \$ 647,071                                | \$ 343,364               |
| Accrued compensation and related costs                                                                                                                                | 995,600                                   | 2,961,836                |
| Deferred tax liability                                                                                                                                                | 503,104                                   | 178,707                  |
| Other accrued expenses                                                                                                                                                | 2,450,679                                 | 5,019,735                |
| <b>Total Current Liabilities</b>                                                                                                                                      | <b>4,596,454</b>                          | <b>8,503,642</b>         |
| <b>Total Liabilities</b>                                                                                                                                              | <b>4,596,454</b>                          | <b>8,503,642</b>         |
| <b>Commitments and Contingencies</b>                                                                                                                                  |                                           |                          |
| <b>Shareholders Equity</b>                                                                                                                                            |                                           |                          |
| Common stock (class A) \$.025 par value; nonvoting; authorized 28,000,000 shares; issued, 12,865,948 and 12,805,948 at March 31, 2007 and June 30, 2006, respectively | 321,649                                   | 320,149                  |
| Common stock (class B) \$.025 par value; nonvoting; authorized, 4,500,000 shares; no shares issued                                                                    |                                           |                          |
| Common stock (class C) \$.025 par value; voting; authorized, 3,500,000 shares; issued, 2,993,600 shares                                                               | 74,840                                    | 74,840                   |
| Additional paid-in-capital                                                                                                                                            | 12,437,841                                | 11,754,779               |
| Treasury stock, Class A shares at cost; 671,804 and 654,114 shares at March 31, 2007, and June 30, 2006, respectively                                                 | (1,526,801)                               | (830,330)                |
| Accumulated other comprehensive income (loss), net of tax                                                                                                             | (10,671)                                  | 24,259                   |
| Retained earnings                                                                                                                                                     | 12,837,239                                | 9,199,514                |
| <b>Total Shareholders Equity</b>                                                                                                                                      | <b>24,134,097</b>                         | <b>20,543,211</b>        |
| <b>Total Liabilities and Shareholders Equity</b>                                                                                                                      | <b>\$ 28,730,551</b>                      | <b>\$ 29,046,853</b>     |

The accompanying notes are an integral part of this statement.

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 3 of 32

**Consolidated Statements of Operations and Comprehensive Income (Unaudited)**

|                                                            | <b>Nine Months Ended<br/>March 31,</b> |               | <b>Three Months Ended<br/>March 31,</b> |              |
|------------------------------------------------------------|----------------------------------------|---------------|-----------------------------------------|--------------|
|                                                            | <b>2007</b>                            | <b>2006</b>   | <b>2007</b>                             | <b>2006</b>  |
| <b>Revenues</b>                                            |                                        |               |                                         |              |
| Investment advisory fees                                   | \$ 29,859,339                          | \$ 19,860,474 | \$ 10,170,685                           | \$ 8,482,770 |
| Transfer agent fees                                        | 5,533,812                              | 3,545,385     | 1,566,580                               | 1,325,893    |
| Investment income                                          | 1,214,804                              | 2,349,811     | 676,043                                 | 1,695,269    |
| Other                                                      | 162,395                                | 136,692       | 31,054                                  | 53,076       |
|                                                            | 36,770,350                             | 25,892,362    | 12,444,362                              | 11,557,008   |
| <b>Expenses</b>                                            |                                        |               |                                         |              |
| Employee compensation and benefits                         | 7,740,655                              | 6,433,094     | 2,526,898                               | 2,470,860    |
| General and administrative                                 | 5,017,991                              | 3,508,338     | 1,931,148                               | 1,270,690    |
| Subadvisory fees                                           | 6,650,293                              | 5,096,173     | 2,261,348                               | 2,301,638    |
| Omnibus fees                                               | 5,606,015                              | 2,868,573     | 1,786,687                               | 1,256,850    |
| Advertising                                                | 359,318                                | 358,546       | 138,553                                 | 118,625      |
| Depreciation                                               | 178,695                                | 100,972       | 62,002                                  | 40,042       |
|                                                            | 25,552,967                             | 18,365,696    | 8,706,636                               | 7,458,705    |
| <b>Income Before Income Taxes</b>                          | 11,217,383                             | 7,526,666     | 3,737,726                               | 4,098,303    |
| <b>Provision for Federal Income Taxes</b>                  | 3,864,574                              | 2,712,730     | 1,325,453                               | 1,547,895    |
| <b>Net Income</b>                                          | 7,352,809                              | 4,813,936     | 2,412,273                               | 2,550,408    |
| <b>Other comprehensive income (loss), net of tax</b>       |                                        |               |                                         |              |
| Unrealized gains (losses) on available-for-sale securities | (34,931)                               | (373,257)     | (368,563)                               | (283,553)    |
| <b>Comprehensive Income</b>                                | \$ 7,317,878                           | \$ 4,440,679  | \$ 2,043,710                            | \$ 2,266,855 |
| <b>Basic Net Income per Share</b>                          | \$ 0.49                                | \$ 0.32       | \$ 0.16                                 | \$ 0.17      |
| <b>Diluted Net Income per Share</b>                        | \$ 0.48                                | \$ 0.32       | \$ 0.16                                 | \$ 0.17      |
|                                                            | 15,154,880                             | 14,997,326    | 15,170,608                              | 15,018,356   |

**Basic weighted average number of  
common shares outstanding**

**Diluted weighted average number of  
common shares outstanding**

15,233,298

15,120,396

15,250,360

15,152,470

The accompanying notes are an integral part of this statement.

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 4 of 32

**Consolidated Statements of Cash Flows (Unaudited)**

|                                                                                   | <b>NINE MONTHS ENDED MARCH</b> |                  |
|-----------------------------------------------------------------------------------|--------------------------------|------------------|
|                                                                                   | <b>2007</b>                    | <b>2006</b>      |
| <b>Cash Flows from Operating Activities:</b>                                      |                                |                  |
| Net income                                                                        | \$ 7,352,809                   | \$ 4,813,936     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |                  |
| Depreciation                                                                      | 178,695                        | 100,972          |
| Net recognized gain on securities                                                 | (684,115)                      | (751,694)        |
| Loss on disposal of fixed assets                                                  |                                | 3,189            |
| Provision for deferred taxes                                                      | 357,566                        | 749,056          |
| Provision for losses on accounts receivable                                       |                                | (26,488)         |
| Changes in assets and liabilities, impacting cash from operations:                |                                |                  |
| Accounts receivable                                                               | 5,712,092                      | (2,889,089)      |
| Prepaid expenses and other                                                        | (625,555)                      | (277,468)        |
| Trading securities                                                                | (941,189)                      | (1,958,499)      |
| Accounts payable and accrued expenses                                             | (4,696,824)                    | 2,184,625        |
| Total adjustments                                                                 | (699,330)                      | (2,865,396)      |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>6,653,479</b>               | <b>1,948,540</b> |
| <b>Cash Flows from Investing Activities:</b>                                      |                                |                  |
| Purchase of property and equipment                                                | (284,089)                      | (390,394)        |
| Purchase of available-for-sale securities                                         | (2,072,532)                    | (8,419)          |
| Proceeds on sale of available-for-sale securities                                 | 1,707,211                      | 777,787          |
| <b>Net Cash (Used in) Provided by Investing Activities</b>                        | <b>(649,410)</b>               | <b>378,974</b>   |
| <b>Cash Flow from Financing Activities:</b>                                       |                                |                  |
| Purchase of treasury stock                                                        | (709,231)                      | (164,654)        |
| Treasury stock issued                                                             | 124,843                        | 83,439           |
| Proceeds from issuance or exercise of stock, warrants, and options                | 537,089                        | 479,689          |
| Benefit from tax deduction in excess of stock-based compensation cost             | 465,239                        | 350,451          |
| Adjustment due to SFAS 123R                                                       | 35,391                         | 17,475           |
| Dividends paid                                                                    | (3,715,084)                    |                  |
| <b>Net Cash (Used in) Provided by Financing Activities</b>                        | <b>(3,261,753)</b>             | <b>766,400</b>   |

Edgar Filing: U S GLOBAL INVESTORS INC - Form 10-Q

|                                                  |               |              |
|--------------------------------------------------|---------------|--------------|
| <b>Net Increase in Cash and Cash Equivalents</b> | 2,742,316     | 3,093,914    |
| <b>Beginning Cash and Cash Equivalents</b>       | 10,056,043    | 3,814,178    |
| <b>Ending Cash and Cash Equivalents</b>          | \$ 12,798,359 | \$ 6,908,092 |

The accompanying notes are an integral part of this statement.

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 5 of 32

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Note 1. Basis of Presentation**

U.S. Global Investors, Inc. (the Company or U.S. Global) has prepared the consolidated financial statements pursuant to accounting principles generally accepted in the United States of America (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) that permit reduced disclosure for interim periods. The financial information included herein reflects all adjustments (consisting solely of normal recurring adjustments), which are, in management's opinion, necessary for a fair presentation of results for the interim periods presented. The Company has consistently followed the accounting policies set forth in the notes to the consolidated financial statements in the Company's Form 10-K for the year ended June 30, 2006.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, United Shareholder Services, Inc. (USSI), A&B Mailers, Inc. (A&B), U.S. Global Investors (Guernsey) Limited (USGG), U.S. Global Brokerage, Inc. (USGB), and U.S. Global Investors (Bermuda) Limited (USBERM).

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts have been reclassified for comparative purposes. The results of operations for the nine months ended March 31, 2007, are not necessarily indicative of the results to be expected for the entire year.

**Note 2. Common Stock Split and Dividend**

On February 21, 2007, the Company's shareholders approved the first of two proposed amendments to the Company's Articles of Incorporation. The first amendment approved an increase in authorized shares that enabled the Company to effectuate a two-for-one stock split of the Company's outstanding stock. Shareholders of record as of March 19, 2007, received one additional share of class A common stock, par value \$0.025 per share, for every outstanding share of class A common stock and one additional share of class C common stock, par value \$0.025 per share, for every outstanding share of class C common stock. The amendment provided that the Company issue no fractional shares of common stock, and all shares were rounded up or down to the nearest whole number of shares. Accordingly, all per-share and share data in the accompanying consolidated financial statements and in these accompanying notes has been adjusted to give retroactive effect to this stock split.

On February 22, 2007, shareholders approved the second of two proposed amendments, which modified the relative dividend and liquidation preference rights of the different classes of common stock and permits conversion of class C common stock to class A common stock. As a result of approval of both proposals, shareholders of record on March 19, 2007, received a special cash dividend of \$0.25 per share on based on the number of post-split shares held. Both the split and the dividend were distributed on March 29, 2007.

**Note 3. Investments**

As of March 31, 2007, the Company held investments with a market value of approximately \$6.7 million and a cost basis of approximately \$6.2 million. The market value of these investments is approximately 23.3 percent of the Company's total assets.

Investments in securities classified as trading are reflected as current assets on the consolidated balance sheet at their fair market value. Unrealized holding gains and losses on trading securities are included in earnings in the consolidated statements of operations and comprehensive income.

Investments in securities classified as available for sale, which may not be readily marketable, are reflected as non-current assets on the consolidated balance sheet at their fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income as a separate component of shareholders' equity until realized. The following summarizes the market value, cost, and unrealized gain or loss on investments as of March 31, 2007, and June 30, 2006.

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 6 of 32

|                                 |                         |              |                                       | <b>Unrealized<br/>holding gains<br/>on<br/>available-for-sale<br/>securities,<br/>net of 34 %<br/>tax</b> |
|---------------------------------|-------------------------|--------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <b>Securities</b>               | <b>Market<br/>Value</b> | <b>Cost</b>  | <b>Unrealized<br/>Gain<br/>(Loss)</b> |                                                                                                           |
| Trading <sup>1</sup>            | \$ 5,830,740            | \$ 5,329,909 | \$ 500,831                            |                                                                                                           |
| Available for sale <sup>2</sup> | 848,984                 | 865,152      | (16,168)                              | \$ (10,671)                                                                                               |
| Total at March 31, 2007         | \$ 6,679,724            | \$ 6,195,061 | \$ 484,663                            |                                                                                                           |
| Trading <sup>1</sup>            | \$ 4,659,824            | \$ 4,011,961 | \$ 647,863                            |                                                                                                           |
| Available for sale <sup>2</sup> | 82,202                  | 45,444       | 36,758                                | \$ 24,259                                                                                                 |
| Total at June 30, 2006          | \$ 4,742,026            | \$ 4,057,405 | \$ 684,621                            |                                                                                                           |

<sup>1</sup> *Unrealized and realized gains and losses on trading securities are included in earnings in the statement of operations.*

<sup>2</sup> *Unrealized gains and losses on available-for-sale securities are excluded from earnings and recorded in other comprehensive income as a separate component of shareholders equity until realized.*

Investment income can be volatile and varies depending on market fluctuations, the Company's ability to participate in investment opportunities, and timing of transactions. A significant portion of the unrealized gains and losses for the nine months ended March 31, 2007, is concentrated in a small number of issuers. The Company expects that gains and

losses will continue to fluctuate in the future.

Investment income (loss) from the Company's investments includes:

realized gains and losses on sales of securities;

unrealized gains and losses on trading securities;

realized foreign currency gains and losses;

other-than-temporary impairments on available-for-sale securities; and

dividend and interest income.

The following summarizes investment income (loss) reflected in earnings for the periods discussed:

|                                                                | <b>NINE MONTHS ENDED MARCH</b> |                     |
|----------------------------------------------------------------|--------------------------------|---------------------|
|                                                                | <b>2007</b>                    | <b>2006</b>         |
| <b>Investment Income (Loss)</b>                                |                                |                     |
| Realized gains on sales of available-for-sale securities       | \$ 454,388                     | \$ 544,414          |
| Realized gains on sales of trading securities                  | 229,727                        | 235,936             |
| Unrealized gains (losses) on trading securities                | (147,032)                      | 1,420,855           |
| Realized foreign currency gains (losses)                       | 1,900                          | (13,771)            |
| Other-than-temporary declines in available-for-sale securities |                                | (28,655)            |
| Dividend and interest income                                   | 675,821                        | 191,032             |
| <b>Total Investment Income</b>                                 | <b>\$ 1,214,804</b>            | <b>\$ 2,349,811</b> |

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 7 of 32

|                                                          | <b>THREE MONTHS ENDED<br/>MARCH 31,</b> |                     |
|----------------------------------------------------------|-----------------------------------------|---------------------|
|                                                          | <b>2007</b>                             | <b>2006</b>         |
| <b>Investment Income (Loss)</b>                          |                                         |                     |
| Realized gains on sales of available-for-sale securities | \$ 454,388                              | \$ 529,705          |
| Realized gains on sales of trading securities            | 234,232                                 | 147,426             |
| Unrealized gains (losses) on trading securities          | (237,036)                               | 941,404             |
| Realized foreign currency gains (losses)                 | 1,568                                   | (15,118)            |
| Dividend and interest income                             | 222,891                                 | 91,852              |
| <b>Total Investment Income</b>                           | <b>\$ 676,043</b>                       | <b>\$ 1,695,269</b> |

Included in prepaid expenses and other assets on the consolidated balance sheet is a deposit in the amount of \$500,000 to purchase shares in the U.S. Global Investors Balanced Natural Resources Fund, Ltd. with a subscription date of April 1, 2007.

**Note 4. Investment Management, Transfer Agent and Other Fees**

The Company serves as investment adviser to U.S. Global Investors Funds (USGIF) and U.S. Global Accolade Funds (USGAF) and receives a fee based on a specified percentage of net assets under management. Three of the four funds within USGAF are sub-advised by third-party managers, who are in turn compensated out of the investment advisory fees received by the Company. The Company also serves as transfer agent to USGIF and USGAF and receives a fee based on the number of shareholder accounts. Additionally, the Company provides in-house legal services to USGIF and USGAF for which it is reimbursed and receives certain miscellaneous fees directly from USGAF and USGIF shareholders. Fees for providing investment management and transfer agent services to USGIF and USGAF continue to be the Company's primary revenue source.

The Company has voluntarily waived or reduced its advisory fees and/or has agreed to pay expenses on several funds within USGIF funds and one USGAF fund through November 1, 2007, and February 28, 2008, respectively, or such later date as the Company determines in order to maintain competitive yields and to allow assets to grow in newer funds. The aggregate fees waived and expenses borne by the Company for the nine months ended March 31, 2007, and March 31, 2006, were \$920,149, and \$1,029,720, respectively.

The investment advisory and related contracts between the Company and USGIF and USGAF will expire on February 28, 2008, and May 31, 2008, respectively. Management anticipates the trustees of both USGIF and USGAF will renew the contracts.

The Company provides advisory services for the Meridian Global Gold and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee based on the net asset value of the fund, and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded fees totaling \$1,076,050 and \$873,650 for the nine months ended March 31, 2007, and March 31, 2006, respectively. The Company recorded total fees of \$523,786 and \$377,661, respectively, for the three months ended March 31, 2007, and March 31, 2006. Frank Holmes, a director and CEO of the Company, is a director of Meridian Fund Managers Ltd., the manager of the fund.

The Company provides advisory services to the U.S. Global Investors Balanced Natural Resources Fund, Ltd., an offshore fund. For these services, the Company is paid a monthly advisory fee based on the net asset value of the fund, and a quarterly performance fee, if any, based on a percentage of return above the high water mark in conjunction with the fund reaching a certain hurdle rate per quarter. The Company recorded fees totaling \$132,933 and \$99,011 for the nine months ended March 31, 2007, and March 31, 2006, respectively. The Company recorded total fees of \$11,767

and \$68,711, respectively, for the three months ended March 31, 2007, and March 31, 2006. Frank Holmes is a director of U.S. Global Investors Balanced Natural Resources Fund Ltd.

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 8 of 32

The Company provides investment advisory services to Endeavour Mining Capital Corp., an offshore company. The Company is paid a monthly advisory fee based on the net asset value of the portfolio. A performance fee, if any, is paid annually based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity when the net asset value of the portfolio at fiscal year end has increased in comparison with the prior fiscal year end. The Company recorded \$1,382,486 and \$106,230 in monthly advisory fees for the nine months ended March 31, 2007, and March 31, 2006, respectively. (Advisory services for Endeavour began in the third quarter of fiscal year 2006.) The Company recorded total fees of \$518,512 and \$106,230, respectively, for the three months ended March 31, 2007, and March 31, 2006. Frank Holmes is the Chairman of the Board of Endeavour Mining Capital Corp. The performance fees for this advisory client are calculated and recorded only once a year at the end of each fiscal year in accordance with the terms of the advisory agreement. This and other performance fees may fluctuate significantly from year to year based on factors that may be out of the Company's control.

The Company provides advisory services for the Meridian Global Energy and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee based on the net asset value of the fund, and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded fees totaling \$82,484 for the nine months ended March 31, 2007, and \$37,692 for the three months ended March 31, 2007.

The Company receives additional revenue from several sources including custodial fee revenues, revenues from miscellaneous transfer agency activities including lockbox functions, mailroom operations from A&B, as well as investment income.

**Note 5. Credit Facility**

As of March 31, 2007, the Company has no borrowings.

The Company has access to a \$1 million credit facility with a one-year maturity for working capital purposes. The Company must maintain certain quarterly financial covenants to access the line of credit. The covenants include: (1) liquidity of \$1 million or more in cash, cash equivalents and marketable securities; (2) a debt to equity ratio of .75 or less; and (3) a ratio of current assets to current liabilities of 2.0 or greater. The Company has been in compliance with all financial covenants during the fiscal year. Any use of this credit facility will be secured by the Company's eligible accounts receivable. As of March 31, 2007, this credit facility remained unutilized by the Company.

Effective April 25, 2007, subsequent to the fiscal quarter end, the credit agreement was renewed with the following amendments: the bank dropped the current ratio requirement, released the Company's accounts receivable as collateral, and agreed to allow borrowings without any form of borrowing base. The amended credit agreement will expire on February 1, 2008, and will be renewed annually.

**Note 6. Stock-Based Compensation**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R eliminates the alternative to use the intrinsic value method of accounting that was provided in Accounting Principles Board Opinion No. 25 (APB 25), which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all companies to apply a fair-value-based measurement method in accounting for generally all share-based payment transactions with employees.

On July 1, 2005 (the first day of the Company's 2006 fiscal year), the Company adopted SFAS 123R using a modified prospective application, as permitted under SFAS 123R. Accordingly, prior period amounts were not restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 9 of 32

Prior to the adoption of SFAS 123R, the Company applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) to account for stock-based awards. Beginning with the 2006 fiscal year, with the adoption of SFAS 123R, stock-based compensation expense was recorded for the cost of stock options.

Stock-based compensation expense for the three months ended March 31, 2007, was \$9,855 (\$6,504 after tax). As of March 31, 2007, there was approximately \$9,855 of total unrecognized share-based compensation cost related to share-based compensation granted under the plans that will be recognized over the remainder of the fiscal year.

**Stock compensation plans**

The Company's stock option plans provide for the granting of either incentive or nonqualified stock options to employees and non-employee directors. Options are subject to terms and conditions determined by the Compensation Committee of the Board of Directors. In connection with the two-for-one stock split described in Note 2, the Board of Directors authorized an adjustment to outstanding options so that a proportionate number of shares underlying each option are maintained. Options in the table below have been adjusted to give retroactive effect to the stock split.

The following table summarizes information about our stock option plans for the nine months ended March 31, 2007.

|                                               | <b>Number of<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|-----------------------------------------------|------------------------------|------------------------------------------------|
| <b>Options outstanding, beginning of year</b> | 146,000                      | \$ 1.47                                        |
| Granted                                       |                              |                                                |
| Exercised                                     | 60,000                       | \$ 1.20                                        |
| Forfeited                                     |                              |                                                |
| <b>Options outstanding, end of quarter</b>    | 86,000                       | \$ 1.65                                        |
| <b>Options exercisable, end of quarter</b>    | 81,000                       | \$ 1.28                                        |

**Note 7. Earnings Per Share**

Basic earnings per share (EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of EPS that could occur if options to issue common stock were exercised.

The following table sets forth the computation for basic and diluted earnings per share (EPS):

|                                                             | <b>NINE MONTHS ENDED MARCH<br/>31,</b> |              |
|-------------------------------------------------------------|----------------------------------------|--------------|
|                                                             | <b>2007</b>                            | <b>2006</b>  |
| <b>Net income</b>                                           | \$ 7,352,809                           | \$ 4,813,936 |
| <b>Weighted average number of outstanding common shares</b> |                                        |              |
| Basic                                                       | 15,154,880                             | 14,997,326   |
| <b>Effect of dilutive securities</b>                        |                                        |              |
| Employee stock options                                      | 78,418                                 | 123,070      |
| Diluted                                                     | 15,233,298                             | 15,120,396   |

**Earnings per share**

|         |    |      |    |      |
|---------|----|------|----|------|
| Basic   | \$ | 0.49 | \$ | 0.32 |
| Diluted | \$ | 0.48 | \$ | 0.32 |

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 10 of 32

|                                                      | <b>THREE MONTHS ENDED MARCH<br/>31,</b> |              |
|------------------------------------------------------|-----------------------------------------|--------------|
|                                                      | <b>2007</b>                             | <b>2006</b>  |
| <b>Net income</b>                                    | \$ 2,412,273                            | \$ 2,550,408 |
| <b>Weighted average number of outstanding shares</b> |                                         |              |
| Basic                                                | 15,170,608                              | 15,018,356   |
| <b>Effect of dilutive securities</b>                 |                                         |              |
| Employee stock options                               | 79,752                                  | 134,114      |
| Diluted                                              | 15,250,360                              | 15,152,470   |
| <b>Earnings per share</b>                            |                                         |              |
| Basic                                                | \$ 0.16                                 | \$ 0.17      |
| Diluted                                              | \$ 0.16                                 | \$ 0.17      |

Share information has been restated for all periods presented in the table to reflect the two-for-one stock split effectuated on March 29, 2007. The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price for the period. For the quarter ended March 31, 2007, and 2006, no options were excluded from diluted EPS. The Company has repurchased 25,634 shares of its class A common stock from employees during the nine months ended March 31, 2007. Upon repurchase, these shares are classified as treasury shares and are deducted from outstanding shares in the earnings per share calculation.

**Note 8. Income Taxes**

The Company and its subsidiaries file a consolidated federal income tax return. Provisions for income taxes include deferred taxes for temporary differences in the bases of assets and liabilities for financial and tax purposes, resulting from the use of the liability method of accounting for income taxes. The current deferred tax liability primarily consists of temporary differences in the deductibility of prepaid expenses and accrued liabilities, as well as unrealized gains on trading securities. The long-term deferred tax asset is composed primarily of unrealized losses on available-for-sale securities.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. No valuation allowance was included at March 31, 2007, or June 30, 2006, respectively.

**Note 9. Financial Information by Business Segment**

The Company operates principally in two business segments: providing investment management services to the funds it manages, and investing for its own account in an effort to add growth and value to its cash position. The following schedule details total revenues and income by business segment:

|                                         | <b>Investment<br/>Management<br/>Services</b> | <b>Corporate<br/>Investments</b> | <b>Consolidated</b> |
|-----------------------------------------|-----------------------------------------------|----------------------------------|---------------------|
| <b>Nine months ended March 31, 2007</b> |                                               |                                  |                     |
| Revenues                                | \$ 36,230,638                                 | \$ 539,713                       | \$ 36,770,351       |
| Income before income taxes              | \$ 10,690,426                                 | \$ 526,957                       | \$ 11,217,383       |

Edgar Filing: U S GLOBAL INVESTORS INC - Form 10-Q

|                                             |               |              |               |
|---------------------------------------------|---------------|--------------|---------------|
| Depreciation                                | \$ 178,695    | \$           | \$ 178,695    |
| Capital expenditures                        | \$ 284,089    | \$           | \$ 284,089    |
| Gross identifiable assets at March 31, 2007 | \$ 21,486,756 | \$ 7,196,757 | \$ 28,683,513 |
| Deferred tax asset                          |               |              | 47,038        |
| Consolidated total assets at March 31, 2007 |               |              | \$ 28,730,551 |

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 11 of 32

|                                          | <b>Investment<br/>Management<br/>Services</b> | <b>Corporate<br/>Investments</b> | <b>Consolidated</b> |
|------------------------------------------|-----------------------------------------------|----------------------------------|---------------------|
| <b>Nine months ended March 31, 2006</b>  |                                               |                                  |                     |
| Revenues                                 | \$ 23,731,754                                 | \$ 2,160,608                     | \$ 25,892,362       |
| Income before income taxes               | \$ 5,388,833                                  | \$ 2,137,833                     | \$ 7,526,666        |
| Depreciation                             | \$ 100,972                                    | \$                               | \$ 100,972          |
| Capital expenditures                     | \$ 390,394                                    | \$                               | \$ 390,394          |
| <b>Three months ended March 31, 2007</b> |                                               |                                  |                     |
| Revenues                                 | \$ 11,990,856                                 | \$ 453,509                       | \$ 12,444,365       |
| Income before income taxes               | \$ 3,293,948                                  | \$ 443,780                       | \$ 3,737,728        |
| Depreciation                             | \$ 62,002                                     | \$                               | \$ 62,002           |
| Capital expenditures                     | \$ 69,778                                     | \$                               | \$ 69,778           |
| <b>Three months ended March 31, 2006</b> |                                               |                                  |                     |
| Revenues                                 | \$ 9,952,444                                  | \$ 1,604,564                     | \$ 11,557,008       |
| Income before income taxes               | \$ 2,506,389                                  | \$ 1,591,914                     | \$ 4,098,303        |
| Depreciation                             | \$ 40,042                                     | \$                               | \$ 40,042           |
| Capital expenditures                     | \$ 214,105                                    | \$                               | \$ 214,105          |

**Note 10. Contingencies and commitments**

The Company continuously reviews all investor, employee and vendor complaints, and pending or threatened litigation. The likelihood that a loss contingency exists is evaluated under the criteria of SFAS No. 5, Accounting for Contingencies, through consultation with legal counsel, and a loss contingency is recorded if the contingency is probable and reasonably estimable at the date of the financial statements.

During the normal course of business, the Company may be subject to claims, legal proceedings, and other contingencies. These matters are subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably. The Company establishes accruals for matters for which the outcome is probable and can be reasonably estimated. Management believes that any liability in excess of these accruals upon the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial statements of the Company.

**Note 11. Items submitted for shareholder approval**

On November 8, 2006, the Board of Directors of the Company approved submitting to class A and class C shareholders a proxy to split the shares (two-for-one), increase the number of authorized shares, eliminate the dividend

and liquidity preference of class A shareholders, and to allow class C shareholders to convert their shares to class A. The Board also approved paying a \$0.25 per share dividend (post-split) in the event the shareholders approve the proposal to amend the articles of incorporation to reflect no dividend or liquidation preference for class A shareholders and to allow the convertibility of class C shares to class A shares. Refer to the proxy filed with the SEC on November 21, 2006, and amended January 16, 2007, and February 1, 2007, for additional details. On February 21, and February 22, 2007, the shareholders approved all proposals submitted. On March 29, 2007, the stock split became effective and shareholders of record were paid a \$.25 per share dividend (post-split).

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 12 of 32

**ITEM 1a. Risk Factors**

For a discussion of risk factors which could affect the Company, please refer to Item 1A. Risk Factors, in the Annual Report on Form 10-K for the year ended June 30, 2006.

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

U.S. Global Investors, Inc. has made forward-looking statements concerning the Company's performance, financial condition, and operations in this report. The Company from time to time may also make forward-looking statements in its public filings and press releases. Such forward-looking statements are subject to various known and unknown risks and uncertainties and do not guarantee future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond the Company's control, including but not limited to (i) the volatile and competitive nature of the investment management industry, (ii) changes in domestic and foreign economic conditions, (iii) the effect of government regulation on the Company's business, and (iv) market, credit, and liquidity risks associated with the Company's investment management activities. Due to such risks, uncertainties, and other factors, the Company cautions each person receiving such forward-looking information not to place undue reliance on such statements. All such forward-looking statements are current only as of the date on which such statements were made.

**BUSINESS SEGMENTS**

The Company, with principal operations located in San Antonio, Texas, manages two business segments: (1) the Company offers a broad range of investment management products and services to meet the needs of individual and institutional investors, and (2) the Company invests for its own account in an effort to add growth and value to its cash position. Although the Company generates the majority of its revenues from its investment advisory segment, the Company holds a significant amount of its total assets in investments. The following is a brief discussion of the Company's two business segments.

**Investment Management Products and Services**

The Company generates substantially all of its operating revenues from managing and servicing USGIF, USGAF and other advisory clients. These revenues are largely dependent on the total value and composition of assets under its management. Fluctuations in the markets and investor sentiment directly impact the funds' asset levels, thereby affecting income and results of operations.

During the nine months ended March 31, 2007, SEC-registered mutual fund assets under management averaged \$4.57 billion versus \$2.99 billion for the same period ended March 31, 2006. This increase was primarily due to significant increase in the natural resource and foreign equity funds under management.

The Company provides advisory services to various offshore clients, namely Meridian Global Gold and Resources Fund Ltd., Meridian Global Energy and Resources Fund Ltd., U.S. Global Investors Balanced Natural Resources Fund, Ltd., and Endeavour Mining Capital Corp. The Company generally receives a monthly advisory fee and a quarterly or annual performance fee, if any, based on an agreed-upon performance measurement. Based on information released by Endeavour Mining Capital, for the first nine months of fiscal 2007, the performance fee to date accruing to U.S. Global totals approximately \$3,412,000. The final performance fee payable to U.S. Global, if any, will be determined as of June 30, 2007, based on the financial results of Endeavour Mining Capital for the entire fiscal year. Under the accounting policies adopted by U.S. Global Investors, the performance fees are calculated and recorded only once a year at the end of the fiscal year in accordance with the terms of the advisory agreement. This and other performance fees may fluctuate significantly from year to year based on factors that may be out of the Company's control. These fluctuations could result in the recording of no performance fees. The contracts between the Company and the offshore clients expire periodically, and management anticipates that its offshore clients will renew the contracts.

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 13 of 32

**Investment Activities**

Management believes it can more effectively manage the Company's cash position by broadening the types of investments used in cash management and continues to believe that such activities are in the best interest of the Company. Company compliance personnel review and monitor these activities, and various reports are provided to investment advisory clients.

Investment income (loss) from the Company's investments includes:

realized gains and losses on sales of securities;

unrealized gains and losses on trading securities;

realized foreign currency gains and losses;

other-than-temporary impairments on available-for-sale securities; and

dividend and interest income.

This source of revenue does not remain consistent and is dependent on market fluctuations, the Company's ability to participate in investment opportunities, and timing of transactions.

As of March 31, 2007, the Company held investments with a market value of approximately \$6.7 million and a cost basis of approximately \$6.2 million. The market value of these investments is approximately 23.3 percent of the Company's total assets.

For the nine months ended March 31, 2007, the Company had net realized gains on available-for-sale securities of \$454,388 compared with \$544,414 for the nine months ended March 31, 2006, and net realized gains on trading securities of \$229,727 for the nine months ended March 31, 2007, compared with net realized gains of \$235,936 for the nine months ended March 31, 2006. The change in net unrealized holding gains and losses on trading securities held at March 31, 2007, and 2006, which has been included in income for the nine-month period, was (\$147,032) and \$1,420,855, respectively.

For available-for-sale securities with declines in value that are deemed other than temporary, the cost basis of the securities is reduced accordingly, and the resulting loss is realized in earnings. The Company recorded other than temporary declines of \$0 and \$28,655 for the nine months ended March 31, 2007, and 2006, respectively.

Dividend and interest income for the nine months ended March 31, 2007, was \$675,821 compared with \$191,032 for the nine months ended March 31, 2006.

**RESULTS OF OPERATIONS NINE MONTHS ENDED MARCH 31, 2007 AND 2006**

The Company posted net income of \$7,352,809 (\$0.49 income per share) for the nine months ended March 31, 2007, compared with a net income \$4,813,936 (\$0.32 income per share) for the nine months ended March 31, 2006.

**Revenues**

Total consolidated revenues for the nine-month period ended March 31, 2007, increased approximately \$10,878,000 or 42.0 percent, compared with the nine-month period ended March 31, 2006. This increase was primarily attributable to the following:

Mutual fund investment advisory fees grew by approximately \$8,404,000 as a result of increased assets under management;

Transfer agent fees increased by approximately \$1,988,000 primarily as a result of growth in the number of shareholder accounts;

Other advisory fees increased by approximately \$1,595,000 as a result of the growth and performance of offshore funds the Company advises.



**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 14 of 32

**Expenses**

Total consolidated expenses for the nine-month period ended March 31, 2007, increased approximately \$7,187,000 or 39.1 percent, compared with the nine-month period ended March 31, 2006. This was largely attributable to the following:

Omnibus fees increased by approximately \$2,737,000 due to increased asset flows through broker/dealer platforms;

Consistent with continued growth in the Eastern European Fund, subadvisory fees increased by approximately \$1,554,000;

General and administrative expenses increased by approximately \$1,510,000 primarily due to consulting fees, audit and accounting fees, legal fees, proxy-related expenses, and travel and entertainment; and

Driven by strong fund performance, compensation expense increased by approximately \$1,308,000.

Much of the mutual fund asset growth across all funds has been realized through broker/dealer platforms. These broker/dealers typically charge an asset-based fee for assets held through their platforms. Accordingly, net platform distribution (omnibus) fees have increased as assets have grown through these platforms.

**RESULTS OF OPERATIONS THREE MONTHS ENDED MARCH 31, 2007 AND 2006**

The Company posted net income of \$2,412,273 (\$0.16 income per share) for the three-month period ended March 31, 2007, compared with net income of \$2,550,408 (\$0.17 income per share) for the three-month period ended March 31, 2006.

**Revenues**

Total consolidated revenues for the quarter ended March 31, 2007, increased approximately \$887,000, or 7.7 percent, compared with the quarter ended March 31, 2006. This increase was primarily attributable to the following:

Mutual fund investment advisory fee grew by approximately \$1,149,000 as a result of increased assets under management and growth and performance of offshore funds;

Other advisory fees increased by approximately \$539,000 as a result of the growth and performance of offshore funds the Company advises; and

Transfer agent fees increased by approximately \$240,000 primarily as a result of growth in the number of shareholder accounts.

**Expenses**

Total consolidated expenses for the quarter ended March 31, 2007, increased approximately \$1,248,000, or 16.7 percent, compared with the quarter ended March 31, 2006. This was largely attributable to the following:

General and administrative expenses increased by approximately \$660,000 primarily due to legal and consulting fees, proxy-related expenses, and travel and entertainment; and

Omnibus platform fees increased by approximately \$530,000 due to increased mutual fund asset flows through broker/dealer omnibus platforms.

**LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2007, the Company had net working capital (current assets minus current liabilities) of approximately \$21.0 million and a current ratio (current assets divided by current liabilities) of 5.6 to 1. With approximately \$12.8 million in cash and cash equivalents and approximately \$6.7 million in marketable securities, the Company has adequate liquidity to meet its current obligations. Total shareholders' equity was approximately \$24.1 million, with cash, cash equivalents, and marketable securities comprising 67.8% of total assets.



**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 15 of 32

As of March 31, 2007, the Company has no borrowings. The Company has access to a \$1 million credit facility with a one-year maturity for working capital purposes. Any use of this credit facility will be secured by the Company's eligible accounts receivable. As of March 31, 2007, this credit facility remained unutilized by the Company. The Company's available working capital and potential cash flow are expected to be sufficient to cover current expenses. Effective April 25, 2007, subsequent to the fiscal quarter end, the credit agreement was renewed with the following amendments: the bank dropped the current ratio requirement, released the Company's accounts receivable as collateral, and agreed to allow borrowings without any form of borrowing base. The amended credit agreement will expire on February 1, 2008 and will be renewed annually.

The investment advisory and related contracts between the Company and USGIF and USGAF will expire on February 28, 2008, and May 31, 2008, respectively. Management anticipates the board of trustees of both USGIF and USGAF will renew the contracts. The contracts between the Company and the offshore clients expire periodically and management anticipates that its offshore clients will renew the contracts.

Management believes current cash reserves, financing obtained and/or available, and potential cash flow from operations will be sufficient to meet foreseeable cash needs or capital necessary for the above-mentioned activities and allow the Company to take advantage of opportunities for growth whenever available.

**ACCOUNTING PRONOUNCEMENTS**

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*—an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would recognize in its financial statements the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement of the tax position. FIN 48 will be effective for the fiscal years beginning after December 15, 2006. The provisions of FIN 48 are required to be applied to all tax positions in all open tax years. The Company is in the process of evaluating the impact, if any, of adoption on the Company's financial position and results of operation.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. FAS 157 applies only to fair value measurements that are already required or permitted by other accounting standards. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that adopting SFAS 157 will have on its financial position and results of operation.

In February, 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*—Including an amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits companies to measure many financial instruments and certain other items at fair value. The Company is in the process of evaluating the potential future effect of FAS 159 on its financial statements.

**CRITICAL ACCOUNTING ESTIMATES**

For a discussion of additional critical accounting estimates that the Company follows, please refer to the notes to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended June 30, 2006.

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 16 of 32

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's balance sheet includes assets whose fair value is subject to market risks. Due to the Company's investments in equity securities, equity price fluctuations represent a market risk factor affecting the Company's consolidated financial position. The carrying values of investments subject to equity price risks are based on quoted market prices or, if not actively traded, management's estimate of fair value as of the balance sheet date. Market prices fluctuate, and the amount realized in the subsequent sale of an investment may differ significantly from the reported market value.

The Company's investment activities are reviewed and monitored by Company compliance personnel, and various reports are provided to investment advisory clients. The Company has in place a code of ethics that requires pre-clearance of any trading activity by the Company. Written procedures are also in place to manage compliance with the code of ethics.

The table below summarizes the Company's equity price risks as of March 31, 2007, and shows the effects of a hypothetical 25% increase and a 25% decrease in market prices.

**SENSITIVITY ANALYSIS**

|                                 | Fair Value at<br>March 31,<br>2007 | Hypothetical<br>Percentage<br>Change<br>25% | Estimated<br>Fair Value<br>after<br>Hypothetical<br>Percent<br>Change | Increase<br>(Decrease) in<br>Shareholders<br>Equity, Net<br>of Tax |
|---------------------------------|------------------------------------|---------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------------------|
| Trading Securities <sup>1</sup> | \$5,830,740                        | increase<br>25%                             | \$7,288,425                                                           | \$962,072                                                          |
|                                 |                                    | decrease<br>25%                             | \$4,373,055                                                           | \$(962,072)                                                        |
| Available-for-Sale <sup>2</sup> | \$848,984                          | increase<br>25%                             | \$1,061,231                                                           | \$140,082                                                          |
|                                 |                                    | decrease<br>25%                             | \$636,738                                                             | \$(140,082)                                                        |

<sup>1</sup> Unrealized and realized gains and losses on trading securities are included in earnings in the statement of operations.

<sup>2</sup> Unrealized gains and losses on available-for-sale securities are excluded from earnings and

*recorded in other  
comprehensive  
income as a  
separate  
component of  
shareholders  
equity until  
realized.*

The selected hypothetical change does not reflect what could be considered best-case or worst-case scenarios. Results could be significantly worse due to both the nature of equity markets and the concentration of the Company's investment portfolio.

#### **ITEM 4. CONTROLS AND PROCEDURES**

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2007, was conducted under the supervision and with the participation of management, including our chief executive officer and chief financial officer. Based on that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2007.

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 17 of 32

**PART II. OTHER INFORMATION****ITEM 2. Issuer Purchases of Equity Securities**

The Company may repurchase stock from employees. The following table provides information regarding the Company's repurchases of shares of its class A common stock during the nine months ended March 31, 2007. There were no repurchases of class B or class C common stock during the period. Share information has been restated for all periods presented in the table to reflect the two-for-one stock split effectuated on March 29, 2007.

**Issuer Purchases of Equity Securities**  
**Fiscal Year Ended 6/30/07**

|                      | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Total<br/>Amount<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>Per<br/>Share</b> | <b>Total Number of<br/>Shares Purchased<br/>as Part of Publicly<br/>Announced Plan</b> | <b>Maximum<br/>Number of<br/>Shares that May<br/>Yet Be<br/>Purchased<br/>Under the Plan</b> |
|----------------------|---------------------------------------------------------|---------------------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>Period</b>        |                                                         |                                       |                                                     |                                                                                        |                                                                                              |
| 07-01-06 to 07-31-06 |                                                         |                                       |                                                     | N/A                                                                                    | N/A                                                                                          |
| 08-01-06 to 08-31-06 | 88                                                      | \$ 1,005                              | \$ 11.42                                            | N/A                                                                                    | N/A                                                                                          |
| 09-01-06 to 09-30-06 | 264                                                     | 4,340                                 | 16.44                                               | N/A                                                                                    | N/A                                                                                          |
| 10-01-06 to 10-31-06 |                                                         |                                       |                                                     | N/A                                                                                    | N/A                                                                                          |
| 11-01-06 to 11-30-06 | 16,082                                                  | 408,257                               | 25.39                                               | N/A                                                                                    | N/A                                                                                          |
| 12-01-06 to 12-31-06 | 9,130                                                   | 294,084                               | 32.21                                               | N/A                                                                                    | N/A                                                                                          |
| 01-01-07 to 01-31-07 |                                                         |                                       |                                                     | N/A                                                                                    | N/A                                                                                          |
| 02-01-07 to 02-28-07 | 70                                                      | 1,545                                 | 22.07                                               | N/A                                                                                    | N/A                                                                                          |
| 03-01-07 to 03-31-07 |                                                         |                                       |                                                     | N/A                                                                                    | N/A                                                                                          |
| <b>Total</b>         | <b>25,634</b>                                           | <b>\$ 709,231</b>                     | <b>\$ 27.67</b>                                     | <b>N/A</b>                                                                             | <b>N/A</b>                                                                                   |

**Item 4. Submission of Matters to a Vote of Security Holders**

The shareholders of the Company voted on two issues at a Special Meeting of Shareholders of the Company held on February 21, 2007, and February 22, 2007, for the following purposes:

- (1) To act on a proposed amendment to Article Four of the Third Restated and Amended Articles of Incorporation of U.S. Global to increase the number of authorized shares of common stock, par value \$0.05 per share of U.S. Global to 36,000,000, of which 28,000,000 have been designated as class A Common Stock, 4,500,000 have been designated as class B Common Stock, and 3,500,000 have been designated as class C Common Stock, in order to effectuate a related two-for-one stock split and complete other minor modifications to the Articles on Incorporation;
- (2) To act on a proposed amendment to Article Four of the Third Restated and Amended Articles of Incorporation of U.S. Global to eliminate the dividend and liquidation preferences for holders of class A Common Stock in order to facilitate the adoption of a dividend policy and to permit the conversion of class C Common Stock to class A Common Stock.

In total, two matters were voted on and approved at the Special Meeting. A tabulation for each matter is as follows:

**Proposal 1:**

For: 4,292,524 shares of class A common stock

Edgar Filing: U S GLOBAL INVESTORS INC - Form 10-Q

For: 1,467,964 shares of class C common stock

Against: 191,893 shares of class A common stock

Against: 30 shares of class C common stock

---

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 18 of 32

Abstain: 92,073 shares of class A common stock

Abstain: 0 shares of class C common stock

Broker Non-Votes: None

**Proposal 2:**

For: 4,057,572 shares of class A common stock

For: 1,467,964 shares of class C common stock

Against: 423,028 shares of class A common stock

Against: 30 shares of class C common stock

Abstain: 114,545 shares of class A common stock

Abstain: 0 shares of class C common stock

Broker Non-Votes: None

**ITEM 6. EXHIBITS**

1. Exhibits

- |        |                                                                                                                                 |
|--------|---------------------------------------------------------------------------------------------------------------------------------|
| (3)(i) | Fourth Amended and Restated Articles of Incorporation of U.S. Global Investors, Inc.                                            |
| 31     | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002 |
| 32     | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002 |
-

**Table of Contents**

U.S. Global Investors, Inc.

March 31, 2007, Quarterly Report on Form 10-Q

Page 19 of 32

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

U.S. GLOBAL INVESTORS, INC.

DATED: May 9, 2007

BY: /s/ Frank E. Holmes  
Frank E. Holmes  
Chief Executive Officer

DATED: May 9, 2007

BY: /s/ Catherine A. Rademacher  
Catherine A. Rademacher  
Chief Financial Officer