

U S GLOBAL INVESTORS INC  
Form 10-Q  
February 07, 2013  
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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 December 31, 2012

For the Quarterly Period Ended December 31, 2012

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 No.)

**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

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(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES

NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

YES

NO

On January 18, 2013, there were 13,863,089 shares of Registrant's class A nonvoting common stock issued and 13,420,818 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's class B nonvoting common shares outstanding, and 2,072,459 shares of Registrant's class C voting common stock issued and outstanding.

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS**

Assets	December 31, 2012 (UNAUDITED)	June 30, 2012
<b>Current Assets</b>		
Cash and cash equivalents	\$ 18,938,771	\$ 20,612,721
Trading securities, at fair value	5,062,232	5,216,139
Receivables		
Mutual funds	1,877,706	1,709,507
Offshore clients	25,000	33,354
Income tax	418,965	407,377
Employees	4,211	900
Other	61,935	8,247
Prepaid expenses	765,526	606,048
Deferred tax asset	-	162,569
<b>Total Current Assets</b>	<b>27,154,346</b>	<b>28,756,862</b>
<b>Net Property and Equipment</b>	<b>3,260,958</b>	<b>3,359,376</b>
<b>Other Assets</b>		
Deferred tax asset, long term	862,771	815,245
Investment securities available-for-sale, at fair value	8,537,489	8,824,311
<b>Total Other Assets</b>	<b>9,400,260</b>	<b>9,639,556</b>
<b>Total Assets</b>	<b>\$ 39,815,564</b>	<b>\$ 41,755,794</b>

The accompanying notes are an integral part of this statement.

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## Consolidated Balance Sheets

Liabilities and Shareholders Equity	December 31, 2012 (UNAUDITED)	June 30, 2012
<b>Current Liabilities</b>		
Accounts payable	\$ 111,530	\$ 67,560
Accrued compensation and related costs	949,157	1,040,262
Deferred tax liability	6,820	-
Dividends payable	232,456	927,820
Other accrued expenses	998,087	1,010,506
<b>Total Current Liabilities</b>	<b>2,298,050</b>	<b>3,046,148</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders Equity</b>		
Common stock (class A) - \$0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,863,089 and 13,862,505 shares at December 31, 2012, and June 30, 2012, respectively	346,578	346,563
Common stock (class B) - \$0.025 par value; nonvoting; authorized, 4,500,000 shares; no shares issued	-	-
Convertible common stock (class C) - \$0.025 par value; voting; authorized, 3,500,000 shares; issued, 2,072,459 and 2,073,043 shares at December 31, 2012, and June 30, 2012, respectively	51,811	51,826
Additional paid-in-capital	15,633,851	15,547,907
Treasury stock, class A shares at cost; 440,771 and 472,685 shares at December 31, 2012, and June 30, 2012, respectively	(1,032,011)	(1,106,733)
Accumulated other comprehensive income, net of tax	370,802	466,268
Retained earnings	22,146,483	23,403,815
<b>Total Shareholders Equity</b>	<b>37,517,514</b>	<b>38,709,646</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 39,815,564</b>	<b>\$ 41,755,794</b>

The accompanying notes are an integral part of this statement.

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**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)**

	Six Months Ended December 31,		Three Months Ended December 31,	
	2012	2011	2012	2011
<b>Revenues</b>				
Mutual fund advisory fees	\$ 6,412,472	\$ 8,801,575	\$ 3,495,609	\$ 3,340,408
Distribution fees	1,552,068	2,301,771	780,506	1,027,987
Transfer agent fees	1,440,211	2,031,849	705,655	940,184
Administrative services fees	511,141	746,050	256,917	334,144
Other advisory fees	169,574	177,098	79,012	82,401
Other	21,663	21,712	12,515	11,148
Investment income (loss)	361,638	(408,607)	160,987	143,268
	10,468,767	13,671,448	5,491,201	5,879,540
<b>Expenses</b>				
Employee compensation and benefits	4,954,734	5,412,771	2,565,747	2,529,441
General and administrative	3,072,257	2,979,863	1,532,990	1,158,953
Platform fees	1,448,332	2,280,859	732,926	998,734
Advertising	431,088	1,000,922	270,465	443,923
Depreciation	137,577	142,158	68,830	70,700
Subadvisory fees	30,000	30,000	15,000	15,000
	10,073,988	11,846,573	5,185,958	5,216,751
<b>Income Before Income Taxes</b>	394,779	1,824,875	305,243	662,789
<b>Provision for Federal Income Taxes</b>				
Tax expense	179,994	665,975	139,258	253,407
<b>Net Income</b>	214,785	1,158,900	165,985	409,382
<b>Other Comprehensive Income, Net of Tax:</b>				
Unrealized gains (losses) on available-for-sale securities arising during period	47,886	(412,977)	(53,914)	27,097
Less: reclassification adjustment for gains/losses included in net income	(143,352)	-	(143,352)	-
<b>Comprehensive Income</b>	\$ 119,319	\$ 745,923	\$ (31,281)	\$ 436,479
<b>Basic Net Income per Share</b>	\$ 0.01	\$ 0.08	\$ 0.01	\$ 0.03
<b>Diluted Net Income per Share</b>	\$ 0.01	\$ 0.08	\$ 0.01	\$ 0.03
	15,481,547	15,430,851	15,487,207	15,435,997

<b>Basic weighted average number of common shares outstanding</b>				
<b>Diluted weighted average number of common shares outstanding</b>	15,481,547	15,431,179	15,487,207	15,436,119

The accompanying notes are an integral part of this statement.

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**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Six Months Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 214,785	\$ 1,158,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	137,577	142,158
Net recognized loss on securities	69,264	2,675
Provision for deferred taxes	171,043	(302,407)
Stock bonuses	57,700	172,223
Stock-based compensation expense	8,320	17,542
Changes in operating assets and liabilities:		
Accounts receivable	(228,432)	458,847
Prepaid expenses	(159,478)	378,888
Trading securities	(90,720)	479,052
Accounts payable and accrued expenses	(59,554)	(796,191)
<b>Total adjustments</b>	<b>(94,280)</b>	<b>552,787</b>
<b>Net cash provided by operating activities</b>	<b>120,505</b>	<b>1,711,687</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(39,159)	(12,990)
Purchase of available-for-sale securities	(343,967)	(2,332)
Proceeds on sale of available-for-sale securities	661,506	-
Return of capital on investment	-	4,470
<b>Net cash provided by (used in) investing activities</b>	<b>278,380</b>	<b>(10,852)</b>
<b>Cash Flows from Financing Activities:</b>		
Issuance of common stock	94,646	92,861
Dividends paid	(2,167,481)	(1,851,517)
<b>Net cash used in financing activities</b>	<b>(2,072,835)</b>	<b>(1,758,656)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,673,950)</b>	<b>(57,821)</b>
Beginning cash and cash equivalents	20,612,721	27,207,896
<b>Ending cash and cash equivalents</b>	<b>\$ 18,938,771</b>	<b>\$ 27,150,075</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for income taxes	\$ -	\$ 990,000



The accompanying notes are an integral part of this statement.

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**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 United States 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 fiscal year ended June 30, 2012.

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

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 six months ended December 31, 2012, are not necessarily indicative of the results to be expected for the entire year.

The unaudited interim financial information in these condensed financial statements should be read in conjunction with the consolidated financial statements contained in the Company s annual report.

**Recent Accounting Pronouncements**

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Under this guidance, an entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. This guidance is effective for publicly traded companies for fiscal years beginning after December 15, 2011, and interim and annual periods thereafter, except for the changes that relate to the presentation of reclassification adjustments. Early adoption is permitted, but full retrospective application is required. As the Company reports comprehensive income within its consolidated statement of operations, the adoption of this guidance did not result in a change in the presentation of comprehensive income in the Company s consolidated financial statements.

**NOTE 2. DIVIDEND**

Payment of cash dividends is within the discretion of the Company s board of directors and is dependent on earnings, operations, capital requirements, general financial condition of the Company and general business conditions. In addition to its regular monthly dividend, the Company made a one-time special dividend of \$0.02 per share in December 2012. Beginning in January 2013, the Company lowered its monthly dividend from \$0.02 to \$0.005. A monthly dividend of \$0.005 per share is authorized through March 2013 and will be reviewed by the board quarterly.

**NOTE 3. INVESTMENTS**

As of December 31, 2012, the Company held investments with a market value of approximately \$13.6 million and a cost basis of approximately \$13.4 million. The market value of these investments is approximately 34.2 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.

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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 Company records security transactions on trade date. Realized gains (losses) from security transactions are calculated on the first-in/first-out cost basis, unless otherwise identifiable, and are recorded in earnings on the date of sale.

The following summarizes the market value, cost, and unrealized gain or loss on investments as of December 31, 2012, and June 30, 2012.

Securities	Market Value	Cost	Unrealized Gain (Loss)	Unrealized holding gains on available-for- sale securities, net of tax
Trading <sup>1</sup>	\$ 5,062,232	\$ 5,457,989	\$ (395,757)	N/A
Available-for-sale <sup>2</sup>	8,537,489	7,975,668	561,821	\$ 370,802
Total at December 31, 2012	\$ 13,599,721	\$ 13,433,657	\$ 166,064	
Trading <sup>1</sup>	\$ 5,216,139	\$ 5,960,634	\$ (744,495)	N/A
Available-for-sale <sup>2</sup>	8,824,311	8,117,844	706,467	\$ 466,268
Total at June 30, 2012	\$ 14,040,450	\$ 14,078,478	\$ (38,028)	

<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.

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The following details the components of the Company's available-for-sale investments as of December 31, 2012, and June 30, 2012.

	December 31, 2012 (in thousands)			
	Cost	Gross Unrealized Gains	(Losses)	Market Value
Available-for-sale securities				
Common stock	\$ 781	\$ 195	\$ (23)	\$ 953
Venture capital investments	168	-	-	168
Offshore fund	5,000	-	(186)	4,814
Mutual funds	2,027	576	-	2,603
Total available-for-sale securities	\$ 7,976	\$ 771	\$ (209)	\$ 8,538

	June 30, 2012 (in thousands)			
	Cost	Gross Unrealized Gains	(Losses)	Market Value
Available-for-sale securities				
Common stock	\$ 920	\$ 360	\$ (52)	\$ 1,228
Venture capital investments	168	-	-	168
Offshore fund	5,000	-	(189)	4,811
Mutual funds	2,030	591	(4)	2,617
Total available-for-sale securities	\$ 8,118	\$ 951	\$ (245)	\$ 8,824

The following tables show the gross unrealized losses and fair values of available-for-sale investment securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2012 (in thousands)					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Common stock	\$ 126	\$ (9)	\$ 28	\$ (14)	\$ 154	\$ (23)
Offshore fund	4,814	(186)	-	-	4,814	(186)
Total available-for-sale securities	\$ 4,940	\$ (195)	\$ 28	\$ (14)	\$ 4,968	\$ (209)

June 30, 2012 (in thousands)

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	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Common stock	\$ 135	\$ (52)	\$ -	\$ -	\$ 135	\$ (52)
Offshore fund	4,811	(189)	-	-	4,811	(189)
Mutual funds	16	(4)	-	-	16	(4)
Total available-for-sale securities	\$ 4,962	\$ (245)	\$ -	\$ -	\$ 4,962	\$ (245)

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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 three and six months ended December 31, 2012, 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 reflected in earnings for the periods discussed:

Investment Income	Six Months Ended December 31,	
	2012	2011
Realized gains on sales of available-for-sale securities	\$ 217,200	\$ -
Realized losses on sales of trading securities	(244,627)	(2,638)
Unrealized gains (losses) on trading securities	348,739	(479,052)
Realized foreign currency losses	(2,751)	(393)
Other-than-temporary declines in available-for-sale securities	(41,837)	(37)
Dividend and interest income	84,914	73,513
<b>Total Investment Income</b>	<b>\$ 361,638</b>	<b>\$ (408,607)</b>

Investment Income	Three Months Ended December 31,	
	2012	2011