

U S GLOBAL INVESTORS INC

Form 10-K

September 10, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended June 30, 2009**

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.

Incorporated in the State of Texas

IRS Employer Identification No. 74-1598370

Principal Executive Offices:

7900 Callaghan Road

San Antonio, Texas 78229

Telephone Number: 210-308-1234

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class A common stock

(\$0.025 par value per share)

Registered: NASDAQ Capital Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Yes No

Indicate by check mark whether the Company (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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 Act).

Yes o No p

The aggregate market value of the 7,362,051 shares of nonvoting class A common stock held by nonaffiliates of the registrant was \$36,000,429, based on the last sale price quoted on NASDAQ (adjusted for the split) as of December 31, 2008, the last business day of the registrant's most recently completed second fiscal quarter. Registrant's only voting stock is its class C common stock, par value of \$0.025 per share, for which there is no active market. The aggregate value of the 17,315 shares of the class C common stock held by nonaffiliates of the registrant on December 31, 2008 (based on the last sale price of the class C common stock in a private transaction) was \$8,657.50. For purposes of this disclosure only, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of the registrant's common stock are affiliates of the registrant.

On August 21, 2009, there were 13,829,903 shares of Registrant's class A nonvoting common stock issued and 13,228,464 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's class B nonvoting common stock outstanding, and 2,081,645 shares of Registrant's class C common stock issued and outstanding.

Documents incorporated by reference: None

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Part I of Annual Report on Form 10-K

Item 1. Business

U.S. Global Investors, Inc. (the Company or U.S. Global) 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 (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.

U.S. Global, a Texas corporation organized in 1968, is a registered investment adviser under the Investment Advisers Act of 1940, as amended (Advisers Act). The Company and its subsidiaries are principally engaged in the business of providing investment advisory and other services to U.S. Global Investors Funds (USGIF or the Funds), a Delaware statutory trust as well as offshore clients. USGIF is an investment company offering shares of thirteen mutual funds on a no-load basis. Prior to October 1, 2008, the thirteen funds were in two separate Massachusetts business trusts, USGIF and U.S. Global Accolade Funds (USGAF). On October 1, 2008, USGIF and USGAF were merged into a single Delaware statutory trust under the name USGIF.

As part of the mutual fund management business, the Company provides: (1) investment advisory services; (2) transfer agency and record keeping services; (3) distribution services and (4) administrative services, through its wholly owned broker-dealer, to mutual funds advised by the Company. The fees from investment advisory and transfer agent services, as well as investment income, are the primary sources of the Company s revenue.

Lines of Business

Investment Management Services

Investment Advisory Services. The Company furnishes an investment program for each of the clients it manages and determines, subject to overall supervision by the applicable board of trustees of the clients, the clients investments pursuant to advisory agreement (the Advisory Agreement). Consistent with the investment restrictions, objectives and policies of the particular client, the portfolio team for each client determines what investments should be purchased, sold and held, and makes changes in the portfolio deemed to be necessary or appropriate. In the Advisory Agreement, the Company is charged with seeking the best overall terms in executing portfolio transactions and selecting brokers or dealers.

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As required by the Investment Company Act of 1940, as amended (Investment Company Act) the Advisory Agreement and Administrative Service Agreement with USGIF are subject to annual renewal and are terminable upon 60-day notice. These agreements have been renewed through September 2010.

In addition to providing management, administrative, and transfer agent services to USGIF, the Company provides advisory services to two offshore clients.

Net assets under management at June 30, 2009, and 2008, are detailed in the following table.

Assets Under Management (AUM)

Fund	Ticker	Category	AUM at June 30, 2009 (in thousands)	AUM at June 30, 2008 (in thousands)
U.S. Global Investors Funds				
All American Equity	GBTFX	Large cap core	\$ 14,872	\$ 26,485
China Region	USCOX	China region	50,127	81,560
Eastern European	EUROX	Emerging markets	359,870	1,335,768
Global Emerging Markets	GEMFX	Emerging markets	11,522	37,743
Global MegaTrends	MEGAX	Large-cap growth	28,454	47,519
Global Resources	PSPFX	Natural resources	570,032	2,005,399
Gold and Precious Metals	USERX	Gold oriented	207,925	258,708
Holmes Growth	ACBGX	Mid-cap growth	35,688	61,482
Near-Term Tax Free	NEARX	Short / intermediate municipal debt	18,061	13,584
Tax Free	USUTX	General municipal debt	18,771	18,333
U.S. Government Securities Savings	UGSXX	U.S. Government money market	292,989	445,239
U.S. Treasury Securities Cash	USTXX	U.S. Government money market	110,006	111,914
World Precious Minerals	UNWPX	Gold and precious minerals	478,582	948,348
Total SEC-Registered Funds			2,196,899	5,392,082
Other Advisory Clients			24,755	360,763
Total AUM			\$ 2,221,654	\$ 5,752,845

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Transfer Agent and Other Services. The Company's wholly owned subsidiary, United Shareholder Services, Inc. (USSI), is a transfer agent registered under the Securities Exchange Act of 1934, providing transfer agency, printing and mailing services to investment company clients. The transfer agency utilizes a third-party external system providing the Company's fund shareholder communication network with computer equipment and software designed to meet the operating requirements of a mutual fund transfer agency.

The transfer agency's duties encompass, but are not limited to, the following: (1) acting as servicing agent in connection with dividend and distribution functions; (2) performing shareholder account and administrative agent functions in connection with the issuance, transfer and redemption, or repurchase of shares; (3) maintaining such records as are necessary to document transactions in the Funds' shares; (4) acting as servicing agent in connection with mailing of shareholder communications, including reports to shareholders, dividend and distribution notices, and proxy materials for shareholder meetings; and (5) investigating and answering all shareholder account inquiries.

The transfer agency agreements provide that USSI will receive, as compensation for services rendered as transfer agent, certain annual and activity-based fees and will be reimbursed for out-of-pocket expenses. In connection with obtaining/providing administrative services to the beneficial owners of fund shares through institutions that provide such services and maintain an omnibus account with USSI, each fund pays a monthly fee based on the value of the shares of the fund held in accounts at the institution.

The transfer agency agreement with USGIF is subject to renewal on an annual basis and is terminable upon 60-day notice. This agreement has been renewed through September 2010.

Distribution Services. The Company has registered its wholly owned subsidiary, U.S. Global Brokerage, Inc. (USGB), with the Financial Industry Regulatory Authority (FINRA), the Securities and Exchange Commission (SEC) and appropriate state regulatory authorities as a limited-purpose broker-dealer for the purpose of distributing Fund shares. The distribution agreement with USGIF is subject to annual renewal and is terminable upon 60-day notice. This agreement has been renewed through September 2010.

Administrative Services. The Company also manages, supervises, and conducts certain other affairs of USGIF, subject to the control of the Funds' board of trustees pursuant to an administrative agreement (Administrative Services Agreement). It provides office space, facilities, and certain business equipment as well as the services of executive and clerical personnel for administering the affairs of the Funds. U.S. Global and its affiliates compensate all personnel, officers, directors, and interested trustees of the Funds if such persons are also employees of the Company or its affiliates.

See additional segment information in the notes to the financial statements at Note 14 Financial information by business segment.

Corporate Investments

Investment Activities. In addition to providing management and advisory services, the Company is actively engaged in trading for its own account.

Employees

As of June 30, 2009, U.S. Global and its subsidiaries employed 74 full-time employees and 5 part-time employees; as of June 30, 2008, it employed 84 full-time employees and 9 part-time employees. The Company considers its relationship with its employees to be good.

Competition

The mutual fund industry is highly competitive. According to the Investment Company Institute, at the end of 2008 there were over 8,800 domestically registered open-end investment companies of varying sizes and investment policies, whose shares are being offered to the public worldwide. Generally, there are two types of mutual funds: load and no-load. In addition, there are both load and no-load funds that have adopted Rule 12b-1 plans authorizing the payment of distribution costs of the funds out of fund assets. USGIF is a trust with no-load funds that have adopted 12b-1 plans. Load funds are

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typically sold through or sponsored by brokerage firms, and a sales commission is charged on the amount of the investment. No-load funds, such as the USGIF funds, however, may be purchased directly from the particular mutual fund organization or through a distributor, and no sales commissions are charged.

In addition to competition from other mutual fund managers and investment advisers, the Company and the mutual fund industry are in competition with various investment alternatives offered by insurance companies, banks, securities broker-dealers, and other financial institutions. Many of these institutions are able to engage in more liberal advertising than mutual funds and may offer accounts at competitive interest rates, which may be insured by federally chartered corporations such as the Federal Deposit Insurance Corporation.

A number of mutual fund groups are significantly larger than the funds managed by U.S. Global, offer a greater variety of investment objectives, and have more experience and greater resources to promote the sale of investments therein. However, the Company believes it has the resources, products, and personnel to compete with these other mutual funds. In particular, the Company is known for its expertise in the gold mining and exploration and natural resources industries and emerging markets. Competition for sales of fund shares is influenced by various factors, including investment objectives and performance, advertising and sales promotional efforts, distribution channels, and the types and quality of services offered to fund shareholders.

Success in the investment advisory and mutual fund share distribution businesses is substantially dependent on each fund's investment performance, the quality of services provided to shareholders, and the Company's efforts to market the funds effectively. Sales of fund shares generate management, distribution and administrative services fees (which are based on assets of the funds) and transfer agent fees (which are based on the number of fund accounts and the activity in those accounts). Costs of distribution and compliance continue to put pressure on profit margins for the mutual fund industry.

Furthermore, the Company acts as an investment adviser to two offshore funds. Despite the Company's expertise in gold mining and exploration, natural resources and emerging markets, the Company faces the same obstacle many advisers face, namely uncovering undervalued investment opportunities as the markets face further uncertainty and increased volatility. In addition, the growing number of alternative investments, especially in specialized areas, has created pressure on the profit margins and increased competition for available investment opportunities.

Supervision and Regulation

The Company, USSI, USGB, and the clients the Company manages and administers operate under certain laws, including federal and state securities laws, governing their organization, registration, operation, legal, financial, and tax status. Among the potential penalties for violation of the laws and regulations applicable to the Company and its subsidiaries are fines, imprisonment, injunctions, revocation of registration, and certain additional administrative sanctions. Any determination that the Company or its management has violated applicable laws and regulations could have a material adverse effect on the business of the Company. Moreover, there is no assurance that changes to existing laws, regulations, or rulings promulgated by governmental entities having jurisdiction over the Company and the Funds will not have a material adverse effect on its business. The Company has no control over regulatory rulemaking or the consequences it may have on the mutual fund and investment advisory industry.

Recent and accelerating regulatory pronouncements and oversight have significantly increased the burden of compliance infrastructure with respect to the mutual fund industry and the capital markets. This momentum of new regulations has contributed significantly to the costs of managing and administering mutual funds.

U.S. Global is registered as an investment adviser with the SEC. As a registered investment adviser, it is subject to the requirements of the Advisers Act, and the SEC's regulations thereunder, as well as to examination by the SEC's staff. The Advisers Act imposes substantive regulation on virtually all

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aspects of the Company's business and relationships with the Company's clients. Applicable requirements relate to, among other things, fiduciary duties to clients, engaging in transactions with clients, maintaining an effective compliance program, conflicts of interest, advertising, recordkeeping, reporting and disclosure requirements. The Funds for which the Company acts as the investment adviser are registered with the SEC under the Investment Company Act. The Investment Company Act imposes additional obligations, including detailed operational requirements for both funds and their advisers. Moreover, an investment adviser's contract with a registered fund may be terminated by the fund on not more than 60 days' notice and is subject to annual renewal by the fund's board after an initial two-year term. Both the Advisers Act and the Investment Company Act regulate the assignment of advisory contracts by the investment adviser. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act and the Investment Company Act, ranging from fines and censures to termination of an investment adviser's registration. The failure of the Company, or the funds which the Company advises, to comply with the requirements of the SEC could have a material adverse effect on us.

USGB is subject to regulation by the SEC under the Security Exchange Act of 1934 and regulation by FINRA, a self-regulatory organization composed of other registered broker-dealers. U.S. Global, USSI and USGB are required to keep and maintain certain reports and records, which must be made available to the SEC and FINRA upon request.

Relationships with Clients

The businesses of the Company are, to a very significant degree, dependent on their associations and contractual relationships with the Funds. In the event the advisory, administrative or transfer agent services agreements with USGIF are canceled or not renewed pursuant to the terms thereof, the Company would be substantially adversely affected. U.S. Global, USSI, and USGB consider their relationships with the Funds to be good, and they have no reason to believe that their management and service contracts will not be renewed in the future; however, there is no assurance that USGIF will choose to continue its relationship with the Company, USSI, or USGB.

In addition, the Company is also dependent on its relationships with its offshore clients. Even though the Company views its relationship with its offshore clients as stable, the Company could be adversely affected if these relationships ended.

Available Information

Available Information. The Company's internet website address is www.usfunds.com. Information contained on the Company's website is not part of this annual report on Form 10-K. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed with (or furnished to) the SEC are available on the Company's internet website, free of charge, soon after such material is filed or furnished. (The SEC filings can be found at www.usfunds.com by clicking "About us," followed by "Investor Relations," followed by "Company News & SEC Filings.") The Company routinely posts important information on its web site.

The Company also posts its corporate governance guidelines, code of business conduct, code of ethics for chief executive and financial officers, and the charters of the audit and compensation/options committees of its board of directors on the Company's website in the "Corporate Policies and Procedures" section. The Company's SEC filings and governance documents are available in print to any stockholder that makes a written request to: Director of Communications, U.S. Global Investors, Inc., 7900 Callaghan Road, San Antonio, Texas 78229.

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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Item 1A. Risk Factors

The Company faces a variety of significant and diverse risks, many of which are inherent in the business. Described below are certain risks that could materially affect the Company. Other risks and uncertainties that the Company does not presently consider to be material, or of which the Company is not presently aware, may become important factors that affect it in the future. The occurrence of any of the risks discussed below could materially and adversely affect the business, prospects, financial condition, results of operations or cash flow.

The investment management business is intensely competitive.

Competition in the investment management business is based on a variety of factors, including:

Investment performance;

Investor perception of an investment team's drive, focus and alignment of interest with them;

Quality of service provided to, and duration of relationships with, clients and shareholders;

Business reputation; and

Level of fees charged for services.

The Company competes with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions. Competitive risk is heightened by the fact that some competitors may invest according to different investment styles or in alternative asset classes which the markets may perceive as more attractive than the Company's investment approach. If the Company is unable to compete effectively, revenues and earnings may be reduced, and the business could be materially affected.

Poor investment performance could lead to a decline in revenues.

Success in the investment management industry is largely dependent on investment performance relative to market conditions and the performance of competing products. Good relative performance generally attracts additional assets under management, resulting in additional revenues. Conversely, poor performance generally results in decreased sales and increased redemptions with a corresponding decrease in revenues. Therefore, poor investment performance relative to the portfolio benchmarks and to competitors could impair the Company's revenues and growth. Effective October 2009, a performance fee will be implemented for the nine equity Funds whereby the base advisory fee will be adjusted upwards or downwards by 0.25 percent if there is a performance difference of 5 percent or more between a Fund's performance and that of its designated benchmark index over the prior rolling 12 months.

Investment advisory fees are a significant portion of revenue and may be negatively affected by decreases in assets under management.

Changes which may negatively impact assets under management, and thus, the Company's revenue, profitability and ability to grow include market depreciation, redemptions from shareholder accounts and terminations of client accounts.

The Company's clients can terminate their agreements with the Company on short notice, which may lead to unexpected declines in revenue and profitability.

The Company's investment advisory agreements are generally terminable on short notice and subject to annual renewal. The Company's clients can terminate their relationships with us, or reduce the aggregate amount of assets under management, for a number of reasons, including investment performance, financial market performance, or to shift their funds to competitors who may charge lower advisory fee rates, or for no stated reason. Poor performance relative to that of other investment management firms tend to result in decreased investments in the funds managed by the Company, increased withdrawals from the funds, and the loss of shareholders in the funds. If the Company's investment advisory agreements are terminated, which may occur in a short time frame, the Company may experience a decline in revenues and profitability.

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Difficult market conditions can adversely affect the Company by reducing the market value of the assets we manage or causing shareholders to make significant redemptions.

Changes in economic or market conditions may adversely affect the profitability, performance of and demand for the Company's investment products and services. Under the Company's advisory fee arrangements, the fees received are primarily based on the market value of assets under management. Accordingly, a decline in the price of securities held in the funds would be expected to cause revenues and net income to decline, which would result in lower advisory fees; or cause increased shareholder redemptions in favor of investments they perceive as offering greater opportunity or lower risk, which redemptions would also result in lower advisory fees. The ability of the Company to compete and grow is dependent on the relative attractiveness of the types of investment products the Company offers and its investment performance and strategies under prevailing market conditions.

Market-specific risks may negatively impact the Company's earnings.

The Company manages certain funds in the emerging market and natural resource sectors, which are highly cyclical. The investments in the Funds are subject to significant loss due to political, economic, and diplomatic developments, currency fluctuations, social instability, and changes in governmental policies. Foreign trading markets, particularly in some emerging market countries, are often smaller, less liquid, less regulated and significantly more volatile than the U.S. and other established markets.

In addition, yields on government securities, and the investment products investing in them, have decreased to record lows. Thus, the Company has voluntarily waived fees and/or reimbursed the USGIF money market Funds to maintain each fund's yield at a certain level as determined by the Company. These waivers could increase in the future. Such increases in fee waivers could be significant and would negatively affect the Company's revenues and net income.

The market price and trading volume of the Company's class A common stock may be volatile, which could result in rapid and substantial losses for the Company's stockholders.

See Item 5 for description of common equity classes. The market price of the Company's class A common stock may be volatile and the trading volume may fluctuate, causing significant price variations to occur. If the market price of the Company's class A common stock declines significantly, stockholders may be unable to sell their shares at or above their purchase price. The Company cannot assure that the market price of its class A common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of the Company's class A common stock, or result in fluctuations in price or trading volume, include:

Decreases in assets under management;

Variations in quarterly and annual operating results;

Publication of research reports about the Company or the investment management industry;

Departures of key personnel;

Adverse market reactions to any indebtedness the Company may incur, acquisitions or disposals the Company may make, or securities the Company may issue in the future;

Changes in market valuations of similar companies;

Changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting the business, or enforcement of these laws and regulations, or announcements relating to these matters;

Adverse publicity about the asset management industry, generally, or individual scandals, specifically; and

General market and economic conditions.

The market price of the Company's class A common stock could decline due the large number of shares of the Company's class C common stock eligible for future sale upon conversion to class A shares.

The market price of the Company's class A common stock could decline as a result of sales of a large number of shares of class A common stock eligible for future sale upon the conversion of class C shares, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for the Company to raise additional capital by selling equity securities in the future, at a time and price the Company deems appropriate.

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Failure to comply with government regulations could result in fines, which could cause the Company's earnings and stock price to decline.

The Company and its subsidiaries are subject to a variety of federal securities laws and agencies, including, but not limited to, Advisers Act, the Sarbanes-Oxley Act of 2002, the Gramm-Leach-Bliley Act of 1999, the Bank Secrecy Act of 1970, as amended, the USA PATRIOT Act of 2001, the SEC, FINRA and NASDAQ. Moreover, financial reporting requirements, and the processes, controls and procedures that have been put in place to address them, are comprehensive and complex. While management has focused attention and resources on compliance policies and procedures, non-compliance with applicable laws or regulations could result in fines, sanctions or censures which could affect the Company's reputation, and thus its revenues and earnings.

Increased regulatory and legislative actions and reforms could increase costs and negatively impact the Company's profitability and future financial results.

During the past eight years, the federal securities laws have been substantially augmented and made significantly more complex by the Sarbanes-Oxley Act of 2002 and USA PATRIOT Act of 2001. With new laws and changes in interpretations and enforcement of existing requirements, the associated time the Company must dedicate to, and related costs the Company must incur in, meeting the regulatory complexities of the business have increased. In order to comply with these new requirements, the Company has had to expend additional time and resources, including substantial efforts to conduct evaluations required to ensure compliance with the Sarbanes-Oxley Act of 2002.

Moreover, current and pending regulatory and legislative actions and reforms affecting the mutual fund industry may negatively impact earnings by increasing the Company's costs of dealing in the financial markets.

Because of the recent exposure of trading abuses and fraudulent investment activities, the collapse of the independent investment banking industry in the U.S., and massive government investment in the U.S. banking and financial system, regulators have shown increasing interest in the oversight of the broad financial and investment industry.

Federal agencies have adopted regulations designed to strengthen controls and restore investor confidence. As a result, new laws, rules, and regulations, as well as increased regulatory oversight, can be expected in the future that could place greater compliance and administrative burdens on the Company, which likely would increase our expenses without increasing revenues. Further, adverse results of regulatory investigations of mutual fund, investment advisory and financial services firms could tarnish the reputation of the financial services industry generally, and mutual funds and investment advisers more specifically, causing investors to avoid further fund investments or redeem their balances. Redemptions would decrease the assets under our management, which would reduce the Company's advisory revenues and net income.

The Company intends to pay regular dividends to its stockholders, but the ability to do so is subject to the discretion of the board of directors.

The Company intends to pay cash dividends on a monthly basis, but the board of directors, at its discretion, may decrease the level or frequency of dividends or discontinue payment of dividends entirely based on earnings, operations, capital requirements, general financial condition of the Company, and general business conditions.

The loss of key personnel could negatively affect the Company's financial performance.

The success of the Company depends on key personnel, including the portfolio managers, analysts and executive officers. Competition for qualified, motivated and skilled personnel in the asset management industry remains significant. As the business grows, the Company will likely need to increase the number of employees. Moreover, in order to retain certain key personnel, the Company may be required to increase compensation to such individuals, resulting in additional expense. The loss of key personnel or the Company's failure to attract replacement personnel could negatively affect its financial performance.

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The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information.

As part of the Company's normal operations, it maintains and transmits confidential information about the Company and the Funds' clients as well as proprietary information relating to its business operations. These systems could be victimized by unauthorized users or corrupted by computer viruses or other malicious software code, or authorized persons could inadvertently or intentionally release confidential or proprietary information. Such a breach could subject the Company to liability for a failure to safeguard client data, result in the termination of relationships with our existing customers, require significant capital and operating expenditures to investigate and remediate the breach, and subject the Company to regulatory action.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company presently owns and occupies an office building as its headquarters in San Antonio, Texas. The office building is approximately 46,000 square feet on approximately 2.5 acres of land.

Item 3. Legal Proceedings

There are no material legal proceedings in which the Company is involved.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended June 30, 2009.

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The Company has three classes of common equity: class A, class B and class C common stock, par value \$0.025 per share.

The Company's class A common stock is traded over-the-counter and is quoted daily under NASDAQ's Capital Markets. Trades are reported under the symbol GROW.

There is no established public trading market for the Company's class B and class C common stock.

The Company's class A and class B common stock have no voting privileges.

The following table sets forth the range of high and low sales prices of GROW from NASDAQ for the fiscal years ended June 30, 2009, and 2008. The quotations represent prices between dealers and do not include any retail markup, markdown, or commission.

	Sales Price			
	2009		2008	
	High (\$)	Low (\$)	High (\$)	Low (\$)
First Quarter (9/30)	17.44	6.97	26.33	18.22
Second Quarter (12/31)	10.00	2.90	24.50	14.80
Third Quarter (3/31)	6.20	3.19	17.95	12.31
Fourth Quarter (6/30)	10.89	4.70	20.20	12.41

Holders

On August 21, 2009, there were approximately 197 holders of record of class A common stock, no holders of record of class B common stock, and 50 holders of record of class C common stock.

Dividends

On March 29, 2007, a two-for-one stock split became effective and shareholders of record were paid a \$0.25 per share dividend (post-split). The board then authorized a dividend of \$0.01 per share per month beginning in June 2007. The board authorized an increase to \$0.02 per share per month beginning in October 2007. The dividend is payable on class A and class C shares. The monthly dividend is authorized through December 2009 and will be considered for continuation at that time by the board. 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.

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Purchases of equity securities by the issuer

The Company may repurchase stock from employees. There were no repurchases of classes A, B or C common stock during the fiscal year ended June 30, 2009.

Company Performance Presentation

The following graph compares the cumulative total return for the Company's class A common stock (GROW) to the cumulative total return for the S&P 500 Index, the Russell 2000 Index and the NYSE Arca Gold BUGS Index for the Company's last five fiscal years. The graph assumes an investment of \$10,000 in the class A common stock and in each index as of June 30, 2004, and that all dividends are reinvested. The historical information included in this graph is not necessarily indicative of future performance and the Company does not make or endorse any predictions as to future stock performance.

Table of Contents**Item 6. Selected Financial Data**

The following selected financial data is qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-K. The selected financial data as of June 30, 2005, through June 30, 2009, and the years then ended, is derived from the Company's audited Consolidated Financial Statements. Earnings per share have been restated for prior years to reflect the stock split that occurred in March 2007 and for all other information included throughout the document.

Selected Financial Data	Year Ended June 30,				
	2009	2008	2007	2006	2005
Revenues	\$ 23,140,269	\$ 56,039,247	\$ 58,603,637	\$ 44,853,588	\$ 16,981,339
Expenses	26,750,817	39,457,020	37,257,889	28,986,248	14,744,897
Income (loss) before income taxes	(3,610,548)	16,582,227	21,345,748	15,867,340	2,236,442
Income tax expense (benefit)	(1,372,969)	5,745,417	7,586,499	5,431,978	789,971
Net income (loss)	\$ (2,237,579)	\$ 10,836,810	\$ 13,759,249	\$ 10,435,362	\$ 1,446,471
Basic income (loss) per share	(0.15)	0.71	0.91	0.69	0.10
Working capital	27,363,133	35,309,228	27,925,318	18,275,909	7,078,554
Total assets	37,153,846	45,494,619	39,793,113	29,046,853	12,102,515
Dividends per common share	0.24	0.21	0.26		
Shareholders' equity	34,627,994	39,233,744	31,095,202	20,543,211	9,903,088
Net cash provided by operations	3,040,931	14,309,886	8,867,278	5,532,505	986,120
Net cash provided by (used in) investing activities	(4,386,782)	(1,180,602)	(746,787)	265,053	(67,634)
Net cash provided by (used in) financing activities	(3,485,630)	(2,848,629)	(3,322,114)	444,307	64,016

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion reviews and analyzes the consolidated results of operations for the past three fiscal years and other factors that may affect future financial performance. This discussion should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements, and Selected Financial Data.

Recent Trends and Continuing Disruptions in Worldwide Financial Markets

Due to the consequences of the meltdown in the subprime mortgage market beginning in 2007, the worldwide financial markets have encountered intense volatility due to uncertainty and disruption within the credit markets. This disruption continued into 2008 and 2009 causing global equities to decline worldwide. The Company's investment advisory fees and operating revenue primarily depend on the value of its assets under management, and continued global market fluctuations impact the funds' asset levels, thereby affecting income and results of operations. This global strain has resulted in a seizing of the international credit markets resulting in unprecedented worldwide governmental actions. For instance, on September 7, 2008, the U.S. Government moved to guarantee the outstanding debt of Fannie Mae and Freddie Mac. On September 19, 2008, the U.S. Treasury Department announced a temporary guarantee program for publicly available money market funds which elected to participate in the program. Furthermore, on October 3, 2008, the U.S. Congress enacted the Emergency Economic Stabilization Act of 2008, which sanctioned the Treasury Secretary to create the Troubled Assets Relief Program and authorize the purchase of up to \$700 billion of troubled assets. Despite these aggressive governmental programs and actions, the global financial markets continue to remain extremely volatile.

What began as the sub-prime mortgage default concern has swelled to practically every aspect of the global financial marketplace. Since late 2007, the markets continue to experience uncertainty and disruption resulting in the sharp decline in equity markets and dislocation in the credit markets. The equity markets suffered from pullback in consumer spending, which led to weak performance in the global markets, increased unemployment, and significant declines in the values of assets owned by financial institutions. This worldwide disruption has spread to tangential areas including currencies and commodities, which directly impact the Company and the assets it manages. The sustained volatility throughout the financial world continued throughout the Company's fiscal year.

Returns on many major equity indices have significantly declined from June 30, 2008, which had a dramatic effect on assets under management and revenues. Total assets under management at June 30, 2008, were \$5.8 billion versus \$2.2 billion at June 30, 2009.

Business Segments

U.S. Global, with principal operations located in San Antonio, Texas, manages two business segments.

First, the Company offers a broad range of investment management products and services to meet the needs of individual and institutional investors, and second, the Company invests for its own account in an effort to add growth and value to its cash position. For more details on the results of our core operations, see Note 14 Financial Information by Business Segment.

The Company generates substantially all its operating revenues from the investment management of products and services for USGIF and two offshore clients. 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. As of June 30, 2009, the Company held approximately \$7.0 million in investments, of which approximately \$5.5 million, or 14.9% of total assets, was invested in

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the Funds and other offshore clients and \$1.5 million, or 4.0% of total assets, in other entities. The following is a brief discussion of the Company's two business segments.

Investment Management Products and Services

Investment management revenues are largely dependent on the total value and composition of assets under management. Fluctuations in the markets and investor sentiment directly impact the Funds' asset levels, thereby affecting income and results of operations. During fiscal year 2009, average assets under management decreased 53.4% to \$2.5 billion, primarily due to significant decreases in the natural resource and foreign equity funds under management through both net outflows and market depreciation.

**Average Assets under Management
(Dollars in Millions)**

	2009	2008	Change %	2008	2007	Change %
Natural resource	\$ 1,318	\$ 2,818	(53.2%)	\$ 2,818	\$ 2,427	16.1%
International equity	558	1,601	(65.1%)	1,601	1,506	6.3%
Fixed income	513	617	(16.9%)	617	593	4.0%
Domestic equity	54	89	(39.3%)	89	84	6.0%
Total SEC-registered funds	2,443	5,125	(52.3%)	5,125	4,610	11.2%
Other advisory clients	90	312	(71.2%)	312	236	32.2%
Average assets under management	\$ 2,533	\$ 5,437	(53.4%)	\$ 5,437	\$ 4,846	12.2%

Investment Activities

Management believes it can more effectively manage the Company's cash position by maintaining certain types of investments utilized in cash management and continues to believe that such activities are in the best interest of the Company.

The following summarizes the market value, cost and unrealized gain or loss on investments as of June 30, 2009, and June 30, 2008.

Securities	Market Value	Cost	Unrealized Gain (Loss)	Unrealized holding gains (losses) on available-for-sale securities, net of tax
Trading ¹	\$ 4,511,497	\$ 6,276,578	\$ (1,765,081)	N/A
Available-for-sale ²	2,536,665	2,002,826	533,839	\$ 352,334
Total at June 30, 2009	\$ 7,048,162	\$ 8,279,404	\$ (1,231,242)	
Trading ¹	\$ 6,991,843	\$ 6,275,478	\$ 716,365	N/A
Available-for-sale ²	1,246,769	1,739,795	(493,026)	\$ (325,397)
Total at June 30, 2008	\$ 8,238,612	\$ 8,015,273	\$ 223,339	

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

² *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.*

As of June 30, 2009, and 2008, the Company held approximately \$1.5 million and \$2.4 million, respectively, in investments other than the clients the Company advises.

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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.

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.

Investment income can be volatile and may vary 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 is concentrated in a small number of issuers. For fiscal years 2009, 2008, and 2007, the Company had net realized gains (losses) of approximately \$(2,457,000), \$(152,000), and \$737,000, respectively. Due to market volatility, the Company expects that gains or losses will continue to fluctuate in the future.

Table of Contents**Consolidated Results of Operations**

The following is a discussion of the consolidated results of operations of the Company and a detailed discussion of the Company's revenues and expenses.

	2009	2008	% Change	2008	2007	% Change
Net income (loss) (in thousands)	\$ (2,238)	\$ 10,837	(120.6%)	\$ 10,837	\$ 13,759	(21.2%)
Net income (loss) per share						
Basic	\$ (0.15)	\$ 0.71	(121.1%)	\$ 0.71	\$ 0.91	(22.0%)
Diluted	\$ (0.15)	\$ 0.71	(121.1%)	\$ 0.71	\$ 0.90	(21.1%)
Weighted average shares outstanding (in thousands)						
Basic	15,276	15,247		15,247	15,162	
Diluted	15,298	15,275		15,275	15,242	

For the year ended June 30, 2009, no options were included in the computation of diluted earnings per share because they would be antidilutive due to the net loss.

Year Ended June 30, 2009, Compared with Year Ended June 30, 2008

The Company posted net after-tax loss of \$2,237,579 (\$0.15 loss per share) for the year ended June 30, 2009, compared with net after-tax income of \$10,836,810 (\$0.71 per share) for the year ended June 30, 2008. This decrease in profitability is primarily attributable to the following factors:

Revenues

Total consolidated revenues for the year ended June 30, 2009, decreased \$32,898,978, or 59%, compared with the year ended June 30, 2008. This decrease was primarily attributable to the following:

Investment advisory fees declined by \$28.4 million primarily as a result of decreased assets under management in the natural resources and international equity funds.

Investment income decreased by \$6.1 million primarily as a result of declines in the market value of trading securities in the natural resources and international equity sectors as well as an other-than-temporary impairment as a result of declines in the market value of available-for-sale securities.

Expenses

Total consolidated expenses for the year ended June 30, 2009, decreased by \$12,706,203, or 32%, compared with the prior year. This decrease was primarily attributable to the following:

Subadvisory fees decreased by 74%, or \$6.8 million, due to a change in the subadvisory contract (discussed in Note 2 Significant Accounting Policies – Revenue Recognition) as well as decreased assets in the funds being subadvised;

Platform fees decreased by 45%, or \$4.1 million, due to decreased asset inflows through broker-dealer platforms and decrease in asset values due to market declines;

Employee compensation expense decreased by 26%, or \$3.6 million, primarily due to a decline in incentive bonuses and fewer employees;

General and administrative expenses increased 28%, or \$1.9 million, primarily due to proxy-related costs associated with the merger of the USGIF and USGAF trusts.

Table of Contents**Year Ended June 30, 2008, Compared with Year Ended June 30, 2007**

The Company posted net after-tax income of \$10,836,810 (\$0.71 per share) for the year ended June 30, 2008, compared with net after-tax income of \$13,759,249 (\$0.91 per share) for the year ended June 30, 2007. The decrease in profitability in fiscal year 2008 primarily resulted from a decrease of \$3.5 million in advisory fees, an increase of \$1.5 million in platform fee expense, and an increase of \$1.0 million in employee compensation and benefits. These factors were somewhat offset by an increase of \$918,000 in transfer agent fees and a decrease of \$676,000 in general and administrative expenses.

Revenues

(Dollars in Thousands)	2009	2008	% Change	2008	2007	% Change
Investment advisory fees:						
Natural resource funds	\$ 8,990	\$ 17,186	(47.7%)	\$ 17,186	\$ 15,191	13.1%
International equity funds	6,749	19,963	(66.2%)	19,963	18,727	6.6%
Domestic equity funds	730	1,605	(54.5%)	1,605	1,776	(9.6%)
Fixed income funds	295	764	(61.4%)	764	728	4.9%
Total mutual fund advisory fees	16,764	39,518	(57.6%)	39,518	36,422	8.5%
Other advisory fees	924	6,538	(85.9%)	6,538	13,095	(50.1%)
Total investment advisory fees	17,688	46,056	(61.6%)	46,056	49,517	(7.0%)
Transfer agent fees	5,942	8,455	(29.7%)	8,455	7,537	12.2%
Distribution fees	2,867		100.0%			0.0%
Administrative service fees	1,215		100.0%			0.0%
Investment income (loss)	(4,616)	1,447	(419.0%)	1,447	1,357	6.7%
Other revenues	44	81	(45.7%)	81	193	(58.2%)
Total	\$ 23,140	\$ 56,039	(58.7%)	\$ 56,039	\$ 58,604	(4.4%)

Investment Advisory Fees. Investment advisory fees, the largest component of the Company's revenues, are derived from two sources: SEC-registered mutual fund advisory fees, which in fiscal 2009 accounted for 95% of the Company's total advisory fees, and offshore investment advisory fees, which accounted for 5% of total advisory fees. SEC-registered mutual fund investment advisory fees are calculated as a percentage of average net assets, ranging from 0.375% to 1.375%, and are paid monthly. These advisory fees decreased by approximately \$22.8 million, or 58%, in fiscal 2009 over fiscal 2008 primarily as a result of decreased assets under management, particularly in the international equity and natural resource funds.

Mutual fund investment advisory fees are also affected by changes in assets under management, which include: market appreciation or depreciation;

the addition of new client accounts;

client contributions of additional assets to existing accounts;

withdrawals of assets from and termination of client accounts;

exchanges of assets between accounts or products with different fee structures; and

the amount of fees voluntarily reimbursed.

A special meeting of shareholders of USGIF and USGAF was held on September 23, 2008, to consider several proposals. The proposals were approved effective October 1, 2008, and included (i) a reorganization of the USGIF and USGAF funds from two separate Massachusetts business trusts into a single Delaware statutory trust under the name USGIF, (ii) a new advisory agreement for the USGIF funds and (iii) a new distribution plan for the nine equity USGIF funds under which USGB is paid a fee at an annual rate of 0.25 percent of the average daily net assets of each fund. With respect to four equity funds, the new advisory agreement also increased the base advisory fee and changed to the advisory fee breakpoints. In addition, administrative services that were part of the previous advisory

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agreement were removed and became the subject of a separate agreement. Under the new administrative services agreement, the Funds no longer reimburse the Company for certain legal and administrative services, but instead pay the Company compensation at an annual rate of 0.08 percent of the average daily net assets of each fund for administrative services provided by the Company to USGIF. A full discussion of the proposals is set forth in proxy materials filed with the SEC by USGIF and USGAF. The Company incurred a total of \$3.7 million in merger-related costs, of which \$3.5 million was recorded in the first quarter of fiscal 2009.

As of October 1, 2008, the nine equity USGIF funds include a base advisory fee that, beginning in October 2009, will be adjusted upwards or downwards by 0.25 percent if there is a performance difference of 5 percent or more between a Fund's performance and that of its designated benchmark index over the prior rolling 12 months.

Prior to October 1, 2008, the Company voluntarily waived or reduced its advisory fees and/or agreed to pay expenses on seven of thirteen Funds. Effective October 1, 2008, the Company contractually agreed to cap the expenses of all thirteen Funds through September 30, 2009. Thereafter, these caps will continue on a modified and voluntary basis at the discretion of the Company. The aggregate fees waived and expenses borne by the Company were \$5,566,000; \$1,422,000; and \$1,178,000, in fiscal years 2009, 2008, and 2007, respectively.

The above waived fees include amounts waived under an agreement whereby the Company has voluntarily agreed to waive fees and/or reimburse the U.S. Treasury Securities Cash Fund and the U.S. Government Securities Savings Fund to the extent necessary to maintain the respective Fund's yield at a certain level as determined by the Company (Minimum Yield). Reflecting increased demand in the market for government securities, yields on such products have decreased to record lows. In certain products, the gross yield is not sufficient to cover all of the Funds' normal operating expenses and fee waivers have been used to maintain positive or zero net yields. For the fiscal year ended June 30, 2009, fees waived and/or expenses reimbursed as a result of this agreement were \$537,700 and \$15,718 for the U.S. Treasury Securities Cash Fund and the U.S. Government Securities Savings Fund, respectively. The Company may recapture any fees waived and/or expenses reimbursed within three years after the end of the Fund's fiscal year of such waiver and/or reimbursement to the extent that such recapture would not cause the Fund's yield to fall below the Minimum Yield. Thus, \$170,642 of these waivers are recoverable by the Company through December 31, 2011 and \$382,776 through December 31, 2012. Management believes these waivers could increase in the future. Such increases in fee waivers could be significant and will negatively impact the Company's revenues and net income. Management cannot predict the impact of the waivers due to the number of variables and the range of potential outcomes. The Company expects to continue to waive fees and/or pay for fund expenses if market and economic conditions warrant. However, subject to the Company's commitment to certain funds with respect to fee waivers and expense limitations, the Company may reduce the amount of Fund expenses it is bearing.

On November 6, 2008, effective immediately, the Company terminated its relationship with Endeavour Financial Corp. (EFC) as the subadviser to its equity portfolio. As investment adviser, the Company was paid a monthly advisory fee based on the net asset value of the portfolio and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity. The Company recorded advisory fees from EFC totaling \$661,262; \$5,326,438; and \$11,041,050 for the fiscal years 2009, 2008, and 2007, respectively.

The Company continues to provide advisory services for two offshore clients and receives monthly advisory fees based on the net asset values of the clients and performance fees, if any, based on the overall increase in net asset values. The Company recorded fees from these clients totaling \$263,101, \$1,198,007 and \$1,913,302 for the fiscal years 2009, 2008, and 2007, respectively. The performance fees for these clients are calculated and recorded quarterly in accordance with the terms of the advisory agreements. These fees may fluctuate significantly from year to year based on factors that may be out

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of the Company's control. For more information, see Item 1A. Risk Factors and the section entitled Revenue Recognition under Critical Accounting Policies. Frank Holmes, CEO, serves as a director of the offshore clients. The Company receives additional revenue from several sources including custodial fee revenues, revenues from mailroom operations, and investment income.

Transfer Agent Fees. United Shareholder Services, Inc., a wholly owned subsidiary of the Company, provides transfer agency and mailing services for Company clients. The Company receives an annual fee per account as well as transaction- and activity-based fees as compensation for services rendered as transfer agent, and is reimbursed for out-of-pocket expenses associated with processing shareholder information. In addition, the Company collects custodial fees on IRAs and other types of retirement plans invested in USGIF. Transfer agent fees are, therefore, significantly affected by the number of client accounts.

Transfer agent fees decreased by \$2.5 million in fiscal 2009, primarily as a result of a decline in the number of shareholder accounts and number of transactions.

The increase in transfer agent fees in fiscal years 2008 and 2007 was primarily a result of an increase in the number of mutual fund shareholder accounts due to improved performance of the natural resource and international equity funds and the result of the revised fee structure effective April 1, 2007, which incorporated transaction- and activity-based fees.

Distribution Fees. As noted above, a new distribution plan was approved effective October 1, 2008, for the nine equity USGIF funds under which USGB is paid a fee at an annual rate of 0.25 percent of the average daily net assets of each fund.

Administrative Service Fees. As noted above, effective October 1, 2008, administrative services that were part of the previous advisory agreement were removed and became the subject of a separate agreement. Under the new administrative services agreement, the Funds no longer reimburse the Company for certain legal and administrative services, but instead pay the Company compensation at an annual rate of 0.08 percent of the average daily net assets of each Fund for administrative services provided by the Company to the Funds.

Investment Income. 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 is dependent on market fluctuations and does not remain at a consistent level. Timing of transactions and the Company's ability to participate in investment opportunities largely affect this source of revenue. Investment income decreased by \$6.1 million in fiscal 2009 compared to fiscal 2008. This decrease can be attributable primarily to declines in the market value of trading securities in the natural resources and international equity sectors as well as an other-than-temporary impairment as a result of declines in the market value of available-for-sale securities. Of the \$6.1 million decrease in fiscal 2009, \$3.2 million related to decrease in investment income in investments in the Funds and the offshore clients.

Investment income increased by \$90,000 in fiscal 2008 compared to fiscal 2007. This increase was attributed primarily to increases in unrealized gains on corporate investments.

Included in investment income were other-than-temporary impairments of \$2,456,618 for the fiscal year ending 2009. There were no other-than-temporary impairments for the fiscal years ending 2008 and 2007.

Table of Contents**Expenses**

(Dollars in Thousands)	2009	2008	% Change	2008	2007	% Change
Employee compensation and benefits	\$ 10,017	\$ 13,608	(26.4%)	\$ 13,608	\$ 12,560	8.3%
General and administrative	8,696	6,805	27.8%	6,805	7,482	(9.0%)
Platform fees	4,946	9,049	(45.3%)	9,049	7,528	20.2%
Subadvisory fees	2,415	9,223	(73.8%)	9,223	8,935	3.2%
Advertising	407	488	(16.6%)	488	509	(4.1%)
Depreciation	270	284	(4.9%)	284	244	16.5%
Total	\$ 26,751	\$ 39,457	(32.2%)	\$ 39,457	\$ 37,258	5.9%

Employee Compensation and Benefits. Employee compensation and benefits decreased by \$3.6 million, or 26.4%, in 2009 and increased by \$1.0 million, or 8.3%, in fiscal 2008. The decrease in 2009 was primarily due to decrease in incentive bonuses and fewer employees. The increase in 2008 was primarily due to incentive bonuses associated with strong mutual fund performance, mutual fund asset growth, strong offshore advisory client performance and increased shareholder accounts.

Subadvisory Fees. Subadvisory fees are calculated as a percentage of average net assets of the two Funds that are subadvised by a third-party manager. The decrease in subadvisory fees of \$6.8 million in fiscal year 2009 is due to the restructured responsibilities of the third-party manager. Effective November 7, 2008, the Company assumed the day-to-day management of both Funds and the subadvisory fees were reduced. The increases in subadvisory fees of \$0.3 million in fiscal year 2008 resulted primarily from growth in assets in the Eastern European Fund. The subadvisory agreement related to the Global MegaTrends Fund was terminated effective September 30, 2007.

General and Administrative. The increase in general and administrative expenses of \$1.9 million, or 27.8%, in fiscal year 2009 resulted primarily from proxy-related costs associated with the merger of the USGIF and USGAF trusts. The decrease in general and administrative expenses of \$0.7 million, or 9.0%, in fiscal year 2008 resulted primarily from decreased consulting and legal fees.

Platform Fees. Broker-dealers typically charge an asset-based fee for assets held in their platforms. The decrease in platform fee expenses in fiscal year 2009 of \$4.1 million, or 45.3%, was due to the decrease in assets held in the broker-dealer platforms. Net platform fee expenses increased by \$1.5 million during fiscal year 2008 due to an increase in assets held in the broker dealer platforms during the fiscal year. The incremental assets received through the broker-dealer platforms are not as profitable as those received from direct shareholder accounts due to margin compression resulting from paying platform fees on those assets.

Advertising. Advertising expense was essentially flat in fiscal 2009 compared to 2008 and fiscal year 2008 compared to fiscal 2007.

Depreciation. Depreciation expense was essentially flat in fiscal 2009 compared to fiscal 2008. Depreciation expense increased by \$40,000 in fiscal year 2008 as a result of a slight increase in capital purchases.

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 basis of assets and liabilities for financial and tax purposes, resulting from the use of the liability method of accounting for income taxes. For federal income tax purposes at June 30, 2009, the Company has approximately \$50,000 in capital loss carryovers.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. Management included no valuation allowance at June 30, 2009.

Table of Contents**Off Balance Sheet Arrangements**

The Company does not have any off balance sheet arrangements.

Contractual Obligations

A summary of contractual obligations of the Company as of June 30, 2009, is as follows:

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating lease obligations	\$ 461,142	\$ 226,442	\$ 179,343	\$ 55,357	\$
Contractual obligations	1,619,842	517,076	677,686	425,080	
Total	\$ 2,080,984	\$ 743,518	\$ 857,029	\$ 480,437	\$

Operating leases consist of office equipment, printers, and copiers leased from several vendors. Contractual obligations include agreements to fund educational programs, as well as services used in daily operations. Other contractual obligations not included in this table consist of subadvisory contracts and agreements to waive or reduce fees and/or pay expenses on several Funds. Future obligations under these agreements are dependent upon future levels of Fund assets.

The board has authorized a monthly dividend of \$0.02 per share through December 2009, at which time it will be considered for continuation by the board. 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. The total amount of cash dividends to be paid to class A and class C shareholders from July 2009 to September 2009 will be approximately \$917,000.

Liquidity and Capital Resources

At fiscal year end, the Company had net working capital (current assets minus current liabilities) of approximately \$27.4 million and a current ratio (current assets divided by current liabilities) of 10.8 to 1. With approximately \$20.3 million in cash and cash equivalents and \$7.0 million in marketable securities, the Company has adequate liquidity to meet its current obligations. Total shareholders' equity was approximately \$34.6 million, with cash, cash equivalents, and marketable securities comprising 73.6% of total assets.

The Company has no long-term debt; thus, the Company's only material commitment going forward is for operating expenses. The Company also has access to a \$1 million credit facility, which can be utilized for working capital purposes. The Company's available working capital and potential cash flow are expected to be sufficient to cover current expenses.

The investment advisory and related contracts between the Company and USGIF will expire on September 30, 2010. With respect to offshore advisory clients, the contracts between the Company and the 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 investment opportunities whenever available.

Critical Accounting Policies

The discussion and analysis of financial condition and results of operations are based on the Company's financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S.

(GAAP) The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. Management reviews these estimates on an ongoing basis. Estimates are based on experience and on various other assumptions that the Company believes to be reasonable under the

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circumstances. Actual results may differ from these estimates under different assumptions or conditions. While significant accounting policies are described in more detail in Note 2 to the consolidated financial statements, the Company believes the accounting policies that require management to make assumptions and estimates involving significant judgment are those relating to valuation of security investments, income taxes, valuation of stock-based compensation, revenue recognition on advisory contracts, related party transactions and recent accounting pronouncements.

Security Investments. The Company accounts for its investments in securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). In accordance with SFAS 115, the Company classifies its investments in equity and debt securities based on intent. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each reporting period date.

Securities that are purchased and held principally for the purpose of selling in the near term are classified as trading securities and reported at fair value. Unrealized gains and losses on these securities are included in earnings.

Investments in debt securities or mortgage-backed securities that are purchased with the intent and ability to hold until maturity are classified as held-to-maturity and measured at amortized cost. The Company currently has no investments in debt securities or mortgage-backed securities.

Investments classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities and reported at fair value. Unrealized gains and losses on these available-for-sale securities are excluded from earnings, reported net of tax as a separate component of shareholders' equity, and recorded in earnings when realized.

The Company evaluates its investments for other-than-temporary declines in value on a periodic basis. This may exist when the fair value of an investment security has been below the current value for an extended period of time. For available-for-sale securities with declines in value deemed other than temporary, the unrealized loss recorded net of tax in accumulated other comprehensive income is realized as a charge to net income.

The Company records security transactions on trade date. Realized gains or 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.

Securities traded on a securities exchange are valued at the last sale price. Securities for which over-the-counter market quotations are available, but for which there was no trade on or near the balance sheet date, are valued at the mean price between the last price bid and last price asked. Securities for which quotations are not readily available are valued at management's estimate of fair value.

Income Taxes. The Company's annual effective income tax rate is based on the mix of income and losses in its U.S. and non-U.S. entities which are part of the Company's Consolidated Financial Statements, statutory tax rates, and tax-planning opportunities available to the Company in the various jurisdictions in which it operates. Significant judgment is required in evaluating the Company's tax positions.

Tax law requires certain items to be included in the tax return at different times from when these items are reflected in the Company's Consolidated Income Statement. As a result, the effective tax rate reflected in the Consolidated Financial Statements is different from the tax rate reported on the Company's consolidated tax return. Some of these differences are permanent, such as expenses that are not deductible in the tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax basis of assets and liabilities. In addition, excess tax benefits associated with stock option exercises also create a difference between the tax rate used in the consolidated tax return and the effective tax rate in our Consolidated Income Statement.

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The Company assesses uncertain tax positions in accordance with FIN 48, *Accounting for Uncertainty in Income Taxes*. Judgment is used to identify, recognize, and measure the amounts to be recorded in the financial statements related to tax positions taken or expected to be taken in a tax return. A liability is recognized to represent the potential future obligation to the taxing authority for the benefit taken in the tax return. These liabilities are adjusted, including any impact of the related interest and penalties, in light of changing facts and circumstances such as the progress of a tax audit. A number of years may elapse before a particular matter for which a reserve has been established is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction.

Judgment is used in classifying unrecognized tax benefits as either current or noncurrent liabilities in the Company's Consolidated Balance Sheets. Settlement of any particular issue would usually require the use of cash. A liability associated with unrecognized tax benefits will generally be classified as a noncurrent liability because there will usually be a period of several years between the filing of the tax return and the final resolution of an uncertain tax position with the taxing authority. Favorable resolutions of tax matters for which reserves have been established are recognized as a reduction to income tax expense when the amounts involved become known.

Assessing the future tax consequences of events that have been recognized in the Company's Consolidated Financial Statements or tax returns requires judgment. Variations in the actual outcome of these future tax consequences could materially impact the Company's financial position, results of operations, or cash flows.

Stock-Based Compensation. Stock-based compensation expense is measured at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the award's vesting period. We measured the fair value of stock options granted in fiscal 2007 and 2008 on the date of grant using a Black-Scholes option-pricing model. No options were granted in 2009.

We believe that the estimates related to stock-based compensation expense are critical accounting estimates because the assumptions used could significantly impact the timing and amount of stock-based compensation expense recorded in our Consolidated Financial Statements.

Revenue Recognition on Offshore Advisory Contracts. During fiscal 2009, the Company provided investment advisory services to three offshore clients. The advisory contracts of two of the three clients provided for monthly payment of management fees and quarterly payment of performance fees, if any, by the client and were recorded accordingly.

The contract of one of the three offshore clients, EFC, which terminated on November 6, 2008, called for monthly payment of management fees and annual, rather than quarterly, payment of performance fees by the client. However, under GAAP, the Company could have chosen to record performance fees either annually or more frequently.

Management chose the more conservative method (Method 1), in which performance fees were recorded annually as was provided by the contract terms. Under Method 2, incentive fees could have been recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract were terminated at that date.

Table of Contents**Related Party Transactions**

The Company had \$25.8 million and \$30.9 million at fair value invested in USGIF, USGAF and offshore clients the Company advises included in the balance sheet in cash and cash equivalents and trading securities at June 30, 2009, and 2008, respectively. The Company recorded \$309,562 in dividend income and \$805,929 in unrealized loss on its investments in the Funds and offshore clients. Receivables from mutual funds shown on the Consolidated Balance Sheets represent amounts due the Company and its wholly owned subsidiaries for investment advisory fees, administrative fees, distribution fees, transfer agent fees, and out-of-pocket expenses, net of amounts payable to the mutual funds.

The Company provides advisory services for the Meridian Global Gold and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee 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 \$171,008 and \$538,375 for the years ended June 30, 2009 and 2008, respectively. Frank Holmes, a director and CEO of the Company, is a director of Meridian Global Gold and Resources Fund Ltd, and Meridian Fund Managers Ltd., the manager of the Meridian Global Gold and Resources Fund Ltd.

The Company provides advisory services for the Meridian Global Energy and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee 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 \$92,093 and \$659,632 for the years ended June 30, 2009 and 2008, respectively. Mr. Holmes is a director of Meridian Global Energy and Resources Fund Ltd. and Meridian Fund Managers Ltd., the manager of the Meridian Global Energy and Resources Fund Ltd. In addition, the Company has an investment in the Meridian Global Energy and Resources Fund Ltd. with a value of approximately \$636,751 at June 30, 2009.

On November 6, 2008, effective immediately, the Company terminated its relationship with EFC as the subadviser to EFC's equity portfolio. The Company provided investment advisory services to EFC. The Company was paid a monthly advisory fee based on the net asset value of the portfolio and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity. For the year ended June 30, 2009, the Company recorded a total of \$661,262 in advisory fees from EFC. Since the contract was terminated prior to the end of the fiscal year, no performance fees were recorded for the year ended June 30, 2009. For the year ended June 30, 2008, the Company recorded a total of \$5,326,438 in advisory fees from EFC comprised of \$2,706,216 in annual performance fees and \$2,620,222 in monthly advisory fees. The performance fees for this advisory client are calculated and recorded only once a 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. For more information, see Item 1A. Risk Factors and the section entitled Revenue Recognition under Critical Accounting Policies. Mr. Holmes was the Chairman of the Board of Directors of EFC from October 2005 until November 6, 2008. In addition, the Company has an investment in EFC at June 30, 2009 with a value of approximately \$378,000.

The Company owns a position in Charlemagne Capital Limited at June 30, 2009, valued at approximately \$834,000 and recorded as an available-for-sale security. Charlemagne Capital (IOM) Limited (Charlemagne), a wholly-owned subsidiary of Charlemagne Capital Limited, specializes in emerging markets and is the non-discretionary subadviser to the Eastern European Fund and Global Emerging Markets Fund, two funds in USGIF.

Table of Contents**Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that required or permitted fair value measurements because the FASB had previously concluded in those accounting pronouncements that the fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. In February 2008, the FASB issued staff position (FSP) to defer the effective date of SFAS 157 for one year for nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. Management adopted the provisions of SFAS 157 related to all financial assets and liabilities and nonfinancial assets and liabilities recognized or disclosed at fair value on a recurring basis on July 1, 2008. The adoption of SFAS 157 did not affect the Company's financial position or results of operations, but did result in additional required disclosures, which are provided in Note 3 Investments.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159), Accounting for Certain Investments in Debt and Equity Securities). SFAS 159 allows entities to voluntarily choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The amendment to SFAS 115 applies to all entities with available-for-sale and trading securities. The election is made on an instrument-by-instrument basis and is irrevocable. Once the election is made for the instrument, all subsequent changes in fair value for that instrument must be reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not elected to apply the provisions of SFAS 159 to any of our financial instruments; therefore, the adoption of SFAS 159 effective July 1, 2008, has not affected our financial position or results of operations.

In June 2007, the Emerging Issues Task Force (EITF) issued EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). Under the provisions of EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The adoption of EITF 06-11 did not have a material effect on the Company's financial position or results of operations for the year ended June 30, 2009.

On October 10, 2008, the FASB issued FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active* (FSP SFAS 157-3). FSP SFAS 157-3 clarifies the application of SFAS 157 in a market that is not active and illustrates key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP SFAS 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP SFAS 157-3 did not have a material impact on the Company's results of operations, financial condition, or cash flows.

In April 2009, the FASB issued FSP SFAS 157-4, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* (FSP SFAS 157-4). FSP SFAS 157-4 provides additional guidance on factors to consider in estimating fair value when there has been a significant decrease in market activity for a financial asset. FSP SFAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP SFAS 157-4 did not have a material impact on the Company's results of operations, financial condition, or cash flows.

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FSP 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP107-1 and APB 28-1), amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures in the body or in the accompanying notes to financial statements for interim reporting periods and in financial statements for annual reporting periods for the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the balance sheet. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions in both interim and annual financial statements. FSP 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP 107-1 and APB 28-1 did not have a material impact on the Company's consolidated financial statements.

The objective of an other-than-temporary impairment analysis under existing GAAP is to determine whether the holder of an investment in a debt or equity security, for which changes in fair value are not regularly recognized in earnings (such as for securities classified as held-to-maturity or available-for-sale), should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. The objective of FSP 115-2 and 124-2 *Recognition and Presentation of Other-Than-Temporary Impairment*, (FSP 115-2 and 124-2), which amends existing other-than-temporary impairment guidance for debt securities, is to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Specifically, the recognition guidance contained in FSP 115-2 and 124-2 applies to debt securities classified as available-for-sale and held-to-maturity that are subject to other-than-temporary impairment guidance within SFAS 115, FSP 115-1 and 124-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, FSP EITF 99-20-1 *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* and American Institute of Certified Public Accountants Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. Among other provisions, FSP 115-2 and 124-2 requires entities to: (1) split other-than-temporary impairment charges between credit losses (i.e., the loss based on the entity's estimate of the decrease in cash flows, including those that result from expected voluntary prepayments), which are charged to earnings, and the remainder of the impairment charge (non-credit component) to other comprehensive income, net of applicable income taxes; (2) disclose information for interim and annual periods that enables financial statement users to understand the types of available-for-sale and held-to-maturity debt and equity securities held, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized, and (3) disclose for interim and annual periods information that enables users of financial statements to understand the reasons that a portion of an other-than-temporary impairment of a debt security was not recognized in earnings and the methodology and significant inputs used to calculate the portion of the total other-than-temporary impairment that was recognized in earnings.

FSP 115-2 and 124-2 is effective for interim reporting periods ending after June 15, 2009. For debt securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this FSP as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income and the impact of adoption accounted for as a change in accounting principles, with applicable disclosures provided. The adoption of FSP 115-2 and 124-2 did not impact on its consolidated financial statements since the Company does not hold any debt securities.

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In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement is effective for interim and annual periods ending after June 15, 2009. In preparing the consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after June 30, 2009, up until the issuance of the financial statements, which occurred on September 10, 2009.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* (SFAS 166). SFAS 166 amends FASB SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140), removing the concept of a qualifying special-purpose entity, and removing the exception from applying FIN No. 46(R) (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46(R)), to qualifying special-purpose entities. This statement is effective for both interim and annual periods as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Management is in the process of determining the effect the adoption of SFAS 166 will have on the Company's Consolidated Financial Statements.

In June 2009, the FASB issued SFAS Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 167 amends FIN 46(R), to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This statement is effective for both interim and annual periods as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Management is in the process of determining the effect the adoption of SFAS 167 will have on the Company's Consolidated Financial Statements.

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* (SFAS 168 or Codification). SFAS 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the Codification as the source of authoritative GAAP recognized by the FASB, to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 in the third quarter of 2009 is not expected to materially affect our financial position or results of operations. Commencing with the Form 10-Q for the September 30, 2009 quarter end, future filings with the SEC will reference the Codification rather than prior accounting and reporting standards.

Table of Contents**Item 7A. Quantitative and Qualitative Disclosures About Market Risk****Market Risk Disclosures**

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 certain investment advisory clients. Written procedures are in place to manage compliance with the code of ethics.

The table below summarizes the Company's equity price risks as of June 30, 2009, and shows the effects of a hypothetical 25% increase and a 25% decrease in market prices.

	Fair Value at	Hypothetical	Estimated	Increase
	June 30, 2009	Percentage	Fair	(Decrease)
		Change	Value After	in Shareholders
		25%	Hypothetical	Equity, Net of
			Price Change	Tax
Trading securities ¹	\$4,511,497	increase	\$5,639,371	\$ 744,397
		25%		
		decrease	\$3,383,623	\$ (744,397)
		25%		
Available-for-sale ²	\$2,536,665	increase	\$3,170,831	\$ 418,550
		25%		
		decrease	\$1,902,499	\$ (418,550)

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

² *Unrealized and realized gains and losses on available-for-sale securities are excluded from earnings and recorded in other comprehensive income as a component of*

*shareholders
equity until
realized.*

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

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Item 8. Financial Statements and Supplementary Data
Report of Independent Registered Public Accounting Firm on Internal Control
Over Financial Reporting

Board of Directors and Stockholders

U.S. Global Investors, Inc.

San Antonio, Texas

We have audited U.S. Global Investors, Inc.'s (the Company) internal control over financial reporting as of June 30, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of U.S. Global Investors, Inc. as of June 30, 2009 and 2008, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2009 and our report dated September 10, 2009, expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

Dallas, Texas

September 10, 2009

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**Report of Independent Registered Public Accounting Firm on Consolidated
Financial Statements**

Board of Directors and Stockholders

U.S. Global Investors, Inc.

San Antonio, Texas

We have audited the accompanying consolidated balance sheets of U.S. Global Investors, Inc. (the Company) as of June 30, 2009 and 2008 and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. Global Investors, Inc. at June 30, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of U.S. Global Investors, Inc. internal control over financial reporting as of June 30, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated September 10, 2009, expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

Dallas, Texas

September 10, 2009

Table of Contents**U.S. GLOBAL INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS**

	June 30,	
	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,303,594	\$ 25,135,075
Trading securities, at fair value	4,511,497	6,991,843
Receivables		
Mutual funds	2,629,351	5,096,117
Offshore clients	37,399	3,690,400
Income tax	1,051,288	
Employees	5,434	6,111
Other	120,440	21,767
Prepaid expenses	584,214	628,790
Deferred tax asset	645,768	
Total Current Assets	29,888,985	41,570,103
Net Property and Equipment	3,773,121	2,378,396
Other Assets		
Deferred tax asset, long term	955,075	299,351
Investment securities available-for-sale, at fair value	2,536,665	1,246,769
Total Other Assets	3,491,740	1,546,120
Total Assets	\$ 37,153,846	\$ 45,494,619
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable	\$ 137,428	\$ 289,364
Accrued compensation and related costs	1,168,199	2,396,881
Deferred tax liability		406,730
Other accrued expenses	1,220,225	3,167,900
Total Current Liabilities	2,525,852	6,260,875
Commitments and Contingencies		
Shareholders Equity		
Common stock (class A) \$0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,819,673 shares and 13,817,269 shares at June 30, 2009, and June 30, 2008, respectively	345,492	345,432

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Common stock (class B) \$0.025 par value; nonvoting; authorized, 4,500,000 shares; no shares issued		
Common stock (class C) \$0.025 par value; voting; authorized, 3,500,000 shares; issued, 2,091,875 shares and 2,094,279 shares at June 30, 2009, and June 30, 2008, respectively	52,297	52,357
Additional paid-in-capital	14,628,431	14,114,178
Treasury stock, class A shares at cost; 618,920 and 656,520 shares at June 30, 2009, and June 30, 2008, respectively	(1,449,124)	(1,562,419)
Accumulated other comprehensive income (loss), net of tax	352,334	(325,397)
Retained earnings	20,698,564	26,609,593
Total Shareholders Equity	34,627,994	39,233,744
Total Liabilities and Shareholders Equity	\$ 37,153,846	\$ 45,494,619

The accompanying notes are an integral part of these financial statements.

Table of Contents**U.S. GLOBAL INVESTORS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

	Year Ended June 30,		
	2009	2008	2007
Revenues			
Mutual fund advisory fees	\$ 16,764,376	\$ 39,518,557	\$ 36,421,804
Transfer agent fees	5,942,071	8,454,871	7,537,110
Distribution fees	2,867,040		
Administrative services fees	1,214,624		
Other advisory fees	924,363	6,537,775	13,095,070
Investment income (loss)	(4,616,522)	1,447,454	1,356,840
Other	44,317	80,590	192,813
	23,140,269	56,039,247	58,603,637
Expenses			
Employee compensation and benefits	10,017,001	13,607,601	12,560,108
General and administrative	8,695,766	6,805,085	7,481,344
Platform fees	4,946,250	9,048,571	7,528,302
Subadvisory fees	2,414,511	9,223,309	8,935,075
Advertising	406,955	488,217	508,992
Depreciation	270,334	284,237	244,068
	26,750,817	39,457,020	37,257,889
Income (Loss) Before Income Taxes	(3,610,548)	16,582,227	21,345,748
Provision for Federal Income Taxes			
Tax expense (benefit)	(1,372,969)	5,745,417	7,586,499
Net Income (Loss)	(2,237,579)	10,836,810	13,759,249
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on available-for-sale securities arising during period	677,731	(256,701)	269,296
Less: reclassification adjustment for gains included in net income		(63,107)	(299,144)
Comprehensive Income (Loss)	\$ (1,559,848)	\$ 10,517,002	\$ 13,729,401
Basic Net Income (Loss) per Share	\$ (0.15)	\$ 0.71	\$ 0.91
Diluted Net Income (Loss) per Share	\$ (0.15)	\$ 0.71	\$ 0.90
Basic weighted average number of common shares outstanding			
	15,275,962	15,246,710	15,162,492
Diluted weighted average number of common shares outstanding			
	15,297,561	15,275,441	15,241,534

The accompanying notes are an integral part of these financial statements.

Table of Contents**U.S. GLOBAL INVESTORS, INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

	Common Stock	Common Stock	Additional Paid-in	Retained Earnings	Treasury	Accumulated Other Comprehensive Income	Total
	(class A)	(class C)	Capital	(Deficit)	Stock	(Loss)	
Balance at June 30, 2006 (12,805,948 shares of class A; 2,993,600 shares of class C)	\$ 320,149	\$ 74,840	\$ 11,754,779	\$ 9,199,514	\$ (830,330)	\$ 24,259	\$ 20,543,211
Purchase of 29,634 shares of Common Stock (class A)					(836,710)		(836,710)
Grants and purchases of 10,881 shares of Common Stock (class A)			135,128		19,096		154,224
Exercise of 112,000 options for Common Stock (class A)	2,800		961,792				964,592
Conversion of 702,677 shares of class C common stock for class A common stock	17,567	(17,567)					
Recognition of current year portion of deferred compensation and related tax benefit			413,479				413,479
Dividends paid				(3,967,697)			(3,967,697)
Stock bonuses			42,305		7,152		49,457
Stock based compensation expense			45,245				45,245
Unrealized loss on securities available-for-sale and reclassification (net of tax)						(29,848)	(29,848)

Net Income				13,759,249			13,759,249
Balance at June 30, 2007 (13,620,625 shares of class A; 2,290,923 shares of class C)	340,516	57,273	13,352,728	18,991,066	(1,640,792)	(5,589)	31,095,202
Grants and purchases of 16,347 shares of Common Stock (class A)			137,708		53,442		191,150
Conversion of 196,644 shares of class C common stock for class A common stock	4,916	(4,916)					
Recognition of current year portion of deferred compensation and related tax benefit			228,504				228,504
Dividends paid				(3,218,283)			(3,218,283)
Stock bonuses			71,004		24,931		95,935
Stock based compensation expense			324,234				324,234
Unrealized loss on securities available-for-sale and reclassification (net of tax)						(319,808)	(319,808)
Net Income				10,836,810			10,836,810
Balance at June 30, 2008 (13,817,269 shares of class A; 2,094,279 shares of class C)	345,432	52,357	14,114,178	26,609,593	(1,562,419)	(325,397)	39,233,744
Grants and purchases of 27,900 shares of Common Stock (class A)			114,161		73,659		187,820

Conversion of 2,404 shares of class C common stock for class A common stock	60	(60)						
Dividends paid				(3,673,450)				(3,673,450)
Stock bonuses			74,260		39,636			113,896
Stock based compensation expense			325,832					325,832
Unrealized gain on securities available-for-sale (net of tax)						677,731		677,731
Net loss				(2,237,579)				(2,237,579)
Balance at June 30, 2009 (13,819,673 shares of class A; 2,091,875 shares of class C)	\$ 345,492	\$ 52,297	\$ 14,628,431	\$ 20,698,564	\$ (1,449,124)	\$ 352,334		\$ 34,627,994

The accompanying notes are an integral part of these financial statements.

Table of Contents**U.S. GLOBAL INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended June 30,		
	2009	2008	2007
Cash Flows from Operating Activities			
Net income (loss)	\$ (2,237,579)	\$ 10,836,810	\$ 13,759,249
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	270,334	284,237	244,068
Net recognized gain on sale of fixed assets	2,074	388	
Net recognized (gain) loss on securities	2,456,618	152,325	(736,860)
Provision for deferred taxes	(2,057,356)	(13,470)	184,481
Deferred compensation		50,000	50,000
Benefits from tax deduction in excess of stock-based compensation expense		(178,504)	(1,208,822)
Stock bonuses	113,896	95,935	49,457
SFAS 123R compensation expense	325,832	324,234	45,245
Changes in assets and liabilities, impacting cash from operations:			
Accounts receivable	4,970,483	5,852,161	(3,183,685)
Prepaid expenses	44,576	138,989	(186,966)
Trading securities	2,480,346	(906,468)	(1,392,177)
Accounts payable and accrued expenses	(3,328,293)	(2,326,751)	1,243,288
Total adjustments	5,278,510	3,473,076	(4,891,971)
Net Cash Provided by Operations	3,040,931	14,309,886	8,867,278
Cash Flows from Investing Activities			
Purchase of property and equipment	(1,667,133)	(402,733)	(381,467)
Purchase of available-for-sale securities	(2,719,649)	(895,153)	(2,072,531)
Proceeds on sale of available-for-sale securities		117,284	1,707,211
Net Cash Used in Investing Activities	(4,386,782)	(1,180,602)	(746,787)
Cash Flow from Financing Activities			
Benefits from tax deduction in excess of stock-based compensation expense		178,504	1,208,822
Grants, issuance or exercise of stock and options	187,820	191,150	273,471
Treasury stock purchased			(836,710)
Dividends paid	(3,673,450)	(3,218,283)	(3,967,697)
Net Cash Used in Financing Activities	(3,485,630)	(2,848,629)	(3,322,114)
Net (Decrease) Increase in Cash and Cash Equivalents	(4,831,481)	10,280,655	4,798,377
Beginning Cash and Cash Equivalents	25,135,075	14,854,420	10,056,043
Ending Cash and Cash Equivalents	\$ 20,303,594	\$ 25,135,075	\$ 14,854,420

Supplemental Disclosures of Cash Flow Information

Cash paid for interest	\$	0	\$	0	\$	425
Cash paid for income taxes	\$	2,655,000	\$	6,950,000	\$	7,062,000

The accompanying notes are an integral part of these financial statements.

Table of Contents**Notes to Consolidated Financial Statements****Note 1. Organization**

U.S. Global Investors, Inc. (the Company or U.S. Global) serves as investment adviser to U.S. Global Investors Funds (USGIF or the Funds), a Delaware statutory trust that is a no-load, open-end investment company offering shares in numerous mutual funds to the investing public. The Company also provides administrative services, distribution and transfer agency functions to USGIF. For these services, the Company receives fees from USGIF. The Company also provides advisory services to two offshore clients.

U.S. Global formed the following companies to provide supplementary services to USGIF: United Shareholder Services, Inc. (USSI), and U.S. Global Brokerage, Inc. (USGB).

The Company formed two subsidiaries utilized primarily for corporate investment purposes: U.S. Global Investors (Guernsey) Limited (USGG), incorporated in Guernsey, and U.S. Global Investors (Bermuda) Limited (USBERM) incorporated in Bermuda on June 15, 2005.

Note 2. Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: USSI, USGG, USBERM, and USGB.

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts have been reclassified for comparative purposes.

Share and per share data presented for all periods reflect the effect of the two-for-one stock split which was effective March 29, 2007, unless otherwise indicated.

Cash and Cash Equivalents. Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

Security Investments. The Company accounts for its investments in securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). In accordance with SFAS 115, the Company classifies its investments in equity and debt securities based on intent. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each reporting period date.

Securities that are purchased and held principally for the purpose of selling in the near term are classified as trading securities and reported at fair value. Unrealized gains and losses on these securities are included in earnings.

Investments in debt securities that are purchased with the intent and ability to hold until maturity are classified as held-to-maturity and measured at amortized cost. The Company currently has no investments in debt securities. Investments classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities and reported at fair value. Unrealized gains and losses on these available-for-sale securities are excluded from earnings, reported net of tax as a separate component of shareholders' equity, and recorded in earnings on the date of sale.

The Company evaluates its investments for other-than-temporary decline in value on a periodic basis. This may exist when the fair value of an investment security has been below the current value for an extended period of time. For available-for-sale securities with declines in value deemed other than temporary, the unrealized loss recorded net of tax in accumulated other comprehensive income is realized as a charge to net income.

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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.

Advisory Receivables. Advisory receivables consist primarily of monthly investment advisory transfer agent and other fees owed to the Company by USGIF as well as receivables related to offshore investment advisory fees.

Property and Equipment. Fixed assets are recorded at cost. Depreciation for fixed assets is recorded using the straight-line method over the estimated useful life of each asset as follows: furniture and equipment are depreciated over 3 to 10 years, and the building and related improvements are depreciated over 32 to 40 years.

Treasury Stock. Treasury stock purchases are accounted for under the cost method. The subsequent issuances of these shares are accounted for based on their weighted-average cost basis.

Stock-Based Compensation. The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). 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.

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 liability method requires that deferred tax assets be reduced by a valuation allowance in cases where it is more likely than not that the deferred tax assets will not be realized.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 is an interpretation of SFAS No. 109, *Accounting for Income Taxes*, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and accounting for income taxes and requires expanded disclosure with respect to uncertainty in income taxes. The Company adopted FIN 48 on July 1, 2007. There were no transactions recorded as a result of adopting FIN 48 for the year ended June 30, 2008. The Company’s policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2009, the Company did not have any accrued interest or penalties related to uncertain tax positions. The tax years from 2004 through 2008 remain open to examination by the tax jurisdictions to which the Company is subject.

Revenue Recognition. The Company earns substantially all of its revenues from investment advisory, administrative, distribution and transfer agency services. Mutual fund investment advisory, administrative and distribution fees are calculated as a percentage of assets under management and are recorded as revenue as services are performed. Offshore advisory client contracts provide for monthly management fees, in addition to a quarterly performance fees. Effective October 1, 2009, the advisory contract for the USGIF equity funds provides for a performance fee on the base advisory fee that will be calculated and recorded monthly. Transfer agency fees are calculated using a charge based upon the number of shareholder accounts serviced as well as transaction and activity-based fees. Revenue shown on the Consolidated Statements of Operations and Comprehensive Income are net of any fee waivers.

On November 6, 2008, effective immediately, the Company terminated its relationship with Endeavour Financial Corp. (EFC) as the subadviser to its equity portfolio. As investment adviser, the Company was paid a monthly advisory fee based on the net asset value of the portfolio, and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity.

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EFC, an offshore client, had an annual performance fee. Under GAAP, there are two methods by which annual incentive revenue may be recorded. Under Method 1, incentive fees are recorded at the end of the contract year; under Method 2, the incentive fees are recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract was terminated at that date. For the EFC annual performance fee, management chose the more conservative method (Method 1), in which performance fees were recorded annually based on the contract terms.

Dividends and Interest. Dividends are recorded on the ex-dividend date, and interest income is recorded on an accrual basis. Both dividends and interest income are included in investment income.

Advertising Costs. The Company expenses advertising costs as they are incurred. Certain sales materials, which are considered tangible assets, are capitalized and then expensed during the period in which they are distributed. At June 30, 2009, 2008, and 2007, the Company had capitalized sales materials of approximately \$63,000, \$35,000, and \$31,000, respectively. Net advertising expenditures were approximately \$407,000, \$488,000, and \$509,000 during fiscal 2009, 2008, and 2007, respectively.

Foreign Currency Transactions. Transactions between the Company and foreign entities are converted to U.S. dollars using the exchange rate on the date of the transactions. Security investments valued in foreign currencies are translated to U.S. dollars using the applicable exchange rate as of the reporting date. Realized foreign currency gains and losses are immaterial and are therefore included as a component of investment income.

Fair Value of Financial Instruments. The financial instruments of the Company are reported on the consolidated balance sheet at market or fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Earnings Per Share. The Company computes and presents earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per share (EPS) excludes dilution and is computed by dividing net income (loss) 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 Company has two classes of common stock with outstanding shares. Both classes share equally in dividend and liquidation preferences. Per share amounts for fiscal 2007 have been restated to reflect the Company's two-for-one stock split effective March 29, 2007.

Recent Accounting Pronouncements

The Company is subject to extensive and often complex, overlapping and frequently changing governmental regulation and accounting oversight. Moreover, financial reporting requirements, such as those listed below, and the processes, controls and procedures that have been put in place to address them, are comprehensive and complex. While management has focused considerable attention and resources on meeting these reporting requirements, interpretations by regulatory or accounting agencies that differ from those of the Company could negatively impact financial results.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that required or permitted fair value measurements because the FASB had previously concluded in those accounting pronouncements that the fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. In February 2008, the FASB issued staff position (FSP) to defer the effective date of SFAS 157 for one year for nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. Management adopted the provisions of SFAS 157 related to all financial assets and liabilities and nonfinancial assets and liabilities recognized or disclosed at fair value on a recurring basis on July 1, 2008. The adoption of SFAS 157 did not affect the Company's financial position or results of operations, but did result in additional required disclosures, which are provided in Note 3 Investments.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 allows entities to voluntarily choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The amendment to SFAS 115 applies to all entities with available-for-sale and trading securities. The election is made on an instrument-by-instrument basis and is irrevocable. Once the election is made for the instrument, all subsequent changes in fair value for that instrument must be reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not elected to apply the provisions of SFAS 159 to any of our financial instruments; therefore, the adoption of SFAS 159 effective July 1, 2008, has not affected our financial position or results of operations.

In June 2007, the Emerging Issues Task Force (EITF) issued EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). Under the provisions of EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The adoption of EITF 06-11 did not have a material effect on the Company's financial position or results of operations for the year ended June 30, 2009.

On October 10, 2008, the FASB issued FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active* (FSP SFAS 157-3). FSP SFAS 157-3 clarifies the application of SFAS 157 in a market that is not active and illustrates key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP SFAS 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP SFAS 157-3 did not have a material impact on the Company's results of operations, financial condition, or cash flows.

In April 2009, the FASB issued FSP SFAS 157-4, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* (FSP SFAS 157-4). FSP SFAS 157-4 provides additional guidance on factors to consider in estimating fair value when there has been a significant decrease in market activity for a financial asset. FSP SFAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP SFAS 157-4 did not have a material impact on the Company's results of operations, financial condition, or cash flows.

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FSP 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP 107-1 and APB 28-1), amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures in the body or in the accompanying notes to financial statements for interim reporting periods and in financial statements for annual reporting periods for the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the balance sheet. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions in both interim and annual financial statements. FSP 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP 107-1 and APB 28-1 did not have a material impact on the Company's consolidated financial statements.

The objective of an other-than-temporary impairment analysis under existing GAAP is to determine whether the holder of an investment in a debt or equity security, for which changes in fair value are not regularly recognized in earnings (such as for securities classified as held-to-maturity or available-for-sale), should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. The objective of FSP 115-2 and 124-2 *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2 and 124-2), which amends existing other-than-temporary impairment guidance for debt securities, is to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Specifically, the recognition guidance contained in FSP 115-2 and 124-2 applies to debt securities classified as available-for-sale and held-to-maturity that are subject to other-than-temporary impairment guidance within SFAS 115, FSP 115-1 and 124-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, FSP EITF 99-20-1 *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* and American Institute of Certified Public Accountants Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*.

Among other provisions, FSP 115-2 and 124-2 requires entities to: (1) split other-than-temporary impairment charges between credit losses (i.e., the loss based on the entity's estimate of the decrease in cash flows, including those that result from expected voluntary prepayments), which are charged to earnings, and the remainder of the impairment charge (non-credit component) to other comprehensive income, net of applicable income taxes; (2) disclose information for interim and annual periods that enables financial statement users to understand the types of available-for-sale and held-to-maturity debt and equity securities held, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized, and (3) disclose for interim and annual periods information that enables users of financial statements to understand the reasons that a portion of an other-than-temporary impairment of a debt security was not recognized in earnings and the methodology and significant inputs used to calculate the portion of the total other-than-temporary impairment that was recognized in earnings.

FSP 115-2 and 124-2 is effective for interim reporting periods ending after June 15, 2009. For debt securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost b