U S GLOBAL INVESTORS INC
Form 10-Q
May 09, 2007

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

FORM 10-Q

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

OR

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________**

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

Texas	**74-1598370**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)
7900 Callaghan Road **San Antonio, Texas**	**78229-1234**
(Address of Principal Executive Offices)	(Zip Code)

(210) 308-1234
(Registrant s Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address, and Former Fiscal Year, if Changed since Last Report)

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO þ

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets

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

The accompanying notes are an integral part of this statement.

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

The accompanying notes are an integral part of this statement.

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

Consolidated Statements of Operations and Comprehensive Income (Unaudited)

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

Basic weighted average number of common shares outstanding				
Diluted weighted average number of common shares outstanding	15,233,298	15,120,396	15,250,360	15,152,470

The accompanying notes are an integral part of this statement.

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U.S. Global Investors, Inc.
March 31, 2007, Quarterly Report on Form 10-Q
Consolidated Statements of Cash Flows (Unaudited)

	NINE MONTHS ENDED MARCH 31,	
	2007	**2006**
Cash Flows from Operating Activities:		
Net income	$ 7,352,809	$ 4,813,936
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	178,695	100,972
Net recognized gain on securities	(684,115)	(751,694)
Loss on disposal of fixed assets		3,189
Provision for deferred taxes	357,566	749,056
Provision for losses on accounts receivable		(26,488)
Changes in assets and liabilities, impacting cash from operations:		
Accounts receivable	5,712,092	(2,889,089)
Prepaid expenses and other	(625,555)	(277,468)
Trading securities	(941,189)	(1,958,499)
Accounts payable and accrued expenses	(4,696,824)	2,184,625
Total adjustments	(699,330)	(2,865,396)
Net Cash Provided by Operating Activities	6,653,479	1,948,540
Cash Flows from Investing Activities:		
Purchase of property and equipment	(284,089)	(390,394)
Purchase of available-for-sale securities	(2,072,532)	(8,419)
Proceeds on sale of available-for-sale securities	1,707,211	777,787
Net Cash (Used in) Provided by Investing Activities	(649,410)	378,974
Cash Flow from Financing Activities:		
Purchase of treasury stock	(709,231)	(164,654)
Treasury stock issued	124,843	83,439
Proceeds from issuance or exercise of stock, warrants, and options	537,089	479,689
Benefit from tax deduction in excess of stock-based compensation cost	465,239	350,451
Adjustment due to SFAS 123R	35,391	17,475
Dividends paid	(3,715,084)	
Net Cash (Used in) Provided by Financing Activities	(3,261,753)	766,400

Net Increase in Cash and Cash Equivalents	2,742,316	3,093,914
Beginning Cash and Cash Equivalents	10,056,043	3,814,178
Ending Cash and Cash Equivalents	$ 12,798,359	$ 6,908,092

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

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

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

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

Note 2. Common Stock Split and Dividend

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

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

Note 3. Investments

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

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

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

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

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.*

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

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

- realized gains and losses on sales of securities;
- unrealized gains and losses on trading securities;
- realized foreign currency gains and losses;
- other-than-temporary impairments on available-for-sale securities; and
- dividend and interest income.

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

	NINE MONTHS ENDED MARCH 31,	
	2007	**2006**
Investment Income (Loss)		
Realized gains on sales of available-for-sale securities	$ 454,388	$ 544,414
Realized gains on sales of trading securities	229,727	235,936
Unrealized gains (losses) on trading securities	(147,032)	1,420,855
Realized foreign currency gains (losses)	1,900	(13,771)
Other-than-temporary declines in available-for-sale securities		(28,655)
Dividend and interest income	675,821	191,032
Total Investment Income	$ 1,214,804	$ 2,349,811

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

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

Note 4. Investment Management, Transfer Agent and Other Fees

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

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

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

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

The Company provides advisory services to the U.S. Global Investors Balanced Natural Resources Fund, Ltd., an offshore fund. For these services, the Company is paid a monthly advisory fee based on the net asset value of the fund, and a quarterly performance fee, if any, based on a percentage of return above the high water mark in conjunction with the fund reaching a certain hurdle rate per quarter. The Company recorded fees totaling $132,933 and $99,011 for the nine months ended March 31, 2007, and March 31, 2006, respectively. The Company recorded total fees of $11,767 and $68,711, respectively, for the three months ended March 31, 2007, and March 31, 2006. Frank Holmes is a director of U.S. Global Investors Balanced Natural Resources Fund Ltd.

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

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

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

Note 5. Credit Facility

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

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

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

Note 6. Stock-Based Compensation

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

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

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

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

Stock compensation plans

The Company s stock option plans provide for the granting of either incentive or nonqualified stock options to employees and non-employee directors. Options are subject to terms and conditions determined by the Compensation Committee of the Board of Di