

U S GLOBAL INVESTORS INC  
Form 10-Q  
February 07, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2012

For the Quarterly Period Ended December 31, 2012

OR

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

Commission File Number 0-13928

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

**Texas**  
(State or other jurisdiction of  
incorporation or organization)

**74-1598370**  
(IRS Employer Identification No.)

**7900 Callaghan Road**  
**San Antonio, Texas**  
(Address of principal executive offices)

**78229-1234**  
(Zip Code)

**(210) 308-1234**

(Registrant's telephone number, including area code)

Not Applicable

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(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES

NO

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

YES

NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

YES

NO

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

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

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

The accompanying notes are an integral part of this statement.

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## Consolidated Balance Sheets

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

The accompanying notes are an integral part of this statement.

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

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

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

The accompanying notes are an integral part of this statement.

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

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

The accompanying notes are an integral part of this statement.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 1. BASIS OF PRESENTATION**

U.S. Global Investors, Inc. (the Company or U.S. Global ) has prepared the consolidated financial statements pursuant to accounting principles generally accepted in the United States of America ( U.S. GAAP ) and the rules and regulations of the United States Securities and Exchange Commission ( SEC ) that permit reduced disclosure for interim periods. The financial information included herein reflects all adjustments (consisting solely of normal recurring adjustments), which are, in management s opinion, necessary for a fair presentation of results for the interim periods presented. The Company has consistently followed the accounting policies set forth in the notes to the consolidated financial statements in the Company s Form 10-K for the fiscal year ended June 30, 2012.

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

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts have been reclassified for comparative purposes. The results of operations for the six months ended December 31, 2012, are not necessarily indicative of the results to be expected for the entire year.

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

**Recent Accounting Pronouncements**

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

**NOTE 2. DIVIDEND**

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

**NOTE 3. INVESTMENTS**

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

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

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Investments in securities classified as available-for-sale, which may not be readily marketable, are reflected as non-current assets on the consolidated balance sheet at their fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income as a separate component of shareholders' equity until realized.

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

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

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

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

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

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

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

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

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

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

June 30, 2012 (in thousands)

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

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Investment income can be volatile and varies depending on market fluctuations, the Company's ability to participate in investment opportunities, and timing of transactions. A significant portion of the unrealized gains and losses for the three and six months ended December 31, 2012, is concentrated in a small number of issuers. The Company expects that gains and losses will continue to fluctuate in the future.

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

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

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

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

| Investment Income  | Three Months Ended December 31, |                   |
|--|---------------------------------|-------------------|
|  | 2012                            | 2011              |
| Realized gains on sales of available-for-sale securities       | \$ 217,200                      | \$ -              |
| Realized losses on sales of trading securities                 | (244,627)                       | -                 |
| Unrealized gains on trading securities                         | 177,158                         | 112,510           |
| Realized foreign currency losses                               | (2,726)                         | (357)             |
| Other-than-temporary declines in available-for-sale securities | (41,837)                        | -                 |
| Dividend and interest income                                   | 55,819                          | 31,115            |
| <b>Total Investment Income</b>                                 | <b>\$ 160,987</b>               | <b>\$ 143,268</b> |

**NOTE 4. FAIR VALUE DISCLOSURES**

Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures* (formerly SFAS 157), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value and requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., Levels 1, 2, and 3 inputs, as defined below). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Additionally, companies are required to provide enhanced disclosures regarding instruments in the Level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the

beginning and ending values separately for each major category of assets or liabilities.

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Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities at the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, value of these products does not entail a significant degree of judgment.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the fair value measurement.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

For actively traded securities, the Company values investments using the closing price of the securities on the exchange or market on which the securities principally trade. If the security is not actively traded, it is valued based on the last bid and/or ask quotation. Securities that are not traded on an exchange or market are generally valued at cost, monitored by management and fair value adjusted as considered necessary. The Company values the mutual funds, offshore funds and a venture capital investment at net asset value.

The following table presents fair value measurements, as of December 31, 2012, for the three major categories of U.S. Global's investments measured at fair value on a recurring basis:

|  | Fair Value Measurement using (in thousands) |  |  | Total            |
|--|---|--|--|------------------|
|  | Quoted Prices<br>(Level 1)                  | Significant<br>Other Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                  |
| <b>Trading securities</b>                  |   |  |  |                  |
| Common stock                               | \$ 38                                       | \$ -                                     | \$ -   | \$ 38            |
| Mutual funds                               | 4,037                                       | -  | -  | 4,037            |
| Offshore fund                              | -   | 987                                      | -  | 987              |
| <b>Total trading securities</b>            | <b>4,075</b>                                | <b>987</b>                               | <b>-</b>   | <b>5,062</b>     |
| <b>Available-for-sale securities</b>       |   |  |  |                  |
| Common stock                               | 953   | -  | -  | 953              |
| Venture capital investments                | -   | -  | 168  | 168              |
| Mutual funds                               | 2,603                                       | -  | -  | 2,603            |
| Offshore fund                              | -   | 4,814                                    | -  | 4,814            |
| <b>Total available-for-sale securities</b> | <b>3,556</b>                                | <b>4,814</b>                             | <b>168</b>   | <b>8,538</b>     |
| <b>Total Investments</b>                   | <b>\$ 7,631</b>                             | <b>\$ 5,801</b>                          | <b>\$ 168</b>                                      | <b>\$ 13,600</b> |

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Approximately 56 percent of the Company's financial assets measured at fair value are derived from Level 1 inputs including SEC-registered mutual funds and equity securities traded on an active market, 43 percent of the Company's financial assets measured at fair value are derived from Level 2 inputs, including an investment in an offshore fund, and the remaining one percent are Level 3 inputs. The Company recognizes transfers between levels at the end of each quarter. The Company did not transfer any securities between Level 1 and Level 2 during the six months ended December 31, 2012.

In Level 2, the Company has an investment in an offshore fund with a fair value of \$986,542 that invests in companies in the energy and natural resources sectors. The Company may redeem this investment on the first business day of each month after providing a redemption notice at least forty-five days prior to the proposed redemption date.

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The Company also has a Level 2 investment in an offshore fund with a fair value of \$4,813,785 that invests in dividend-paying equity and debt securities of companies located around the world. The Company may redeem this investment on the first business day of each month after providing a redemption notice at least forty-five days prior to the proposed redemption date.

The Company has a venture capital investment that was measured at fair value using significant unobservable inputs (Level 3) at December 31, 2012, with a fair value of \$168,464 that primarily invests in companies in the medical and medical technology sectors. The Company may redeem this investment with general partner approval. As of December 31, 2012, the Company has an unfunded commitment of \$62,500 related to this investment.

The following table presents additional information about investments measured at fair value on a recurring basis and for which the Company has utilized significant unobservable inputs to determine fair value:

| <b>Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis<br/>For the Six Months Ended December 31, 2012 (in thousands)</b> |  |
|--|--|
|  | <b>Venture Capital<br/>Investments</b> |
| Beginning Balance  | \$ 168                                 |
| Return of capital  | -                                      |
| Total gains or losses (realized/unrealized)  | -                                      |
| Included in earnings (or changes in net assets)  | -                                      |
| Included in other comprehensive income   | -                                      |
| Purchases, issuances, and settlements  | -                                      |
| Transfers in and/or out of Level 3   | -                                      |
| <b>Ending Balance</b>  | <b>\$ 168</b>                          |

**NOTE 5. INVESTMENT MANAGEMENT, TRANSFER AGENT AND OTHER FEES**

The Company serves as investment adviser to U.S. Global Investors Funds ( USGIF ) and receives a fee based on a specified percentage of net assets under management.

USSI also serves as transfer agent to USGIF and receives fees based on the number of shareholder accounts as well as transaction and activity-based fees. Additionally, the Company receives certain miscellaneous fees directly from USGIF shareholders. Fees for providing investment management, administrative, distribution and transfer agent services to USGIF continue to be the Company's primary revenue source.

The advisory agreement for the nine equity funds provides for a base advisory fee that is adjusted upwards or downwards by 0.25 percent when 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. For the three and six months ended December 31, 2012, the Company adjusted its base advisory fees upward by \$181,850 and downward by \$165,064, respectively. For the corresponding periods in fiscal 2012, base advisory fees were decreased by \$914,987 and \$649,854.

The Company has voluntarily waived or reduced its fees and/or agreed to pay expenses on all thirteen funds. These caps will continue on a voluntary basis at the Company's discretion. Effective with the March 1, 2010, offering of institutional class shares in three USGIF funds, the Company voluntarily agreed to waive all institutional class-specific expenses. The aggregate fees waived and expenses borne by the Company for the three and six months ended December 31, 2012, were \$854,558 and \$1,704,599 compared with \$795,925 and \$1,599,154, respectively, for the corresponding periods in fiscal 2012.

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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). Yields on such products have declined to record lows as a result of the decline in the federal funds rate pursuant to the Federal Reserve's economic policy to spur economic growth through low interest rates and quantitative easing. For

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the three and six months ended December 31, 2012, total fees waived and/or expenses reimbursed as a result of this agreement were \$286,600 and \$587,235. For the corresponding periods in fiscal year 2012, the total fees waived and/or expenses reimbursed were \$395,762 and \$800,912.

The Company may recapture any fees waived and/or expenses reimbursed within three years after the end of the funds' fiscal year of such waiver and/or reimbursement to the extent that such recapture would not cause the funds' yield to fall below the Minimum Yield. Thus, \$1,562,956 of these waivers is recoverable by the Company through December 31, 2013, \$1,604,076 through December 31, 2014, and \$1,245,458 through December 31, 2015. Management believes that these potential recoveries will be realized only in a rising interest rate environment and that 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 and/or reimbursements due to the number of variables and the range of potential outcomes.

The Company provides advisory services for three offshore clients and receives 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 advisory fees from these clients totaling \$79,012 and \$169,574 for the three and six months ended December 31, 2012. The Company recorded advisory and performance fees totaling \$82,401 and \$177,098 for the corresponding periods in fiscal 2012. The performance fees for these clients are calculated and recorded 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 of the Company's control. Frank Holmes, CEO, serves as a director of the offshore clients.

The Company receives additional revenue from several sources including custodial fee revenues, mailroom operations and investment income.

Substantially all of the cash and cash equivalents included in the balance sheet at December 31, 2012, and June 30, 2012, is invested in USGIF money market funds.

**NOTE 6. BORROWINGS**

As of December 31, 2012, the Company has no long-term liabilities.

The Company has access to a \$1 million credit facility with a one-year maturity for working capital purposes. The credit agreement requires the Company to maintain certain quarterly financial covenants to access the line of credit. As of December 31, 2012, this credit facility remained unutilized by the Company.

**NOTE 7. STOCK-BASED COMPENSATION**

The Company accounts for stock-based compensation in accordance with ASC 718 *Compensation - Stock Compensation* (formerly SFAS No. 123 (revised 2004) *Share-Based Payment*). Stock-based compensation expense is recorded for the cost of stock options. Stock-based compensation expense for the three and six months ended December 31, 2012, was \$610 and \$8,320, compared to \$7,882 and \$17,542 in the corresponding periods in fiscal 2012. As of December 31, 2012, and 2011, respectively, there was approximately \$8,947 and \$33,201 of total unrecognized share-based compensation cost related to share-based compensation granted under the plans that will be recognized over the remainder of their respective vesting periods.

**Stock compensation plans**

The Company's stock option plans provide for the granting of class A shares as either incentive or nonqualified stock options to employees and non-employee directors. Options are subject to terms and conditions determined by the Compensation Committee of the Board of Directors. The following table summarizes information about the Company's stock option plans for the six months ended December 31, 2012.

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|   | Number of Options | Weighted Average<br>Exercise Price |
|---|-------------------|------------------------------------|
| <b>Options outstanding, beginning of year</b> | 29,000            | \$ 17.03                           |
| Granted                                       | -                 | -                                  |
| Exercised                                     | -                 | -                                  |
| Forfeited                                     | -                 | -                                  |
| <b>Options outstanding, end of period</b>     | 29,000            | \$ 17.03                           |
| <b>Options exercisable, end of period</b>     | 25,000            | \$ 18.71                           |

**NOTE 8. EARNINGS PER SHARE**

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

The following table sets forth the computation for basic and diluted EPS:

|  | Six Months Ended December 31, |              |
|--|-------------------------------|--------------|
|  | 2012                          | 2011         |
| <b>Net income</b>                                    | \$ 214,785                    | \$ 1,158,900 |
| <b>Weighted average number of outstanding shares</b> |                               |              |
| Basic  | 15,481,547                    | 15,430,851   |
| <b>Effect of dilutive securities</b>                 |                               |              |
| Employee stock options                               | -                             | 328          |
| Diluted  | 15,481,547                    | 15,431,179   |
| <b>Earnings per share</b>                            |                               |              |
| Basic  | \$ 0.01                       | \$ 0.08      |
| Diluted  | \$ 0.01                       | \$ 0.08      |

|  | Three Months Ended December 31, |            |
|--|---------------------------------|------------|
|  | 2012                            | 2011       |
| <b>Net income</b>                                    | \$ 165,985                      | \$ 409,382 |
| <b>Weighted average number of outstanding shares</b> |                                 |            |
| Basic  | 15,487,207                      | 15,435,997 |
| <b>Effect of dilutive securities</b>                 |                                 |            |

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|                        |            |            |
|------------------------|------------|------------|
| Employee stock options | -          | 122        |
| Diluted                | 15,487,207 | 15,436,119 |

**Earnings per share**

|         |    |      |    |      |
|---------|----|------|----|------|
| Basic   | \$ | 0.01 | \$ | 0.03 |
| Diluted | \$ | 0.01 | \$ | 0.03 |

The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price for the period. For the three and six months ended December 31, 2012, 29,000 options were excluded from diluted EPS, and 24,300 were excluded in the corresponding periods in fiscal 2012.

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The Company may repurchase stock from employees. The Company made no repurchases of shares of its class A, class B, or class C common stock during the six months ended December 31, 2012. Upon repurchase, these shares are classified as treasury shares and are deducted from outstanding shares in the earnings per share calculation.

**NOTE 9. INCOME TAXES**

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

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. No valuation allowance was included or deemed necessary at December 31, 2012, or June 30, 2012.

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**NOTE 10. FINANCIAL INFORMATION BY BUSINESS SEGMENT**

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

|  | Investment<br>Management<br>Services | Corporate<br>Investments | Consolidated  |
|--|--------------------------------------|--------------------------|---------------|
| <b>Six months ended December 31, 2012</b>      |                                      |                          |               |
| Net revenues                                   | \$ 10,137,489                        | \$ 331,278               | \$ 10,468,767 |
| Net income before income taxes                 | 69,556                               | 325,223                  | 394,779       |
| Depreciation                                   | 137,577                              | -                        | 137,577       |
| Capital expenditures                           | 39,159                               | -                        | 39,159        |
| Gross identifiable assets at December 31, 2012 | 25,333,029                           | 13,619,764               | 38,952,793    |
| Deferred tax asset                             |                                      |                          | 862,771       |
| Consolidated total assets at December 31, 2012 |                                      |                          | \$ 39,815,564 |
| <b>Six months ended December 31, 2011</b>      |                                      |                          |               |
| Net revenues                                   | \$ 14,097,181                        | \$ (425,733)             | \$ 13,671,448 |
| Net income before income taxes                 | 2,254,587                            | (429,712)                | 1,824,875     |
| Depreciation                                   | 142,158                              | -                        | 142,158       |
| Capital expenditures                           | 12,990                               | -                        | 12,990        |
| <b>Three months ended December 31, 2012</b>    |                                      |                          |               |
| Net revenues                                   | \$ 5,360,028                         | \$ 131,173               | \$ 5,491,201  |
| Net income before income taxes                 | 179,084                              | 126,159                  | 305,243       |
| Depreciation                                   | 68,830                               | -                        | 68,830        |
| Capital expenditures                           | 39,159                               | -                        | 39,159        |
| <b>Three months ended December 31, 2011</b>    |                                      |                          |               |
| Net revenues                                   | \$ 5,738,952                         | \$ 140,588               | \$ 5,879,540  |

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|                                |         |         |         |
|--------------------------------|---------|---------|---------|
| Net income before income taxes | 525,171 | 137,618 | 662,789 |
| Depreciation                   | 70,700  | -       | 70,700  |
| Capital expenditures           | 12,990  | -       | 12,990  |

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**NOTE 11. CONTINGENCIES AND COMMITMENTS**

The Company continuously reviews all investor, employee and vendor complaints and pending or threatened litigation. The likelihood that a loss contingency exists is evaluated through consultation with legal counsel, and a loss contingency is recorded if probable and reasonably estimable.

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

Beginning in January 2013, the Company lowered its monthly dividend from \$0.02 to \$0.005. The Board has authorized a monthly dividend of \$0.005 per share through March 2013, 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 January to March 2013 will be approximately \$232,456.

In December 2012, the board of directors approved a repurchase of up to \$2.75 million of its outstanding common stock on the open market over the next twelve months. The repurchase program may be suspended or discontinued at any time.

**NOTE 12. SUBSEQUENT EVENTS**

The Company has entered into an agreement whereby U.S. Global will purchase common shares of Galileo Global Equity Advisor Inc. ( Galileo ) representing 50% of the issued and outstanding shares of Galileo. The transaction is subject to the approval of securities regulatory authorities and to the satisfaction of other closing conditions. It is anticipated that the transaction will close on or before March 31, 2013.

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

*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.*

**BUSINESS SEGMENTS**

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

**Investment Management Products and Services**

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

Detailed information regarding the SEC-registered funds managed by the Company can be found on the Company's website, [www.usfunds.com](http://www.usfunds.com), including performance information for each fund for various time periods, assets under management as of the most recent month end and the inception date of each fund.

SEC-registered mutual fund shareholders are not required to give advance notice prior to redemption of shares in the funds; however, the equity funds charge a redemption fee if the fund shares have been held for less than the applicable periods of time set forth in the funds' prospectuses. The fixed income and money market funds charge no redemption fee. Detailed information about redemption fees can be found in the funds' prospectus, which is available on the Company's website, [www.usfunds.com](http://www.usfunds.com).

The Company provides advisory services for three offshore clients and receives 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 advisory fees from these clients totaling \$79,012 and \$169,574 for the three and six months ended December 31, 2012. The Company recorded advisory and performance fees totaling \$82,401 and \$177,098 for the corresponding periods in fiscal 2012. The performance fees for these clients are calculated and recorded 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 of the Company's control. Frank Holmes, CEO, serves as a director of the offshore clients.

At December 31, 2012, total assets under management as of period-end, including both SEC-registered funds and offshore clients, were \$1.610 billion versus \$1.890 billion at December 31, 2011. During the six months ended December 31, 2012, average assets under management were \$1.671 billion versus \$2.264 billion during the six months ended December 31, 2011. Total assets under management as of period-end at December 31, 2012, were \$1.610 billion versus \$1.624 billion at June 30, 2012, the Company's prior fiscal year end.

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The following tables summarize the changes in assets under management for the SEC-registered funds for the three and six months ended December 31, 2012, and 2011:

| (Dollars in Thousands)                  | Changes in Assets Under Management<br>Three Months Ended December 31,<br>2012<br>Money Market<br>and |              |              |
|---|--|--------------|--------------|
|   | Equity   | Fixed Income | Total        |
| Beginning Balance                       | \$ 1,436,690   | \$ 294,443   | \$ 1,731,133 |
| Market appreciation/(depreciation)      | (71,492)   | 185          | (71,307)     |
| Dividends and distributions             | (14,981)   | (437)        | (15,418)     |
| Net shareholder purchases/(redemptions) | (58,922)   | (5,926)      | (64,848)     |
| Ending Balance                          | \$ 1,291,295   | \$ 288,265   | \$ 1,579,560 |
| Average investment management fee       | 0.97%  | 0.00%        | 0.80%        |
| Average net assets                      | \$ 1,352,879   | \$ 294,107   | \$ 1,646,986 |

| (Dollars in Thousands)                  | Changes in Assets Under Management<br>Three Months Ended December 31,<br>2011<br>Money Market<br>and |              |              |
|---|--|--------------|--------------|
|   | Equity   | Fixed Income | Total        |
| Beginning Balance                       | \$ 1,683,048   | \$ 334,721   | \$ 2,017,769 |
| Market appreciation/(depreciation)      | 32,616   | 647          | 33,263       |
| Dividends and distributions             | (117,743)  | (363)        | (118,106)    |
| Net shareholder purchases/(redemptions) | (57,789)   | (16,107)     | (73,896)     |
| Ending Balance                          | \$ 1,540,132   | \$ 318,898   | \$ 1,859,030 |
| Average investment management fee       | 0.98%  | 0.00%        | 0.83%        |
| Average net assets                      | \$ 1,714,045   | \$ 328,604   | \$ 2,042,649 |

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|   | <b>Changes in Assets Under Management<br/>Six Months Ended December 31,<br/>2012<br/>Money Market</b> |              |              |
|---|---|--------------|--------------|
|   | <b>and</b>  |              |              |
| (Dollars in Thousands)                  | Equity  | Fixed Income | Total        |
| Beginning Balance                       | \$ 1,289,160  | \$ 302,770   | \$ 1,591,930 |
| Market appreciation/(depreciation)      | 118,514   | 1,025        | 119,539      |
| Dividends and distributions             | (14,981)  | (832)        | (15,813)     |
| Net shareholder purchases/(redemptions) | (101,398)   | (14,698)     | (116,096)    |
| Ending Balance                          | \$ 1,291,295  | \$ 288,265   | \$ 1,579,560 |
| Average investment management fee       | 0.97%   | 0.00%        | 0.80%        |
| Average net assets                      | \$ 1,340,888  | \$ 297,917   | \$ 1,638,805 |

|   | <b>Changes in Assets Under Management<br/>Six Months Ended December 31,<br/>2011<br/>Money Market</b> |              |              |
|---|---|--------------|--------------|
|   | <b>and</b>  |              |              |
| (Dollars in Thousands)                  | Equity  | Fixed Income | Total        |
| Beginning Balance                       | \$ 2,225,730  | \$ 336,793   | \$ 2,562,523 |
| Market appreciation/(depreciation)      | (384,222)   | 1,638        | (382,584)    |
| Dividends and distributions             | (117,743)   | (729)        | (118,472)    |
| Net shareholder purchases/(redemptions) | (183,633)   | (18,804)     | (202,437)    |
| Ending Balance                          | \$ 1,540,132  | \$ 318,898   | \$ 1,859,030 |
| Average investment management fee       | 0.99%   | 0.00%        | 0.84%        |
| Average net assets                      | \$ 1,896,875  | \$ 331,941   | \$ 2,228,816 |

As shown above, both average and period-end assets under management for the three and six months ended December 31, 2012, decreased compared to the same time periods for fiscal year 2012. The decrease in assets under management during the three months ended December 31, 2012, was driven by market depreciation and shareholder redemptions in the equity funds, primarily in the natural resources category. The decrease in assets under management during the six months ended December 31, 2012, was driven by shareholder redemptions primarily in the money market funds. A significant portion of the dividends and distributions shown above are reinvested and included in net shareholder purchases (redemptions).

Stock market performance was marked by wide swings in 2011 and 2012. Equities linked to gold and broader natural resources, where most of the assets managed by the Company are invested, were also volatile. The global financial crisis and subsequent volatility in markets, combined with fund performance, were significant factors in the shareholder activity shown in all periods.

The average annualized investment management fee rate (total mutual fund advisory fees, excluding performance fees, as a percentage of average assets under management) was 80 basis points in the three and six months ending December 31, 2012, respectively, compared to 83 and

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84 basis points for the same time periods in fiscal 2012. The average investment management fee for the equity funds decreased to 97 basis points for the three and six months ending December 31, 2012, respectively, compared to 98 and 99 basis points for the same time periods in fiscal year 2012. The decrease in the investment management fee rate is due to larger decreases in average assets in the equity funds, which have higher fee rates. The average investment management fee for the fixed income funds is nil for the periods. This is due to voluntary fee waivers on these funds as discussed in Note 5 to the financial statements, including a voluntary agreement to support the yields for the money market funds.

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**Investment Activities**

Management believes it can more effectively manage the Company's cash position by broadening the types of investments used in cash management and continues to believe that such activities are in the best interest of the Company. 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 and other policies affecting the Company's investment practices. This source of revenue does not remain consistent and is dependent on market fluctuations, the Company's ability to participate in investment opportunities, and timing of transactions.

As of December 31, 2012, the Company held investments with a market value of approximately \$13.6 million and a cost basis of approximately \$13.4 million. The market value of these investments is approximately 34.2 percent of the Company's total assets. See Note 3 (Investments) and Note 4 (Fair Value Disclosures) for additional detail regarding investment activities.

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**RESULTS OF OPERATIONS THREE MONTHS ENDED DECEMBER 31, 2012 AND 2011**

The Company posted net income of \$165,985 (\$0.01 per share) for the three months ended December 31, 2012, compared with net income of \$409,382 (\$0.03 per share) for the three months ended December 31, 2011, a decrease of \$243,397, or 59.5 percent.

**Revenues**

Total consolidated revenues for the three months ended December 31, 2012, decreased \$388,339, or 6.6 percent, compared with the three months ended December 31, 2011. This decrease was primarily attributable to the following:

Mutual fund advisory fees increased by \$155,201, or 4.6 percent. Of that increase, \$1,096,837 was attributable to a swing in performance fee adjustments driven by net receipts from the funds in the current quarter versus net payments in the same quarter of the prior year. Performance fees are paid or received when 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. See Note 5 for additional information regarding performance fees. Substantially offsetting the increase in performance fees was a \$941,636 decrease in mutual fund management fees, primarily due to shareholder redemptions in the natural resources and emerging markets funds. Distribution fee revenue decreased by \$247,481, or 24.1 percent, as a result of decreased assets under management. Transfer agent fees decreased by \$234,529, or 24.9 percent, as a result of a decline in the number of shareholder accounts and the number of transactions. Administrative services fees revenue decreased by \$77,227, or 23.1 percent, as a result of decreased assets under management.

**Expenses**

Total consolidated expenses for the three months ended December 31, 2012, decreased \$30,793, or 0.6 percent, compared with the three months ended December 31, 2011. This was largely attributable to the following:

Platform fees decreased by \$265,808, or 26.6 percent, primarily as a result of lower assets under management. Advertising decreased by \$173,458, or 39.1%, as a result of a scaled-back advertising campaign. Offsetting the above declines, general and administrative expense increased by \$374,037, or 32.3 percent, primarily due to lower consulting fees in the prior comparative period.

**RESULTS OF OPERATIONS SIX MONTHS ENDED DECEMBER 31, 2012 AND 2011**

The Company posted net income of \$214,785 (\$0.01 per share) for the six months ended December 31, 2012, compared with net income of \$1,158,900 (\$0.08 per share) for the six months ended December 31, 2011, a decrease of \$944,115, or 81.5 percent.

**Revenues**

Total consolidated revenues for the six months ended December 31, 2012, decreased \$3,202,681, or 23.4 percent, compared with the six months ended December 31, 2011. This decrease was primarily attributable to the following:

Mutual fund advisory fees decreased by \$2,389,103, or 27.1 percent. Of that amount, \$2,873,893 was attributable to a decrease in mutual fund management fees, primarily due to market depreciation and shareholder redemptions in the natural resources and

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emerging markets funds. This was somewhat offset by an increase in performance fees of \$484,790 attributable to lower payments of performance fee adjustments to the funds in the current period versus the same period of the prior year. Performance fees are paid or received when 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. See Note 5 for additional information regarding performance fees.

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Investment income increased \$770,245, or 188.5 percent, primarily due to unrealized gains on trading securities in the six months ended December 31, 2012, compared to unrealized losses on trading securities in the six months ended December 31, 2011. Distribution fee revenue decreased by \$749,703, or 32.6 percent, as a result of decreased assets under management. Transfer agent fees revenue declined by \$591,638, or 29.1%, as a result of a decline in the number of shareholder accounts and the number of transactions. Administrative services fees revenue decreased by \$234,909, or 31.5%, as a result of decreased assets under management.

**Expenses**

Total consolidated expenses for the six months ended December 31, 2012, decreased \$1,772,585, or 15.0 percent, compared with the six months ended December 31, 2011. This was largely attributable to the following:

Employee compensation and benefits decreased by \$458,037, or 8.5 percent, primarily as a result of lower performance-based bonuses.

Platform fees decreased by \$832,527, or 36.5 percent, primarily as a result of lower assets under management.

Advertising decreased by \$569,834, or 56.9%, as a result of a scaled-back advertising campaign.

**LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2012, the Company had net working capital (current assets minus current liabilities) of approximately \$24.9 million and a current ratio (current assets divided by current liabilities) of 11.8 to 1. With approximately \$18.9 million in cash and cash equivalents and approximately \$13.6 million in marketable securities, the Company has adequate liquidity to meet its current obligations. Total shareholders equity was approximately \$37.5 million, with cash, cash equivalents and marketable securities comprising 81.7 percent of total assets.

As of December 31, 2012, the Company has no long-term liabilities. The Company has access to a \$1 million credit facility with a one-year maturity for working capital purposes. The credit agreement requires the Company to maintain certain quarterly financial covenants to access the line of credit. As of December 31, 2012, this credit facility remained unutilized by the Company.

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

Market volatility may cause the price of the Company's publicly traded class A shares to fluctuate, which in turn may allow the Company an opportunity to repurchase stock at favorable prices.

The investment advisory and related contracts between the Company and USGIF were renewed effective October 1, 2012. The Company provides advisory services to three offshore clients for which the Company receives advisory fees and performance fees, if any, based on agreed-upon performance measurements. The contracts between the Company and these offshore clients expire periodically, and management anticipates that its offshore clients will renew the contracts.

The Company receives additional revenue from several sources including custodial fee revenues, mailroom operations, and investment income.

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**CRITICAL ACCOUNTING ESTIMATES**

For a discussion of critical accounting policies that the Company follows, please refer to the notes to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended June 30, 2012. As discussed in Note 1 of the Notes to Consolidated Financial Statements, the Company has adopted certain recently issued financial accounting pronouncements.

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

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

The Company's investment activities are reviewed and monitored by Company compliance personnel, and various reports are provided to certain investment advisory clients. Written procedures are in place to manage compliance with the code of ethics and other policies affecting the Company's investment practices.

The table below summarizes the Company's equity price risks as of December 31, 2012, and shows the effects of a hypothetical 25 percent increase and a 25 percent decrease in market prices.

|                                 | Fair Value at<br>December 31, 2012 | Hypothetical<br>Percentage Change | Estimated Fair<br>Value After<br>Hypothetical Price<br>Change | Increase (Decrease)<br>in<br>Shareholders<br>Equity,<br>Net of Tax |
|---------------------------------|------------------------------------|-----------------------------------|---|--|
| Trading securities <sup>1</sup> | \$5,062,232                        | 25% increase                      | \$6,327,790   | \$835,268  |
|                                 |                                    | 25% decrease                      | \$3,796,674   | (\$835,268)  |
| Available-for-sale <sup>2</sup> | \$8,537,489                        | 25% increase                      | \$10,671,861  | \$1,408,686  |
|                                 |                                    | 25% decrease                      | \$6,403,117   | (\$1,408,686)  |

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

<sup>2</sup>Unrealized 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.

**ITEM 4. CONTROLS AND PROCEDURES**

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2012, was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial

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Officer. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2012.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2012, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

For a discussion of risk factors which could affect the Company, please refer to Item 1A, Risk Factors in the Annual Report on Form 10-K for the year ended June 30, 2012. There has been no material changes since fiscal year end to the risk factors listed therein.

**ITEM 6. EXHIBITS**

1. Exhibits

- |    |   |
|----|---|
| 31 | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002 |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002 |

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**SIGNATURES**

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

U.S. GLOBAL INVESTORS, INC.

DATED: February 6, 2013

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

DATED: February 6, 2013

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