

U S GLOBAL INVESTORS INC

Form 10-Q

May 09, 2008

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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 March 31, 2008**
- OR**
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-13928**  
**U.S. Global Investors, Inc.**  
(Exact name of registrant as specified in its charter)

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

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

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

**78229-1234**  
(Zip Code)

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

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

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

YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

YES  NO

On April 30, 2008, there were 13,816,341 shares of Registrant's class A nonvoting common stock issued and 13,156,785 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's

class B nonvoting common shares outstanding, and 2,095,207 shares of Registrant's class C common stock issued and outstanding.

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

	<b>MARCH 31, 2008 (UNAUDITED)</b>	<b>JUNE 30, 2007</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 23,150,313	\$ 14,854,420
Trading securities, at fair value	6,681,328	6,334,474
Receivables		
Mutual funds	5,100,729	4,739,763
Offshore clients	256,268	9,914,773
Employees	19,860	4,638
Other	127,837	7,382
Prepaid expenses	921,894	767,779
<b>Total Current Assets</b>	<b>36,258,229</b>	<b>36,623,229</b>
<b>Net Property and Equipment</b>	<b>2,210,340</b>	<b>2,260,288</b>
<b>Other Assets</b>		
Deferred tax asset, long term	324,747	53,023
Investment securities available-for-sale, at fair value	1,017,914	856,573
<b>Total Other Assets</b>	<b>1,342,661</b>	<b>909,596</b>
<b>Total Assets</b>	<b>\$ 39,811,230</b>	<b>\$ 39,793,113</b>

The accompanying notes are an integral part of this statement.

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**Liabilities and Shareholders Equity**

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	<b>MARCH 31, 2008 (UNAUDITED)</b>	<b>JUNE 30, 2007</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 221,120	\$ 272,564
Accrued compensation and related costs	908,098	3,356,488
Deferred tax liability	316,811	338,511
Other accrued expenses	2,492,256	4,730,348
<b>Total Current Liabilities</b>	<b>3,938,285</b>	<b>8,697,911</b>
<b>Total Liabilities</b>	<b>3,938,285</b>	<b>8,697,911</b>
<b>Shareholders Equity</b>		
Common stock (class A) \$.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,816,341 and 13,620,625 shares at March 31, 2008, and June 30, 2007, respectively	345,409	340,516
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, 2,095,207 and 2,290,923 shares at March 31, 2008, and June 30, 2007, respectively	52,380	57,273
Additional paid-in-capital	13,753,141	13,352,728
Treasury stock, class A shares at cost; 662,182 and 672,867 shares at March 31, 2008, and June 30, 2007, respectively	(1,589,564)	(1,640,792)
Accumulated other comprehensive loss, net of tax	(376,850)	(5,589)
Retained earnings	23,688,429	18,991,066
<b>Total Shareholders Equity</b>	<b>35,872,945</b>	<b>31,095,202</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 39,811,230</b>	<b>\$ 39,793,113</b>

The accompanying notes are an integral part of this statement.

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

	<b>Nine Months Ended March 31,</b>		<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenues</b>				
Investment advisory fees	\$ 31,769,252	\$ 29,859,339	\$ 10,312,967	\$ 10,170,685
Transfer agent fees	6,321,165	5,533,812	2,137,967	1,566,580
Investment income (loss)	922,704	1,214,804	(225,838)	676,043
Other	66,751	162,395	40,312	31,054
	39,079,872	36,770,350	12,265,408	12,444,362
<b>Expenses</b>				
Employee compensation and benefits	9,523,694	7,740,655	2,990,559	2,526,898
General and administrative	4,914,361	5,017,991	1,486,761	1,931,148
Subadvisory fees	7,002,339	6,650,293	2,143,811	2,261,348
Platform fees	6,577,569	5,606,015	2,304,349	1,786,687
Advertising	378,578	359,318	133,665	138,553
Depreciation	212,328	178,695	71,388	62,002
	28,608,869	25,552,967	9,130,533	8,706,636
<b>Income Before Income Taxes</b>	10,471,003	11,217,383	3,134,875	3,737,726
<b>Provision for Federal Income Taxes</b>				
Tax expense	3,474,906	3,864,574	1,012,213	1,325,453
<b>Net Income</b>	6,996,097	7,352,809	2,122,662	2,412,273
<b>Other comprehensive (loss), net of tax</b>				
Unrealized losses on available-for-sale securities	(371,188)	(34,931)	(354,193)	(368,563)
<b>Comprehensive Income</b>	\$ 6,624,909	\$ 7,317,878	\$ 1,768,469	\$ 2,043,710
<b>Basic Net Income per Share</b>	\$ 0.46	\$ 0.49	\$ 0.14	\$ 0.16
<b>Diluted Net Income per Share</b>	\$ 0.46	\$ 0.48	\$ 0.14	\$ 0.16
<b>Basic weighted average number of common shares outstanding</b>				
	15,244,722	15,154,880	15,247,780	15,170,608
	15,273,797	15,233,298	15,275,900	15,250,360

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

The accompanying notes are an integral part of this statement.

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

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	<b>NINE MONTHS ENDED MARCH</b>	
	<b>31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 6,996,097	\$ 7,352,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	212,328	178,695
Net recognized (gain) loss on securities	167,639	(684,115)
Loss on disposal of fixed assets	388	
Provision for deferred taxes	(102,279)	357,566
Stock bonuses	47,219	
SFAS 123R compensation expense	242,775	35,391
Changes in assets and liabilities, impacting cash from operations:		
Accounts receivable	9,161,862	5,712,092
Prepaid expenses and other	(154,115)	(625,555)
Trading securities	(611,268)	(941,189)
Accounts payable and accrued expenses	(4,737,926)	(4,696,824)
Total adjustments	4,226,623	(663,939)
<b>Net Cash Provided by Operations</b>	<b>11,222,720</b>	<b>6,688,870</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(162,768)	(284,089)
Purchase of available-for-sale securities	(744,257)	(2,072,532)
Proceeds on sale of available-for-sale securities	117,284	1,707,211
<b>Net Cash Used in Investing Activities</b>	<b>(789,741)</b>	<b>(649,410)</b>
<b>Cash Flow from Financing Activities</b>		
Purchase of treasury stock		(709,231)
Proceeds from issuance or exercise of stock and options		537,089
Benefit from tax deduction in excess of stock-based compensation cost		465,239
Treasury stock issued	161,648	124,843
Dividends paid	(2,298,734)	(3,715,084)
<b>Net Cash Used in Financing Activities</b>	<b>(2,137,086)</b>	<b>(3,297,144)</b>

<b>Net Increase in Cash and Cash Equivalents</b>	8,295,893	2,742,316
<b>Beginning Cash and Cash Equivalents</b>	14,854,420	10,056,043
<b>Ending Cash and Cash Equivalents</b>	\$ 23,150,313	\$ 12,798,359

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 year ended June 30, 2007.

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, U.S. Global Brokerage, Inc., and U.S. Global Investors (Bermuda) Limited. As of December 31, 2007, A&B was dissolved as a corporation. Subsequent to the dissolution, effective January 1, 2008, a new department was formed within USSI consisting of the same employees performing the same functions as A&B prior to its dissolution. All assets and liabilities that were previously held in A&B were transferred at cost to USSI. There was no accounting impact, no personnel changes, and no accounting changes other than reconfiguring certain internal reports.

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, 2008, are not necessarily indicative of the results to be expected for the entire year.

**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. The board of directors authorized a dividend of \$0.01 per share per month beginning in June 2007. Subsequently, the board authorized an increase to \$0.02 per share per month beginning in October 2007. The dividend is authorized through December 31, 2008 and will be reviewed by the board quarterly.

**Note 3. Investments**

As of March 31, 2008, the Company held investments with a market value of approximately \$7.7 million and a cost basis of approximately \$7.9 million. The market value of these investments is approximately 19.3 percent of the Company s total assets. The Company currently has no investments in debt securities or mortgage-backed securities. 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.

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The following summarizes the market value, cost, and unrealized gain or loss on investments as of March 31, 2008, and June 30, 2007.

Securities	Market Value	Cost	Unrealized Gain (Loss)	Unrealized holding losses on available- for-sale securities, net of tax
Trading <sup>1</sup>	\$ 6,681,328	\$ 6,312,242	\$ 369,086	
Available for sale <sup>2</sup>	1,017,914	1,588,899	(570,985)	\$ (376,850)
Total at March 31, 2008	\$ 7,699,242	\$ 7,901,141	\$ (201,899)	
Trading <sup>1</sup>	\$ 6,334,474	\$ 5,990,256	\$ 344,218	
Available for sale <sup>2</sup>	856,573	865,152	(8,579)	\$ (5,589)
Total at June 30, 2007	\$ 7,191,047	\$ 6,855,408	\$ 335,639	

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

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

Investment income can be volatile and varies depending on market fluctuations, the Company's ability to participate in investment opportunities, and timing of transactions. A significant portion of the unrealized gains and losses for the three months ended March 31, 2008, is concentrated in a small number of issuers. The Company expects that gains and losses will continue to fluctuate in the future.

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

realized gains and losses on sales of securities;

unrealized gains and losses on trading securities;

realized foreign currency gains and losses;

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

dividend and interest income.

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

<b>Investment Income (Loss)</b>	<b>NINE MONTHS ENDED MARCH</b>	
	<b>2008</b>	<b>2007</b>
Realized gains on sales of available-for-sale securities	\$ 96,774	\$ 454,388
Realized gains (losses) on sales of trading securities	(264,413)	229,727
Unrealized gains (losses) on trading securities	24,868	(147,032)
Realized foreign currency gains (losses)	(21,045)	1,900
Dividend and interest income	1,086,520	675,821
<b>Total Investment Income</b>	<b>\$ 922,704</b>	<b>\$ 1,214,804</b>

<b>Investment Income (Loss)</b>	<b>THREE MONTHS ENDED</b>	
	<b>2008</b>	<b>2007</b>
Realized gains on sales of available-for-sale securities	\$ 62,253	\$ 454,388
Realized gains (losses) on sales of trading securities	(1,907)	234,232
Unrealized losses on trading securities	(530,534)	(237,036)
Realized foreign currency gains (losses)	(21,228)	1,568
Dividend and interest income	265,578	222,891
<b>Total Investment Income (Loss)</b>	<b>\$ (225,838)</b>	<b>\$ 676,043</b>

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**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 were sub-advised by third-party managers through the first quarter of fiscal year 2008. These subadvisors are in turn compensated out of the investment advisory fees received by the Company. The subadvisory agreement related to the MegaTrends Fund (subsequently renamed the Global MegaTrends Fund) was terminated effective September 30, 2007. USSI also serves as transfer agent to USGIF and USGAF and receives fees based on the number of shareholder accounts as well as transaction and activity-based fees. Additionally, the Company provides in-house legal and compliance 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.

Substantially all of the cash and cash equivalents included in the balance sheet at March 31, 2008, and June 30, 2007, are invested in USGIF money market funds.

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, 2008, and February 28, 2009, 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, 2008, and March 31, 2007, were \$1,168,234, and \$920,149, respectively.

The investment advisory and related contracts between the Company and USGIF and USGAF will expire on February 28, 2009, and May 31, 2008, respectively. Management anticipates the trustees of both USGIF and USGAF will renew the contracts.

Investment advisory fees for the SEC-registered funds totaled \$29,456,383 and \$27,185,386 for the nine months ended March 31, 2008, and March 31, 2007, respectively. Transfer agency fees totaled \$6,321,165 and \$5,533,812 for the nine months ended March 31, 2008, and March 31, 2007, respectively.

The Company provides advisory services for several offshore clients and receives monthly advisory fees based on the net asset values of each client, and performance fees, if any, based on the overall increase in net asset values. The Company recorded fees totaling \$2,312,869 and \$2,673,953 for the nine months ended March 31, 2008, and March 31, 2007, respectively.

The performance fees for these clients are calculated and recorded quarterly or annually in accordance with the terms of the advisory agreement. These fees may fluctuate significantly from year to year based on factors that may be out of the Company's control. Frank Holmes serves as a director of each of the offshore clients.

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

**Note 5. Borrowings**

As of March 31, 2008, 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. The covenants include (1) liquidity of \$1 million or more in cash, cash equivalents and marketable equity securities, and (2) a debt to equity ratio of 0.75 or less. As of March 31, 2008, this credit facility remained unutilized by the Company.

**Note 6. Stock-Based Compensation**

Beginning in fiscal year 2006, with the adoption of the Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ), stock-based compensation expense was recorded for the cost of stock options. Stock-based compensation expense for the nine months ended March 31, 2008, and March 31, 2007, respectively, was \$242,347 and \$35,391. In addition, \$12,500 is charged to executive deferred stock compensation quarterly and will continue through June 30, 2008. As of March 31, 2008, and March 31, 2007, respectively, there was approximately \$519,570 and \$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 their respective vesting periods.

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**Stock compensation plans**

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

The following table summarizes information about the Company's stock option plans for the nine months ended March 31, 2008.

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
<b>Options outstanding, beginning of year</b>	57,000	\$ 11.65
Granted	20,300	\$ 19.30
Exercised		
Forfeited		
<b>Options outstanding, end of period</b>	77,300	\$ 13.66
<b>Options exercisable, end of period</b>	29,000	\$ 1.95

**Note 7. 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 earnings per share (EPS):

	<b>NINE MONTHS ENDED MARCH 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Net income</b>	\$ 6,996,097	\$ 7,352,809
<b>Weighted average number of outstanding shares</b>		
Basic	15,244,722	15,154,880
<b>Effect of dilutive securities</b>		
Employee stock options	29,075	78,418
Diluted	15,273,797	15,233,298
<b>Earnings per share</b>		
Basic	\$ 0.46	\$ 0.49
Diluted	\$ 0.46	\$ 0.48

**THREE MONTHS ENDED MARCH  
31,**



	<b>2008</b>	<b>2007</b>
<b>Net income</b>	\$ 2,122,662	\$ 2,412,273
<b>Weighted average number of outstanding shares</b>		
Basic	15,247,780	15,170,608
<b>Effect of dilutive securities</b>		
Employee stock options	28,120	79,752
Diluted	15,275,900	15,250,360
<b>Earnings per share</b>		
Basic	\$ 0.14	\$ 0.16
Diluted	\$ 0.14	\$ 0.16

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The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price for the period. For the quarter ended March 31, 2008, 43,000 options were excluded from diluted EPS. For the quarter ended March 31, 2007, no options were excluded from diluted EPS.

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 quarter ended March 31, 2008. Upon repurchase, these shares are classified as treasury shares and are deducted from outstanding shares in the earnings per share calculation.

**Note 8. Income Taxes**

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

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. No valuation allowance was included or deemed necessary at March 31, 2008, or June 30, 2007.

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

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

	<b>Investment Management Services</b>	<b>Corporate Investments</b>	<b>Consolidated</b>
<b>Nine months ended March 31, 2008</b>			
Revenues (loss)	\$ 39,237,328	\$ (157,456)	\$ 39,079,872
Income (loss) before income taxes	\$ 10,647,311	\$ (176,308)	\$ 10,471,003
Depreciation	\$ 212,328	\$	\$ 212,328
Capital expenditures	\$ 162,768	\$	\$ 162,768
Gross identifiable assets at March 31, 2008	\$ 31,706,611	\$ 7,779,872	\$ 39,486,483
Deferred tax asset			\$ 324,747
Consolidated total assets at March 31, 2008			\$ 39,811,230
<b>Nine months ended March 31, 2007</b>			
Revenues (loss)	\$ 36,230,637	\$ 539,713	\$ 36,770,350
Income (loss) before income taxes	\$ 10,690,426	\$ 526,957	\$ 11,217,383
Depreciation	\$ 178,695	\$	\$ 178,695
Capital expenditures	\$ 284,089	\$	\$ 284,089
<b>Three months ended March 31, 2008</b>			
Revenues	\$ 12,753,362	\$ (487,954)	\$ 12,265,408
Income before income taxes	\$ 3,641,318	\$ (506,443)	\$ 3,134,875
Depreciation	\$ 71,388	\$	\$ 71,388
Capital expenditures	\$ 15,392	\$	\$ 15,392
<b>Three months ended March 31, 2007</b>			
Revenues	\$ 11,990,853	\$ 453,509	\$ 12,444,362

Income before income taxes	\$ 3,293,946	\$ 443,780	\$ 3,737,726
Depreciation	\$ 62,002	\$	\$ 62,002
Capital expenditures	\$ 69,778	\$	\$ 69,778

**Note 10. Contingencies and Commitments**

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

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

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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: (1) the volatile and competitive nature of the investment management industry, (2) changes in domestic and foreign economic conditions, (3) the effect of government regulation on the Company's business, and (4) market, credit, and liquidity risks associated with the Company's investment management activities. Due to such risks, uncertainties, and other factors, the Company cautions each person receiving such forward-looking information not to place undue reliance on such statements. All such forward-looking statements are current only as of the date on which such statements were made.

**BUSINESS SEGMENTS**

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

**Investment Management Products and Services**

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

The Company provides advisory services to various offshore clients. The Company generally receives a monthly advisory fee and a quarterly or annual performance fee, if any, based on an agreed-upon performance measurement. The Company provided advisory services to the U.S. Global Investors Balanced Natural Resources Fund, Ltd., an offshore fund, through November 30, 2007, at which time the fund was liquidated and the assets were transferred to the Meridian Global Energy and Resources Fund Ltd. The contracts between the Company and the remaining offshore clients expire periodically, and management anticipates that its offshore clients will renew the contracts.

At March 31, 2008, total assets under management as of period end, including both SEC-registered funds and offshore clients, were \$5.314 billion versus \$4.860 billion at March 31, 2007. During the nine months ended March 31, 2008, average assets under management were \$5.382 billion versus \$4.790 billion for the same period ended March 31, 2007. This increase was primarily due to an increase in the natural resource and foreign equity funds under management.

**Investment Activities**

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

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

realized gains and losses on sales of securities;

unrealized gains and losses on trading securities;

realized foreign currency gains and losses;

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

dividend and interest income.

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

As of March 31, 2008, the Company held investments with a market value of approximately \$7.7 million and a cost basis of approximately \$7.9 million. The market value of these investments is approximately 19.3 percent of the Company's total assets. The Company currently has no investments in debt securities or mortgage-backed securities.

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

<b>Investment Income (Loss)</b>	<b>NINE MONTHS ENDED MARCH</b>	
	<b>2008</b>	<b>2007</b>
		<b>31,</b>
Realized gains on sales of available-for-sale securities	\$ 96,774	\$ 454,388
Realized gains (losses) on sales of trading securities	(264,413)	229,727
Unrealized gains (losses) on trading securities	24,868	(147,032)
Realized foreign currency gains (losses)	(21,045)	1,900
Dividend and interest income	1,086,520	675,821
<b>Total Investment Income</b>	<b>\$ 922,704</b>	<b>\$ 1,214,804</b>

<b>Investment Income (Loss)</b>	<b>THREE MONTHS ENDED</b>	
	<b>2008</b>	<b>2007</b>
		<b>MARCH 31,</b>
Realized gains on sales of available-for-sale securities	\$ 62,253	\$ 454,388
Realized gains (losses) on sales of trading securities	(1,907)	234,232
Unrealized losses on trading securities	(530,534)	(237,036)
Realized foreign currency gains (losses)	(21,228)	1,568
Dividend and interest income	265,578	222,891
<b>Total Investment Income (Loss)</b>	<b>\$ (225,838)</b>	<b>\$ 676,043</b>

**RESULTS OF OPERATIONS NINE MONTHS ENDED MARCH 31, 2008, AND 2007**

The Company posted net after-tax income of \$6,996,097 (\$0.46 income per share) for the nine months ended March 31, 2008, compared with a net after-tax income \$7,352,809 (\$0.49 income per share) for the nine months ended March 31, 2007.

**Revenues**

Total consolidated revenues for the nine months ended March 31, 2008, increased \$2,309,522, or 6.3 percent, compared with the nine months ended March 31, 2007. This increase was primarily attributable to the following:

Investment advisory fees increased by approximately \$1,910,000 primarily as a result of increased assets under management; and

Transfer agent fees increased by approximately \$787,000 primarily as a result of a new transfer agency agreement with USGIF and USGAF effective April 1, 2007.

**Expenses**

Total consolidated expenses for the nine months ended March 31, 2008, increased \$3,055,902, or 12.0 percent, compared with the nine months ended March 31, 2007. This was largely attributable to the following:

Compensation expense increased by approximately \$1,783,000 primarily due to performance-based bonuses, as well as an increase in the number of employees;

Platform fees increased by approximately \$972,000 due to increased asset flows through broker/dealer platforms; and

Consistent with continued growth in the Eastern European Fund, subadvisory fees increased by approximately \$352,000.

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**RESULTS OF OPERATIONS THREE MONTHS ENDED MARCH 31, 2008, AND 2007**

The Company posted net after-tax income of \$2,122,662 (\$0.14 income per share) for the three months ended March 31, 2008, compared with a net after-tax income \$2,412,273 (\$0.16 income per share) for the three months ended March 31, 2007.

**Revenues**

Total consolidated revenues for the quarter ended March 31, 2008, decreased \$178,954, or 1.4 percent, compared with the quarter ended March 31, 2007. This decrease was primarily attributable to the following:

Investment income decreased by approximately \$902,000 primarily as a result of higher unrealized gains and dividends on corporate investments in the comparative period;

Transfer agent fees increased by approximately \$571,000 primarily due to the new transfer agency agreement which incorporates transition and activity-based fees; and

Investment advisory fees increased by approximately \$142,000 primarily as a result of increased assets under management.

**Expenses**

Total consolidated expenses for the quarter ended March 31, 2008, increased \$423,897, or 4.9 percent, compared with the quarter ended March 31, 2007. This was largely attributable to the following:

Platform fees increased approximately \$518,000 due to increased asset flows through broker/dealer platforms.

Compensation expense increased by approximately \$464,000 primarily due to an increase in the number of employees, as well as an increase in selective salaries to remain competitive with current market conditions.

These increases were offset by general and administrative expenses, which decreased by approximately \$444,000 primarily due to lower consulting fees, travel expenses and legal fees.

**LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2008, the Company had net working capital (current assets minus current liabilities) of approximately \$32.3 million and a current ratio (current assets divided by current liabilities) of 9.2 to 1. With approximately \$23.2 million in cash and cash equivalents and approximately \$7.7 million in marketable securities, the Company has adequate liquidity to meet its current obligations. Total shareholders' equity was approximately \$35.9 million, with cash, cash equivalents, and marketable securities comprising 77.5% of total assets.

As of March 31, 2008, 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 March 31, 2008, this credit facility remained unutilized by the Company.

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

The investment advisory and related contracts between the Company and USGIF and USGAF will expire on February 28, 2009, and May 31, 2008, respectively. Management anticipates the board of trustees of both USGIF and USGAF will renew the contracts. As previously stated, the Company provided advisory services to the U.S. Global Investors Balanced Natural Resources Fund, Ltd., an offshore fund, through November 30, 2007, at which time the fund was liquidated and the assets were transferred to the Meridian Global Energy and Resources Fund Ltd. The contracts between the Company and the remaining offshore clients expire periodically and management anticipates that its offshore clients will renew their contracts.

**ACCOUNTING PRONOUNCEMENTS**

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

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 is an interpretation of SFAS No. 109,

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Accounting for Income Taxes, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and accounting for income taxes and requires expanded disclosure with respect to uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company adopted FIN 48 on July 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's financial position or results of operations for the quarter ended March 31, 2008. The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of March 31, 2008, the Company did not have any accrued interest or penalties related to uncertain tax positions. The tax years from 2003 through 2006 remain open to examination by the tax jurisdictions to which the Company is subject.

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows entities to voluntarily choose to measure many financial assets and liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. Once the election is made for the instrument, all subsequent changes in fair value for that instrument must be reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating this standard and its impact on the financial statements, if any.

In June 2007, the Emerging Issues Task Force ( EITF ) issued EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards, ( EITF 06-11 ). Under the provisions of EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Management is currently evaluating EITF No. 06-11 and its impact on the financial statements, if any.

**CRITICAL ACCOUNTING POLICIES**

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, 2007.

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

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

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

The table below summarizes the Company's equity price risks as of March 31, 2008, and shows the effects of a hypothetical 25 percent increase and a 25 percent decrease in market prices.

**SENSITIVITY ANALYSIS**

	Fair Value at March 31, 2008	Hypothetical Percentage Change	Estimated Fair Value after Hypothetical Percent Change	Increase (Decrease) in Shareholders Equity, Net of Tax
Trading Securities <sup>1</sup>	\$6,681,328	25% increase	\$8,351,660	\$ 1,102,419
		25% decrease	\$5,010,996	\$ (1,102,419)
Available-for-Sale <sup>2</sup>	\$1,017,914	25% increase	\$1,272,392	\$ 167,956
		25% decrease	\$ 763,435	\$ (167,956)

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

<sup>2</sup> *Unrealized gains and losses on available-for-sale securities are excluded from earnings and recorded in other comprehensive*

*income as a  
separate  
component of  
shareholders  
equity until  
realized.*

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

**ITEM 4. CONTROLS AND PROCEDURES**

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2008, was conducted under the supervision and with the participation of management, including our chief executive officer and chief financial officer. Based on that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2008.

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2008, 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, 2007. There has been no material changes since fiscal year end to the risk factors listed therein.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

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 quarter ended March 31, 2008.

**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: May 9, 2008

BY: /s/ Frank E. Holmes

Frank E. Holmes  
Chief Executive Officer

DATED: May 9, 2008

BY: /s/ Catherine A. Rademacher

Catherine A. Rademacher  
Chief Financial Officer