

U S GLOBAL INVESTORS INC

Form 10-Q

February 08, 2008

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, 2007
- 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 January 31, 2008, there were 13,816,221 shares of Registrant's class A nonvoting common stock issued and 13,151,786 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's class B nonvoting common shares outstanding, and 2,095,327 shares of Registrant's class C common stock issued and outstanding.

Table of Contents

<u>PART I. FINANCIAL INFORMATION</u>	1
<u>Item 1. Financial Statements</u>	1
<u>Consolidated Statements of Financial Condition (Unaudited)</u>	1
<u>Consolidated Statements of Operations and Comprehensive Loss (Unaudited)</u>	3
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	4
<u>Notes To Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Market Risk Disclosures</u>	17
<u>Item 4. Controls and Procedures</u>	17
<u>PART II. OTHER INFORMATION</u>	18
<u>Item 1a. Risk Factors</u>	18
<u>Item 2. Issuer Purchases of Equity Securities</u>	18
<u>Item 6. Exhibits</u>	18
<u>Signatures</u>	19
<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 906</u>	

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

Page 1 of 23

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

	DECEMBER 31, 2007 (UNAUDITED)	JUNE 30, 2007
Current Assets		
Cash and cash equivalents	\$ 22,778,715	\$ 14,854,420
Trading securities, at fair value	7,216,387	6,334,474
Receivables		
Advisory, net	5,937,320	14,654,536
Employees	24,410	4,638
Other	46,436	7,382
Prepaid expenses	940,993	767,779
Total Current Assets	36,944,261	36,623,229
Net Property and Equipment	2,266,723	2,260,288
Other Assets		
Long-term deferred tax asset	172,476	53,023
Investment securities available-for-sale, at fair value	1,399,947	856,573
Total Other Assets	1,572,423	909,596
Total Assets	\$ 40,783,407	\$ 39,793,113

The accompanying notes are an integral part of this statement.

U.S. Global Investors, Inc.
 December 31, 2007, Quarterly Report on Form 10-Q
Liabilities and Shareholders Equity

Page 2 of 23

	DECEMBER 31, 2007 (UNAUDITED)	JUNE 30, 2007
Current Liabilities		
Accounts payable	\$ 541,837	\$ 272,564
Accrued compensation and related costs	2,088,633	3,356,488
Deferred tax liability	525,966	338,511
Other accrued expenses	2,747,536	4,730,348
Total Current Liabilities	5,903,972	8,697,911
Total Liabilities	5,903,972	8,697,911
Shareholders Equity		
Common stock (class A) \$.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,816,221 and 13,620,625 shares at December 31, 2007, and June 30, 2007, respectively	345,406	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, 2,095,327 and 2,290,923 shares at December 31, 2007, and June 30, 2007, respectively	52,383	57,273
Additional paid-in-capital	13,625,923	13,352,728
Treasury stock, class A shares at cost; 665,741 and 672,867 shares at December 31, 2007, and June 30, 2007, respectively	(1,606,628)	(1,640,792)
Accumulated other comprehensive loss, net of tax	(22,657)	(5,589)
Retained earnings	22,485,008	18,991,066
Total Shareholders Equity	34,879,435	31,095,202
Total Liabilities and Shareholders Equity	\$ 40,783,407	\$ 39,793,113

The accompanying notes are an integral part of this statement.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 3 of 23

Consolidated Statements of Operations and Comprehensive Income (Unaudited)

	Six Months Ended December 31,		Three Months Ended December 31,	
	2007	2006	2007	2006
Revenues				
Investment advisory fees	\$ 21,456,283	\$ 19,688,654	\$ 11,351,909	\$ 10,094,075
Transfer agent fees	4,183,665	3,967,232	2,111,663	1,974,337
Investment income	1,148,543	538,761	386,575	249,341
Other	26,440	131,341	14,011	100,722
	26,814,931	24,325,988	13,864,158	12,418,475
Expenses				
Employee compensation and benefits	6,533,134	5,213,757	3,386,098	2,868,304
General and administrative	3,428,068	3,098,243	1,688,244	1,525,087
Subadvisory fees	4,858,528	4,388,945	2,546,937	2,245,012
Omnibus fees	4,273,220	3,819,328	2,346,051	1,859,802
Advertising	244,913	209,365	119,456	94,629
Depreciation	140,940	116,693	71,271	58,299
	19,478,803	16,846,331	10,158,057	8,651,133
Income Before Income Taxes	7,336,128	7,479,657	3,706,101	3,767,342
Provision for Federal Income Taxes				
Tax expense	2,462,693	2,539,121	1,241,498	1,306,513
Net Income	4,873,435	4,940,536	2,464,603	2,460,829
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on available-for-sale securities	(17,068)	333,632	9,193	338,373
Comprehensive Income	\$ 4,856,367	\$ 5,274,168	\$ 2,473,796	\$ 2,799,202
Basic Net Income per Share	\$ 0.32	\$ 0.33	\$ 0.16	\$ 0.16
Diluted Net Income per Share	\$ 0.32	\$ 0.32	\$ 0.16	\$ 0.16
	15,243,193	15,147,016	15,244,563	15,146,479

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

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

15,273,783

15,262,202

15,273,666

15,264,130

The accompanying notes are an integral part of this statement.

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

Page 4 of 23

	SIX MONTHS ENDED DECEMBER	
	31,	
	2007	2006
Cash Flows from Operating Activities		
Net income	\$ 4,873,435	\$ 4,940,536
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	140,940	116,693
Net recognized loss on securities	227,985	4,174
Provision for deferred taxes	76,684	299,048
Stock bonuses	47,218	
SFAS 123R compensation expense	157,860	25,535
Changes in assets and liabilities, impacting cash from operations:		
Accounts receivable	8,658,390	5,322,864
Prepaid expenses	(173,214)	(250,618)
Trading securities	(1,144,420)	(1,219,699)
Accounts payable and accrued expenses	(2,981,394)	(3,834,325)
Total adjustments	5,010,049	463,672
Net Cash Provided by Operations	9,883,484	5,404,208
Cash Flows from Investing Activities		
Purchase of property and equipment	(147,375)	(214,311)
Purchase of available-for-sale securities	(579,876)	(2,072,532)
Proceeds on sale of available-for-sale securities	45,274	
Net Cash Used in Investing Activities	(681,977)	(2,286,843)
Cash Flow from Financing Activities		
Purchase of treasury stock		(707,686)
Proceeds from issuance or exercise of stock and options		216,534
Treasury stock issued	102,281	73,181
Dividends paid	(1,379,493)	
Net Cash Used in Financing Activities	(1,277,212)	(417,971)

Net Increase in Cash and Cash Equivalents	7,924,295	2,699,394
Beginning Cash and Cash Equivalents	14,854,420	10,056,043
Ending Cash and Cash Equivalents	\$ 22,778,715	\$ 12,755,437

The accompanying notes are an integral part of this statement.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 5 of 23

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 six months ended December 31, 2007, 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 December 31, 2007, the Company held investments with a market value of approximately \$8.6 million and a cost basis of approximately \$7.7 million. The market value of these investments is approximately 21.1 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.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 6 of 23

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

Securities	Market Value	Cost	Unrealized Gain (Loss)	Unrealized holding gains (losses) on available-for-sale securities, net of tax
Trading ¹	\$ 7,216,387	\$ 6,316,767	\$ 899,620	
Available for sale ²	1,399,947	1,434,276	(34,329)	\$ (22,657)
Total at December 31, 2007	\$ 8,616,334	\$ 7,751,043	\$ 865,291	
Trading ¹	\$ 6,334,474	\$ 5,990,256	\$ 344,218	
Available for sale ²	856,573	865,152	(8,579)	\$ (5,589)
Total at June 30, 2007	\$ 7,191,047	\$ 6,855,408	\$ 335,639	

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

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

Investment income can be volatile and varies depending on market fluctuations, the Company's ability to participate in investment opportunities, and timing of transactions. A significant portion of the unrealized gains and losses for the

three months ended December 31, 2007, is concentrated in a small number of issuers. The Company expects that gains and losses will continue to fluctuate in the future.

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

realized gains and losses on sales of securities;

unrealized gains and losses on trading securities;

realized foreign currency gains and losses;

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

dividend and interest income.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 7 of 23

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

Investment Income (Loss)	SIX MONTHS ENDED DECEMBER 31,	
	2007	2006
Realized gains on sales of available-for-sale securities	\$ 34,522	\$
Realized losses on sales of trading securities	(262,507)	(4,505)
Unrealized gains on trading securities	555,402	90,005
Realized foreign currency gains	183	332
Dividend and interest income	820,943	452,929
Total Investment Income	\$ 1,148,543	\$ 538,761

Investment Income (Loss)	THREE MONTHS ENDED DECEMBER 31,	
	2007	2006
Realized gains on sales of available-for-sale securities	\$ 34,522	\$
Realized gains (losses) on sales of trading securities	(262,507)	911
Unrealized gains (losses) on trading securities	58,457	(11,076)
Realized foreign currency gains (losses)	183	(3)
Dividend and interest income	555,920	259,509
Total Investment Income	\$ 386,575	\$ 249,341

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 subadvisers 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. USGI now serves as the adviser to the Global MegaTrends Fund. 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 December 31, 2007, and June 30, 2007, is 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, 2008, respectively, or such later date as the Company determines in order to maintain competitive yields and to allow assets to grow in newer funds. The aggregate fees waived and expenses borne by the Company for the six months ended December 31, 2007,

and December 31, 2006, were \$726,399, and \$576,812, respectively.

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

The Company provides advisory services for the Meridian Global Gold and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee based on the net asset value of the fund, and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded fees totaling \$177,520 and \$552,264 for the six months ended December 31, 2007, and December 31, 2006, respectively. Frank Holmes, a director and CEO of the Company, is a director of Meridian Fund Managers Ltd., the manager of the fund.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 8 of 23

The Company provides advisory services for the Meridian Global Energy and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee based on the net asset value of the fund, and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded fees totaling \$80,708 and \$44,792 for the six months ended December 31, 2007, and December 31, 2006, respectively. Frank Holmes is a director of Meridian Fund Managers Ltd., the manager of the fund.

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. For these services, the Company was paid a monthly advisory fee based on the net asset value of the fund, and a quarterly performance fee, if any, based on a percentage of return above the high water mark in conjunction with the fund reaching a certain hurdle rate per quarter. The Company recorded total fees of \$13,329 and \$121,167, respectively, for the five and six months ended November 30, 2007, and December 31, 2006, respectively. Frank Holmes was a director of U.S. Global Investors Balanced Natural Resources Fund Ltd.

The Company provides investment advisory services to Endeavour Mining Capital Corp., a Cayman corporation traded on the Toronto Stock Exchange. The Company is paid a monthly advisory fee based on the net asset value of the portfolio. A performance fee, if any, is paid annually based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity when the net asset value of the portfolio at fiscal year end has increased in comparison with the prior fiscal year end. The Company recorded \$1,277,197 and \$863,974 in monthly advisory fees for the six months ended December 31, 2007, and December 31, 2006, respectively. Frank Holmes is the Chairman of the Board of Endeavour Mining Capital Corp. The performance fees for this advisory client are calculated and recorded only once a year at the end of each fiscal year in accordance with the terms of the advisory agreement. This and other performance fees may fluctuate significantly from year to year based on factors that may be out of the Company's control.

The Company 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 December 31, 2007, 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 .75 or less. As of December 31, 2007, 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 six months ended December 31, 2007, and December 31, 2006, respectively, was \$157,860 and \$38,035. As of December 31, 2007, and December 31, 2006, respectively, there was approximately \$604,313 and \$42,705 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.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 9 of 23

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 six months ended December 31, 2007.

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

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 10 of 23

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):

	SIX MONTHS ENDED DECEMBER 31,	
	2007	2006
Net income	\$ 4,873,435	\$ 4,940,536
Weighted average number of outstanding shares		
Basic	15,243,193	15,147,016
Effect of dilutive securities		
Employee stock options	30,590	115,186
Diluted	15,273,783	15,262,202
Earnings per share		
Basic	\$ 0.32	\$ 0.33
Diluted	\$ 0.32	\$ 0.32
	THREE MONTHS ENDED DECEMBER 31,	
	2007	2006
Net income	\$ 2,464,603	\$ 2,460,829
Weighted average number of outstanding shares		
Basic	15,244,563	15,146,479
Effect of dilutive securities		
Employee stock options	29,103	117,651
Diluted	15,273,666	15,264,130
Earnings per share		
Basic	\$ 0.16	\$ 0.16
Diluted	\$ 0.16	\$ 0.16

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 December 31, 2007, 43,000 options were excluded from diluted EPS. For the quarter ended December 31, 2006, 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 December 31, 2007. 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 and capital loss carryovers that will expire in 2013.

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, 2007, or June 30, 2007.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 11 of 23

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:

	Investment Management Services	Corporate Investments	Consolidated
Six months ended December 31, 2007			
Revenues	\$ 26,484,433	\$ 330,498	\$ 26,814,931
Income before income taxes	\$ 7,005,994	\$ 330,134	\$ 7,336,128
Depreciation	\$ 140,940	\$	\$ 140,940
Capital expenditures	\$ 147,375	\$	\$ 147,375
Gross identifiable assets at December 31, 2007	\$ 31,971,527	\$ 8,639,404	\$ 40,610,931
Deferred tax asset			172,476
Consolidated total assets at December 31, 2007			\$ 40,783,407
Six months ended December 31, 2006			
Revenues	\$ 24,239,785	\$ 86,203	\$ 24,325,988
Income before income taxes	\$ 7,396,481	\$ 83,176	\$ 7,479,657
Depreciation	\$ 116,693	\$	\$ 116,693
Capital expenditures	\$ 214,311	\$	\$ 214,311
Three months ended December 31, 2007			
Revenues	\$ 14,031,165	\$ (167,007)	\$ 13,864,158
Income before income taxes	\$ 3,873,287	\$ (167,186)	\$ 3,706,101
Depreciation	\$ 71,271	\$	\$ 71,271
Capital expenditures	\$ 78,487	\$	\$ 78,487
Three months ended December 31, 2006			
Revenues	\$ 12,428,638	\$ (10,163)	\$ 12,418,475
Income before income taxes	\$ 3,777,568	\$ (10,226)	\$ 3,767,342

Depreciation	\$	58,299	\$	\$	58,299
Capital expenditures	\$	40,019	\$	\$	40,019

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.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 12 of 23

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 December 31, 2007, total assets under management as of period end, including both SEC-registered funds and offshore clients, were \$5.704 billion versus \$4.996 billion at December 31, 2006. During the six months ended December 31, 2007, average assets under management were \$5.329 billion versus \$4.770 billion for the same period ended December 31, 2006. 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 December 31, 2007, the Company held investments with a market value of approximately \$8.6 million and a cost basis of approximately \$7.7 million. The market value of these investments is approximately 21.1 percent of the Company's total assets. The Company currently has no investments in debt securities or mortgage-backed securities.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 13 of 23

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

Investment Income (Loss)	SIX MONTHS ENDED DECEMBER 31,	
	2007	2006
Realized gains on sales of available-for-sale securities	\$ 34,522	
Realized losses on sales of trading securities	(262,507)	\$ (4,505)
Unrealized gains on trading securities	555,402	90,005
Realized foreign currency gains	183	332
Dividend and interest income	820,943	452,929
Total Investment Income	\$ 1,148,543	\$ 538,761

Investment Income (Loss)	THREE MONTHS ENDED DECEMBER 31,	
	2007	2006
Realized gains on sales of available-for-sale securities	\$ 34,522	
Realized losses on sales of trading securities	(262,507)	\$ 911
Unrealized gains (losses) on trading securities	58,457	(11,076)
Realized foreign currency gains (losses)	183	(3)
Dividend and interest income	555,920	259,509
Total Investment Income	\$ 386,575	\$ 249,341

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 14 of 23

RESULTS OF OPERATIONS SIX MONTHS ENDED DECEMBER 31, 2007, AND 2006

The Company posted net after-tax income of \$4,873,435 (\$0.32 income per share) for the six months ended December 31, 2007, compared with a net after-tax income \$4,940,536 (\$0.33 income per share) for the six months ended December 31, 2006.

Revenues

Total consolidated revenues for the six months ended December 31, 2007, increased \$2,488,943, or 10.2 percent, compared with the six months ended December 31, 2006. This increase was primarily attributable to the following:

Investment advisory fees increased by approximately \$1,768,000 primarily as a result of increased assets under management; and

Investment income increased by approximately \$610,000 primarily as a result of unrealized gains and dividends on corporate investments.

Expenses

Total consolidated expenses for the six months ended December 31, 2007, increased \$2,632,472, or 15.6 percent, compared with the six months ended December 31, 2006. This was largely attributable to the following:

Compensation expense increased by approximately \$1,319,000 primarily due to bonuses resulting from strong performance, as well as an increase in the number of employees;

Consistent with continued growth in the Eastern European Fund, subadvisory fees increased by approximately \$470,000;

Omnibus fees expense increased \$454,000 due to increased asset flows through broker/dealer platforms; and

General and administrative expenses increased by approximately \$330,000 primarily due to increased consulting and conference fees.

RESULTS OF OPERATIONS THREE MONTHS ENDED DECEMBER 31, 2007, AND 2006

The Company posted net after-tax income of \$2,464,603 (\$0.16 income per share) for the three months ended December 31, 2007, compared with a net after-tax income \$2,460,829 (\$0.16 income per share) for the three months ended December 31, 2006.

Revenues

Total consolidated revenues for the quarter ended December 31, 2007, increased \$1,445,683, or 11.6 percent, compared with the quarter ended December 31, 2006. This increase was primarily attributable to the following:

Investment advisory fees increased by approximately \$1,258,000 primarily as a result of increased assets under management; and

Investment income increased by approximately \$137,000 primarily as a result of unrealized gains and dividends on corporate investments.

Expenses

Total consolidated expenses for the quarter ended December 31, 2007, increased \$1,506,924, or 17.4 percent, compared with the quarter ended December 31, 2006. This was largely attributable to the following:

Compensation expense increased by approximately \$518,000 primarily due to bonuses resulting from strong performance, as well as an increase in the number of employees;

Omnibus fees increased \$486,000 due to increased asset flows through broker/dealer platforms; and

Consistent with continued growth in the Eastern European Fund, subadvisory fees increased by approximately \$302,000.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 15 of 23

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, the Company had net working capital (current assets minus current liabilities) of approximately \$31.0 million and a current ratio (current assets divided by current liabilities) of 6.3 to 1. With approximately \$22.8 million in cash and cash equivalents and approximately \$8.6 million in marketable securities, the Company has adequate liquidity to meet its current obligations. Total shareholders' equity was approximately \$34.9 million, with cash, cash equivalents, and marketable securities comprising 77.0% of total assets.

As of December 31, 2007, 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 .75 or less. As of December 31, 2007, 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, 2008, 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, *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 December 31, 2007. The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2007, 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

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 16 of 23

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.

U.S. Global Investors, Inc.

December 31, 2007, Quarterly Report on Form 10-Q

Page 17 of 23

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 supervisory 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 December 31, 2007, and shows the effects of a hypothetical 25% increase and a 25% decrease in market prices.

SENSITIVITY ANALYSIS

	Fair Value at December 31, 2007	Hypothetical Percentage Change	Estimated Fair Value after Hypothetical Percent Change	Increase (Decrease) in Shareholders Equity, Net of Tax
Trading Securities ¹	\$7,216,387	25% increase	\$9,020,484	\$ 1,190,704
		25% decrease	\$5,412,290	\$ (1,190,704)
Available-for-Sale ²	\$1,399,947	25% increase	\$1,749,933	\$ 230,991
		25% decrease	\$1,049,960	\$ (230,991)

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

² *Unrealized gains and losses on available-for-sale securities are excluded from earnings and recorded in other*

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

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 December 31, 2007, 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 December 31, 2007.

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Page 18 of 23

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 have 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 December 31, 2007.

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
-

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

Page 19 of 23

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 8, 2008

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

DATED: February 8, 2008

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