

U S GLOBAL INVESTORS INC
Form 10-Q
May 14, 2015

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, 2015

OR

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

Commission File Number 0-13928

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

Texas
(State or other jurisdiction of incorporation or organization)

74-1598370
(IRS Employer Identification No.)

7900 Callaghan Road
San Antonio, Texas
(Address of principal executive offices)
(210) 308-1234

78229-1234
(Zip Code)

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

YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

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On May 5, 2015, there were 13,866,421 shares of Registrant's class A nonvoting common stock issued and 13,312,314 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's class B nonvoting common shares outstanding, and 2,069,127 shares of Registrant's class C voting common stock issued and outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

	March 31, 2015 (UNAUDITED)	June 30, 2014
Assets		
(dollars in thousands)		
Current Assets		
Cash and cash equivalents	\$3,671	\$5,910
Trading securities, at fair value	16,443	17,817
Receivables	1,900	2,513
Prepaid expenses	499	525
Deferred tax asset	213	51
Total Current Assets	22,726	26,816
Net Property and Equipment	2,804	3,024
Other Assets		
Deferred tax asset, long term	709	298
Investment securities available-for-sale, at fair value	4,303	6,196
Other investments	2,413	1,413
Intangible assets, net	52	86
Other assets, long term	11	13
Total Other Assets	7,488	8,006
Total Assets	\$33,018	\$37,846
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$185	\$219
Accrued compensation and related costs	444	581
Dividends payable	231	232
Other accrued expenses	733	1,064
Total liabilities held related to discontinued operations	—	47
Total Current Liabilities	1,593	2,143
Commitments and Contingencies (Note 12)		
Shareholders' Equity		
Common stock (class A) - \$0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,866,421 and 13,866,361 shares at March 31, 2015, and June 30, 2014, respectively	347	347
Common stock (class B) - \$0.025 par value; nonvoting; authorized, 4,500,000 shares; no shares issued	—	—
Convertible common stock (class C) - \$0.025 par value; voting; authorized, 3,500,000 shares; issued, 2,069,127 and 2,069,187 shares at March 31, 2015, and June 30, 2014, respectively	52	52
Additional paid-in-capital	15,690	15,669
Treasury stock, class A shares at cost; 557,555 and 501,518 shares at March 31, 2015, and June 30, 2014, respectively	(1,467	) (1,280
Accumulated other comprehensive income (loss), net of tax	(462) 906
Retained earnings	16,706	19,376

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Total U.S. Global Investors, Inc. Shareholders' Equity	30,866	35,070
Non-Controlling Interest in Subsidiary	559	633
Total Shareholders' Equity	31,425	35,703
Total Liabilities and Shareholders' Equity	\$33,018	\$37,846

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

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(dollars in thousands, except per share data)	Nine Months Ended March 31,		Three Months Ended March 31,	
	2015	2014	2015	2014
Operating Revenues				
Mutual fund advisory fees	\$5,359	\$5,737	\$1,248	\$1,826
Distribution fees	1,118	1,510	299	474
Shareholder services fees	507	721	143	229
Administrative services fees	516	566	141	213
	7,500	8,534	1,831	2,742
Operating Expenses				
Employee compensation and benefits	4,512	5,277	1,389	1,524
General and administrative	3,248	4,140	1,048	996
Platform fees	1,634	1,381	435	420
Advertising	286	505	96	155
Depreciation and amortization	246	187	81	62
	9,926	11,490	3,049	3,157
Operating Loss	(2,426	) (2,956	) (1,218	) (415
Other Income				
Investment income	522	1,482	249	373
Equity in earnings of Galileo	—	15	—	30
	522	1,497	249	403
Loss from Continuing Operations Before Income Taxes	(1,904	) (1,459	) (969	) (12
Provision for Federal Income Taxes				
Tax expense (benefit)	21	(466	) 25	14
Loss from Continuing Operations	(1,925	) (993	) (994	) (26
Discontinued Operations (Note 13)				
Loss from operations of discontinued transfer agent	—	(361	) —	(3
Tax benefit	—	(123	) —	(1
Loss from Discontinued Operations	—	(238	) —	(2
Net Loss	(1,925	) (1,231	) (994	) (28
Less: Net Income Attributable to Non-Controlling Interest	53	—	13	—
Net Loss Attributable to U.S. Global Investors, Inc.	\$(1,978	) \$(1,231	) \$(1,007	) \$(28
Basic Net Loss per Share				
Loss from continuing operations	\$(0.13	) \$(0.06	) \$(0.07) \$—
Loss from discontinued operations	\$—	\$(0.02) \$—	\$—
Net loss	\$(0.13	) \$(0.08	) \$(0.07) \$—
Diluted Net Loss per Share				
Loss from continuing operations	\$(0.13	) \$(0.06	) \$(0.07) \$—
Loss from discontinued operations	\$—	\$(0.02) \$—	\$—
Net loss	\$(0.13	) \$(0.08	) \$(0.07) \$—
	15,406,189	15,466,280	15,379,365	15,454,932

Basic weighted average number of common shares outstanding				
Diluted weighted average number of common shares outstanding	15,406,189	15,466,280	15,379,365	15,454,932

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(dollars in thousands)	Nine Months Ended March 31,		Three Months Ended March 31,	
	2015	2014	2015	2014
Net Loss Attributable to U.S. Global Investors, Inc.	\$(1,978	) \$(1,231	) \$(1,007	) \$(28
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gains (losses) on available-for-sale securities arising during period	(862	) 750	(13	) 380
Less: reclassification adjustment for gains/losses included in net income	(321	) (657	) (69	) (201
Net change from available-for-sale investments, net of tax	(1,183	) 93	(82	) 179
Foreign currency translation adjustment	(285	) —	(136) —
Other Comprehensive Income (Loss)	(1,468	) 93	(218	) 179
Comprehensive Income (Loss)	(3,446	) (1,138	) (1,225	) 151
Less: Comprehensive Loss Attributable to Non-Controlling Interest	(100	) —	(48) —
Comprehensive Income (Loss) Attributable to U.S. Global Investors, Inc.	\$(3,346	) \$(1,138	) \$(1,177	) \$151

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)	Nine Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net loss	\$(1,925	) \$(1,231
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	246	191
Net loss on disposal of property and equipment	26	25
Net recognized gain on securities	(483	) (828
Net income from equity method investment	—	(15
Provision for deferred taxes	37	430
Stock bonuses	9	8
Stock-based compensation expense	—	1
Changes in operating assets and liabilities:		
Accounts receivable	570	(973
Prepaid expenses	21	4
Trading securities	1,371	(14,056
Accounts payable and accrued expenses	(510	) (269
Total adjustments	1,287	(15,482
Net cash used in operating activities	(638	) (16,713
Cash Flows from Investing Activities:		
Purchase of property and equipment	(40) —
Purchase of available-for-sale securities	(186	) (1,055
Purchase of other investments	(1,000	) (160
Proceeds on sale of available-for-sale securities	754	4,736
Proceeds from return of capital and principal payments on investments	19	43
Net cash provided by (used in) investing activities	(453	) 3,564
Cash Flows from Financing Activities:		
Issuance of common stock	91	122
Repurchases of common stock	(266	) (230
Distributions to non-controlling interest in subsidiary	(27) —
Dividends paid	(693	) (696
Net cash used in financing activities	(895	) (804
Effect of exchange rate changes on cash and cash equivalents	(253) —
Net decrease in cash and cash equivalents	(2,239	) (13,953
Beginning cash and cash equivalents	5,910	18,085
Ending cash and cash equivalents	\$3,671	\$4,132
Supplemental Disclosures of Cash Flow Information:		
Cash paid for income taxes	\$—	\$—

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

U.S. Global Investors, Inc. (the “Company” or “U.S. Global”) has prepared the consolidated financial statements pursuant to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the United States Securities and Exchange Commission (“SEC”) that permit reduced disclosure for interim periods. The financial information included herein reflects all adjustments (consisting solely of normal recurring adjustments), which are, in management’s opinion, necessary for a fair presentation of results for the interim periods presented. The Company has consistently followed the accounting policies set forth in the notes to the consolidated financial statements in the Company’s Form 10-K for the fiscal year ended June 30, 2014.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, United Shareholder Services, Inc. (“USSI”), U.S. Global Investors (Guernsey) Limited (“USGG”) (on August 3, 2013, USGG was dissolved), U.S. Global Brokerage, Inc., U.S. Global Investors (Bermuda) Limited, U.S. Global Investors (Canada) Limited (“USCAN”), and U.S. Global Indices, LLC, and its 65% interest in Galileo Global Equity Advisor Inc. (“Galileo”).

The Company's evaluation for consolidation includes whether entities in which it has an interest are variable interest entities (“VIEs”) and whether the Company is the primary beneficiary of any VIEs identified in its analysis. A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the group of holders of the equity investment at risk lack certain characteristics of a controlling financial interest. The primary beneficiary is the entity that has the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE. If the VIE qualifies for the investment company deferral, the primary beneficiary is the entity that has the obligation to absorb a majority of the expected losses or the right to receive the majority of the residual returns.

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, the mutual funds it advises. The Company has determined that these entities qualify for the investment company deferral in ASC 810-10-65-2 (aa) and thus determines whether it is the primary beneficiary of these entities by virtue of its exposure to the expected losses and expected residual returns of the entity. The Company’s interests in these entities consist of the Company’s direct ownership therein, which in each case is insignificant to the total ownership of the fund, and any fees earned but uncollected. In the ordinary course of business, the Company may choose to waive certain fees or assume operating expenses of the funds it advises for competitive, regulatory or contractual reasons (see Note 5 for information regarding fee waivers). The Company has not provided financial support to any of these entities outside the ordinary course of business. The Company’s risk of loss with respect to these managed entities is limited to the carrying value of its investments in, and fees receivable from, the entities. The Company does not consolidate these VIEs because it is not the primary beneficiary of these VIEs.

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, 2015, are not necessarily indicative of the results to be expected for the entire year.

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

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). ASU 2013-11 became effective for the Company on July 1, 2014. The adoption of ASU 2013-11 was not material to the consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU 2014-08”). ASU 2014-08 will become effective for the Company on July 1, 2015. Management is evaluating the ASU and its potential impact on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach

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reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Management is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements and has not yet determined the method by which the Company will adopt the standard in 2017.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). This update requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). When conditions or events raise substantial doubts about an entity's ability to continue as a going concern, management shall disclose: i) the principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern; ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and iii) management's plans that are intended to mitigate the conditions or events - and whether or not those plans alleviate the substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and early application is permitted. Management does not currently anticipate that this update will have any impact on the Company's financial statement disclosures.

In November 2014, the FASB issued ASU 2014-17, Business Combinations: Pushdown Accounting ("ASU 2014-17"). ASU 2014-17 provides companies with the option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The election to apply pushdown accounting can be made either in the period in which the change of control occurred, or in a subsequent period. If the election is made in a subsequent period, it would be considered a change in accounting principle and treated in accordance with Topic 250, Accounting Changes and Error Corrections. ASU 2014-17 became effective for the Company on November 18, 2014. The adoption of ASU 2014-17 was not material to the consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"), which amends the consolidation requirements in Accounting Standards Codification ("ASC") 810, Consolidation. This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements, as well as the available transition methods.

NOTE 2. INVESTMENTS

As of March 31, 2015, the Company held investments with a fair value of approximately \$20.7 million and a cost basis of approximately \$22.0 million. In addition, the Company held other investments of \$2.4 million. Total investments are approximately 70.1 percent of the Company's total assets. On March 31, 2015, the Company had \$17.5 million and \$465,000 at fair value invested in USGIF and an offshore fund the Company advises, respectively. These amounts were included in the Consolidated Balance Sheet as "trading securities" and "available-for-sale securities."

Investments in securities classified as trading are reflected as current assets on the Consolidated Balance Sheets at their fair value. Unrealized holding gains and losses on trading securities are included in earnings in the Consolidated Statements of Operations.

Investments in securities classified as available-for-sale, which may not be readily marketable, are reflected as non-current assets on the Consolidated Balance Sheets 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.

Other investments consist of equity investments in entities over which the Company is unable to exercise significant influence and which do not have readily determinable fair values. These investments are accounted for under the cost method of accounting and evaluated for impairment.

The Company considers many factors in determining impairment, including the severity and duration of the decline in value below cost, the Company's interest and ability to hold the security for a period of time sufficient for an anticipated recovery in value, and the financial condition and specific events related to the issuer. When an impairment of a security is determined to be other-than-temporary, the impairment is recognized in earnings.

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In December 2013, the shareholders of the U.S. Government Securities Savings Fund approved a proposal resulting in the conversion of the fund from a money market fund to a U.S. Government ultra-short bond fund that is not a money market fund. The fund was renamed U.S. Government Securities Ultra-Short Bond Fund (“Government Fund”). Prior to the conversion, while the fund was a money market fund, the amount held in the fund was classified as a cash equivalent. After the conversion, the amount held in the fund is classified as a trading mutual fund investment. The amount held in the fund by the Company as of the conversion date was \$14.1 million.

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

The following details the components of the Company’s investments recorded as fair value as of March 31, 2015, and June 30, 2014.

	March 31, 2015			
(dollars in thousands)	Cost	Gross Unrealized		Fair Value
		Gains	(Losses)	
Trading securities ¹				
Offshore fund	\$1,184	\$—	\$(719)	) \$465
Mutual funds - Fixed income	15,441	140	(1)	) 15,580
Mutual funds - Domestic equity	535	—	(137)	) 398
Other	81	—	(81)) —
Total trading securities	\$17,241	\$140	\$(938)	) \$16,443
Available-for-sale securities ²				
Common stock - Domestic	\$575	\$367	\$(13)	) \$929
Common stock - International	652	219	(32)	) 839
Corporate debt	1,582	—	(912)	) 670
Mutual funds - Fixed income	1,228	14	(13)	) 1,229
Mutual funds - Domestic equity	543	—	(75)	) 468
Other	170	3	(5)	) 168
Total available-for-sale securities ³	\$4,750	\$603	\$(1,050)	) \$4,303
	June 30, 2014			
(dollars in thousands)	Cost	Gross Unrealized		Fair Value
		Gains	(Losses)	
Trading securities ¹				
Offshore fund	\$1,184	\$—	\$(186)	) \$998
Mutual funds - Fixed income	16,241	92	—	) 16,333
Mutual funds - Domestic equity	535	—	(76)	) 459
Other	107	—	(80)	) 27
Total trading securities	\$18,067	\$92	\$(342)	) \$17,817
Available-for-sale securities ²				
Common stock - Domestic	\$535	\$586	\$(3)	) \$1,118
Common stock - International	607	802	—	) 1,409
Corporate debt	1,706	—	(74)	) 1,632
Mutual funds - Fixed income	1,228	21	(2)) 1,247
Mutual funds - Domestic equity	543	7	—) 550

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Other	232	9	(1) 240
Total available-for-sale securities ³	\$4,851	\$1,425	\$(80) \$6,196

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.

³ Net unrealized gains (losses) on available-for-sale securities gross and net of tax as of March 31, 2015, are \$(447) and \$(295), respectively, and as of June 30, 2014, are \$1,345 and \$888, respectively.

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

(dollars in thousands)	March 31, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Common stock - Domestic	\$45	\$(3)	\$98	\$(10)	\$143	\$(13)
Common stock - International	75	(18)	42	(14)	117	(32)
Corporate debt	425	(912)	—	—	425	(912)
Mutual funds - Fixed income	166	(10)	50	(3)	216	(13)
Mutual funds - Domestic equity	467	(75)	—	—	467	(75)
Other	9	(5)	—	—	9	(5)
Total available-for-sale securities	\$1,187	\$(1,023)	\$190	\$(27)	\$1,377	\$(1,050)

(dollars in thousands)	June 30, 2014					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Common stock - Domestic	\$125	\$(3)	\$—	\$—	\$125	