U S GLOBAL INVESTORS INC
Form 10-Q
February 06, 2009

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

FORM 10-Q

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2008**

OR

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

Commission File Number 0-13928

U.S. GLOBAL INVESTORS, INC.

(Exact name of registrant as specified in its charter)

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

(210) 308-1234

(Registrant s Telephone Number, Including Area Code)

Not Applicable

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

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

YES þ NO o

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

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

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

YES o NO þ

On January 30, 2009, there were 13,819,673 shares of Registrant s class A nonvoting common stock issued and 13,185,449 shares of Registrant s class A nonvoting common stock issued and outstanding, no shares of Registrant s class B nonvoting common shares outstanding, and 2,091,875 shares of Registrant s class C voting common stock issued and outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets

Assets

	December 31, 2008 (Unaudited)	June 30, 2008
Current Assets		
Cash and cash equivalents	$ 22,235,465	$ 25,135,075
Trading securities, at fair value	4,156,297	6,991,843
Receivables		
Mutual funds	2,139,609	5,096,117
Offshore clients	13,616	3,690,400
Employees	1,751	6,111
Other	117,689	21,767
Prepaid expenses	768,500	628,790
Deferred tax asset	547,012	
Total Current Assets	29,979,939	41,570,103
Net Property and Equipment	3,407,054	2,378,396
Other Assets		
Deferred tax asset, long term	908,970	299,351
Investment securities available-for-sale, at fair value	520,283	1,246,769
Income tax receivable	2,038,143	
Total Other Assets	3,467,396	1,546,120
Total Assets	$ 36,854,389	$ 45,494,619

The accompanying notes are an integral part of this statement.

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Liabilities and Shareholders Equity

	December 31, 2008 (Unaudited)	June 30, 2008
Current Liabilities		
Accounts payable	$ 237,578	$ 289,364
Accrued compensation and related costs	1,037,726	2,396,881
Deferred tax Liability		406,730
Other accrued expenses	1,018,530	3,167,900
Total Current Liabilities	2,293,834	6,260,875
Shareholders Equity		
Common stock (class A) $0.25 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,819,673 shares and 13,817,269 shares at December 31, 2008, and June 30, 2008, respectively	345,492	345,432
Common stock (class B) $0.25 par value; nonvoting; authorized, 4,500,000 shares; no shares issued		
Common stock (class C) $0.25 par value; voting; authorized, 3,500,000 shares; issued, 2,091,875 shares and 2,094,279 shares at December 31, 2008, and June 30, 2008, respectively	52,297	52,357
Additional paid-in-capital	14,413,967	14,114,178
Treasury stock, class A shares at cost; 637,809 and 656,520 shares at December 31, 2008, and June 30, 2008, respectively	(1,493,351)	(1,562,419)
Accumulated other comprehensive income (loss), net of tax	54	(325,397)
Retained earnings	21,242,096	26,609,593
Total Shareholders Equity	34,560,555	39,233,744
Total Liabilities and Shareholders Equity	$ 36,854,389	$ 45,494,619

The accompanying notes are an integral part of this statement.

U.S. Global Investors, Inc.
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Consolidated Statements of Operations and Comprehensive Income (Unaudited)

	Six Months Ended December 31,		**Three Months Ended December 31,**	
	2008	**2007**	**2008**	**2007**
Revenues				
Mutual fund advisory fees	$ 10,982,654	$ 19,907,529	$ 2,948,348	$ 10,550,297
Other advisory fees	802,540	1,548,754	149,000	801,612
Distribution fees	966,893		966,893	
Administrative services fees	417,567		417,567	
Transfer agent fees	3,544,263	4,183,665	1,329,861	2,111,663
Investment income (loss)	(5,061,024)	1,148,543	(2,992,670)	386,575
Other	20,608	26,440	6,957	14,011
	11,673,501	26,814,931	2,825,956	13,864,158
Expenses				
Employee compensation and benefits	5,129,140	6,533,134	2,313,177	3,386,098
General and adminstrative	6,144,093	3,428,068	1,527,542	1,688,244
Subadvisory fees	2,220,585	4,858,528	482,898	2,546,937
Platform fees	3,017,327	4,273,220	831,896	2,346,051
Advertising	237,242	244,913	89,296	119,456
Depreciation	146,772	140,940	73,965	71,271
	16,895,159	19,478,803	5,318,774	10,158,057
Income (Loss) Before Income Taxes	(5,221,658)	7,336,128	(2,492,818)	3,706,101
Provision for Federal Income Taxes				
Tax expense (benefit)	(1,693,349)	2,462,693	(809,658)	1,241,498
Net Income (Loss)	(3,528,309)	4,873,435	(1,683,160)	2,464,603
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on available-for-sale securities	325,451	(17,068)	576,804	9,193
Comprehensive Income (Loss)	$ (3,202,858)	$ 4,856,367	$ (1,106,356)	$ 2,473,796
Basic Net Income (Loss) per Share	$ (0.23)	$ 0.32	$ (0.11)	$ 0.16

Diluted Net Income (Loss) per Share	$	(0.23)	$	0.32	$	(0.11)	$	0.16
Basic weighted average number of common shares outstanding		15,261,582		15,243,193		15,264,634		15,244,563
Diluted weighted average number of common shares outstanding		15,285,343		15,273,783		15,285,459		15,273,666

The accompanying notes are an integral part of this statement.

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Consolidated Statements of Cash Flows (Unaudited)

	SIX MONTHS ENDED DECEMBER 31,	
	2008	**2007**
Cash Flows from Operating Activities		
Net income (loss)	$ (3,528,309)	$ 4,873,435
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	146,772	140,940
Net recognized loss on sale of fixed assets	2,075	
Net recognized loss on securities	2,456,618	227,985
Provision for deferred taxes	(1,731,019)	76,684
Stock bonuses	103,219	47,218
SFAS 123R compensation expense	162,917	157,860
Changes in assets and liabilities, impacting cash from operations:		
Accounts receivable	4,503,587	8,658,390
Prepaid expenses	(139,710)	(173,214)
Trading securities	2,835,546	(1,144,420)
Accounts payable and accrued expenses	(3,560,311)	(2,981,394)
Total adjustments	4,779,694	5,010,049
Net Cash Provided by Operations	1,251,385	9,883,484
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,177,505)	(147,375)
Purchase of available-for-sale securities	(1,237,024)	(579,876)
Proceeds on sale of available-for-sale securities		45,274
Net Cash Used in Investing Activities	(2,414,529)	(681,977)
Cash Flow from Financing Activities		
Purchase of treasury stock		
Proceeds from issuance of exercise of stock and options		
Treasury stock issued	102,722	102,281
Dividends paid	(1,839,188)	(1,379,493)
Net Cash Used in Financing Activities	(1,736,466)	(1,277,212)

Net Decrease in Cash and Cash Equivalents		(2,899,610)		7,924,295
Beginning Cash and Cash Equivalents		25,135,075		14,854,420
Ending Cash and Cash Equivalents	$	22,235,465	$	22,778,715

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

U.S. Global Investors, Inc. (the Company or U.S. Global) has prepared the consolidated financial statements pursuant to accounting principles generally accepted in the United States of America (U.S. GAAP) and the rules and regulations of the 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, 2008.

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

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts have been reclassified for comparative purposes. The results of operations for the six months ended December 31, 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. A dividend of $0.02 per share is authorized through March, 2009, and will be reviewed by the board quarterly.

Note 3. Investments

As of December 31, 2008, the Company held investments with a market value of approximately $4.7 million and a cost basis of approximately $6.8 million. The market value of these investments is approximately 12.7 percent of the Company s total assets. The Company currently has no investments in debt securities or mortgage-backed securities. During the quarter ended December 31, 2008, other-than-temporary impairments of $2.457 million were realized on corporate investments classified as available-for-sale relating primarily to two holdings. The impairment is the difference between the investments cost basis of $2.977 million and their fair value of $520,201. The fair value of the investments at December 31, 2008, will become the new cost basis, which will not be adjusted for any subsequent recoveries in fair value.

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 December 31, 2008, and June 30, 2008.

Securities	Market Value	Cost	Unrealized Gain (Loss)	Unrealized holding losses on available-for-sale securities, net of tax
Trading [1]	$ 4,156,297	$ 6,276,578	$ (2,120,281)	N/A
Available-for-sale [2]	520,283	520,201	82	$ 54
Total at December 31, 2008	$ 4,676,580	$ 6,796,779	$ (2,120,199)	
Trading [1]	$ 6,991,843	$ 6,275,478	$ 716,365	N/A
Available-for-sale [2]	1,246,769	1,739,795	(493,026)	$ (325,397)
Total at June 30, 2008	$ 8,238,612	$ 8,015,273	$ 223,339	

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 six months ended December 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:

	Six Months Ended December 31,	
	2008	**2007**
Investment Income (Loss)		
Realized gains (losses) on sales of available-for-sale securities	$	34,522
Realized gains (losses) on sales of trading securities		(262,507)
Unrealized gains (losses) on trading securities	(2,836,646)	555,402
Realized foreign currency losses	(48,795)	183
Other-than-temporary declines in available-for-sale securities	(2,456,618)	
Dividend and interest income	281,035	820,943
Total Investment Income (Loss)	$ (5,061,024)	$ 1,148,543

	Three Months Ended December 31,	
	2008	**2007**
Investment Income (Loss)		
Realized gains (losses) on sales of available-for-sale securities	$	34,522
Realized gains (losses) on sales of trading securities		(262,507)
Unrealized gains (losses) on trading securities	(596,890)	58,457
Realized foreign currency losses	(46,992)	183
Other-than-temporary declines in available-for-sale securities	(2,456,618)	
Dividend and interest income	107,830	555,920
Total Investment Income (Loss)	$ (2,992,670)	$ 386,575

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Note 4. Fair Value Disclosures

U.S. Global adopted Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements (SFAS No. 157) effective July 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value and requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., Levels 1, 2, and 3 inputs, as defined below). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Additionally, companies are required to provide enhanced disclosures regarding instruments in the Level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending values separately for each major category of assets or liabilities.

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

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

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

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

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

The following table presents fair value measurements, as of December 31, 2008, for the two major categories of U.S. Global s investments measured at fair value on a recurring basis:

	Fair Value Measurement using(in thousands)			
	Quoted Prices (Level 1)	**Significant Other Inputs** (Level 2)	**Significant Unobservable Inputs** (Level 3)	**Total**
Trading Securities	$ 3,683	$ 473		4,156
Available-for-Sale Securities	520			520
Total Investments	$ 4,203	$ 473		4,676

Approximately 90 percent of the Company s financial assets measured at fair value are derived from Level 1 inputs including SEC-registered mutual funds and equity securities traded on an active market and the remaining 10 percent are Level 2 inputs including an investment in an offshore fund.

U.S. Global held investments in two securities with a value of zero that were measured at fair value using significant unobservable inputs (Level 3) at December 31, 2008. There were no realized or unrealized gains or losses or transactions in these securities or any transfers in or out of Level 3 during the three month period ended December 31, 2008.

Note 5. Investment Management, Transfer Agent and Other Fees

Investment advisory fees for the USGIF funds totaled $10,982,654 and $19,907,529 for the six months ended December 31, 2008, and December 31, 2007, respectively. Transfer agency fees totaled $3,544,263 and $4,183,665 for the six months ended December 31, 2008, and December 31, 2007, respectively.

The Company serves as investment adviser to U.S. Global Investors Funds (USGIF) and receives a fee based on a specified percentage of net assets under management. Two of the funds within USGIF (Eastern European Fund and Global Emerging Markets Fund) were subadvised by a third-party manager, Charlemagne Capital (IOM) Limited (Charlemagne) through November 6, 2008.

Effective November 7, 2008, the Company assumed the day-to-day management of both funds. The subadvisory agreements with Charlemagne were amended, effective November 7, 2008, to reflect reduced subadvisory fees in light of restructured responsibilities.

USSI also serves as transfer agent to USGIF and receives fees based on the number of shareholder accounts as well as transaction and activity-based fees. Fees for providing investment management and transfer agent services to USGIF continue to be the Company s primary revenue source.

A special meeting of shareholders of USGIF and USGAF was held on September 23, 2008, to consider several proposals. The new proposals were approved effective October 1, 2008, and included (i) a reorganization of the USGIF and USGAF funds from two separate Massachusetts business trusts into a single Delaware statutory trust under the name USGIF, (ii) a new advisory agreement for the USGIF funds and (iii) a new distribution plan for the nine equity USGIF funds under which U.S. Global Brokerage, Inc. is paid a fee at an annual rate of 0.25 percent of the average daily net assets of each fund. A full discussion of the proposals is set forth in proxy materials filed with the SEC by USGIF and USGAF. The Company incurred a total of $3.74 million in merger-related costs, of which $3.57 million was recorded in the first quarter of fiscal 2009.

The new advisory agreement for the nine equity USGIF funds provides for a base advisory fee that will be adjusted upwards or downwards by 0.25 percent if there is a performance difference of 5 percent or more between a fund s performance and that of its designated benchmark index over the prior 12 months. With respect to four equity funds, the new advisory agreement also will increase the base advisory fee and make changes to the advisory fee breakpoints. In addition, administrative services that were part of the previous advisory agreement were removed and became the subject of a separate agreement. Under the new administrative services agreement, the USGIF funds no longer reimburse the Company for certain legal and administrative services, but instead pay the Company compensation at an annual rate of 0.08 percent of the average daily net assets of each fund for administrative services provided by the Company to USGIF.

Prior to October 1, 2008, the Company voluntarily waived or reduced its advisory fees and/or agreed to pay expenses on seven of thirteen funds. Effective October 1, 2008, the Company agreed to cap the expenses of all thirteen funds through September 30, 2009. The Company and each fund s Board of Trustees will negotiate the amounts of these expense caps from time to time. The aggregate fees waived and expenses borne by the Company for the six months ended December 31, 2008, and December 31, 2007, were $2,214,127, and $726,399, respectively.

On November 6, 2008, effective immediately, the Company terminated its relationship with Endeavour Financial Corp. as the subadviser to its equity portfolio. As investment adviser, the Company was paid a monthly advisory fee based on the net asset value of the portfolio and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity. The Company recorded fees totaling $661,262 and $1,277,197 for the six months ended December 31, 2008, and December 31, 2007, respectively.

The Company continues to provide advisory services for two offshore clients and receives monthly advisory fees based on the net asset values of the clients and performance fees, if any, based on the overall increase in net asset values. The Company recorded fees from these clients totaling $141,278 and $271,557 for the six months ended December 31, 2008, and December 31, 2007, respectively. The performance fees for these clients are calculated and recorded quarterly in accordance with the terms of the advisory agreements. These fees may fluctuate significantly from year to year based on factors that may be out of the Company s control. Frank Holmes, CEO, serves as a director of the offshore clients.

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

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

Note 6. Borrowings

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

Note 7. 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, 2008, and December 31, 2007, respectively, was $162,917 and $157,860. As of December 31, 2008, and December 31, 2007, respectively, there was approximately $275,197 and $604,313 of total unrecognized share-based compensation cost related to share-based compensation granted under the plans that will be recognized over the remainder of their respective vesting periods.

Stock compensation plans

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

The following table summarizes information about the Company s stock option plans for the six months ended December 31, 2008.

	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	77,300	$ 13.66
Granted		
Exercised		
Forfeited		
	77,300	$ 13.66
Options exercisable, end of period	52,560	$ 9.81

Note 8. Earnings Per Share

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

The following table sets forth the computation for basic and diluted earnings per share (EPS):

	Six Months Ended December 31,	
	2008	**2007**
Net income (loss)	$ (3,528,309)	$ 4,873,435
Weighted average number of outstanding shares		
Basic	15,261,582	15,243,193
Effect of dilutive securities		
Employee stock options	23,761	30,590
Diluted	15,285,343	15,273,783
Earnings (loss) per share		
Basic	$ (0.23)	$ 0.32
Diluted	$ (0.23)	$ 0.32

	Three Months Ended December 31,	
	2008	**2007**
Net income (loss)	$ (1,683,160)	$ 2,464,603
Weighted average number of outstanding shares		
Basic	15,264,634	15,244,563
Effect of dilutive securities		
Employee stock options	20,825	29,103
Diluted	15,285,459	15,273,666
Earnings (loss) per share		
Basic	$ (0.11)	$ 0.16
Diluted	$ (0.11)	$ 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, 2008, 53,300 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, 2008. Upon repurchase, these shares are classified as treasury shares and are deducted from outstanding shares in the earnings per share calculation.

Note 9. Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Provisions for income taxes include deferred taxes for temporary differences in the bases of assets and liabilities for financial and tax purposes, resulting from the use of the liability method of accounting for income taxes. The current deferred tax asset primarily consists of unrealized losses on trading securities as well as temporary differences in the deductibility of prepaid expenses and accrued liabilities. The long-term deferred tax asset is composed primarily of unrealized losses on available-for-sale securities and the tax benefit of carryovers. For federal income tax purposes at December 31, 2008, the Company had charitable contribution carryovers of approximately $31,000 expiring in fiscal 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, 2008, or June 30, 2008.

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Note 10. Financial Information by Business Segment

The Company operates principally in two business segments: providing investment management services to the funds it 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, 2008			
Revenues	$ 16,986,908	$ (5,313,407)	$ 11,673,501
Income (loss) before income taxes	$ 94,593	$ (5,316,251)	$ (5,221,658)
Depreciation	$ 146,772	$	$ 146,772
Capital expenditures	$ 1,177,505	$	$ 1,177,505
Gross identifiable assets at December 31, 2008	$ 30,691,976	$ 4,706,431	$ 35,398,407
Deferred tax asset			1,455,982
Consolidated total assets at December 31, 2008			$ 36,854,389
Six months ended December 31, 2007			
Revenues	$ 26,484,433	$ 330,498	$ 26,814,931
Income (loss) before income taxes	$ 7,005,994	$ 330,134	$ 7,336,128
Depreciation	$ 140,940	$	$ 140,940
Capital expenditures	$ 147,375	$	$ 147,375
Three months ended December 31, 2008			
Revenues	$ 5,903,190	$ (3,077,234)	$ 2,825,956
Income (loss) before income taxes	$ 587,169	$ (3,079,987)	$ (2,492,818)
Depreciation	$ 73,965	$	$ 73,965
Capital expenditures	$ 575,321	$	$ 575,321
Three months ended December 31, 2007			
Revenues	$ 14,031,165	$ (167,007)	$ 13,864,158

Income (loss) before income taxes	$	3,873,287	$	(167,186)	$	3,706,101
Depreciation	$	71,271	$		$	71,271
Capital expenditures	$	78,487	$		$	78,487

Note 11. 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.

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

U.S. Global has made forward-looking statements concerning the Company s performance, financial condition, and operations in this report. The Company from time to time may also make forward-looking statements in its public filings and press releases. Such forward-looking statements are subject to various known and unknown risks and uncertainties and do not guarantee future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond the Company s control, including: (i) the volatile and competitive nature of the investment management industry, (ii) changes in domestic and foreign economic conditions, (iii) the effect of government regulation on the Company s business, and (iv) market, credit, and liquidity risks associated with the Company s investment management activities. Due to such risks, uncertainties, and other factors, the Company cautions each person receiving such forward-looking information not to place undue reliance on such statements. All such forward-looking statements are current only as of the date on which such statements were made.

Recent Trends and Continuing Disruptions in Worldwide Financial Markets

Due to the consequences of the meltdown in the subprime mortgage market beginning in 2007, the worldwide financial markets have encountered intense volatility due to uncertainty and disruption within the credit markets. This disruption moved into 2008 causing global equities to decline worldwide. The Company s investment advisory fees and operating revenue primarily depend on the value of our assets under management, and continued global market fluctuations impact the funds asset levels, thereby affecting income and results of operations.

This global strain has resulted in a seizing of the international credit markets resulting in unprecedented worldwide governmental actions. For instance, on September 7, 2008, the U.S. Government moved to guarantee the outstanding debt of Fannie Mae and Freddie Mac. On September 19, 2008, the U.S. Treasury Department (the Treasury) announced a temporary guarantee program (Temporary Guarantee Program for Money Market Funds) for publicly available money market funds which elected to participate in the program.

Furthermore, on October 3, 2008, the U.S. Congress enacted the Emergency Economic Stabilization Act of 2008, which sanctioned the Treasury Secretary to create the Troubled Assets Relief Program and authorize the purchase of up to $700 billion of troubled assets. Despite these aggressive governmental programs and actions, the global financial markets continue to remain extremely volatile.

This unsettled financial environment has had an impact on the Company s assets under management. Total assets under management at June 30, 2008, were $5.753 billion versus $3.330 billion at September 30, 2008, and $1.981 billion at December 31, 2008. Total assets under management at December 31, 2008, were $1.981 billion versus $5.704 billion at December 31, 2007.

BUSINESS SEGMENTS

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

Investment Management Products and Services

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

The Company continues to provide advisory services for two offshore clients and receives monthly advisory fees based on the net asset values of the clients and performance fees, if any, based on the overall increase in net asset values. The Company recorded fees from these clients totaling $141,278 and $271,557 for the six months ended December 31, 2008, and December 31, 2007, respectively. The performance fees for these clients are calculated and recorded quarterly in accordance with the terms of the advisory agreements. These fees may fluctuate significantly from year to year based on factors that may be out of the Company s control.

At December 31, 2008, total assets under management as of period end, including both SEC-registered funds and offshore clients, were $1.981 billion versus $5.704 billion at December 31, 2007. During the six months ended December 31, 2008, average assets under management were $3.105 billion versus $5.329 billion for the same period ended December 31, 2007. This decrease was primarily due to a decrease in the natural resources and foreign equity funds under management. Total assets under management at June 30, 2008, were $5.753 billion versus $1.981 billion at December 31, 2008.

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 and operational 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, 2008, the Company held investments with a market value of approximately $4.7 million and a cost basis of approximately $6.8 million. The market value of these investments is approximately 12.7 percent of the Company s total assets. The Company currently has no investments in debt securities or mortgage-backed securities.

During the quarter ended December 31, 2008, other-than-temporary impairments of $2.457 million were realized on corporate investments classified as available-for-sale relating primarily to two holdings. The impairment is the difference between the investments cost basis of $2.977 million and their fair value of $520,201. The fair value of the investments at December 31, 2008, will become the new cost basis, which will not be adjusted for any subsequent recoveries in fair value.

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

	Six Months Ended December 31,	
	2008	**2007**
Investment Income (Loss)		
Realized gains (losses) on sales of available-for-sale securities	$	34,522
Realized gains (losses) on sales of trading securities		(262,507)
Unrealized gains (losses) on trading securities	(2,836,646)	555,402
Realized foreign currency losses	(48,795)	183
Other-than-temporary declines in available-for-sale securities	(2,456,618)	
Dividend and interest income	281,035	820,943
Total Investment Income (Loss)	$ (5,061,024)	$ 1,148,543

	Three Months Ended December 31,	
	2008	2007
Investment Income (Loss)		
Realized gains (losses) on sales of available-for-sale securities	$	34,522
Realized gains (losses) on sales of trading securities		(262,507)
Unrealized gains (losses) on trading securities	(596,890)	58,457
Realized foreign currency losses	(46,992)	183
Other-than-temporary declines in available-for-sale securities	(2,456,618)	
Dividend and interest income	107,830	555,920
Total Investment Income (Loss)	$ (2,992,670)	$ 386,575

RESULTS OF OPERATIONS SIX MONTHS ENDED DECEMBER 31, 2008, AND 2007

The Company posted a net after-tax loss of $3,528,309 ($0.23 loss per share) for the six months ended December 31, 2008, compared with a net after-tax income of $4,873,435 ($0.32 income per share) for the six months ended December 31, 2007.

Revenues

Total consolidated revenues for the six months ended December 31, 2008, decreased $15,141,430, or 56 percent, compared with the six months ended December 31, 2007. This decrease was primarily attributable to the following:

Investment advisory fees decreased by approximately $9,671,000 primarily as a result of decreased assets under management in the natural resources and emerging markets funds; and

Investment income decreased by approximately $6,210,000 primarily as a result of declines in the market value of trading securities in the natural resources and emerging markets sectors as well as an other-than-temporary impairment as a result of declines in the market value of available-for-sale securities.

Expenses

Total consolidated expenses for the six months ended December 31, 2008, decreased $2,583,644, or 13 percent, compared with the six months ended December 31, 2007. This was largely attributable to the following:

Subadvisory fees decreased by $2,638,000 due to decreased assets in the funds being subadvised and the change in subadvisory contracts discussed in Note 5;

Employee compensation decreased by$1,404,000 primarily due to lower bonuses resulting from decreased assets under management as well as lower relative performance in certain of the funds;

Platform fees decreased by $1,256,000 due to decreased assets under management; and

These decreases in expenses were somewhat offset by an increase in general and administrative expenses of $2,717,000 primarily due to proxy-related costs associated with the merger of the USGIF and USGAF trusts.

RESULTS OF OPERATIONS THREE MONTHS ENDED DECEMBER 31, 2008, AND 2007

The Company posted a net after-tax loss of $1,683,160 ($0.11 loss per share) for the three months ended December 31, 2008, compared with a net after-tax income of $2,464,603 ($0.16 income per share) for the three months ended December 31, 2007.

Revenues

Total consolidated revenues for the three months ended December 31, 2008, decreased $11,038,202, or 80 percent, compared with the six months ended December 31, 2007. This decrease was primarily attributable to the following:

Investment advisory fees decreased by approximately $8,255,000 primarily as a result of decreased assets under management in the natural resources and emerging markets funds; and

Investment income decreased by approximately $3,379,000 primarily as a result of declines in the market value of available-for-sale securities resulting in an other-than-temporary impairment.

Expenses

Total consolidated expenses for the three months ended December 31, 2008, decreased $4,839,283, or 48 percent, compared with the three months ended December 31, 2007. This was largely attributable to the following:

Subadvisory fees decreased by $2,064,000 due to decreased assets in the funds being subadvised and the change in subadvisory contracts discussed in Note 5;

Platform fees decreased by $1,514,000 due to decreased assets under management; and

Employee compensation decreased by $1,073,000 primarily due to lower bonuses resulting from decreased assets under management as well as lower relative performance in certain of the funds.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008, the Company had net working capital (current assets minus current liabilities) of approximately $27.7 million and a current ratio (current assets divided by current liabilities) of 13.1 to 1. With approximately $22.2 million in cash and cash equivalents and approximately $4.7 million in marketable securities, the Company has adequate liquidity to meet its current obligations. Total shareholders equity was approximately $34.6 million, with cash, cash equivalents, and marketable securities comprising 73 percent of total assets.

As of December 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 December 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.

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

The investment advisory and related contracts between the Company and USGIF will expire September 30, 2009. Management anticipates the board of trustees of USGIF will renew the contracts. The Company provides advisory services to two offshore clients. The Company generally receives a monthly advisory fee and a quarterly performance fee, if any, based on agreed-upon performance measurements. The contracts between the Company and these offshore clients expire periodically, and management anticipates that its offshore clients will renew the contracts.

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

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 September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements because the FASB had previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. In February 2008, the FASB issued an FSP to defer the effective date of SFAS 157 for one year for nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. Management adopted the provisions of SFAS 157 related to all financial assets and liabilities and nonfinancial assets and liabilities recognized or disclosed at fair value on a recurring basis on July 1, 2008. Management continues to evaluate the impact this statement will have on the Consolidated Financial Statements once its provisions are adopted for nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. 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. We have not elected to apply the provisions of SFAS 159 to any of our financial instruments; therefore, the adoption of SFAS 159 effective July 1, 2008, has not affected our financial position or results of operations.

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. Accordingly, the Company adopted EITF 06-11 on July 1, 2008. The adoption of EITF 06-11 did not have a material effect on the Company s financial position or results of operations for the quarter ended December 31, 2008.

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, 2008.

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 December 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 December 31, 2008**	**Hypothetical Percentage Change**	**Estimated Fair Value After Hypothetical Price Change**	**Increase (Decrease) in Shareholders' Equity, Net of Tax**
Trading securities[1]	$ 4,156,297	25% increase	$ 5,195,371	$ 685,789
		25% decrease	$ 3,117,223	$ (685,789)
Available-for-sale[2]	$ 520,283	25% increase	$ 650,353	$ 85,847
		25% decrease	$ 390,212	$ (85,847)

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

2 *Unrealized and realized gains and losses on available-for-sale securities are*

excluded from earnings and recorded in other comprehensive income as a component of shareholders equity until realized.

The selected hypothetical 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, 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 December 31, 2008.

There has been no change in the Company s internal control over financial reporting that occurred during the quarter ended December 31, 2008, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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, 2008. There has been no material changes since fiscal year end to the risk factors listed therein.

ITEM 6. Exhibits

1. Exhibits -

1.1 Advisory Agreement with U.S. Global Investors Funds, dated October 1, 2008, incorporated by reference to Post-Effective Amendment 100 filed October 1, 2008 (EDGAR Accession No. 0000950134-08-017422).

1.2 Transfer Agency Agreement, dated July 31, 2008, by and between U.S. Global Investors Funds and United Shareholder Services, Inc., incorporated by reference to Post -Effective Amendment 100 filed October 1, 2008 (EDGAR Accession No. 0000950134-08-017422).

1.3 Administrative Services Agreement, dated October 1, 2008, by and between U.S. Global Investors Funds and U.S. Global Investors, Inc., incorporated by reference to Post-Effective Amendment 100 filed October 1, 2008 (EDGAR Accession No. 0000950134-08-017422).

1.4 Rule 12b-1 Plan, dated October 1, 2008, by and between U.S. Global Investors Funds and U.S. Global Brokerage, Inc., incorporated by reference to Post-Effective Amendment 100 filed October 1, 2008 (EDGAR Accession No. 0000950134-08-017422).

1.5 Distribution Agreement, dated October 1, 2008, by and between U.S. Global Investors Funds and U.S. Global Brokerage, Inc., incorporated by reference to Post-Effective Amendment 100 filed October 1, 2008 (EDGAR Accession No. 0000950134-08-017422).

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

SIGNATURES

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

		U.S. GLOBAL INVESTORS, INC.
DATED: February 6, 2009	BY:	/s/ Frank E. Holmes
		Frank E. Holmes Chief Executive Officer
DATED: February 6, 2009	BY:	/s/ Catherine A. Rademacher
		Catherine A. Rademacher Chief Financial Officer