U S GLOBAL INVESTORS INC
Form 10-Q
May 11, 2017

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, 2017

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	74-1598370
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7900 Callaghan Road	
San Antonio, Texas	78229
(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 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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On April 28, 2017, there were 13,866,601 shares of Registrant’s class A nonvoting common stock issued and 13,120,260 shares of Registrant’s class A nonvoting common stock issued and outstanding, no shares of Registrant’s class B nonvoting common shares outstanding, and 2,068,947 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	March 31, 2017 (UNAUDITED)	June 30, 2016
(dollars in thousands)		
Current Assets		
Cash and cash equivalents	$ 3,434	$ 3,993
Restricted cash	1,000	1,000
Investment securities - trading, at fair value	9,720	10,104
Accounts and other receivables	803	787
Note receivable	2,000	2,000
Prepaid expenses	313	290
Total Current Assets	17,270	18,174
Net Property and Equipment	2,273	2,466
Other Assets		
Investment securities - available-for-sale, at fair value	3,524	3,481
Other investments	2,637	1,924
Note receivable, long term	234	212
Other assets, long term	98	89
Total Other Assets	6,493	5,706
Total Assets	$ 26,036	$ 26,346
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 99	$ 148
Accrued compensation and related costs	326	451
Dividends payable	114	115
Other accrued expenses	507	586
Total Current Liabilities	1,046	1,300
Commitments and Contingencies (Note 11)		
Shareholders' Equity		
Common stock (class A) - $0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,866,601 and 13,866,421 at March 31, 2017, and June 30, 2016, 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, 2,068,947 and 2,069,127 shares at March 31, 2017, and June 30, 2016, respectively	52	52
Additional paid-in-capital	15,648	15,651
Treasury stock, class A shares at cost; 740,985 and 688,700 shares at March 31, 2017, and June 30, 2016, respectively	(1,748)	(1,663)

Accumulated other comprehensive loss, net of tax	(16)	(149)
Retained earnings	10,185	10,290
Total U.S. Global Investors Inc. Shareholders’ Equity	24,468	24,528
Non-Controlling Interest in Subsidiary	522	518
Total Shareholders’ Equity	24,990	25,046
Total Liabilities and Shareholders’ Equity	$ 26,036	$26,346

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, 2017	Nine Months Ended March 31, 2016	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating Revenues				
Advisory fees	$5,064	$3,615	$1,604	$1,279
Administrative services fees	228	254	65	51
	5,292	3,869	1,669	1,330
Operating Expenses				
Employee compensation and benefits	2,818	3,953	932	886
General and administrative	2,569	3,345	836	871
Advertising	108	182	28	33
Depreciation and amortization	191	240	64	80
	5,686	7,720	1,860	1,870
Operating Loss	(394)	(3,851)	(191)	(540)
Other Income				
Investment income	663	411	161	148
Total Other Income	663	411	161	148
Income (Loss) Before Income Taxes	269	(3,440)	(30)	(392)
Provision for Income Taxes				
Tax expense (benefit)	13	(5)	3	(16)
Income (Loss) from Continuing Operations	256	(3,435)	(33)	(376)
Discontinued Operations				
Loss from discontinued operations of distributor before income taxes	-	(18)	-	-
Tax benefit	-	-	-	-
Loss from Discontinued Operations	-	(18)	-	-
Net Income (Loss)	256	(3,453)	(33)	(376)
Less: Net Income (Loss) Attributable to Non-Controlling Interest	18	(23)	-	(26)
Net Income (Loss) Attributable to U.S. Global Investors, Inc.	$238	$(3,430)	$(33)	$(350)
Earnings Per Share Attributable to U.S. Global Investors, Inc.				
Basic				
Income (loss) from continuing operations	$0.02	$(0.22)	$-	$(0.02)
Loss from discontinued operations	-	-	-	-
Net income (loss)	$0.02	$(0.22)	$-	$(0.02)
Diluted				
Income (loss) from continuing operations	$0.02	$(0.22)	$-	$(0.02)
Loss from discontinued operations	-	-	-	-
Net income (loss)	$0.02	$(0.22)	$-	$(0.02)
Basic weighted average number of common shares outstanding	15,220,134	15,306,676	15,200,280	15,277,098
Diluted weighted average number of common shares outstanding	15,220,134	15,306,676	15,200,280	15,277,098

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Nine Months Ended March 31,		Three Months Ended March 31,	
(dollars in thousands)	2017	2016	2017	2016
Net Income (Loss) Attributable to U.S. Global Investors, Inc.	$238	$(3,430)	$(33)	$(350)
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gains (losses) on available-for-sale securities arising during period	175	774	(194)	417
Less: reclassification adjustment for gains/losses included in net income	(15)	(286)	-	(14)
Net change from available-for-sale investments, net of tax	160	488	(194)	403
Foreign currency translation adjustment	(42)	(79)	12	95
Other Comprehensive Income (Loss)	118	409	(182)	498
Comprehensive Income (Loss)	356	(3,021)	(215)	148
Less: Comprehensive Income (Loss) Attributable to Non-Controlling Interest	(15)	(28)	4	33
Comprehensive Income (Loss) Attributable to U.S. Global Investors, Inc.	$371	$(2,993)	$(219)	$115

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, 2017	2016
Cash Flows from Operating Activities:		
Net income (loss)	$256	$(3,453)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	191	240
Net recognized (gain) loss on securities	(15)	2
Stock bonuses	4	11
Changes in operating assets and liabilities:		
Accounts and notes receivable	(42)	1,080
Prepaid and other assets	(34)	2
Trading securities	384	2,505
Accounts payable and accrued expenses	(248)	(378)
Total adjustments	240	3,462
Net cash provided by operating activities	496	9
Cash Flows from Investing Activities:		
Purchase of property and equipment	-	(13)
Purchase of available-for-sale securities	(518)	-
Purchase of other investments	(776)	(750)
Proceeds on sale of available-for-sale securities	649	1,014
Return of capital on investment	63	32
Net cash provided by (used in) investing activities	(582)	283
Cash Flows from Financing Activities:		
Issuance of common stock	4	59
Repurchases of common stock	(97)	(269)
Dividends paid	(342)	(460)
Net cash used in financing activities	(435)	(670)
Effect of exchange rate changes on cash and cash equivalents	(38)	(72)
Net decrease in cash and cash equivalents	(559)	(450)
Beginning cash and cash equivalents	3,993	3,507
Ending cash and cash equivalents	$3,434	$3,057
Supplemental Disclosures of Cash Flow Information		
Cash paid for income taxes	$12	$-

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, 2016, except for the adoption of new accounting pronouncements discussed below.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 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 percent interest in Galileo Global Equity Advisor Inc. (“Galileo”). U.S. Global Brokerage, Inc. ceased operations in December 2015 as discussed in Note 12.

Galileo is consolidated with the operations of the Company. The non-controlling interest in this subsidiary is included in “non-controlling interest in subsidiary” in the equity section of the Consolidated Balance Sheets. Frank Holmes, CEO, and Susan McGee, President and General Counsel, serve as directors of Galileo.

The Company’s evaluation for consolidation includes whether entities in which it has an interest or from which it receives fees 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 obligation to absorb a majority of the expected losses or the right to receive the majority of the residual returns and consolidates the VIE on the basis of having a controlling financial interest.

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, certain funds it advises. The Company’s interests in these VIEs consist of the Company’s direct ownership therein 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 3 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 VIEs 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. The Company’s total exposure to unconsolidated VIEs, consisting of the carrying value of investment securities and receivables for fees, was $11.4 million at March 31, 2017, and $11.8 million at June 30, 2016.

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, 2017, 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

Accounting Pronouncements Adopted During the Period

In February 2015, the FASB issued Accounting Standards Update ("ASU") 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"), which amends the consolidation requirements in 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. The Company adopted this standard on a modified retrospective approach effective July 1, 2016. The adoption did not result in any change in consolidated entities. See further discussion of the Company's analysis for consolidation in Note 1, Basis of Presentation.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) ("ASU 2015-07"). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015, and requires the retrospective adoption approach. The Company adopted this standard for the September 30, 2016, financial statements on a retrospective basis and modified the presentation of the fair value hierarchy tables included in the notes to financial statements.

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In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”). ASU 2015-17 requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. It simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current or noncurrent in a classified balance sheet. Netting by tax jurisdiction is still required under the new guidance. The update is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, and early adoption is permitted. Entities are permitted to apply the amendments either prospectively or retrospectively. The Company early adopted this guidance effective September 30, 2016, on a prospective basis. As a full reserve valuation allowance is recorded for deferred tax balances, adoption of the guidance did not result in any changes or reclassifications in the Consolidated Balance Sheets as of September 30, 2016. No prior periods were retrospectively adjusted.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard will be effective for annual reporting periods beginning after December 15, 2017, and interim periods therein. Early adoption is permitted, but the Company currently does not expect to implement the new standard before the required effective date. The standard allows adoption using either of the following transition methods: (i) a full retrospective approach 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 has not yet determined the method by which it will adopt the standard. The Company is in the process of evaluating its contracts using the prescribed five-step process to determine the impact of this standard and does not currently expect the adoption to have a material impact on its consolidated financial statements.

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 for annual period and interim periods thereafter. Early application is permitted. Management does not currently anticipate that this update will have any impact on the Company’s financial statement disclosures.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 amends the guidance on the classification and measurement of investments in equity securities. It also amends certain presentation and disclosure requirements. Under the amended guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification (changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As indicated, when this standard is adopted, changes in the fair value of the Company’s investments securities classified as available-for-sale will no longer be reported through other comprehensive income, but rather through earnings, causing our investment income (loss) to be more volatile. The Company is currently evaluating other potential impacts of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”). ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet. The new guidance will be effective for public business entities for annual periods beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Company’s current leases are primarily for equipment and for office space for the Canadian subsidiary. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts from Customers - Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”). ASU 2016-08 amends the guidance in ASU 2014-09, which is not yet effective. Among other things, the ASU clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. The effective date and transition requirements for the amendments in ASU 2016-08 are the same as the effective date and transition requirements of ASU 2014-09. The Company is evaluating the effect of this ASU in conjunction with the evaluation of ASU 2014-09.

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In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and disclosed. ASU 2016-09 is effective for public business entities for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption will be permitted in any interim or annual period, as long as all elements of the new standard are adopted at the same time. Management currently does not expect to implement the new standard before the required effective date. The Company is currently evaluating the potential impact of this standard but does not currently expect the adoption to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. ASU 2016-13 is effective for public business entities that are SEC filers for fiscal years beginning after December 15, 2019, including interim periods within those years. Earlier application is permitted only for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In August 2016, the FASB issued 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 may change how an entity classifies certain cash receipts and cash payments on its statement of cash flows to reduce existing diversity in practice. The guidance will generally be applied retrospectively and is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted, and the Company is in the process of determining whether the standard will be early adopted. The Company is currently evaluating the potential impact of this standard but does not currently expect the adoption to have a material impact on the consolidated statements of cash flows.

In November 2016, the FASB issued 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). Under ASU 2016-18, restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The guidance will be applied retrospectively, and early adoption is permitted. The Company is in the process of determining whether the standard will be early adopted.

NOTE 2. INVESTMENTS

As of March 31, 2017, the Company held investments with a fair value of approximately $13.2 million and a cost basis of approximately $14.0 million. The fair value of these investments is approximately 50.9 percent of the Company's total assets. In addition, the Company held other investments of $2.6 million accounted for under the cost method of accounting. On March 31, 2017, the Company had $10.7 million and $430,000 at fair value invested in U.S. Global Investors Funds ("USGIF" or the "Funds") and an offshore fund the Company advises, respectively. These amounts were included in the Consolidated Balance Sheets 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 periodically 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 as a loss in the Company's earnings.

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.

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The following details the components of the Company's investments recorded as fair value as of March 31, 2017, and June 30, 2016.

	March 31, 2017			
(dollars in thousands)	Cost	Gains	(Losses)	Fair Value
Trading securities[1]				
Mutual funds - Fixed income	$8,884	$50	$(7)	$8,927
Mutual funds - Domestic equity	535	-	(172)	363
Other	45	-	(45)	-
Offshore fund	1,184	-	(754)	430
Total trading securities	$10,648	$50	$(978)	$9,720
Available-for-sale securities[2]				
Common stock - Domestic	$109	$16	$-	$125
Common stock - International	575	5	(233)	347
Corporate debt	1,038	397	-	1,435
Mutual funds - Fixed income	1,148	1	(2)	1,147
Mutual funds - Domestic equity	394	14	-	408
Other	55	7	-	62
Total available-for-sale securities[3]	$3,319	$440	$(235)	$3,524

	June 30, 2016			
(dollars in thousands)	Cost	Gains	(Losses)	Fair Value
Trading securities[1]				
Mutual funds - Fixed income	$9,284	$124	$-	$9,408
Mutual funds - Domestic equity	535	-	(197)	338
Other	45	-	(45)	-
Offshore fund	1,184	-	(826)	358
Total trading securities	$11,048	$124	$(1,068)	$10,104
Available-for-sale securities[2]				
Common stock - Domestic	$109	$21	$-	$130
Common stock - International	613	16	(83)	546
Corporate debt	1,038	86	-	1,124
Mutual funds - Fixed income	1,226	18	(23)	1,221
Mutual funds - Domestic equity	394	2	-	396
Other	56	8	-	64
Total available-for-sale securities[3]	$3,436	$151	$(106)	$3,481

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, 2017, are $205 and $205, respectively, and as of June 30, 2016, are $45 and $45, respectively.

Investment income can be volatile and varies depending on market fluctuations, the Company's ability to participate in investment opportunities, and timing of transactions. 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;
- other-than-temporary impairments on held-at-cost securities; and
- dividend and interest income.

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

(dollars in thousands)	Nine Months Ended March 31,		Three Months Ended March 31,	
Investment Income	2017	2016	2017	2016
Realized gains on sales of available-for-sale securities	$31	$545	$-	$14
Realized gains (losses) on sales of trading securities	-	(32)	-	3
Unrealized gains (losses) on trading securities	16	(103)	42	30
Realized foreign currency gains (losses)	(25)	24	(20)	(28)
Other-than-temporary declines in available-for-sale securities	(16)	(259)	-	-
Other-than-temporary declines in securities held at cost	-	(258)	-	-
Dividend and interest income	657	494	139	129
Total Investment Income	$663	$411	$161	$148

Included in investment income were other-than temporary declines in value on available-for-sale securities of approximately $16,000 for the nine months ended March 31, 2017, and $259,000 for the nine months ended March 31, 2016, respectively. There were no impairment losses for the three months ended March 31, 2017, and 2016. The impairment losses resulted from fair values of securities being lower than book value and from proposed changes to debt securities. During the nine months ended March 31, 2017, two securities with a combined cost basis of $98,000 were written down to a combined fair value of $82,000. During the nine months ended March 31, 2016, eight securities with a combined cost basis of $702,000 were written down to a combined fair value of $466,000. Also during the nine months ended March 31, 2016, a debt security with a cost basis of $970,000 was written down to $947,000 based on the net present value of estimated cash flows. Also included in investment income for the nine months ended March 31, 2016, were other-than-temporary declines in value on securities held at cost of approximately $258,000. The impairment loss resulted from the estimated values of certain securities being lower than cost. Three securities held at cost with a combined cost basis of $1.1 million were written down to a combined adjusted cost basis of $867,000. In making these determinations, the Company considered the length of time and extent to which the fair value has been less than cost basis, financial condition and prospects of the issuers and the Company's ability to hold the investment until recovery.

Unrealized Losses

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. The Company reviewed the gross unrealized losses shown as of March 31, 2017, and determined that the losses were not other-than-temporary based on consideration of the nature of the investment and the cause, severity and duration of the loss.

	March 31, 2017					
	Less Than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Common stock - Domestic	$-	$ -	$-	$ -	$ -	$ -

Common stock - International	295	(233)	-	-	295	(233)
Corporate debt	-	-	-	-	-	-
Mutual funds - Fixed income	-	-	98	(2)	98	(2)
Mutual funds - Domestic equity	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total available-for-sale securities	$295	$ (233)	$98	$ (2)	$ 393	$ (235)

	June 30, 2016					
	Less Than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Common stock - Domestic	$-	$ -	$-	$ -	$ -	$ -
Common stock - International	246	(60)	23	(23)	269	(83)
Corporate debt	-	-	-	-	-	-
Mutual funds - Fixed income	1	-	201	(23)	202	(23)
Mutual funds - Domestic equity	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total available-for-sale securities	$247	$ (60)	$224	$ (46)	$ 471	$ (106)

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Fair Value Hierarchy

ASC 820, Fair Value Measurement and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value and requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., Levels 1, 2, and 3 inputs, as defined below). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

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 for which not all significant inputs are observable, directly or indirectly. Corporate debt securities valued in accordance with the evaluated price supplied by an independent service are categorized as Level 2 in the hierarchy. Other securities categorized as Level 2 include securities valued at the mean between the last reported bid and ask quotation.
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 inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with the investing in those securities. Because of the inherent uncertainties of valuation, the values reflected may materially differ from the values received upon actual sale of those investments.

For actively traded securities, the Company values investments using the closing price of the securities on the exchange or market on which the securities principally trade. If the security is not traded on the last business day of the quarter, it is generally valued at the mean between the last bid and ask quotation. Mutual funds, which include open- and closed-end funds, exchange-traded funds, and offshore funds, are valued at net asset value or closing price, as applicable. Certain corporate debt securities not traded on an exchange may be valued by an independent pricing service using an evaluated quote based on such factors as institutional-size trading in similar groups of securities, yield, quality maturity, coupon rate, type of issuance and individual trading characteristics and other market data. As part of its independent price verification process, the Company periodically reviews the fair value provided by the pricing service using information such as transactions in these investments, broker quotes, market transactions in comparable investments, general market conditions and the issuer's financial condition. Certain debt securities may be valued based on review of similarly structured issuances in similar jurisdictions, when possible, or based on other traded debt securities issued by the issuer. The Company also takes into consideration numerous other factors that could affect valuation such as overall market conditions, liquidity of the security and bond structure. Securities for which market quotations are not readily available are valued at their fair value as determined by the portfolio management team. The portfolio management team includes representatives from the investment, accounting and legal/compliance departments. The portfolio management team meets periodically to consider a number of factors in determining a security's fair value, including the security's trading volume, market values of similar class issuances, investment personnel's judgment regarding the market experience of the issuer, financial status of the issuer, the issuer's management, and back testing, as appropriate. The fair values may differ from what may have been used had a broader market for these securities existed. The portfolio management team reviews inputs and assumptions and reports material items to the board of directors.

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The following presents fair value measurements, as of March 31, 2017, and June 30, 2016, for the major categories of U.S. Global's investments measured at fair value on a recurring basis:

	March 31, 2017			
(dollars in thousands)	Quoted Prices (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading securities				
Mutual funds - Fixed income	$8,927	$ -	$ -	$8,927
Mutual funds - Domestic equity	363	-	-	363
Other	-	-	-	-
Offshore fund investment measured at net asset value[1]				430
Total trading securities	9,290	-	-	9,720
Available-for-sale securities				
Common stock - Domestic	125	-	-	125
Common stock - International	347	-	-	347
Corporate debt	1,435	-	-	1,435
Mutual funds - Fixed income	1,147	-	-	1,147
Mutual funds - Domestic equity	408	-	-	408
Other	62	-	-	62
Total available-for-sale securities	3,524	-	-	3,524
Total	$12,814	$ -	$ -	$13,244

	June 30, 2017			
(dollars in thousands)	Quoted Prices (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading securities				
Mutual funds - Fixed income	$9,408	$ -	$ -	$9,408
Mutual funds - Domestic equity	338	-	-	338
Other	-	-	-	-
Offshore fund investment measured at net asset value[1]				358
Total trading securities	9,746	-	-	10,104
Available-for-sale securities				
Common stock - Domestic	130	-	-	130
Common stock - International	546	-	-	546
Corporate debt	1,124	-	-	1,124
Mutual funds - Fixed income	1,221	-	-	1,221
Mutual funds - Domestic equity	396	-	-	396
Other	64	-	-	64
Total available-for-sale securities	3,481	-	-	3,481
Total	$13,227	$ -	$ -	$13,585

[1] In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

As of March 31, 2017, and June 30, 2016, 100 percent of the Company's financial assets classified in the fair value hierarchy were derived from Level 1 inputs. The Company recognizes transfers between levels at the end of each quarter.

The Company's available-for-sale investments in corporate debt securities mature in 2020.

The Company has an investment in an affiliated offshore fund, classified as trading, which invests in companies in the energy and natural resources sectors. The fair value of this investment has been estimated based on the net asset value per share at $430,000 and $358,000 as of March 31, 2017, and June 30, 2016, respectively. The Company may redeem this investment on the first business day of each month after providing a redemption notice at least forty-five days prior to the proposed redemption date.

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The following table is a reconciliation of investments for which unobservable inputs (Level 3) were used in determining fair value during the nine months ended March 31, 2017, and March 31, 2016:

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

(dollars in thousands)	March 31, 2017	March 31, 2016 Corporate Debt
Beginning Balance	$ -	$ 539
Return of capital	-	(13)
Total gains or losses (realized/unrealized)		
Included in earnings (investment income)	-	(23)
Included in other comprehensive income (loss)	-	710
Purchases	-	-
Sales	-	-
Transfers into Level 3	-	-
Transfers out of Level 3	-	(1,001)
Ending Balance	$ -	$ 212

The transfers out of Level 3 shown above in the prior period were corporate debt securities that were transferred to Level 1 when they started trading on a market. The securities previously had been valued based on other traded debt from the same issuer.

NOTE 3. INVESTMENT MANAGEMENT AND OTHER FEES

The Company serves as investment adviser to USGIF and receives a fee based on a specified percentage of net assets under management. The Company recorded base advisory fees from USGIF totaling $1.2 million and $3.8 million, respectively, for the three and nine months ended March 31, 2017, compared with $869,000 and $2.6 million, respectively, for the corresponding periods in the prior fiscal year.

The advisory agreement for the equity funds within USGIF provides for a base advisory fee that is adjusted upwards or downwards by 0.25 percent when there is a performance difference of 5 percent or more between a fund’s performance and that of its designated benchmark index over the prior rolling 12 months. For the three and nine months ended March 31, 2017, the Company realized a (decrease) increase in its base advisory fees from USGIF of ($16,000) and $14,000, respectively. For the corresponding periods in the prior fiscal year, the Company realized an increase (decrease) in its base advisory fees from USGIF of $58,000 and ($180,000), respectively.

The Company has agreed to contractually limit the expenses of the Near-Term Tax Free Fund through April 2018. The Company has voluntarily waived or reduced its fees and/or agreed to pay expenses on the remaining USGIF funds. These caps will continue on a voluntary basis at the Company’s discretion. The aggregate fees waived and expenses borne by the Company for USGIF for the three and nine months ended March 31, 2017, were $218,000 and $764,000, respectively, compared with $311,000 and $1.1 million, respectively, for the corresponding periods in the prior fiscal year. Management cannot predict the impact of future waivers due the number of variables and the range of potential outcomes.

The Company receives administrative service fees from USGIF based on the average daily net assets at an annual rate 0.05 percent per investor class and 0.04 percent per institutional class of each fund. Effective December 10, 2015, the agreement was amended and the level of administrative services performed and corresponding fees was reduced. Prior to the amendment, the administrative fees were at an annual rate of 0.10 percent per investor class and 0.08 percent per institutional class of each fund, plus a base fee of $7,000 per fund.

As of March 31, 2017, the Company had $626,000 in receivables from fund clients, of which $448,000 was from USGIF.

The Company also serves as investment adviser to an exchange traded fund (“ETF’) client, U.S. Global Jets ETF, which commenced operations in April 2015. The Company receives a unitary management fee of 0.60 percent of average net assets and has agreed to bear all expenses of the ETF. The Company recorded ETF advisory fees totaling $98,000 and $239,000, respectively, for the three and nine months ended March 31, 2017, compared with $74,000 and $217,000, respectively, for the corresponding periods in the prior fiscal year.

The Company provides advisory services for offshore clients and receives advisory fees based on the net asset values of the clients and performance fees, if any, based on the overall increase in net asset values. The Company recorded advisory fees from these clients of $34,000 and $102,000, respectively, for the three and nine months ended March 31, 2017, compared with $22,000 and $66,000, respectively, for the corresponding periods in the prior fiscal year. The Company recorded no performance fees from these clients for the three and nine months ended March 31, 2017, and 2016. Frank Holmes, CEO, serves as a director of the offshore clients.

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Galileo provides advisory services for clients in Canada and receives advisory fees based on the net asset values of the clients. Galileo recorded advisory fees from these clients totaling $285,000 and $887,000, respectively, for the three and nine months ended March 31, 2017, compared with $255,000 and $879,000, respectively, for the corresponding periods in the prior fiscal year.

NOTE 4. NOTES RECEIVABLE

The Company has invested in notes receivable consisting of two promissory notes. One note in the amount of $2 million was entered into with an unrelated third party in June 2016 and matures in June 2017. The note has a one-year extension option by the issuer upon payment of a 2.5 percent extension fee. The note bears interest at 12 percent, with 10 percent payable monthly and 2 percent payable at maturity. In case of prepayment, there would be a penalty for the amount of lost interest.

The other note of $234,000 is with an unrelated third party, has an annual interest rate of 15 percent and matures in 2021. This note was amended in November 2016. Upon amendment, the maturity date was extended from 2017 to 2021, unpaid interest was added to the principal, and provisions for penalty interest were added for failure to make scheduled interest or principal payments or failure to provide timely financial statements. Principal repayments on the amended note are scheduled to start in February 2019.

The Company considered the credit quality of the other parties and determined that no allowance for credit losses is necessary.

NOTE 5. BORROWINGS

As of March