U S GLOBAL INVESTORS INC
Form 10-Q
February 12, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **December 31, 2018**

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	**78229**

San Antonio, Texas (Zip Code)
(Address of principal executive offices)

(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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	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 January 28, 2019, there were 13,866,691 shares of Registrant's class A nonvoting common stock issued and 13,067,537 shares of Registrant's class A nonvoting common stock issued and outstanding; no shares of Registrant's class B nonvoting common shares outstanding; and 2,068,857 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, 2018**	**June 30, 2018**
(dollars in thousands)	**(UNAUDITED)**	
Current Assets		
Cash and cash equivalents	$ 6,055	$ 6,364
Restricted cash	1,000	1,000
Investments in securities at fair value	8,798	8,179
Accounts and other receivables	377	1,216
Note receivable	70	35
Prepaid expenses	377	328
Total Current Assets	16,677	17,122
Net Property and Equipment	1,854	1,970
Other Assets		
Deferred tax asset, long term	38	-
Investments in securities at fair value, non-current	3,592	7,086
Other investments	602	2,207
Equity method investments	219	283
Note receivable, non-current	164	199
Other assets, non-current	75	65
Total Other Assets	4,690	9,840
Total Assets	$ 23,221	$ 28,932
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 224	$ 198
Accrued compensation and related costs	352	645
Dividends payable	114	113
Other accrued expenses	941	817
Total Current Liabilities	1,631	1,773
Long-Term Liabilities		
Deferred tax liability	60	1,099
Total Long-Term Liabilities	60	1,099
Total Liabilities	1,691	2,872

Commitments and Contingencies (Note 12)

Shareholders' Equity		
Common stock (class A) - $0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,866,691, shares at December 31, 2018, and June 30, 2018	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, 2,068,857 shares at December 31, 2018, and June 30, 2018	52	52
Additional paid-in-capital	15,649	15,650
Treasury stock, class A shares at cost; 799,154 and 790,445 shares at December 31, 2018, and June 30, 2018, respectively	(1,885)	(1,878)
Accumulated other comprehensive income (loss), net of tax	(258)	1,858
Retained earnings	7,015	9,513
Total U.S. Global Investors Inc. Shareholders' Equity	20,920	25,542
Non-Controlling Interest in Subsidiary	610	518
Total Shareholders' Equity	21,530	26,060
Total Liabilities and Shareholders' Equity	$ 23,221	$28,932

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

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Six Months Ended December 31,		Three Months Ended December 31,	
(dollars in thousands, except per share data)	**2018**	**2017**	**2018**	**2017**
Operating Revenues				
Advisory fees	$2,926	$3,362	$1,756	$1,929
Administrative services fees	96	121	43	64
	3,022	3,483	1,799	1,993
Operating Expenses				
Employee compensation and benefits	1,771	2,041	973	1,140
General and administrative	2,061	1,862	1,051	914
Advertising	80	86	40	27
Depreciation and amortization	115	122	57	61
	4,027	4,111	2,121	2,142
Operating Loss	(1,005)	(628)	(322)	(149)
Other Income (Loss)				
Investment income (loss)	(4,302)	452	(3,395)	243
Income (loss) from equity method investments	(55)	2,731	(48)	1,218
Other income	26	17	17	14
	(4,331)	3,200	(3,426)	1,475
Income (Loss) Before Income Taxes	(5,336)	2,572	(3,748)	1,326
Provision for Income Taxes				
Tax expense (benefit)	(1,089)	452	(733)	442
Net Income (Loss)	(4,247)	2,120	(3,015)	884
Less: Net Income Attributable to Non-Controlling Interest	113	101	196	135
Net Income (Loss) Attributable to U.S. Global Investors, Inc.	$(4,360)	$2,019	$(3,211)	$749
Earnings Per Share Attributable to U.S. Global Investors, Inc.				
Basic	$(0.29)	$0.13	$(0.21)	$0.05
Diluted	$(0.29)	$0.13	$(0.21)	$0.05
Basic weighted average number of common shares outstanding	15,145,293	15,171,620	15,145,702	15,160,589
Diluted weighted average number of common shares outstanding	15,145,293	15,171,620	15,145,702	15,160,589

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(dollars in thousands)	**Six Months Ended December 31 2018**	**Six Months Ended December 31 2017**	**Three Months Ended December 31 2018**	**Three Months Ended December 31 2017**
Net Income (Loss) Attributable to U.S. Global Investors, Inc.	$(4,360)	$2,019	$(3,211)	$749
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gains on available-for-sale securities arising during period [1]	-	13,417	-	4,277
Less: reclassification adjustment for gains/losses included in net income [1]	-	(31)	-	(24)
Net change from available-for-sale investments, net of tax [1]	-	13,386	-	4,253
Foreign currency translation adjustment	(48)	71	(75)	16
Other Comprehensive Income (Loss)	(48)	13,457	(75)	4,269
Comprehensive Income (Loss)	(4,408)	15,476	(3,286)	5,018
Less: Comprehensive Income (Loss) Attributable to Non-Controlling Interest	(21)	18	(29)	(1)
Comprehensive Income (Loss) Attributable to U.S. Global Investors, Inc.	$(4,387)	$15,458	$(3,257)	$5,019

1. *Effective July 1, 2018, upon the adoption of ASU 2016-01, the Company no longer has an available-for-sale category for equity securities for which changes in fair value are recognized in other comprehensive income (loss). See Note 1.*

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

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U.S. GLOBAL INVESTORS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(dollars in thousands)	**Common Stock (class A)**	**Common Stock (class C)**	**Additional Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Non-Controlling Interest**	**Total**
Balance at June 30, 2018 (13,866,691 shares of class A; 2,068,857 shares of class C)	$ 347	$ 52	$ 15,650	$ (1,878)	$ 1,858	$ 9,513	$ 518	$ 26,060
Reclassification pursuant to adoption of ASU 2016-01, net of tax of $1,049	-	-	-	-	(2,089)	2,089	-	-
Balance at July 1, 2018	347	52	15,650	(1,878)	(231)	11,602	518	26,060
Purchases of 12,000 shares of Common Stock (class A)	-	-	-	(15)	-	-	-	(15)
Issuance of stock under ESPP of 1,491 shares of Common Stock (class A)	-	-	(1)	4	-	-	-	3
Dividends declared	-	-	-	-	-	(227)	-	(227)
Stock bonuses	-	-	(2)	4	-	-	-	2
Stock-based compensation expense	-	-	2	-	-	-	-	2
Other comprehensive loss, net of tax	-	-	-	-	(27)	-	(21)	(48)
Net income (loss)	-	-	-	-	-	(4,360)	113	(4,247)
Balance at December 31, 2018 (13,866,691 shares of class A; 2,068,857 shares of class C)	$ 347	$ 52	$ 15,649	$ (1,885)	$ (258)	$ 7,015	$ 610	$ 21,530

(dollars in thousands)	**Common Stock (class A)**	**Common Stock (class C)**	**Additional Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Non-Controlling Interest**	**Total**
Balance at June 30, 2017 (13,866,601 shares of class A; 2,068,947 shares of class C)	$ 347	$ 52	$ 15,646	$ (1,760)	$ 264	$ 9,321	$ 484	$ 24,354
	-	-	-	(131)	-	-	-	(131)

Purchases of 45,947 shares of Common Stock (class A)								
Issuance of stock under ESPP of 1,429 shares of Common Stock (class A)	-	-	-	3	-	-	-	3
Conversion of 90 shares of class C common stock for class A common stock	-	-	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	(228)	-	(228)
Stock bonuses	-	-	1	12	-	-	-	13
Stock-based compensation expense	-	-	-	-	-	-	-	-
Other comprehensive income, net of tax	-	-	-	-	13,439	-	18	13,457
Net income (loss)	-	-	-	-	-	2,019	101	2,120
Balance at December 31, 2017 (13,866,691 shares of class A; 2,068,857 shares of class C)	$ 347	$ 52	$ 15,647	$ (1,876)	$ 13,703	$ 11,112	$ 603	$ 39,588

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

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U.S. GLOBAL INVESTORS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED) (UNAUDITED)

(dollars in thousands)	**Common Stock (class A)**	**Common Stock (class C)**	**Additional Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Non-Controlling Interest**	**Total**
Balance at September 30, 2018 (13,866,691 shares of class A; 2,068,857 shares of class C)	$ 347	$ 52	$ 15,651	$ (1,876)	$ (212)	$ 10,453	$ 443	$ 24,858
Purchases of 11,000 shares of Common Stock (class A)	-	-	-	(13)	-	-	-	(13)
Issuance of stock under ESPP of 863 shares of Common Stock (class A)	-	-	(1)	2	-	-	-	1
Dividends declared	-	-	-	-	-	(227)	-	(227)
Stock bonuses	-	-	(1)	2	-	-	-	1
Other comprehensive loss, net of tax	-	-	-	-	(46)	-	(29)	(75)
Net income (loss)	-	-	-	-	-	(3,211)	196	(3,015)
Balance at December 31, 2018 (13,866,691 shares of class A; 2,068,857 shares of class C)	$ 347	$ 52	$ 15,649	$ (1,885)	$ (258)	$ 7,015	$ 610	$ 21,530

(dollars in thousands)	**Common Stock (class A)**	**Common Stock (class C)**	**Additional Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Non-Controlling Interest**	**Total**
Balance at September 30, 2017 (13,866,601 shares of class A; 2,068,947 shares of class C)	$ 347	$ 52	$ 15,645	$ (1,770)	$ 9,433	$ 10,477	$ 469	$ 34,653
Purchases of 36,748 shares of Common Stock (class A)	-	-	-	(117)	-	-	-	(117)
Issuance of stock under ESPP of 449 shares of Common Stock (class A)	-	-	1	-	-	-	-	1
Conversion of 90 shares of class C common stock for class A common stock	-	-	-	-	-	-	-	-

Dividends declared	-	-	-	-	-	(114)	-	(114)
Stock bonuses	-	-	1	11	-	-	-	12
Other comprehensive income, net of tax	-	-	-	-	4,270	-	(1)	4,269
Net income (loss)	-	-	-	-	-	749	135	884
Balance at December 31, 2017 (13,866,691 shares of class A; 2,068,857 shares of class C)	$ 347	$ 52	$ 15,647	$ (1,876)	$ 13,703	$ 11,112	$ 603	$ 39,588

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)	**Six Months Ended December 31, 2018**	**2017**
Cash Flows from Operating Activities:		
Net income (loss)	$(4,247)	$2,120
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	115	122
Net recognized loss on securities	86	675
Net (income) loss from equity method investment	55	(2,731)
Foreign currency transaction loss	22	-
Provision for deferred taxes	(1,077)	417
Stock bonuses	2	14
Stock-based compensation expense	2	-
Changes in operating assets and liabilities:		
Accounts receivable and notes receivable	837	(678)
Prepaid expenses and other assets	(60)	(58)
Investment securities	4,374	1,551
Accounts payable and accrued expenses	(120)	391
Total adjustments	4,236	(297)
Net cash provided by (used in) operating activities	(11)	1,823
Cash Flows from Investing Activities:		
Purchase of available-for-sale securities	-	(2,420)
Purchase of equity method investment	(230)	(501)
Proceeds on sale of available-for-sale securities	-	401
Proceeds on sale of equity method investment	230	-
Return of capital on investments	20	22
Net cash provided by (used in) investing activities	20	(2,498)
Cash Flows from Financing Activities:		
Issuance of common stock	3	3
Repurchases of common stock	(15)	(131)
Dividends paid	(227)	(227)
Net cash used in financing activities	(239)	(355)
Effects of foreign currency translation	(79)	49
Net decrease in cash, cash equivalents, and restricted cash	(309)	(981)
Beginning cash, cash equivalents, and restricted cash	7,364	4,958
Ending cash, cash equivalents, and restricted cash	$7,055	$3,977
Supplemental Disclosures of Cash Flow Information		
Cash paid for income taxes	$119	$-

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, 2018, 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 Advisors Inc. ("Galileo"). Galileo includes a wholly owned subsidiary, Galileo Global GP Inc. U.S. Global Brokerage, Inc. ceased operations in December 2015 and was dissolved on July 27, 2018.

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 Lisa Callicotte, CFO, serve as directors of Galileo.

There are two primary consolidation models in U.S. GAAP, the variable interest entity ("VIE") and voting interest entity models. The Company's evaluation for consolidation includes whether entities in which it has an interest or from which it receives fees are 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, specifically, certain funds in U.S. Global Investors Funds ("USGIF" or the "Funds") and, until November 2017, one of the offshore funds. The Company's interests in these VIEs consist of the Company's direct ownership therein and any fees earned but uncollected. See further information about these funds in Notes 2 and 3. 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 $9.5 million at December 31, 2018, and $9.6 million at June 30, 2018.

Since the Company is not the primary beneficiary of the above funds it advises, the Company evaluated if it should consolidate under the voting interest entity model. Under the voting interest model, for legal entities other than partnerships, the usual condition for control is ownership, directly or indirectly, of more than 50 percent of the outstanding voting shares over an entity. The Company does not have control of any of the above funds it advises; therefore, the Company does not consolidate any of these funds.

The Company currently holds a variable interest in a fund organized as a limited partnership advised by Galileo, and during fiscal year 2018 and 2019 held variable interests in two other funds advised by Galileo, but these funds do not qualify as VIEs. Since the funds are not VIEs, the Company evaluated if it should consolidate the funds under the voting interest entity model. Under the voting interest model, for legal entities other than partnerships, the usual condition for control is ownership, directly or indirectly, of more than 50 percent of the outstanding voting shares over an entity. The Company does not have control of the funds and, therefore, does not consolidate the funds. However, the Company was considered to have the ability to exercise significant influence. Thus, the investments have been accounted for under the equity method of accounting. See further information about these investments in Note 2.

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts have been reclassified for comparative purposes. Certain quarterly amounts may not add to the year-to-date amount due to rounding. The results of operations for the six months ended December 31, 2018, 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.

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Recent Accounting Pronouncements and Developments

Accounting Pronouncements Adopted During the Period

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* and several amendments (collectively, “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. The Company adopted this guidance on July 1, 2018, using the modified retrospective transition method. Under this method, entities are required to report any effect from adoption as a cumulative effect adjustment to retained earnings at the adoption date. The adoption of the standard did not have an effect on opening retained earnings, net income or earnings per share measures as the Company determined that its policy for recognition of investment advisory fees, performance fees, administrative service fees, and fee waivers prior to our adoption is consistent with the updated revenue recognition requirements of ASU 2014-09, as amended. The Company has applied the guidance to all contracts that were not completed on the effective date of adoption and determined that the new guidance does not change how the Company recognized revenue. The impact of ASU 2014-09 on the timing of recognition of performance fee revenues may result in future performance fees being recognized earlier under ASU 2014-09, but this will depend on the terms and conditions in any future relevant agreements.

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. In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10)* (“ASU 2018-03”) to clarify certain aspects of the guidance in ASU 2016-01. U.S. Global adopted ASU 2018-03 at the same time as ASU 2016-01. To adopt the amendments, entities are required to make a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the guidance is effective. The Company adopted this guidance on July 1, 2018, and reclassified \$3.1 million in unrealized gains and \$1.0 million in related deferred tax expense from Accumulated Comprehensive Income into Retained Earnings. Effective July 1, 2018, changes in the fair value of the Company’s equity investments previously classified as available-for-sale are reported through earnings rather than through other comprehensive income. For equity investments without a readily determinable fair value that are were accounted for using the cost method, the Company has elected to measure such securities at cost, adjusted for impairments and observable price changes. The Company expects that future net income or loss will be more volatile as a result of these changes in accounting for our investments in available-for-sale and cost method equity securities.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 clarified how certain cash receipts and cash payments are classified and presented on the Statement of Cash Flows, including distributions from equity method investees. The Company adopted this guidance on July 1, 2018, retrospectively to all periods presented. The adoption of ASU 2016-15 did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). The new guidance eliminates, adds and modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The new guidance is effective for all entities for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. An entity is permitted to early adopt either the entire standard or only the provisions that eliminate or modify requirements. The Company early adopted this guidance in entirety in the first quarter of fiscal year 2019 with no significant change to disclosures.

Accounting Pronouncements Not Yet Adopted

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 by recording a lease asset and a lease liability. 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 FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, and ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*, to clarify certain aspects of ASU 2016-02. The Company’s current leases are primarily for equipment and for office space for the Canadian subsidiary. The Company does not expect that adoption will have a material impact on its consolidated statements of operations because its leases are currently classified as operating leases, which under the guidance will continue to be recognized as expense on a straight-line basis. The adoption, however, will result in a gross up in total assets and total liabilities on the Company’s consolidated balance sheets.

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In June 2016, the FASB issued ASU 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 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 February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (“ASU 2018-02”). ASU 2018-02 allows entities the option to reclassify tax effects resulting from recording the effects of the Tax Cuts and Jobs Act enacted in December 2017 from accumulated other comprehensive income to retained earnings. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. An entity that adopts the guidance in an annual or interim period after the period of enactment will be able to choose whether to apply the amendments retrospectively to each period in which the effect of the Act is recognized or to apply the amendments in the period of adoption. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

Significant Accounting Policies

As a result of the adoptions of accounting pronouncements during the current period that affected investments and revenue recognition, the following accounting policies have been updated. For a complete listing of the Company's significant accounting policies, please refer to the Annual Report on Form 10-K for the year ended June 30, 2018.

Accumulated Other Comprehensive Income (Loss). Accumulated other comprehensive income (loss) (“AOCI”), net of tax, is reported in the Consolidated Balance Sheets and the Consolidated Statements of Shareholders’ Equity and includes any unrealized gains and losses on debt securities classified as available-for-sale, foreign currency translation adjustments, and prior to fiscal year 2019, the unrealized gains and losses on equity securities classified as available-for-sale.

Investments. 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.

Investments in Equity Securities. Equity securities are generally carried at fair value on the consolidated balance sheets with changes in the fair value recorded through earnings within investment income (loss).

Investments in Debt Securities. The Company classifies debt investments as available-for-sale or held-to-maturity based on the Company's intent to sell the security or, its intent and ability to hold the debt security to maturity. Available-for-sale debt securities are reported at fair value, and changes in unrealized gains and losses are reported net of tax in AOCI. Upon the disposition of an available-for-sale security, the Company reclassifies the gain or loss on the security from AOCI to investment income (loss). Held-to-maturity debt securities are purchased with the intent and ability to hold until maturity and are measured at amortized cost.

Other Investments. 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. For these securities, the Company generally elects to value using the measurement alternative, under which such securities will be measured at cost, less impairment, plus or minus observable price changes for identical or similar securities of the same issuer with such changes recorded in investment income (loss).

Revenue Recognition. The Company's operating revenue is earned from investment advisory and administrative services provided to clients. Each distinct service promised in the agreements is considered a performance obligation and is the basis for determining when revenue is recognized. The fees are allocated to each distinct performance obligation and revenue is recognized when, or as, promises are satisfied. The consideration for services is generally variable and included in net revenues when it is improbable that a significant reversal could occur in the future. The timing of when clients are billed and related payment received varies in accordance with agreed-upon contractual terms. For current agreements, billing occurs after the Company has recognized revenue which results in accounts receivable and accrued revenue.

Investment Advisory Fees. The investment advisory agreements have a single performance obligation, since the promised services are not separately identifiable from other promises in the agreements and, therefore, are not distinct. Investment advisory fees are comprised of two components, a base fee and a performance fee, if applicable. Base investment advisory fees are recognized as the services are performed over time and are based upon agreed-upon percentages of average assets under management ("AAUM"), depending on contractual terms. These fees are received in cash after the end of each monthly period within 30 days. Investment advisory fees are affected by changes in assets under management, including market appreciation or depreciation, foreign exchange translation, and net inflows or outflows. Investment advisory fees are reported net of fee waivers.

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Performance Fees. USGI receives investment advisory performance fees from certain funds. Performance fees for the equity funds within USGIF are a fulcrum fee that is a 0.25 percent adjustment upwards or downwards of the base investment advisory fees when there is a 5 percent difference between a fund's performance and that of its benchmark index over the prior rolling 12 months. Performance fees are recorded when it is determined that they are no longer probable of significant reversal. These fees are received in cash or paid in cash after the end of each monthly period within 30 days. Performance fees are affected by changes in fund performance, benchmark index performance, and assets under management.

Investment Advisory Fees - Canada. Galileo investment advisory agreements have a single performance obligation, since the promised services are not separately identifiable from other promises in the agreements and, therefore, are not distinct. Galileo investment advisory fees are recognized as the services are performed over time and are based upon agreed-upon percentages of AAUM or assets under management, depending on contractual terms. These fees are received in cash after the end of each monthly period within 30 days. Galileo investment advisory fees are affected by changes in assets under management, including market appreciation or depreciation, foreign exchange translation, and net inflows or outflows.

Performance Fees - Canada. Galileo receives investment advisory performance fees from certain funds. These performance fees are dependent upon exceeding contractual return thresholds, and include an annual measurement period. Performance fees are recognized when it is determined that they are no longer probable of significant reversal, typically on an annual basis. These fees are received in cash typically within 60 days after measurement date.

Administrative Services Fees. The administrative services agreement has a single performance obligation, since the promised services are not separately identifiable from other promises in the agreement and, therefore, are not distinct. Administrative services fees are recognized as the services are performed over time and are based upon agreed-upon percentages of AAUM. These fees are received in cash after the end of each monthly period within 30 days. Administrative services fees are affected by changes in assets under management, including market appreciation or depreciation, foreign exchange translation, and net inflows or outflows. Administrative services fees are reported net of fee waivers.

Fee Waivers. For certain clients, the Company has agreed to contractually limit the expenses or voluntarily waived or reduced its fees and/or agreed to pay expenses for the remaining USGIF funds. These fee waivers are deemed to be a reduction of the transaction price and are reported as a reduction of investment advisory fees and/or administrative services fees. These fees are paid in cash after the end of each monthly period within 30 days.

NOTE 2. INVESTMENTS

As of December 31, 2018, the Company held investments in securities at fair value totaling approximately $12.4 million with a cost basis of approximately $13.8 million. The fair value of these investments is 53.4 percent of the Company's total assets at December 31, 2018. In addition, the Company held other investments of approximately $602,000 and investments of approximately $219,000 accounted for under the equity method of accounting.

As discussed in Note 1, the Company adopted ASU 2016-01, which amended the guidance on the classification and measurement of investments in equity securities, effective July 1, 2018. There is no longer an available-for-sale classification (with changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. Under the amended guidance, all of the Company's equity investments with readily determinable fair values are classified as securities at fair value, and changes in unrealized gains or losses are reported in current period earnings.

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. For these securities, the Company generally elects to value using the measurement alternative, under which such securities are measured at cost, less impairment, plus or minus observable price changes for identical or similar securities of the same issuer with such changes recorded in investment income (loss). Prior to fiscal year 2019 and the adoption of ASU 2106-01, these investments were accounted for under the cost method of accounting and evaluated periodically for impairment. See further information about these investments in a separate section of this note.

The cost basis of investments may also be adjusted for amortization of premium or accretion of discount on debt securities held or the recharacterization of distributions from investments in partnerships.

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The following details the components of the Company's investments recorded at fair value as of December 31, 2018, and June 30, 2018. Note that the change in presentation is the result of the adoption of ASU 2016-01.

	December 31, 2018		
(dollars in thousands)	**Cost**	**Unrealized Gains (Losses)**	**Fair Value**
Securities at fair value[1]			
Common stock - International	$4,053	$ (1,127)	$2,926
Common stock - Domestic	45	(45)	-
Mutual funds - Fixed income	8,785	13	8,798
Mutual funds - Domestic equity	929	(263)	666
Total securities at fair value	$13,812	$ (1,422)	$12,390

1 *Changes in unrealized and realized gains and losses on securities at fair value are included in earnings in the statement of operations.*

	June 30, 2018			
(dollars in thousands)	**Cost**	**Unrealized Gains**	**Unrealized (Losses)**	**Fair Value**
Trading securities[1]				
Mutual funds - Fixed income	$7,785	$ 22	$ -	$7,807
Mutual funds - Domestic equity	535	-	(163)	372
Other	45	-	(45)	-
Total trading securities	8,365	22	(208)	8,179
Available-for-sale securities[2]				
Common stock - International	2,554	3,213	(94)	5,673
Mutual funds - Fixed income	1,000	-	(9)	991
Mutual funds - Domestic equity	394	28	-	422
Total available-for-sale securities[3]	3,948	3,241	(103)	7,086
Total securities at fair value	$12,313	$ 3,263	$ (311)	$15,265

1 *Prior to July 1, 2018, changes in unrealized and realized gains and losses on trading securities were included in earnings in the statement of operations.*

2 *Prior to July 1, 2018, changes in unrealized gains and losses on available-for-sale securities were excluded from earnings and recorded in other comprehensive income as a separate component of shareholders' equity until realized.*

3 *Net unrealized gains on available-for-sale securities gross and net of tax as of June 30, 2018, were $3,138 and $2,089, respectively.*

Included in the above table as of December 31, 2018, was $9.5 million at fair value invested in USGIF.

The following table shows 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 were in a continuous unrealized loss position as of June 30, 2018. No disclosures are required as of December 31, 2018, due the adoption of ASU 2016-01.

	June 30, 2018					
	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 - International	$39	$ (94)	$ -	$ -	$39	$ (94)
Mutual funds - Fixed income	991	(9)	-	-	991	(9)
Total available-for-sale securities with unrealized losses	$1,030	$ (103)	$ -	$ -	$1,030	$ (103)

Investment Income (Loss)

For fiscal year 2019, after adoption of ASU 2016-01, investment income (loss) from the Company’s investments includes:

• realized gains and losses on sales of securities;
• unrealized gains and losses on securities at fair value;
• realized foreign currency gains and losses;
• other-than-temporary impairments on available-for-sale debt securities;
• impairments on equity investments that do not have readily determinable fair values; and
• dividend and interest income.

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Prior to the adoption of ASU 2016-01, investment income (loss) from the Company's investments included:

- 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.

The following summarizes investment income (loss) reflected in earnings:

(dollars in thousands)	**Six Months Ended December 31,**		**Three Months Ended December 31,**	
Investment Income (Loss)	**2018**	**2017**	**2018**	**2017**
Realized losses on sales of fair valued securities [1]	$-	$(705)	$-	$(58)
Unrealized gains (losses) on fair valued securities [2]	(4,374)	746	(3,423)	60
Realized foreign currency gains (losses)	(25)	(19)	(27)	3
Impairments in equity investments that do not have readily determinable fair values	(86)	-	(57)	-
Dividend and interest income	183	430	112	238
Total Investment Income (Loss)	$(4,302)	$452	$(3,395)	$243

1 *The prior year amount shown includes $82 in realized losses on sales of trading securities and $24 in realized gains on sales of available-for-sale securities for the three months ended December 31, 2017, and $736 in realized losses on sales of trading securities and $31 in realized gains on sales of available-for-sale securities for the six months ended December 31, 2017. These classifications were used prior to the adoption of ASU 2016-01 effective July 1, 2018.*

2 *The prior year amount shown includes $60 and $746 in unrealized gains on trading securities for the three and six months ended December 31, 2017, respectively (classification used prior to the adoption of ASU 2016-01 effective July 1, 2018).*

The three and six months ended December 31, 2018, includes approximately $3.4 million and $4.4 million, respectively, of net unrealized losses recognized on securities at fair value; all of these investments were still held at December 31, 2018. The majority of unrealized losses recognized in the current year are related to unrealized losses on securities formerly classified as available-for-sale, which previously would have been reported through other comprehensive income rather than in investment income.

Proceeds from sales of available-for-sale investments were approximately $369,000 and $401,000 for the three and six months ended December 31, 2017, respectively. Gross gains (losses) on sales of available-for-sale investments were approximately $30,000 and ($6,000) for the three months ended December 31, 2017, and approximately $37,000 and ($6,000) for the six months ended December 31, 2017. No disclosures are required for fiscal year 2019 due to the adoption of ASU 2016-01. Prior to fiscal year 2019, gains and losses realized upon sales of available-for-sale investments were reclassified from other comprehensive income into investment income.

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.

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 and securities valued with an adjustment to the quoted price due to restrictions.

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

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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. The fair value of a security that has a restriction is based on the quoted price for an otherwise identical unrestricted instrument that trades in a public market, adjusted for the estimated effect of the restriction. 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, a portfolio management team, which includes representatives from the investment and accounting departments, 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 portfolio management team also takes into consideration numerous other factors that could affect valuation such as overall market conditions, liquidity of the security and bond structure. For other securities included in the fair value hierarchy with unobservable inputs, the portfolio management team considers 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. Securities which do not have readily determinable fair values are also periodically reviewed by the portfolio management team.

The following presents fair value measurements, as of December 31, 2018, and June 30, 2018, for the major categories of U.S. Global's investments measured at fair value on a recurring basis:

	December 31, 2018			
	Quoted Prices	**Significant Other Inputs**	**Significant Unobservable Inputs**	
(dollars in thousands)	(Level 1)	(Level 2)	(Level 3)	**Total**
Securities at fair value				
Common stock - International	$2,073	$ 853	$ -	$2,926

Common stock - Domestic	-	-	-	-
Mutual funds - Fixed income	8,798	-	-	8,798
Mutual funds - Domestic equity	666	-	-	666
Total securities at fair value	$11,537	$ 853	$ -	$12,390

	June 30, 2018			
	Quoted Prices	**Significant Other Inputs**	**Significant Unobservable Inputs**	
(dollars in thousands)	(Level 1)	(Level 2)	(Level 3)	**Total**
Trading securities				
Mutual funds - Fixed income	$7,807	$ -	$ -	$7,807
Mutual funds - Domestic equity	372	-	-	372
Other	-	-	-	-
Total trading securities	8,179	-	-	8,179
Available-for-sale securities				
Common stock - International	5,673	-	-	5,673
Mutual funds - Fixed income	991	-	-	991
Mutual funds - Domestic equity	422	-	-	422
Total available-for-sale securities	7,086	-	-	7,086
Total securities at fair value	$15,265	$ -	$ -	$15,265

As of December 31, 2018, 93 percent of the Company’s financial assets were classified in the fair value hierarchy as Level 1 and 7 percent as Level 2. As of June 30, 2018, 100 percent of the Company’s financial assets were classified in the fair value hierarchy as Level 1.

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The Company has an investment in 10 million common shares of HIVE Blockchain Technologies Ltd. ("HIVE"), a company that is headquartered and traded in Canada with cryptocurrency mining facilities in Iceland and Sweden, at a cost of $2.4 million. The shares are subject to Canadian securities regulations. The investment, classified as available-for-sale prior to the adoption of ASU 2016-01, was valued at approximately $1.9 million at December 31, 2018, and $5.6 million at June 30, 2018. Cryptocurrency markets and related stocks have been, and are expected to continue to be, volatile. Cryptocurrency mining is considered an early stage high-risk industry, and the nature of mining is expected to evolve. There has been significant volatility in the market price of HIVE, which has materially impacted the investment's value included on the balance sheet and unrealized gain (loss) recognized in investment income. The Company's direct ownership of HIVE was approximately 3.0 percent as of December 31, 2018. Frank Holmes is the non-executive chairman of HIVE and held shares and options at December 31, 2018. Effective August 31, 2018, Mr. Holmes was named Interim Executive Chairman of HIVE while a search for a new CEO is undertaken.

The Company has an investment in a company that is headquartered and traded in Canada that was valued at approximately $946,000 at December 31, 2018, of which $130,000 was classified as Level 1 and $816,000 was classified as Level 2 in the fair value hierarchy. The investment was included in other investments at June 30, 2018, at a value of $1.5 million. The investment was previously a private company that underwent a corporate transaction and started trading on an exchange during the quarter ended December 31, 2018. The shares are subject to Canadian securities regulations. The portion of the investment classified in Level 2 is restricted for resale due to escrow provisions; its valuation is based on the quoted market price adjusted for the restriction on resale. Shares will be released from escrow between April 2019 and April 2020. Frank Holmes serves on the board of this investment and held options at December 31, 2018.

Other Investments

The carrying value of equity securities without readily determinable fair values as of December 31, 2018, is approximately $602,000. There was an impairment adjustment to one security of $57,000 and $86,000 during the three and six months ended December 31, 2018, respectively. Cumulative impairment adjustments to all equity securities without readily determinable fair values are $223,000 since their acquisitions through December 31, 2018. An investment previously included in other investments started trading on a stock exchange during the quarter ended December 31, 2018, and is now included in securities at fair value with a valuation of $946,000 at December 31, 2018, as discussed above. Impairments are recognized as a loss in the Company's earnings. The cumulative amount of other downward adjustments, which primarily consist of return of capital distributions, is $616,000, which includes $10,000 and $20,000 for the three and six months ended December 31, 2018, respectively. There have been no upward adjustments to these investments.

Investments Classified as Equity Method

Investments classified as equity method consist of investments in companies in which the Company is able to exercise significant influence but not control. Under the equity method of accounting, the investment is initially recorded at cost, then the Company's proportional share of investee's underlying net income or loss is recorded as a component of "other income (loss)" with a corresponding increase or decrease to the carrying value of the investment. Distributions received from the investee reduce the Company's carrying value of the investment. These investments are evaluated for impairment if events or circumstances arise that indicate that the carrying amount of such assets may not be recoverable.

During fiscal year 2018, the Company, through USCAN, invested approximately $500,000 in the Galileo Partners Fund, a Canadian unit trust investment fund managed by Galileo. The investment was subsequently redeemed in full during fiscal year 2018, and the Company no longer had an investment in the Galileo Partners Fund as of June 30, 2018, or December 31, 2018. During the period of ownership, the investment was accounted for under the equity method of accounting. Included in other income for the three and six months ended December 31, 2017, is $1.2 million and $2.7 million, respectively, of equity method income of Galileo Partners Fund.

Summarized income statement information on the Galileo Partners Fund for the period of the Company's investment through December 31, 2017, is as follows:

Galileo Partners Fund
Summary Financial Information
For the Period from August 31, 2017 (investment) to December 31, 2017
(dollars in thousands)

Realized gains on sales of investments	$1,921
Unrealized gains on investments	9,612
Fund fees and expenses, including performance fees	(2,810)
Net income of fund	$8,723
Company's share of income from equity method investment	$2,731

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During fiscal year 2018, the Company, through USCAN, invested approximately $401,000 in the Galileo Technology and Blockchain Fund, a Canadian unit trust investment fund managed by Galileo. The fund reorganized in a taxable transaction into a limited partnership effective November 30, 2018, and the fund terminated. See further discussion below. Thus, the Company no longer had an investment in the Galileo Technology and Blockchain Fund as of December 31, 2018. During the period of ownership, the Company's ownership ranged between approximately 20 and 25 percent, and the Company was considered to have the ability to exercise significant influence. Thus, the investment was accounted for under the equity method of accounting. Under the equity method, the Company's proportional share of the fund's net income or loss, which primarily consists of realized and unrealized gains and losses on investments offset by fund expenses, is recognized in the Company's earnings. Included in other income for the three and six months ended December 31, 2018, is $43,000 and $50,000, respectively, of equity method loss for this investment. This investment was not held at December 31, 2017. Frank Holmes also directly held an investment in the fund. This fund had a concentration in technology and blockchain companies, which resulted in volatility in the fund's valuation.

As noted above, the Galileo Technology and Blockchain Fund reorganized into a limited partnership effective November 30, 2018. The investment portfolio and unitholders' interests of the Galileo Technology and Blockchain Fund and the Galileo Partners Fund transferred to the new entity, named Galileo Technology and Blockchain LP. The valuation of the Company's investment in the Galileo Technology and Blockchain Fund as of November 30, 2018, of approximately $230,000 transferred to the Galileo Technology and Blockchain LP. The Company owns approximately 16 percent of the LP as of December 31, 2018, and the Company is considered to have the ability to exercise significant influence. Thus, the investment is accounted for under the equity method of accounting. Included in other income for the three and six months ended December 31, 2018, is $5,000 and $5,000, respectively, of equity method loss for this investment. The Company's investment in the LP was valued at approximately $219,000 at December 31, 2018. Frank Holmes also directly held an investment in the LP as of December 31, 2018. This LP has a concentration in technology and blockchain companies, which may result in volatility in the LP's valuation.

NOTE 3. INVESTMENT MANAGEMENT AND OTHER FEES

The following table presents operating revenues disaggregated by performance obligation:

	Six Months Ended		**Three Months Ended**	
	December 31,		**December 31,**	
(dollars in thousands)	**2018**	**2017**	**2018**	**2017**
USGIF advisory fees	$1,684	$2,329	$773	$1,184
USGIF performance fees	(262)	(308)	(176)	(192)
ETF advisory fees	319	369	153	184
Offshore advisory fees	-	3	-	2
USGIF administrative services fees	96	121	43	64
Subtotal investment management services fees	1,837	2,514	793	1,242

Galileo advisory fees	315	505	136	287
Galileo performance fees	870	464	870	464
Subtotal investment management services fees - Canada	1,185	969	1,006	751
Total Operating Revenue	$3,022	$3,483	$1,799	$1,993

The Company serves as investment adviser to USGIF and receives a fee based on a specified percentage of average assets under management. 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.

The Company has agreed to contractually limit the expenses of the Near-Term Tax Free Fund through April 2019. 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 six months ended December 31, 2018, were $212,000 and $377,000, respectively, compared with $102,000 and $334,000, respectively, for the corresponding period 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.

The Company also serves as investment advisor to two exchange-traded funds (ETFs): U.S. Global Jets ETF (ticker JETS) and U.S. Global GO GOLD and Precious Metal Miners ETF (ticker GOAU). The Company receives a unitary management fee of 0.60 percent of average net assets and has agreed to bear all expenses of the ETFs.

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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 may also receive performance fees from certain clients when market appreciation or realized net gains exceeds established benchmarks. Performance fees are recognized when it is determined that they are no longer probable of significant reversal, typically on an annual basis at calendar year-end. The receipt of performance fees in the future is uncertain as the fees are dependent upon many factors, including market conditions. Galileo may, at its discretion, waive and absorb some of its clients' operating expenses. The amount of fund expenses waived and absorbed was $45,000 and $161,000 for the three and six months ended December 31, 2018, and $9,000 and $33,000 for the three and six months ended December 31, 2017, respectively.

As of December 31, 2018, the Company had $245,000 in receivables from fund clients, of which $170,000 was from USGIF, $25,000 from Galileo clients and $50,000 from ETFs. As of June 30, 2018, the Company had $419,000 in receivables from fund clients, of which $321,000 was from USGIF, $44,000 from Galileo clients and $54,000 from ETFs.

NOTE 4. RESTRICTED CASH

Restricted cash represents cash invested in a money market account as collateral for the credit facility that is not available for general corporate use. A reconciliation of cash, cash equivalents, and restricted cash reported from the consolidated balance sheets to the statements of cash flows is shown below:

(dollars in thousands)	**December 31, 2018**	**June 30, 2018**
Cash and cash equivalents	$ 6,055	$ 6,364
Restricted cash	1,000	1,000
Total cash, cash equivalents, and restricted cash	$ 7,055	$ 7,364

NOTE 5. NOTES RECEIVABLE

The Company has invested in a note receivable of $234,000, which is with an unrelated third party, has an annual interest rate of 15 percent and matures in 2021. Interest is paid monthly. Principal repayments are scheduled to start in February 2019. The balance of this note was $234,000 at December 31, 2018, with $70,000 included in Notes Receivable in current assets and $164,000 as Note Receivable, non-current.

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

NOTE 6. BORROWINGS

As of December 31, 2018, the Company has no borrowings or long-term liabilities except for deferred taxes.

The Company has access to a $1 million credit facility for working capital purposes. The credit agreement requires the Company to maintain certain covenants; the Company has been in compliance with these covenants during the current fiscal year. The credit agreement will expire on May 31, 2019, and the Company intends to renew annually. The credit facility is collateralized by $1 million at December 31, 2018, shown as restricted cash on the balance sheet, held in deposit in a money market account at the financial institution that provided the credit facility. As of December 31, 2018, the credit facility remains unutilized by the Company.

NOTE 7. STOCKHOLDERS' EQUITY

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 monthly dividend of $0.0025 per share was paid during fiscal year 2018 and for July 2018 through December 2018 and is authorized through March 2019, at which time it will be considered for continuation.

The Company has a share repurchase program, approved by the Board of Directors, authorizing the Company to annually purchase up to $2.75 million of its outstanding common shares, as market and business conditions warrant, on the open market in compliance with Rule 10b-18 of the Securities Exchange Act of 1934 through December 31, 2019. The repurchase program has been in place since December 2012, and the Board of Directors has annually renewed the repurchase program each calendar year. The acquired shares may be used for corporate purposes, including shares issued to employees in the Company's stock-based compensation programs. For the three and six months ended December 31, 2018, the Company repurchased 11,000 and 12,000 class A shares using cash of $13,000 and $15,000, respectively. For the three and six months ended December 31, 2017, the Company repurchased 36,748 and 45,947 class A shares using cash of $117,000 and $131,000, respectively.

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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. There were 4,000 options outstanding and exercisable at December 31, 2018, at a weighted average exercise price of $7.53. There were no options granted, exercised, or forfeited for the three or six months ended December 31, 2018, or 2017.

Stock-based compensation expense is measured at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the award's vesting period. Stock-based compensation expense was $0 and $2,000 for the three and six months ended December 31, 2018, respectively. There was no stock-based compensation expense for the three and six months ended December 31, 2017. As of December 31, 2018, and 2017, there was no unrecognized share-based compensation cost related to share-based awards granted under the plans.

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 EPS:

	Six Months Ended December 31,		**Three Months Ended December 31,**	
(dollars in thousands, except per share data)	**2018**	**2017**	**2018**	**2017**
Net Income (Loss)	$(4,247)	$2,120	$(3,015)	$884
Less: Net Income Attributable to Non-Controlling Interest	113	101	196	135
Net Income (Loss) Attributable to U.S. Global Investors, Inc.	$(4,360)	$2,019	$(3,211)	$749
Weighted average number of outstanding shares				
Basic	15,145,293	15,171,620	15,145,702	15,160,589
Effect of dilutive securities				
Employee stock options	-	-	-	-
Diluted	15,145,293	15,171,620	15,145,702	15,160,589

Earnings Per Share Attributable to U.S. Global Investors, Inc.				
Basic	$(0.29)	$0.13	$(0.21)	$0.05
Diluted	$(0.29)	$0.13	$(0.21)	$0.05

The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price for the period. For the three and six months ended December 31, 2018, 4,000 options were excluded from diluted EPS. For the three and six months ended December 31, 2017, 2,000 options were excluded from diluted EPS.

During the three and six months ended December 31, 2018, and 2017, the Company repurchased class A shares on the open market. 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 non-Canadian subsidiaries file a consolidated U.S. federal income tax return. USCAN and Galileo file separate tax returns in Canada. 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 Tax Cuts and Jobs Act (“the Act”) was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 35 percent to 21 percent. The rate change was effective on January 1, 2018; therefore, the Company’s U.S. statutory tax rate for the fiscal year ended June 30, 2019, is 21 percent, while the rate for fiscal year 2018 was a bended rate of approximately 28 percent. The current applicable Canadian statutory rate for the Canadian subsidiaries is approximately 26.5 percent.

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At December 31, 2018, the Company has completed its accounting for the tax effects of enactment of the Act. The Securities and Exchange Commission had previously issued guidance that allowed for a measurement period of up to one year after the enactment date of the Act to finalize the recording of the related tax impacts. In certain cases, the Company had made a reasonable estimate of the effects on existing deferred tax balances and the one-time transition tax. The final transitional impacts of the Act did not differ materially from the initial estimates.

Under the new global intangible low-tax income (“GILTI”) tax rules established by the Act, the Company must make two accounting policy elections. The Company must elect to either treat taxes due on future GILTI inclusions in U.S. taxable income as a current period expense when incurred or reflect as a component of deferred taxes. The Company has elected to include GILTI taxes due as a current period expense when incurred. The Company must also make an accounting policy election to either use the incremental cash tax savings approach or the tax law ordering approach when assessing the realization of net operating losses related to GILTI. The Company has elected to use the tax law ordering approach.

Carryovers

For U.S. federal income tax purposes at December 31, 2018, the Company has U.S. federal net operating loss carryovers of $6.2 million with $2.0 million and $2.7 million expiring in fiscal years 2035 and 2036, respectively, and $1.5 million with no expiration. Certain limitations apply to the utilization of net operating losses with no expiration, which were generated after fiscal year 2018. The Company has capital loss carryovers of $1.0 million with $687,000 and $348,000 expiring in fiscal years 2022 and 2023, respectively. The Company has charitable contribution carryovers totaling approximately $69,000 with $34,000; $19,000; $5,000; and $11,000 expiring in fiscal years 2019, 2020, 2021, and 2023, respectively. For Canadian income tax purposes, USCAN has net operating loss carryovers of $72,000 that expire in fiscal year 2039 and capital loss carryovers of $75,000 with no expiration. If certain changes in the Company's ownership should occur, there could be an annual limitation on the amount of net operating loss carryovers that could be utilized.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. At December 31, 2018, and June 30, 2018, a valuation allowance of $2.4 million and $1.7 million, respectively, was included to fully reserve for net operating loss carryovers, other carryovers and certain book/tax differences in the balance sheet.

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NOTE 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables present the change in accumulated other comprehensive income (loss) (“AOCI”) by component:

(dollars in thousands)	**Unrealized gains (losses) on available-for-sale investments [1]**	**Foreign currency adjustment**	**Total**
Six Months Ended December 31, 2018			
Balance at June 30, 2018	$ 2,089	$ (231)	$ 1,858
Reclassification pursuant to adoption of ASU 2016-01, net of tax of $1,049	(2,089)	-	(2,089)
Balance at July 1, 2018	-	(231)	(231)
Other comprehensive loss before reclassifications	-	(27)	(27)
Tax effect	-	-	-
Amount reclassified from AOCI	-	-	-
Tax effect	-	-	-
Net other comprehensive loss for six months ended December 31, 2018	-	(27)	(27)
Balance at December 31, 2018	$ -	$ (258)	$ (258)
Three Months Ended December 31, 2018			
Balance at September 30, 2018	$ -	$ (212)	$ (212)
Other comprehensive loss before reclassifications	-	(46)	(46)
Tax effect	-	-	-
Amount reclassified from AOCI	-	-	-
Tax effect	-	-	-
Net other comprehensive loss for quarter	-	(46)	(46)
Balance at December 31, 2018	$ -	$ (258)	$ (258)

(dollars in thousands)	**Unrealized gains (losses) on available-for-sale investments [2]**	**Foreign currency adjustment**	**Total**
Six Months Ended December 31, 2017			
Balance at June 30, 2017	$ 461	$ (197)	$ 264
Other comprehensive income before reclassifications	16,923	53	16,976
Tax effect	(3,506)	-	(3,506)
Amount reclassified from AOCI	(31)	-	(31)
Tax effect	-	-	-
Net other comprehensive income for six months ended December 31, 2017	13,386	53	13,439
Balance at December 31, 2017	$ 13,847	$ (144)	$ 13,703

Three Months Ended December 31, 2017			
Balance at September 30, 2017	$ 9,594	$ (161)	$9,433
Other comprehensive income before reclassifications	7,783	17	7,800
Tax effect	(3,506)	-	(3,506)
Amount reclassified from AOCI	(24)	-	(24)
Tax effect	-	-	-
Net other comprehensive income for quarter	4,253	17	4,270
Balance at December 31, 2017	$ 13,847		