

U S GLOBAL INVESTORS INC

Form 10-K

August 27, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended June 30, 2014

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.

Incorporated in the State of Texas

IRS Employer Identification No. 74-1598370

Principal Executive Offices:

7900 Callaghan Road

San Antonio, Texas 78229

Telephone Number: 210-308-1234

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class A common stock

(\$0.025 par value per share)

Registered: NASDAQ Capital Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes No

Indicate by check mark whether the Company (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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No

The aggregate market value of the 8,937,245 shares of nonvoting class A common stock held by nonaffiliates of the registrant was \$22,700,602, based on the last sale price quoted on NASDAQ as of December 31, 2013, the last business day of the registrant's most recently completed second fiscal quarter. Registrant's only voting stock is its class C common stock, par value of \$0.025 per share, for which there is no active market. The aggregate value of the 5,231 shares of the class C common stock held by nonaffiliates of the registrant on December 31, 2013 (based on the last sale price of the class C common stock in a private transaction) was \$1,308. For purposes of this disclosure only, the registrant has assumed that its directors, executive officers, and beneficial owners of 5 percent or more of the registrant's common stock are affiliates of the registrant.

On August 18, 2014, there were 13,866,361 shares of Registrant's class A nonvoting common stock issued and 13,361,378 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's class B nonvoting common stock outstanding, and 2,069,187 shares of Registrant's class C voting common stock issued and outstanding.

Documents incorporated by reference: None

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Part I of Annual Report on Form 10-K

Item 1. Business

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, U.S. Global Investors, Inc. and its subsidiaries (collectively, “U.S. Global” or the “Company”) may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends, future expectations of the Company, and other matters that do not relate strictly to historical facts and are based on certain assumptions by management. These statements are often identified by the use of words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” or “continue,” and similar expressions or variations. These statements are based on the beliefs and assumptions of Company management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from the forward-looking statements include, among others, the risks described in Part I, Item 1A, Risk Factors, and elsewhere in this report and other documents filed or furnished by U.S. Global from time to time with the U.S. Securities and Exchange Commission (“SEC”). U.S. Global cautions readers to carefully consider such factors. Furthermore, such forward-looking statements speak only as of the date on which such statements are made. Except to the extent required by applicable law, U.S. Global undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

U.S. Global, a Texas corporation organized in 1968, is a registered investment adviser under the Investment Advisers Act of 1940, as amended (“Advisers Act”). The Company, with principal operations located in San Antonio, Texas, manages three business segments:

Investment Management Services, by which the Company offers, through U.S. Global Investors Funds (“USGIF” or 1. the “Fund(s)”), a Delaware statutory trust, and offshore clients, a broad range of investment management products and services to meet the needs of individual and institutional investors;

Investment Management Services - Canada, through which, as of June 1, 2014, the Company owns a 65% 2. controlling interest in Galileo Global Equity Advisors Inc. (“Galileo”), a privately held Toronto-based asset management firm which offers investment management products and services in Canada; and

Corporate Investments, through which the Company invests for its own account in an effort to add growth and value 3. to its cash position. Although the Company generates the majority of its revenues from its investment advisory segments, the Company holds a significant amount of its total assets in investments.

As part of its investment management businesses, the Company provides: (1) investment advisory services; (2) distribution services; and (3) administrative services to mutual funds advised by the Company. The investment management segments provide advisory services to other investors. The fees from these services, as well as investment income, are the primary sources of the Company’s revenue. Through December 2013, the Company also provided transfer agency services to the mutual funds advised by the Company.

Lines of Business

Investment Management Services

Investment Advisory Services. The Company furnishes an investment program for each of the clients it manages and determines, subject to overall supervision by the applicable board of trustees of the clients, the clients’ investments pursuant to an advisory agreement. Consistent with the investment restrictions, objectives and policies of the particular client, the portfolio team for each client determines what investments should be purchased, sold, and held, and makes changes in the portfolio deemed necessary or appropriate. In the advisory agreement, the Company is charged with seeking the best overall terms in executing portfolio transactions and selecting brokers or dealers.

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As required by the Investment Company Act of 1940, as amended (“Investment Company Act”), the advisory agreement with USGIF is subject to annual renewal and is terminable upon 60-day notice. The board of trustees of USGIF will meet to consider the agreement renewal in September 2014. Management anticipates that the advisory agreement will be renewed.

In addition to providing advisory services to USGIF, the Company provides advisory services to two offshore clients. A third offshore fund liquidated in November 2013.

Net assets under management on June 30, 2014, and June 30, 2013, are detailed in the following table.

Assets Under Management (“AUM”)

Fund	Ticker	June 30, 2014	June 30, 2013
(dollars in thousands)			
U.S. Global Investors Funds			
Natural Resources			
Global Resources	PSPFX/PIPFX	\$349,945	\$391,429
World Precious Minerals	UNWPX/UNWIX	166,993	147,998
Gold and Precious Metals	USERX	97,339	87,657
Total Natural Resources		614,277	627,084
International Equity			
Emerging Europe	EUROX	102,065	130,482
China Region	USCOX	23,380	25,514
Global Emerging Markets ¹	GEMFX	—	6,643
Total International Equity		125,445	162,639
Fixed Income			
U.S. Government Securities Ultra-Short Bond ²	UGSXX	68,576	133,381
U.S. Treasury Securities Cash ³	USTXX	—	78,029
Near-Term Tax Free ⁴	NEARX	61,984	51,713
Tax Free ⁴	USUTX	—	20,021
Total Fixed Income		130,560	283,144
Domestic Equity			
Holmes Macro Trends ⁵	MEGAX	51,980	36,559
All American Equity	GBTFX	23,666	19,734
MegaTrends ⁵	MEGAX/MEGIX	—	11,286
Total Domestic Equity		75,646	67,579
Total SEC-Registered Funds		945,928	1,140,446
Offshore Advisory Clients		20,012	21,715
		965,940	1,162,161
Total Canada AUM (see separate discussion)		267,210	—
Total AUM		\$1,233,150	\$1,162,161

¹ The Global Emerging Markets Fund liquidated on October 31, 2013.

² The U.S. Government Securities Savings Fund changed from a money market fund to the U.S. Government Securities Ultra-Short Bond Fund in December 2013.

³ The U.S. Treasury Securities Cash Fund was liquidated on December 27, 2013.

⁴ The Tax Free Fund was reorganized into the Near-Term Tax Free Fund in December 2013.

The MegaTrends Fund was reorganized into the Holmes Macro Trends Fund (formerly the Holmes Growth Fund)

⁵ in December 2013. In addition, the ticker symbol for the Holmes Macro Trends Fund was changed from ACBGX to MEGAX.

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Distribution Services. The Company has registered its wholly-owned subsidiary, U.S. Global Brokerage, Inc. (“USGB”), with the Financial Industry Regulatory Authority (“FINRA”), the SEC and appropriate state regulatory authorities as a limited-purpose broker-dealer for the purpose of distributing Fund shares. The distribution agreement with USGIF is subject to annual renewal and is terminable upon 60-day notice. The board of trustees of USGIF will meet to consider the distribution agreement renewal in September 2014. Management anticipates that the distribution agreement will be renewed.

Shareholder Services. In connection with obtaining and/or providing administrative services to the beneficial owners of USGIF through broker-dealers, banks, trust companies and similar institutions which provide such services, the Company receives shareholder services fees at an annual rate of up to 0.20 percent of the value of shares held in accounts at the institutions, which helps offset related platform costs.

Administrative Services. The Company also manages, supervises and conducts certain other affairs of USGIF, subject to the control of the Funds’ board of trustees pursuant to an administrative services agreement. It provides office space, facilities and certain business equipment as well as the services of executive and clerical personnel for administering the affairs of the Funds. U.S. Global and its affiliates compensate all personnel, officers, directors and interested trustees of the Funds if such persons are also employees of the Company or its affiliates. Effective December 2013, the Funds’ board of trustees increased the annual rate from 0.08 percent to 0.10 percent for each investor class and from 0.06 percent to 0.08 percent for each institutional class plus \$10,000 per Fund. The administrative services agreement with USGIF is subject to renewal on an annual basis and is terminable upon 60-day notice. The board of trustees of USGIF will meet to consider the agreement renewal in September 2014. Management anticipates that the administrative service agreement will be renewed.

Transfer Agency and Other Services. Through December 6, 2013, the Company’s wholly-owned subsidiary, United Shareholder Services, Inc. (“USSI”), a transfer agent registered under the Securities Exchange Act of 1934 (“Exchange Act”), provided transfer agency, printing, and mailing services to investment company clients.

The Company’s Board of Directors formally agreed on August 23, 2013, to exit the transfer agency business so that the Company could focus more on its core strength of investment management. USSI served as transfer agent until conversion to the new transfer agent on December 9, 2013. The transfer agency results, together with expenses associated with discontinuing transfer agency operations, are reflected as discontinued operations in the Consolidated Statement of Operations and are, therefore, excluded from continuing operations results.

Investment Management Services - Canada**Assets Under Management (“AUM”)**

(dollars in thousands)	Ticker	June 30, 2014	June 30, 2013
Galileo Funds			
Galileo High Income Plus Fund	N/A ¹	\$ 119,329	N/A ²
Galileo Growth and Income Fund	N/A ¹	7,724	N/A ²
Total Galileo Funds		127,053	
Other Advisory Clients		140,157	N/A ²
Total Canada AUM		\$267,210	

¹ The Galileo Funds are Canadian registered Funds and are not available in the United States.

² Prior year net assets are not shown as Galileo was not a subsidiary at that time.

The fiscal year ended June 30, 2014, is the first fiscal year that Investment Management Services - Canada has been presented as a business segment.

Effective March 31, 2013, the Company, through its wholly-owned subsidiary, U.S. Global Investors (Canada) Limited (“USCAN”), purchased 50 percent of the issued and outstanding shares of Galileo Global Equity Advisors, Inc., a privately held Toronto-based asset management firm, for \$600,000 cash.

Effective June 1, 2014, the Company, through USCAN, completed its purchase of an additional 15 percent interest in Galileo from the company’s founder, Michael Waring, for \$180,000 cash. This strategic investment brings USCAN’s ownership to 65 percent of the issued and outstanding shares of Galileo, which represents controlling interest of Galileo. Through Galileo, the Company expects to increase its presence in Canada. The non-controlling interest in this subsidiary is included in “non-controlling interest in subsidiaries” in the equity section of the Consolidated Balance

Sheets. Frank Holmes, CEO, and Susan McGee, President and General Counsel, serve as directors of Galileo.

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Galileo Equity Management Inc. was incorporated under the Business Corporations Act (Ontario) on July 16, 1999. On May 17, 2007, its name changed to Galileo Global Equity Advisors, Inc. Galileo is registered as a portfolio manager and exempt market dealer with the Ontario Securities Commission (“OSC”), the Nova Scotia Securities Commission and the Quebec Securities Commission. Additionally, the company is registered as an exempt market dealer with the New Brunswick and Newfoundland and Labrador Securities Commissions. On July 31, 2012, Galileo was also registered as an investment fund manager with the OSC.

Corporate Investments

Investment Activities. In addition to providing management and advisory services, the Company is actively engaged in trading for its own account. See segment information in the Notes to the Consolidated Financial Statements at Note 17 Financial Information by Business Segment, of this Annual Report in Form 10-K.

Additional Segment Information

See additional financial information about business segments in Part II, Item 8, Financial Statements and Supplementary Data at Note 17 Financial Information by Business Segment, of this Annual Report in Form 10-K.

Employees

As of June 30, 2014, U.S. Global and its subsidiaries employed 48 full-time employees and 4 part-time employees; as of June 30, 2013, it employed 65 full-time employees and 3 part-time employees. The Company considers its relationship with its employees to be good.

Competition

The mutual fund industry is highly competitive. According to the Investment Company Institute, at the end of 2013 there were approximately 9,000 domestically registered open-end investment companies of varying sizes and investment policies, whose shares are being offered to the public worldwide. Generally, there are two types of mutual funds: “load” and “no-load.” In addition, there are both load and no-load funds that have adopted Rule 12b-1 plans authorizing the payment of distribution costs of the funds out of fund assets. USGIF is a trust with no-load funds that have adopted 12b-1 plans. Load funds are typically sold through or sponsored by brokerage firms, and a sales commission is charged on the amount of the investment. No-load funds, such as the USGIF, however, may be purchased directly from the particular mutual fund organization or through a distributor, and no sales commissions are charged.

In addition to competition from other mutual fund managers and investment advisers, the Company and the mutual fund industry are in competition with various investment alternatives, offered by insurance companies, banks, securities broker-dealers, other financial institutions, and exchange traded funds (“ETFs”). ETFs have had a significant impact on the industry in the past decade, growing from nearly nothing to approximately 1,300 ETFs available at the end of 2013. Many of these institutions are able to engage in more liberal advertising than mutual funds and may offer accounts at competitive interest rates, which may be insured by federally chartered corporations such as the Federal Deposit Insurance Corporation.

A number of mutual fund groups are significantly larger than the funds managed by U.S. Global, offer a greater variety of investment objectives and have more experience and greater resources to promote the sale of investments therein. However, the Company believes it has the resources, products, and personnel to compete with these other mutual funds. In particular, the Company is known for its expertise in the gold mining and exploration, natural resources and emerging markets. Competition for sales of fund shares is influenced by various factors, including investment objectives and performance, advertising and sales promotional efforts, distribution channels, and the types and quality of services offered to fund shareholders.

Success in the investment advisory and mutual fund distribution businesses is substantially dependent on each fund’s investment performance, the quality of services provided to shareholders, and the Company’s efforts to market the Funds effectively. Sales of Fund shares generate management, distribution and administrative services fees (which are based on the assets of the Funds), and shareholder services fees (which are based on the assets of the Funds held through institutions). Costs of distribution and compliance continue to put pressure on profit margins for the mutual fund industry.

Despite the Company’s expertise in gold mining and exploration, natural resources, and emerging markets, the Company faces the same obstacle many advisers face, namely uncovering undervalued investment opportunities as the

markets face further uncertainty and increased volatility. In addition, the growing number of alternative investments, especially in specialized areas, has created pressure on the profit margins and increased competition for available investment opportunities.

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Supervision and Regulation

The Company, USGB, and the clients the Company manages and administers operate under certain laws, including federal and state securities laws, governing their organization, registration, operation, and legal, financial, and tax status. Among the potential penalties for violation of the laws and regulations applicable to the Company and its subsidiaries are fines, imprisonment, injunctions, revocation of registration, and certain additional administrative sanctions. Any determination that the Company or its management has violated applicable laws and regulations could have a material adverse effect on the business of the Company. Moreover, there is no assurance that changes to existing laws, regulations, or rulings promulgated by governmental entities having jurisdiction over the Company and the Funds will not have a material adverse effect on the Company's business. The Company has no control over regulatory rulemaking or the consequences it may have on the mutual fund and investment advisory industry. Recent and accelerating regulatory pronouncements and oversight have significantly increased the burden of compliance infrastructure with respect to the mutual fund industry and the capital markets. This momentum of new regulations has contributed significantly to the costs of managing and administering mutual funds.

U.S. Global is registered as an investment adviser with the SEC. As a registered investment adviser, it is subject to the requirements of the Advisers Act, and the SEC's regulations thereunder, as well as to examination by the SEC's staff. The Advisers Act imposes substantive regulation on virtually all aspects of the Company's business and relationships with the Company's clients. Applicable rules relate to, among other things, fiduciary duties to clients, transactions with clients, effective compliance programs, conflicts of interest, advertising, recordkeeping, reporting, and disclosure requirements. The Funds for which the Company acts as the investment adviser are registered with the SEC under the Investment Company Act. The Investment Company Act imposes additional obligations, including detailed operational requirements for both funds and their advisers. Moreover, an investment adviser's contract with a registered fund may be terminated by the fund on not more than 60 days' notice and is subject to annual renewal by the fund's board after an initial two-year term. Both the Advisers Act and the Investment Company Act regulate the "assignment" of advisory contracts by the investment adviser. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act and the Investment Company Act, ranging from fines and censures to termination of an investment adviser's registration. The failure of the Company, or the Funds which the Company advises, to comply with the requirements of the SEC could have a material adverse effect on the Company. The Company is also subject to federal and state laws affecting corporate governance, including the Sarbanes-Oxley Act of 2002 ("S-Ox Act"), as well as rules adopted by the SEC.

USGB is subject to regulation by the SEC under the Exchange Act and regulation by FINRA, a self-regulatory organization composed of other registered broker-dealers. U.S. Global and USGB are required to keep and maintain certain reports and records, which must be made available to the SEC and FINRA upon request.

Galileo Global Equity Advisors Inc. ("Galileo") is registered as a portfolio manager and investment fund manager with the Ontario Securities Commission ("OSC"). As a registered portfolio manager, the OSC imposes substantive regulation on virtually all aspects of the Company's business and relationships with the Company's clients. Applicable legislation relate to, among other things, fiduciary duties to clients, transactions with clients, effective compliance programs, conflicts of interest, advertising, recordkeeping, reporting, and disclosure requirements. The Funds for which the Company acts as the investment fund manager are registered with the OSC follow under National Instrument 81-101/102/106. These National Policies impose additional obligations, including detailed operational requirements for both funds and their managers. The OSC is authorized to institute proceedings and impose sanctions for violations of the rules ranging from fines and censures to termination of a portfolio manager and investment fund manager's registration. The failure of the Company, or the Funds which the Company advises, to comply with the requirements of the OSC could have a material adverse effect on the Company. Galileo Global Equity Advisors Inc. is registered as a portfolio advisor and investment fund manager with the OSC.

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Relationships with Clients

The businesses of the Company are to a very significant degree dependent on their associations and contractual relationships with USGIF. In the event the advisory or administrative agreements with USGIF are canceled or not renewed pursuant to the terms thereof, the Company would be substantially adversely affected. U.S. Global and USGB consider their relationships with the Funds to be good, and they have no reason to believe that their management and service contracts will not be renewed in the future; however, there is no assurance that USGIF will choose to continue its relationship with the Company or USGB.

In addition, the Company is also dependent on its relationships with its offshore clients. Even though the Company views its relationship with its offshore clients as stable, the Company could be adversely affected if these relationships ended.

Galileo is also dependent on its relationships with its clients. Even though Galileo views its relationship with its clients as stable, the Company could be adversely affected if these relationships ended.

Available Information

Available Information. The Company's Internet website address is www.usfunds.com. Information contained on the Company's website is not part of this annual report on Form 10-K. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed with (or furnished to) the SEC are available through a link on the Company's Internet website, free of charge, soon after such material is filed or furnished. (The link to the Company's SEC filings can be found at www.usfunds.com by clicking "About Us," followed by "Investor Relations," followed by "SEC Filings.") The Company routinely posts important information on its website.

The Company also posts its Corporate Governance Guidelines, Code of Business Conduct, Code of Ethics for Principal Executive and Senior Financial Officers and the charters of the audit and compensation committees of its Board of Directors on the Company's website in the "Policies and Procedures" section. The Company's SEC filings and governance documents are available in print to any stockholder that makes a written request to: Investor Relations, U.S. Global Investors, Inc., 7900 Callaghan Road, San Antonio, Texas 78229.

The Company files reports electronically with the SEC via the SEC's Electronic Data Gathering, Analysis and Retrieval system ("EDGAR"), which may be accessed through the Internet. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, at www.sec.gov.

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Investors and others should note that we announce material financial information to our investors using the website, SEC filings, press releases, public conference calls and webcasts. We also use social media to communicate with our customers and the public about our company. It is possible that the information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on social media channels listed below. This list may be updated from time to time.

<https://www.facebook.com/USFunds>

<https://twitter.com/USFunds>

Information contained on our website or on social media channels is not deemed part of this report.

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Item 1A. Risk Factors

The Company faces a variety of significant and diverse risks, many of which are inherent in the business. Described below are certain risks that could materially affect the Company. Other risks and uncertainties that the Company does not presently consider to be material, or of which the Company is not presently aware, may become important factors that affect it in the future. The occurrence of any of the risks discussed below could materially and adversely affect the business, prospects, financial condition, results of operations, or cash flow.

The investment management business is intensely competitive.

Competition in the investment management business is based on a variety of factors, including:

• Investment performance;

• Investor perception of an investment team's drive, focus, and alignment of interest with them;

• Quality of service provided to, and duration of relationships with, clients and shareholders;

• Business reputation; and

• Level of fees charged for services.

The Company competes with a large number of investment management firms, commercial banks, broker-dealers, insurance companies, and other financial institutions. Competitive risk is heightened by the fact that some competitors may invest according to different investment styles or in alternative asset classes which the markets may perceive as more attractive than the Company's investment approach. If the Company is unable to compete effectively, revenues and earnings may be reduced and the business could be materially affected.

Poor investment performance could lead to a decline in revenues.

Success in the investment management industry is largely dependent on investment performance relative to market conditions and the performance of competing products. Good relative performance generally attracts additional assets under management, resulting in additional revenues. Conversely, poor performance generally results in decreased sales and increased redemptions with a corresponding decrease in revenues. Therefore, poor investment performance relative to the portfolio benchmarks and to competitors could impair the Company's revenues and growth. The equity funds within USGIF have a performance fee whereby the base advisory fee is adjusted upwards or downwards by 0.25 percent if there is a performance difference of 5 percent or more between a Fund's performance and that of its designated benchmark index over the prior rolling 12 months.

The Company's clients can terminate their agreements with the Company on short notice, which may lead to unexpected declines in revenue and profitability.

The Company's investment advisory agreements are generally terminable on short notice and subject to annual renewal. If the Company's investment advisory agreements are terminated, which may occur in a short time frame, the Company may experience a decline in revenues and profitability.

Difficult market conditions can adversely affect the Company by reducing the market value of the assets we manage or causing shareholders to make significant redemptions.

Changes in economic or market conditions may adversely affect the profitability, performance of and demand for the Company's investment products and services. Under the Company's advisory fee arrangements, the fees received are primarily based on the market value of assets under management. Accordingly, a decline in the price of securities held in the Funds would be expected to cause revenues and net income to decline, which would result in lower advisory fees, or cause increased shareholder redemptions in favor of investments they perceive as offering greater opportunity or lower risk, which redemptions would also result in lower advisory fees. The ability of the Company to compete and grow is dependent on the relative attractiveness of the types of investment products the Company offers and its investment performance and strategies under prevailing market conditions.

Market-specific risks may negatively impact the Company's earnings.

The Company manages certain funds in the emerging market and natural resources sectors, which are highly cyclical. The investments in the Funds are subject to significant loss due to political, economic and diplomatic developments, currency fluctuations, social instability, and changes in governmental policies. Foreign trading markets, particularly in some emerging market countries, are often smaller, less liquid, less regulated and significantly more volatile than the U.S. and other established markets.

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The market price and trading volume of the Company's class A common stock may be volatile, which could result in rapid and substantial losses for the Company's stockholders.

The market price of the Company's class A common stock may be volatile and the trading volume may fluctuate, causing significant price variations to occur. If the market price of the Company's class A common stock declines significantly, stockholders may be unable to sell their shares at or above their purchase price. The Company cannot assure that the market price of its class A common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of the Company's class A common stock, or result in fluctuations in price or trading volume, include:

• Decreases in assets under management;

• Variations in quarterly and annual operating results;

• Publication of research reports about the Company or the investment management industry;

• Departures of key personnel;

• Adverse market reactions to any indebtedness the Company may incur, acquisitions or disposals the Company may make, or securities the Company may issue in the future;

• Changes in market valuations of similar companies;

• Changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting the business, or enforcement of these laws and regulations, or announcements relating to these matters;

• Adverse publicity about the asset management industry, generally, or individual scandals, specifically; and

• General market and economic conditions.

The market price of the Company's class A common stock could decline due to the large number of shares of the Company's class C common stock eligible for future sale upon conversion to class A shares.

The market price of the Company's class A common stock could decline as a result of sales of a large number of shares of class A common stock eligible for future sale upon the conversion of class C shares, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for the Company to raise additional capital by selling equity securities in the future, at a time and price the Company deems appropriate.

Failure to comply with government regulations could result in fines, which could cause the Company's earnings and stock price to decline.

The Company and its subsidiaries are subject to a variety of federal securities laws and agencies, including, but not limited to, the Advisers Act, the Investment Company Act, the S-Ox Act, the Gramm-Leach-Bliley Act of 1999, the Bank Secrecy Act of 1970, as amended, the USA PATRIOT Act of 2001, the SEC, FINRA, and NASDAQ.

Moreover, financial reporting requirements and the processes, controls, and procedures that have been put in place to address them, are comprehensive and complex. While management has focused attention and resources on compliance policies and procedures, non-compliance with applicable laws or regulations could result in fines, sanctions or censures which could affect the Company's reputation, and thus its revenues and earnings.

Furthermore, Galileo is subject to the rules and regulations of the OSC, and failure of the company or the funds it advises to comply with the requirements of the OSC could have a material adverse affect on the company.

Our business is subject to substantial risk from litigation, regulatory investigations and potential securities laws liability.

Many aspects of U.S. Global's business involve substantial risks of litigation, regulatory investigations and/or arbitration. The Company is exposed to liability under federal and state securities laws, other federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC, FINRA and other regulatory bodies.

U.S. Global, its subsidiaries, and/or officers could be named as parties in legal actions, regulatory investigations and proceedings. An adverse resolution of any lawsuit, legal or regulatory proceeding or claim against the Company could result in substantial costs or reputational harm to the Company, and have a material adverse effect on the Company's business, financial condition or results of operations, which, in turn, may negatively affect the market price of the Company's common stock and U.S. Global's ability to pay dividends. In addition to these financial costs and risks, the defense of litigation or arbitration may divert resources and management's attention from operations.

Galileo is also subject to risks of litigation, regulatory investigations and/or arbitration. Galileo is exposed to liability under provincial laws, court decisions as well as rules and regulations promulgated by the OSC.

Higher insurance premiums and related insurance coverage risks could increase costs and reduce profitability.

While U.S. Global carries insurance in amounts and under terms that it believes are appropriate, the Company cannot assure that its insurance will cover most liabilities and losses to which it may be exposed, or that our insurance policies will continue to be available at acceptable terms and fees. U.S. Global is subject to regulatory and governmental inquiries and civil litigation. An adverse outcome of any such proceeding could involve substantial financial penalties. From time to time, various claims against us arise in the ordinary course of business, including employment-related claims. There has been increased incidence of litigation

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and regulatory investigations in the financial services industry in recent years, including customer claims and class action suits alleging substantial monetary damages. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As U.S. Global's insurance policies come up for renewal, the Company may need to assume higher deductibles or co-insurance liabilities, or pay higher premiums, which would increase the Company's expenses and reduce net income.

Increased regulatory and legislative actions and reforms could increase costs and negatively impact the Company's profitability and future financial results.

During the past decade, federal securities laws have been substantially augmented and made significantly more complex by the S-Ox Act and the USA PATRIOT Act of 2001. With new laws and changes in interpretations and enforcement of existing requirements, the associated time the Company must dedicate to, and related costs the Company must incur in, meeting the regulatory complexities of the business have increased. In order to comply with these new requirements, the Company has had to expend additional time and resources, including substantial efforts to conduct evaluations required to ensure compliance with the S-Ox Act.

The Company is subject to financial services laws, regulations, corporate governance requirements, administrative actions and policies. During 2009 and 2010, as many emergency government programs slowed or wound down, global regulatory and legislative focus generally moved to a second phase of broader reform and a restructuring of financial institution regulation. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which fundamentally changed the U.S. financial regulatory landscape. The full scope of the regulatory changes imposed by the Dodd-Frank Act will only be determined once extensive rules and regulations have been proposed and become effective, which may result in significant changes in the manner in which the Company's operations are regulated.

Further, adverse results of regulatory investigations of mutual fund, investment advisory, and financial services firms could tarnish the reputation of the financial services industry generally, and mutual funds and investment advisers more specifically, causing investors to avoid further fund investments or redeem their balances. Redemptions would decrease the Company's assets under management, which would reduce its advisory revenues and net income.

The Company intends to pay regular dividends to its stockholders, but the ability to do so is subject to the discretion of the Board of Directors.

The Company intends to pay cash dividends on a monthly basis, but the Board of Directors, at its discretion, may decrease the level or frequency of dividends or discontinue payment of dividends entirely based on earnings, operations, capital requirements, general financial condition of the Company, and general business conditions.

One person beneficially owns substantially all of our voting stock and controls the outcome of all matters requiring a vote of stockholders, which may influence the value of our publicly traded non-voting stock.

Frank Holmes, CEO, is the beneficial owner of over 99 percent of the class C voting convertible common stock and controls the outcome of all issues requiring a vote of stockholders. All of our publicly traded stock is nonvoting stock. Consequently, except to the extent provided by law, stockholders other than Frank Holmes have no vote with respect to the election of directors or any other matter requiring a vote of stockholders. This lack of voting rights may adversely affect the market value of the publicly traded class A nonvoting common stock.

The loss of key personnel could negatively affect the Company's financial performance.

The success of the Company depends on key personnel, including the portfolio managers, analysts, and executive officers. Competition for qualified, motivated, and skilled personnel in the asset management industry remains significant. As the business grows, the Company will likely need to increase the number of employees. Moreover, in order to retain certain key personnel, the Company may be required to increase compensation to such individuals, resulting in additional expense. The loss of key personnel or the Company's failure to attract replacement personnel could negatively affect its financial performance.

The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information. As part of the Company's normal operations, it maintains and transmits confidential information about the Company and the Funds' clients as well as proprietary information relating to its business operations. These systems could be victimized by unauthorized users or corrupted by computer viruses or other malicious software code, or authorized persons could inadvertently or intentionally release confidential or proprietary information. Such a breach could

subject the Company to liability for a failure to safeguard client data, result in the termination of relationships with our existing customers, require significant capital and operating expenditures to investigate and remediate the breach and subject the Company to regulatory action.

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We rely upon certain critical information systems for the operation of our business, and the failure of any critical information system, including a cyber-security breach, may result in harm to our business.

We are heavily dependent on technology infrastructure and rely upon certain critical information systems for the effective operation of our business. These information systems include data network and telecommunications, internet access and our websites, and various computer hardware equipment and software applications. These information systems are subject to damage or interruption from a number of potential sources including natural disasters, software viruses or other malware, power failures, cyber-attacks and other events to the extent that these information systems are under our control. We have implemented measures, such as virus protection software, intrusion detection systems and emergency recovery processes to address the outlined risks. However, security measures for information systems cannot be guaranteed to be failsafe. Any compromise of our data security or our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business and subject us to additional costs and liabilities, which could adversely affect our results of operations. Finally, federal legislation relating to cyber-security threats could impose additional requirements on our operations.

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Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company presently owns and occupies an office building as its headquarters in San Antonio, Texas. The office building is approximately 46,000 square feet on approximately 2.5 acres of land. Galileo leases office space in Toronto, Canada.

Item 3. Legal Proceedings

There are no material legal proceedings in which the Company is involved.

Item 4. Mine Safety Disclosures

Not applicable.

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Part II of Annual Report on Form 10-K

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

U.S. Global Investors, Inc. ("U.S. Global" or the "Company") has three classes of common equity: class A, class B, and class C common stock, par value \$0.025 per share.

The Company's class A common stock is traded over-the-counter and is quoted daily under NASDAQ's Capital Markets. Trades are reported under the symbol "GROW."

There is no established public trading market for the Company's class B and class C common stock.

The Company's class A and class B common stock have no voting privileges.

The following table sets forth the range of high and low sales prices of "GROW" from NASDAQ for the fiscal years ended June 30, 2014, and June 30, 2013. The quotations represent prices between dealers and do not include any retail markup, markdown, or commission.

	Sales Price		Sales Price	
	2014	2013	2014	2013
	High (\$)	Low (\$)	High (\$)	Low (\$)
First quarter (9/30)	3.40	2.10	6.32	4.06
Second quarter (12/31)	2.93	2.37	6.25	3.85
Third quarter (3/31)	4.05	2.45	4.48	3.50
Fourth quarter (6/30)	3.80	3.20	3.70	2.11

Holders

On August 18, 2014, there were approximately 172 holders of record of class A common stock, no holders of record of class B common stock, and 35 holders of record of class C common stock.

Dividends

The Company paid cash dividends of \$0.02 per share per month from July 2012 through December 2012. After paying a special \$0.02 per share dividend in December 2012, the Company lowered its monthly dividend from \$0.02 to \$0.005 per share per month beginning in January 2013. The Company has paid \$0.005 per share per month through June 30, 2014. A monthly dividend of \$0.005 has been authorized through December 31, 2014, and will be reviewed by the board quarterly. 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.

Securities authorized for issuance under equity compensation plans

Information relating to equity compensation plans under which our stock is authorized for issuance is set forth in Item 12 of Part III of this Form 10-K under the heading "Equity Compensation Plan Information."

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Purchases of equity securities by the issuer

Effective January 1, 2013, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to \$2.75 million of its outstanding class A 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. On December 12, 2013, the Board of Directors renewed the share repurchase program for up to \$2.75 million of its outstanding class A common stock through calendar year 2014.

As of June 30, 2014, the Company had purchased a total of 148,403 class A shares using cash of \$463,000. The Company may repurchase stock from employees; however, none were repurchased from employees during fiscal years ended June 30, 2014, or June 30, 2013. The Company did not repurchase any classes B or C common stock during fiscal years ended June 30, 2014, or June 30, 2013.

(dollars in thousands, except price data)

Period	Total Number of Shares Purchased ¹	Total Amount Purchased	Average Price Paid Per Share ²	Total Number of Shares Purchased as Part of Publicly Announced Plan ³	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
01-01-13 to 01-31-13	4,300	\$18	\$4.14	4,300	\$2,732
02-01-13 to 02-28-13	9,003	34	3.73	9,003	2,698
03-01-13 to 03-31-13	8,900	34	3.78	8,900	2,664
04-01-13 to 04-30-13	10,800	34	3.19	10,800	2,630
05-01-13 to 05-31-13	7,457	20	2.70	7,457	2,610
06-01-13 to 06-30-13	14,592	34	2.33	14,592	2,576
Total fiscal 2013	55,052	\$174	\$3.15	55,052	
07-01-13 to 07-31-13	3,980	\$9	\$2.42	3,980	2,567
08-01-13 to 08-31-13	3,480	11	3.07	3,480	2,556
09-01-13 to 09-30-13	5,759	17	2.93	5,759	2,539
10-01-13 to 10-31-13	5,330	15	2.78	5,330	2,524
11-01-13 to 11-30-13	2,700	7	2.53	2,700	2,517
12-01-13 to 12-31-13	20,197	51	2.52	20,197	See Note 3
01-01-14 to 01-31-14	4,800	15	3.15	4,800	2,735
02-01-14 to 02-28-14	15,500	53	3.42	15,500	2,682
03-01-14 to 03-31-14	14,765	52	3.56	14,765	2,630
04-01-14 to 04-30-14	—	—	n/a	—	2,630
05-01-14 to 05-31-14	12,140	43	3.52	12,140	2,587
06-01-14 to 06-30-14	4,700	16	3.38	4,700	2,571
Total fiscal 2014	93,351	\$289	\$3.10	93,351	
Total	148,403	\$463	\$3.12	148,403	

The Board of Directors of the Company approved on December 7, 2012, and renewed on December 12, 2013, a

^{1.} repurchase of up to \$2.75 million of its outstanding class A common stock from time to time on the open market through calendar year 2014 in accordance with all applicable rules and regulations.

^{2.} The average price paid per share of stock repurchased under the stock repurchase program includes the commissions paid to brokers.

The repurchase plan was approved on December 7, 2012, renewed on December 12, 2013, and will continue

^{3.} through calendar year 2014. The total amount of shares that may be repurchased in 2014 under the renewed program is \$2.75 million.

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Company Performance Presentation

The following graph compares the cumulative total return for the Company's class A common stock (GROW) to the cumulative total return for the S&P 500 Index, the Russell 2000 Index, and the NYSE Arca Gold BUGS Index for the Company's last five fiscal years. The graph assumes an investment of \$10,000 in the class A common stock and in each index as of June 30, 2009, and that all dividends are reinvested. The historical information included in this graph is not necessarily indicative of future performance and the Company does not make or endorse any predictions as to future stock performance.

	Fiscal Year-End Date					
	2009	2010	2011	2012	2013	2014
U.S. Global Investors, Inc. class A (GROW)	\$10,000	\$6,145	\$8,236	\$5,187	\$2,603	\$4,430
S&P 500 Index	\$10,000	\$11,443	\$14,955	\$15,770	\$19,018	\$23,698
Russell 2000 Index	\$10,000	\$12,140	\$16,678	\$16,331	\$20,287	\$25,080
NYSE Arca Gold BUGS Index	\$10,000	\$14,071	\$15,547	\$12,918	\$7,010	\$7,514

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Item 6. Selected Financial Data

The following selected financial data is qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report in Form 10-K. The selected financial data as of June 30, 2010, through June 30, 2014, and the years then ended, is derived from the Company's audited Consolidated Financial Statements.

The Company's Board of Directors formally agreed on August 23, 2013, to exit the transfer agency business so that the Company could focus more on its core strength of investment management. USSI served as transfer agent until conversion to the new transfer agent on December 9, 2013. The transfer agency results, together with expenses associated with discontinuing transfer agency operations, are reflected as discontinued operations in the Consolidated Statement of Operations and are, therefore, excluded from continuing operations results.

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(dollars in thousands, except operating data and per share data)	Year Ended June 30,				
Selected Financial Data	2014	2013	2012	2011	2010
Operating revenues	\$11,439	\$17,318	\$22,374	\$39,118	\$31,435
Operating expenses	14,841	17,509	19,535	27,890	24,458
Operating income (loss)	(3,402)	) (191)	) 2,839	11,228	6,977
Other income (loss)	2,165	262	(177)	) 1,008	979
Income (loss) from continuing operations before income taxes	(1,237)	) 71	2,662	12,236	7,956
Income tax expense (benefit)	(517)	) 100	1,024	4,268	2,972
Income (loss) from continuing operations	(720)	) (29)	) 1,638	7,968	4,984
Income (loss) from discontinued operations	(243)	) (165)	) (108)	) (136)	) 365
Net income (loss)	(963)	) (194)	) 1,530	7,832	5,349
Less net income attributable to non-controlling interest	7	—	—	—	—
Net income (loss) attributable to U.S. Global Investors, Inc.	\$(970)	) \$(194)	) \$1,530	\$7,832	\$5,349
Earnings Per Share Attributable to U.S. Global Investors, Inc. - Basic					
Income (loss) from continuing operations	\$(0.04)	) \$0.00	\$0.11	\$0.52	\$0.33
Income (loss) from discontinued operations	(0.02)	) (0.01)	) (0.01)	) (0.01)	) 0.02
Net income (loss) attributable to U.S. Global Investors, Inc.	\$(0.06)	) \$(0.01)	) \$0.10	\$0.51	\$0.35
Dividends per common share	\$0.06	\$0.17	\$0.24	\$0.24	\$0.24
Balance Sheet					
Working capital	\$24,673	\$22,958	\$25,711	\$32,366	\$28,324
Total assets	37,846	38,683	41,756	45,967	40,984
Total U.S. Global Investors, Inc. Shareholders' Equity	35,070	36,849	38,710	41,057	36,192
Cash Flow					
Net cash provided by (used in) operating activities	\$(15,189)	) \$461	\$1,817	\$7,719	\$7,632
Net cash provided by (used in) investing activities	4,050	(368)	) (4,894)	) (846)	) (739)
Net cash used in financing activities	(1,061)	) (2,621)	) (3,518)	) (3,503)	) (3,359)
Operating Data (in billions)					
Average assets under management	\$1.08	\$1.55	\$2.06	\$2.82	\$2.56

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion reviews and analyzes the consolidated results of operations of U.S. Global Investors, Inc. and its subsidiaries (collectively, "U.S. Global" or the "Company") for the past three fiscal years and other factors that may affect future financial performance. This discussion should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and Selected Financial Data of this Annual Report in Form 10-K.

Recent Trends in Financial Markets

During the fiscal year ended June 30, 2014, global financial markets responded positively to improving global economic conditions. The U.S. economy strengthened over the past year with very steady incremental improvement. The first quarter of 2014 was disrupted by severe weather across much of the country, but the economy bounced back in the second quarter and we ended the fiscal year on a positive economic note. Over the past year, Europe returned to modest growth after several quarters of a shallow recession. China was able to maintain steady growth while the government is pushing through reforms, which was positive for the global economy. Japan implemented a significant quantitative easing program to boost the economy in an attempt to end the ongoing deflation in the country.

The Federal Reserve ("Fed") began the wind down of their quantitative easing ("QE3") in December 2013 with the belief that the economy was strong enough to weather a reduction of the monetary stimulus. The Fed is on pace to completely wind down the QE program by the end of October 2014 and then thoughts will turn to the potential for an interest rate increase at some time in 2015. The European Central Bank ("ECB") took interest rates into negative territory at -0.10% for the ECB equivalent to the Fed Funds rate.

While the Fed is winding down its QE3 program, they are still in very easy monetary policy mode along with many other global central banks. This stimulative government policy has provided a boost to virtually all "risky" financial assets. Global equities have responded over the past year as the S&P 500 rose by more than 24 percent and emerging market equities rose by more than 14 percent. Commodities, such as oil and gold also rose over the past twelve months along with commodity related equities. Geopolitical events have heated up as Russia effectively annexed Crimea and is funding a separatist movement in the eastern portion of the country. Russia's actions have been widely condemned by the international community and sanctions have been imposed on the country, leading to considerable volatility in Russian equities. Mutual funds have generally experienced outflows even as the broad U.S. equity market has appreciated. This is primarily attributable to these asset classes or areas of the market being relatively out of favor versus other investment alternatives. Exchange traded funds ("ETFs") are also a source of increasing competition for asset flows as their market share is increasing.

To manage expenses, the Company maintains a flexible structure for one of its largest costs, compensation expense, by setting relatively lower base salaries with bonuses that are tied to average assets under management and fund performance. Thus, our expense model expands and contracts with asset swings and performance.

Business Segments

The Company, with principal operations located in San Antonio, Texas, manages three business segments:

- Investment Management Services, by which the Company offers, through U.S. Global Investors Funds ("USGIF" or the "Fund(s)"), a Delaware statutory trust, a broad range of investment management products and services to meet the needs of individual and institutional investors;
- Investment Management Services - Canada, through which, as of June 1, 2014, the Company owns a 65% controlling interest in Galileo Global Equity Advisors Inc. ("Galileo"), a privately held Toronto-based asset management firm which offers investment management products and services in Canada; and
- Corporate Investments, through which the Company invests for its own account in an effort to add growth and value to its cash position. Although the Company generates the majority of its revenues from its investment advisory segments, the Company holds a significant amount of its total assets in investments.

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Assets Under Management (“AUM”)

(dollars in thousands)

		June 30, 2014	June 30, 2013
Investment Management Services	SEC-Registered Funds	\$945,928	\$1,140,446
	Offshore Advisory Clients	20,012	21,715
	Total AUM	965,940	1,162,161
Investment Management Services - Canada	Funds	127,053	—
	Other Advisory Clients	140,157	—
	Total AUM	267,210	—
Total AUM		\$1,233,150	\$1,162,161

On June 30, 2014, total assets under management as of period end were \$1.23 billion versus \$1.16 billion on June 30, 2013, an increase of six percent. The increase was primarily due to the June 1, 2014, acquisition of a controlling interest in Galileo offset by a decrease in SEC-registered funds under management.

During fiscal year 2014, average assets under management were \$1.1 billion versus \$1.6 billion in fiscal year 2013, a decrease of 31%. The decrease was primarily due to net shareholder redemptions.

The following is a brief discussion of the Company’s three business segments.

Investment Management Services

In fiscal year 2014, the Company generated substantially all of its operating revenues from managing and servicing the Funds and offshore advisory clients. These revenues are largely dependent on the total value and composition of assets under its management. Fluctuations in the markets and investor sentiment directly impact the Funds’ asset levels, thereby affecting income and results of operations.

Detailed information regarding the SEC-registered funds managed by the Company can be found on the Company’s website, www.usfunds.com, including performance information for each fund for various time periods, assets under management as of the most recent month end, and inception date of each fund.

SEC-registered mutual fund shareholders are not required to give advance notice prior to redemption of shares in the funds; however, the equity funds charge a redemption fee if the fund shares have been held for less than the applicable periods of time set forth in the funds’ prospectuses. The fixed income funds charge no redemption fee. Detailed information about redemption fees can be found in the funds’ prospectus, which is available on the Company’s website, www.usfunds.com.

The Company provides advisory services for two offshore clients (a third offshore fund liquidated in November 2013) and receives monthly advisory fees, based on the net asset values of the clients and performance fees based on the overall increase in net asset values, if any. In fiscal year 2014, the Company recorded advisory and performance fees from these clients totaling \$190,000 and \$4,000, respectively, and \$299,000 and \$19,000, respectively, in fiscal year 2013. The performance fees for these clients are calculated and recorded in accordance with the terms of the advisory agreements. These fees may fluctuate significantly from year to year based on factors that may be out of the Company’s control. Frank Holmes, CEO, serves as a director of the two offshore clients.

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The following tables summarize the changes in assets under management for the SEC-registered funds for fiscal years 2014, 2013 and 2012:

(dollars in thousands)	2014		
	Equity	Money Market and Fixed Income	Total
Beginning Balance	\$857,302	\$283,144	\$1,140,446
Market appreciation	132,774	2,806	135,580
Dividends and distributions	(20,287)	(1,695)	(21,982)
Net shareholder redemptions	(154,421)	(153,695)	(308,116)
Ending Balance	\$815,368	\$130,560	\$945,928
Average investment management fee	0.97	% —	% 0.79
Average net assets	\$841,492	\$195,050	\$1,036,542
(dollars in thousands)	2013		
	Equity	Money Market and Fixed Income	Total
Beginning Balance	\$1,289,160	\$302,770	\$1,591,930
Market depreciation	(146,115)	(87)	(146,202)
Dividends and distributions	(14,981)	(1,675)	(16,656)
Net shareholder redemptions	(270,762)	(17,864)	(288,626)
Ending Balance	\$857,302	\$283,144	\$1,140,446
Average investment management fee	0.98	% —	% 0.79
Average net assets	\$1,229,373	\$293,027	\$1,522,400
(dollars in thousands)	2012		
	Equity	Money Market and Fixed Income	Total
Beginning Balance	\$2,225,729	\$336,793	\$2,562,522
Market appreciation/(depreciation)	(480,540)	2,774	(477,766)
Dividends and distributions	(117,744)	(1,506)	(119,250)
Net shareholder redemptions	(338,285)	(35,291)	(373,576)
Ending Balance	\$1,289,160	\$302,770	\$1,591,930
Average investment management fee	0.99	% —	% 0.83
Average net assets	\$1,699,921	\$320,242	\$2,020,163

As shown above, both average and period-end assets under management decreased in fiscal year 2014 compared to fiscal year 2013 and in fiscal year 2013 compared to fiscal year 2012. The decrease in assets under management in fiscal year 2014 was driven by redemptions, primarily in the money market and natural resources funds, offset by market appreciation, primarily in the natural resources funds. The Company liquidated one of its money market funds and converted the other money market fund to a ultra-short bond fund, which contributed to the redemptions in these funds. The decrease in assets under management in fiscal year 2013 was driven by market depreciation, primarily in the natural resources funds, and redemptions, primarily in the natural resources and emerging markets funds. A significant portion of the dividends and distributions shown above are reinvested and included in net shareholder redemptions.

The average annualized investment management fee rate (total advisory fees, excluding performance fees, as a percentage of average assets under management) was 79 basis points in both fiscal year 2014 and fiscal year 2013 and 83 basis points in fiscal year 2012. The average investment management fee for equity funds in fiscal year 2014, 2013, and 2012 was 97, 98 and 99 basis points, respectively. The average investment management fee for the money market and fixed income funds was nil or close to nil for fiscal years 2014, 2013, and 2012. This is due to voluntary

fee waivers on these funds as discussed in Note 6 Investment Management and and Other Fees of the Consolidated Financial Statements of this Annual Report in Form 10-K, including a voluntary agreement to support the yields for the money market funds.

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Investment Management Services - Canada

Effective March 31, 2013, the Company, through its wholly-owned subsidiary, U.S. Global Investors (Canada) Limited (“USCAN”), purchased 50 percent of the issued and outstanding shares of Galileo Global Equity Advisors Inc. (“Galileo”), a privately held Toronto-based asset management firm, for \$600,000 cash.

Effective June 1, 2014, the Company, through USCAN, completed its purchase of an additional 15 percent interest in Galileo from the company’s founder, Michael Waring, for \$180,000 cash. This strategic investment brings USCAN’s ownership to 65 percent of the issued and outstanding shares of Galileo, which represents controlling interest of Galileo. Through Galileo, the Company expects to increase its presence in Canada. The non-controlling interest in this subsidiary is included in “non-controlling interest in subsidiaries” in the equity section of the Consolidated Balance Sheets. Frank Holmes, CEO, and Susan McGee, President and General Counsel, serve as directors of Galileo.

Corporate Investments

Management believes it can more effectively manage the Company’s cash position by maintaining certain types of investments utilized in cash management and continues to believe that such activities are in the best interest of the Company.

The following summarizes the market value, cost, and unrealized gain or loss on investments recorded at fair value as of June 30, 2014, and June 30, 2013.

Securities	Market Value	Cost	Unrealized Gain (Loss)	Unrealized gains on available-for-sale securities, net of tax
(dollars in thousands)				
Trading ¹	\$17,817	\$18,067	\$(250	) N/A
Available-for-sale ²	6,196	4,851	1,345	\$888
Total at June 30, 2014	\$24,013	\$22,918	\$1,095	
Trading ¹	\$4,758	\$5,458	\$(700	) N/A
Available-for-sale ²	9,053	8,065	988	\$652
Total at June 30, 2013	\$13,811	\$13,523	\$288	

1. Unrealized and realized gains and losses on trading securities are included in earnings in the Consolidated Statements of Operations.

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

In addition, as of June 30, 2014, the Company held approximately \$1.4 million in other investments held at cost. As of June 30, 2014, and 2013, the Company held approximately \$6.1 million and \$1.6 million in investments other than the clients the Company advises. Investments in securities classified as trading are reflected as current assets on the Consolidated Balance Sheets at their fair market value. Unrealized 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 gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income (loss) as a separate component of shareholders’ equity until realized.

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

- realized gains and losses on sales of securities;
- unrealized gains and losses on trading securities;
- realized foreign currency gains and losses;
- other-than-temporary impairments on available-for-sale securities; and
- dividend and interest income.

Investment income can be volatile and may vary depending on market fluctuations, the Company’s ability to participate in investment opportunities, and timing of transactions. A significant portion of the unrealized gains and losses is concentrated in a small number of issuers. For fiscal years 2014, 2013, and 2012, the Company had net recognized gains (losses) on sales or other-than-temporary impairment of securities of \$878,000; \$(26,000); and

\$158,000; respectively. Due to market volatility, the Company expects that gains or losses will continue to fluctuate in the future.

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Consolidated Results of Operations

The following is a discussion of the consolidated results of operations of the Company and a detailed discussion of the Company's revenues and expenses.

(dollars in thousands, except per share data)	Year Ended June 30,		
	2014	2013	2012
Net income (loss)			
Income (loss) from continuing operations	\$ (720	) \$ (29	) \$ 1,638
Less: Income attributable to non-controlling interest in subsidiary	7	—	—
Income (loss) from continuing operations attributable to U.S. Global Investors, Inc.	(727	) (29	) 1,638
Loss from discontinued operations attributable to U.S. Global Investors, Inc.	(243	) (165	) (108)
Net income (loss) attributable to U.S. Global Investors, Inc.	\$ (970	) \$ (194	) \$ 1,530
Weighted average number of outstanding shares			
Basic	15,459,022	15,482,612	15,441,464
Effect of dilutive securities			
Employee stock options	—	—	118
Diluted	15,459,022	15,482,612	15,441,582
Earnings (loss) per share attributable to U.S. Global Investors, Inc.			
Basic			
Income (loss) from continuing operations	\$ (0.04	) \$ 0.00	\$ 0.11
Loss from discontinued operations	(0.02	) (0.01	) (0.01)
Net income (loss) attributable to U.S. Global Investors, Inc.	\$ (0.06	) \$ (0.01	) \$ 0.10
Diluted			
Income (loss) from continuing operations	\$ (0.04	) \$ 0.00	\$ 0.11
Loss from discontinued operations	(0.02) (0.01) (0.01)
Net income (loss) attributable to U.S. Global Investors, Inc.	\$ (0.06) \$ (0.01) \$ 0.10

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Year Ended June 30, 2014 Compared with Year Ended June 30, 2013

The Company posted a net loss attributable to U.S. Global Investors, Inc. of \$970,000 (\$0.06 loss per share) for the year ended June 30, 2014, compared with a net loss attributable to U.S. Global Investors, Inc. of \$194,000 (\$0.01 per share) for the year ended June 30, 2013. This decrease in profitability is primarily attributable to the following factors:

Operating Revenues

Total consolidated operating revenues for the year ended June 30, 2014, decreased \$5.9 million, or 33.9 percent, compared with the year ended June 30, 2013. This decrease was primarily attributable to the following:

Advisory fees decreased by \$4.4 million, or 36.3 percent as the result of lower assets under management and increased performance fee adjustments. Investment advisory fees are comprised of two components: a base management fee and a performance fee. The performance fee is a fulcrum 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.

Base management fees decreased approximately \$3.9 million as a result of lower assets under management due to market depreciation and shareholder redemptions in the natural resources and money market funds.

Performance fee adjustments paid out in the current period increased \$682,000 versus the corresponding period in the prior year.

- Distribution fees decreased by \$843,000, or 29.9 percent, as a result of lower average net assets under management upon which these fees are based.

Shareholder services fees decreased by \$452,000, or 32.7 percent, as a result of a decline in net assets held through institutions.

Administrative services fees decreased by \$155,000, or 16.7 percent, as a result of lower average net assets under management upon which these fees are based offset by the fee change implemented in December 2013.

Operating Expenses

Total consolidated operating expenses for the year ended June 30, 2014, decreased by \$2.7 million, or 15.2 percent, compared with the prior year and was primarily attributable to the following:

Employee compensation and benefits decreased by \$1.5 million, or 18.4 percent, primarily as a result of fewer employees and lower performance-based bonuses.

Platform fees decreased by \$760,000, or 28.5 percent, primarily due to lower assets held through broker-dealer platforms.

Advertising decreased \$247,000, or 28.7 percent, as a result of decreased marketing and sales costs.

General and administrative expenses decreased \$110,000, or 2.1 percent, representing a decrease of approximately \$635,000 primarily due to lower fund and operation expenses offset by one-time costs of approximately \$525,000, including legal and proxy filing and solicitation costs, related to strategic fund changes in the fall of 2013.

Other Income

Total consolidated other income for the year ended June 30, 2014, increased \$1.9 million, or 726.3 percent, compared with the year ended June 30, 2013. This increase was primarily attributable to realized gains on sale of available-for-sale securities, unrealized gains on trading securities, increased dividend and interest income and gains recognized in conjunction with the acquisition of Galileo.

Discontinued Operations

Total loss, net of tax, on discontinued operations for the year ended June 30, 2014, increased by \$78,000, or 47 percent, from \$165,000 in fiscal year 2013 to \$243,000 in fiscal year 2014. The prior year loss reflects a period in which the transfer agent was still in full operations while the current year reflects residual costs from winding down operations after the transfer agent transitioned to a third party in December 2013.

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Year Ended June 30, 2013 Compared with Year Ended June 30, 2012

The Company posted a net loss attributable to U.S. Global Investors, Inc. of \$194,000 (\$0.01 loss per share) for the year ended June 30, 2013, compared with net income attributable to U.S. Global Investors, Inc. of \$1.5 million (\$0.10 per share) for the year ended June 30, 2012. This decrease in profitability is primarily attributable to the following factors:

Operating Revenues

Total consolidated operating revenues for the year ended June 30, 2013, decreased \$5.1 million, or 22.6 percent, compared with the year ended June 30, 2012. This decrease was primarily attributable to the following:

Advisory fees decreased by \$2.7 million, or 18.4 percent. Advisory fees are comprised of two components: a base management fee and a performance fee. The performance fee is a fulcrum 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.

Base management fees decreased \$4.8 million due to a decrease in advisory fees as a result of lower assets under management due to market depreciation and shareholder redemptions in the natural resources and emerging markets funds.

The decrease in management fees was offset by a \$2.1 million decrease in performance fee adjustments paid out in the current period versus the prior period.

Distribution fees decreased by \$1.3 million, or 30.8 percent, as a result of lower average net assets under management upon which these fees are based.

Shareholder services fees decreased by \$667,000, or 32.5 percent, as a result of a decline in net assets held through institutions.

- Administrative services fees decreased by \$392,000, or 29.7 percent, as a result of lower average net assets under management upon which these fees are based.

Operating Expenses

Total consolidated operating expenses for the year ended June 30, 2013, decreased by \$2.0 million, or 10.4 percent, compared with the prior year and was primarily attributable to the following:

Employee compensation and benefits decreased by \$451,000, or 5.1 percent, primarily as a result of lower performance-based bonuses and fewer employees.

Platform fees decreased by \$1.3 million, or 33.3 percent, primarily due to lower assets held through broker-dealer platforms.

Advertising decreased \$320,000, or 27.1 percent, as a result of decreased marketing and sales costs.

Other Income

Total consolidated other income for the year ended June 30, 2013, increased \$439,000, or 248.0 percent, compared with the year ended June 30, 2012. This increase was primarily attributable to an increase in investment income as a result of changes in trading securities.

Discontinued Operations

Total loss on discontinued operations for the year ended June 30, 2013, increased by \$57,000, or 53 percent, from \$108,000 for fiscal year 2012 to \$165,000 for fiscal year 2013 primarily as a result of lower revenue as a result of the decline in the number of shareholder accounts and the number of transactions.

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Operating Revenues and Other Income

(dollars in thousands)	2014	2013	% Change	2013	2012	% Change
Investment advisory fees:						
Natural resources funds	\$5,019	\$9,302	(46.0)%	\$9,302	\$11,085	(16.1)%
International equity funds	1,666	2,170	(23.2)%	2,170	2,991	(27.4)%
Domestic equity funds	640	399	60.4 %	399	499	(20.0)%
Fixed income funds	7	—	N/A	—	—	N/A
Total investment advisory fees - SEC	7,332	11,871	(38.2)%	11,871	14,575	(18.6)%
Galileo advisory fees	234	—	—	—	—	— %
Offshore advisory fees	194	318	(39.0)%	318	358	(11.2)%
Total advisory fees	7,760	12,189	(36.3)%	12,189	14,933	(18.4)%
Distribution fees	1,974	2,817	(29.9)%	2,817	4,070	(30.8)%
Shareholder services fees	931	1,383	(32.7)%	1,383	2,050	(32.5)%
Administrative services fees	774	929	(16.7)%	929	1,321	(29.7)%
Total Operating Revenue	\$11,439	\$17,318	(33.9)%	\$17,318	\$22,374	(22.6)%
Other Income (Loss)						
Investment income (loss)	\$2,145	\$208	931.3 %	\$208	\$(177)	(217.5)%
Equity in earnings of Galileo	20	54	(63.0)%	54	—	N/A
Total Other Income (Loss)	\$2,165	\$262	726.3 %	\$262	\$(177)	(248.0)%

Advisory Fees. Advisory fees, the largest component of the Company's revenues, are derived from three sources: SEC-registered mutual fund advisory fees, Galileo advisory fees and offshore advisory fees. In fiscal year 2014, these sources accounted for 94.5 percent, 3.0 percent, and 2.5 percent, respectively, of the Company's total investment advisory fees.

SEC-registered mutual fund investment advisory fees are calculated as a percentage of average net assets, ranging from 0.375 percent to 1.375 percent, and are paid monthly. These advisory fees decreased by approximately \$4.5 million, or 38.2 percent, in fiscal year 2014 compared to fiscal year 2013, primarily as a result of decreased assets under management driven by shareholder redemptions and partially offset by market appreciation.

Investment advisory fees are also affected by changes in assets under management, which include:

- market appreciation or depreciation;
- the addition of new client accounts;
- client contributions of additional assets to existing accounts;
- withdrawals of assets from and termination of client accounts;
- exchanges of assets between accounts or products with different fee structures; and
- the amount of fees voluntarily reimbursed.

The fees on the equity funds within USGIF consist of a base advisory fee that is adjusted upward or downward by 0.25 percent if there is a performance difference of 5 percent or more between a fund's performance and that of its designated benchmark index over the prior rolling 12 months. For the year ended June 30, 2014, the Company adjusted its base advisory fees downward by \$815,000. For the year ended June 30, 2013, the Company adjusted its base advisory fees downward by \$133,000. For the year ended June 30, 2012, the Company adjusted its base advisory fees downward by \$2.2 million.

Distribution Fees. The Funds pay U.S. Global Brokerage, Inc. ("USGB") a distribution fee at an annual rate of 0.25 percent of the average daily net assets of the investor class of each of the equity funds. Distribution fees decreased by \$843,000 and \$1.3 million in fiscal years 2014 and 2013, respectively, due to lower average net assets under management upon which these fees are based.

Shareholder Services Fees. In connection with obtaining and/or providing administrative services to the beneficial owners of USGIF through broker-dealers, banks, trust companies and similar institutions which provide such services,

the Company receives shareholder services fees at an annual rate of up to 0.20 percent of the value of shares held in accounts at the institutions, which helps offset related platform costs.

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Administrative Services Fees. The funds pay the Company compensation based on average daily net assets for administrative services provided by the Company to the funds. Effective December 2013, the funds' board of trustees increased the rate from 0.08 percent to 0.10 percent for each investor class and from 0.06 percent to 0.08 percent for each institutional class plus \$10,000 per fund. Administrative services fees decreased by \$155,000 and \$392,000 in fiscal years 2014 and 2013, respectively, due to lower average net assets under management upon which these fees are based.

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

- realized gains and losses on sales of securities;
- unrealized gains and losses on trading securities;
- realized foreign currency gains and losses;
- other-than-temporary impairments on available-for-sale securities; and
- dividend and interest income.

This source of revenue is dependent on market fluctuations and does not remain at a consistent level. Timing of transactions and the Company's ability to participate in investment opportunities largely affect this source of revenue. Investment income increased by \$1.9 million in fiscal year 2014 primarily due to realized gains on sale of available-for-sale securities, unrealized gains on trading securities, increased dividend and interest income and gains recognized in conjunction with the acquisition of Galileo. Investment income increased by \$385,000 in fiscal year 2013 due to unrealized gains in trading securities offset by realized losses on sales of trading securities. Included in investment income were other-than-temporary impairments of \$3,000; \$47,000; and \$19,000; in fiscal years 2014, 2013, and 2012, respectively.

Equity Investment in Galileo. In fiscal year 2013, the Company made an investment in Galileo Global Equity Advisors Inc. that was accounted for under the equity method. Effective June 1, 2014, the Company acquired an additional 15 percent interest, bringing its ownership to 65 percent of the issued and outstanding shares, which represents a controlling interest. From March 31, 2013, to June 1, 2014, the Company accounted for its interest in Galileo under the equity method with its share of Galileo's profit or loss recognized in earnings, including \$20,000 and \$54,000 in other income in fiscal year 2014 and 2013, respectively. Effective June 1, 2014, the Company accounted for the Galileo acquisition as a business combination. For additional details, please see Note 3 Business Combination to the Consolidated Financial Statements of this Annual Report in Form 10-K.

Operating Expenses

(dollars in thousands)	2014	2013	% Change	2013	2012	% Change	
Employee compensation and benefits	\$6,806	\$8,345	(18.4)	)% \$8,345	\$8,796	(5.1))%
General and administrative	5,201	5,311	(2.1)	)% 5,311	5,229	1.6	%
Platform fees	1,903	2,663	(28.5)	)% 2,663	3,995	(33.3))%
Advertising	615	862	(28.7)	)% 862	1,182	(27.1))%
Depreciation and amortization	256	268	(4.5)	)% 268	273	(1.8))%
Subadvisory fees	60	60	—	% 60	60	—	%
Total operating expenses	\$14,841	\$17,509	(15.2)	)% \$17,509	\$19,535	(10.4))%

Employee Compensation and Benefits. Employee compensation and benefits decreased \$1.5 million, or 18.4 percent, in fiscal year 2014 and decreased \$451,000, or 5.1 percent, in fiscal year 2013, as a result of lower performance-based bonuses and fewer employees.

General and Administrative. General and administrative expenses were relatively flat in fiscal year 2014 compared to fiscal year 2013 and in fiscal year 2013 compared to fiscal year 2012. The change in fiscal year 2014 represents a decrease of approximately \$635,000 primarily due to lower fund and operation expenses offset by one-time costs of approximately \$525,000, including legal and proxy filing and solicitation costs, related to strategic fund changes in the fall of 2013.

Platform Fees. Broker-dealers typically charge an asset-based fee for assets held through their platforms. Platform fees decreased \$760,000, or 28.5 percent, in fiscal year 2014 and decreased \$1.3 million, or 33.3 percent, in fiscal year 2013 due to decreases in assets held through the broker-dealer platforms. The incremental assets received through the

broker-dealer platforms are not as profitable as those received from direct shareholder accounts because of platform fees paid to various broker-dealers for the assets held through platforms.

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Advertising. Advertising decreased by \$247,000, or 28.7 percent, in fiscal year 2014 and decreased by \$320,000, or 27.1 percent, in fiscal year 2013 as a result of reduced marketing and sales costs.

Subadvisory Fees. Subadvisory fees were the same in fiscal years 2014, 2013, and 2012.

Income Taxes

The Company and its non-Canadian subsidiaries file a consolidated federal income tax return. Provisions for income taxes include deferred taxes for temporary differences in the basis of assets and liabilities for financial and tax purposes resulting from the use of the liability method of accounting for income taxes.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. A valuation allowance of \$35,000 related to a charitable contribution carryover is included in deferred taxes at June 30, 2014.

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements.

Contractual Obligations

A summary of contractual obligations of the Company as of June 30, 2014, is as follows:

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Contractual Obligations (dollars in thousands)					
Operating lease obligations	844	291	436	117	—
Contractual obligations	265	226	39	—	—
Total	1,109	517	475	117	—

Operating leases consist of office equipment leased from several vendors and office facilities in Canada. Contractual obligations consist of agreements for services used in daily operations. Other contractual obligations not included in this table consist of agreements to waive or reduce fees and/or pay expenses on certain funds. Future obligations under these agreements are dependent upon future levels of fund assets.

The Board of Directors has authorized a monthly dividend of \$0.005 per share through December 2014, at which time the Board of Directors will consider continuation of the dividend. Payment of cash dividends is within the discretion of the Company's Board of Directors and is dependent on earnings, operations, capital requirements, general financial condition of the Company, and general business conditions. The total amount of cash dividends to be paid to class A and class C shareholders from July 2014 to December 2014 will be approximately \$463,000.

Liquidity and Capital Resources

At June 30, 2014, the Company had net working capital (current assets minus current liabilities) of approximately \$24.7 million and a current ratio (current assets divided by current liabilities) of 12.5 to 1. With approximately \$5.9 million in cash and cash equivalents and \$24.0 million in securities recorded at fair value, which together comprise approximately 79 percent of total assets, the Company has adequate liquidity to meet its current obligations. Total shareholders' equity attributable to U.S. Global Investors, Inc. was approximately \$35.1 million.

The Company has no long-term debt; thus, the Company's only material commitment going forward is for operating expenses. The Company also has access to a \$1 million credit facility, which can be utilized for working capital purposes. The Company's available working capital and projected cash flow are expected to be sufficient to cover current expenses.

Investment advisory and related contracts in the U.S., by law, may not exceed one year in length and therefore must be renewed at least annually. The investment advisory and related contracts between the Company or its subsidiaries and USGIF expire in September 2014. The board of trustees of USGIF will meet to consider the agreement renewals in September 2014. Management anticipates that these agreements will be renewed.

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With respect to the Company's two offshore advisory clients, the contracts between the Company and the clients expire periodically and management anticipates that its offshore clients will renew the contracts.

Management believes current cash reserves, available financing, and projected cash flow from operations will be sufficient to meet foreseeable cash needs or capital necessary for the above-mentioned activities and allow the Company to take advantage of investment opportunities whenever available.

Critical Accounting Estimates

The discussion and analysis of financial condition and results of operations are based on the Company's financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, and expenses. Management reviews these estimates on an ongoing basis. Estimates are based on experience and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While recent accounting policies are described in more detail in Note 2 Significant Accounting Policies to the Consolidated Financial Statements of this Annual Report in Form 10-K, the Company believes the accounting policies that require management to make assumptions and estimates involving significant judgment are those relating to valuation of investments, income taxes, and valuation of stock-based compensation.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: USSI, USGG, USBERM, USGB and USCAN.

As previously discussed, effective June 1, 2014, the Company, through USCAN, completed its purchase of an additional 15 percent interest in Galileo, which brings USCAN's ownership to 65 percent of the issued and outstanding shares of Galileo and represents controlling interest of Galileo. The non-controlling interest in this subsidiary is included in "non-controlling interest in subsidiary" in the equity section of the Consolidated Balance Sheets. After the purchase of the additional interest, Galileo changed its fiscal year end from December 31 to June 30, effective June 30, 2014, to correspond to the Company's year end. This change was treated as a change in accounting principle. The Company's evaluation for consolidation includes whether entities in which it has an interest are variable interest entities ("VIEs") and whether the Company is the primary beneficiary of any VIEs identified in its analysis. A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the group of holders of the equity investment at risk lack certain characteristics of a controlling financial interest. The primary beneficiary is the entity that has the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE. If the VIE qualifies for the investment company deferral, the primary beneficiary is the entity that has the obligation to absorb a majority of the expected losses or the right to receive the majority of the residual returns.

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, the funds it advises. The Company has determined that these entities qualify for the Investment Company deferral in the Accounting Standards Codification ("ASC") 810-10-65-2 (aa) and thus determines whether it is the primary beneficiary of these entities by virtue of its exposure to the expected losses and expected residual returns of the entity. The Company's interests in these entities consist of the Company's direct ownership therein, which in each case is insignificant to the total ownership of the fund, and any fees earned but uncollected. In the ordinary course of business, the Company may choose to waive certain fees or assume operating expenses of the funds it advises for competitive, regulatory or contractual reasons (see Note 6 Investment Management and Other Fees to the Consolidated Financial Statements of this Annual Report in Form 10-K for information regarding fee waivers). The Company has not provided financial support to any of these entities outside the ordinary course of business. The Company's risk of loss with respect to these managed entities is limited to the carrying value of its investments in, and fees receivable from, the entities. The Company does not consolidate these VIEs because it is not the primary beneficiary of these VIEs.

Business Combinations. Business combinations are accounted for under the acquisition method of accounting. Results of operations of an acquired business are included from the date of acquisition. Management estimates the fair value of the acquired assets, including identifiable intangible assets, assumed liabilities, and non-controlling interest in the acquiree based on their estimated fair values as of the date of acquisition. Any excess fair value of the acquired net

assets over the acquisition date fair value of the consideration transferred, if any, is recorded as “goodwill” on the Consolidated Balance Sheets. Any excess acquisition date fair value of the consideration transferred over fair value of the acquired net assets is recorded as a gain on the Consolidated Statements of Operations.

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Investments. The Company classifies its investments based on intent at the time of purchase and reevaluates such designation as of each reporting period date. 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.

Trading Securities. Securities that are purchased and held principally for the purpose of selling in the near term are classified as trading securities and are reported at fair value. Unrealized holding gains and losses on these securities are included in earnings.

Held-to-Maturity Securities. Investments in debt securities that are purchased with the intent and ability to hold until maturity are classified as held-to-maturity and measured at amortized cost. The Company currently has no investments classified as held-to-maturity.

Available-for-sale Securities. Investments that are neither trading securities nor held-to-maturity securities and for which the Company does not have significant influence are classified as available-for-sale securities and reported at fair value. Unrealized holding gains and losses on these available-for-sale securities are excluded from earnings, reported net of tax as a separate component of shareholders' equity, and recorded in earnings on the date of sale. The Company evaluates its available-for-sale investments for other-than-temporary decline in value on a periodic basis. This may exist when the fair value of an investment security has been below the current value for an extended period of time. When a security in the Company's investment portfolio has an unrealized loss in fair value that is deemed to be other than temporary, the Company reduces the book value of such security to its current fair value, recognizing the credit related decline as a realized loss in the Consolidated Statements of Operations and a revised GAAP cost basis for the security is established. For available-for-sale securities with declines in value deemed other than temporary, the unrealized loss recorded net of tax in accumulated other comprehensive income (loss) is realized as a charge to net income.

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

Equity Method Investments. 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 Company's proportional share of investee's underlying net income or loss is recorded as a component of Other Income and increases or decreases to the carrying value of the investee. Distributions received from the investment reduce the Company's carrying value of the investee. These investments are evaluated for impairment if events or circumstances arise that indicates that the carrying amount of such assets may not be recoverable.

Fair Value of Financial Instruments. The financial instruments of the Company are reported on the Consolidated Balance Sheets at market or fair values or at carrying amounts that approximate fair values because of the short maturity of the instruments.

Intangible Asset. An intangible asset, consisting of a non-compete agreement, acquired in connection with the acquisition of Galileo shares effective June 1, 2014, is recorded at fair value determined using a discounted cash flow model as of the date of acquisition. The discounted cash flow model included various factors to project future cash flows expected to be generated from the asset, including: (1) an estimated rate of change for underlying managed assets; (2) expected revenue per managed assets; (3) incremental operating expenses; and (4) a discount rate. Management estimates a rate of change for underlying managed assets based on an estimated net redemption or sales rate. Expected revenue per managed assets and incremental operating expenses of the acquired assets are generally based on contract terms.

The Company has determined that the non-compete agreement has a finite useful life. The Company will amortize this finite-lived identifiable intangible asset on a straight-line basis over its estimated useful life, currently expected to be approximately 2 years. Management periodically evaluates the remaining useful lives and carrying values of

intangible assets to determine whether events and circumstances indicate that a change in the useful life or impairment in value may have occurred. Indicators of impairment monitored by management include a decline in the level of managed assets, changes to contractual provisions underlying the intangible assets and reductions in underlying operating cash flows. Should there be an indication of a change in the useful life or impairment in value of the finite-lived intangible asset, the Company compares the carrying value of the asset and its related useful life to the projected discounted cash flows expected to be generated from the underlying managed assets over its remaining useful life to determine whether impairment has occurred. If the carrying value of the asset exceeds the discounted cash flows, the asset is written down to its fair value determined using discounted cash flows.

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Non-Controlling Interests. The Company reports “non-controlling interest in subsidiary” as equity, separate from parent’s equity, on the Consolidated Balance Sheets. In addition, the Company’s Consolidated Statements of Operations includes “net income (loss) attributable to non-controlling interest.”

Income Taxes. The Company’s annual effective income tax rate is based on the mix of income and losses in its U.S. and non-U.S. entities which are part of the Company’s Consolidated Financial Statements, statutory tax rates, and tax-planning opportunities available to the Company in the various jurisdictions in which it operates. Significant judgment is required in evaluating the Company’s tax positions.

Tax law requires certain items to be included in the tax return at different times from when these items are reflected in the Company’s Consolidated Statements of Operations. As a result, the effective tax rate reflected in the Consolidated Financial Statements is different from the tax rate reported on the Company’s consolidated tax return. Some of these differences are permanent, such as expenses that are not deductible in the tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax basis of assets and liabilities and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment dates. In addition, excess tax benefits associated with stock option exercises also create a difference between the tax rate used in the consolidated tax return and the effective tax rate in the Company’s Consolidated Statements of Operations.

The Company assesses uncertain tax positions in accordance with ASC 740 Income Taxes. Judgment is used to identify, recognize, and measure the amounts to be recorded in the financial statements related to tax positions taken or expected to be taken in a tax return. A liability is recognized to represent the potential future obligation to the taxing authority for the benefit taken in the tax return. These liabilities are adjusted, including any impact of the related interest and penalties, in light of changing facts and circumstances such as the progress of a tax audit. A number of years may elapse before a particular matter for which a reserve has been established is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction.

Judgment is used in classifying unrecognized tax benefits as either current or noncurrent liabilities in the Company’s Consolidated Balance Sheets. Settlement of any particular issue would usually require the use of cash. A liability associated with unrecognized tax benefits will generally be classified as a noncurrent liability because there will usually be a period of several years between the filing of the tax return and the final resolution of an uncertain tax position with the taxing authority. Favorable resolutions of tax matters for which reserves have been established are recognized as a reduction to income tax expense when the amounts involved become known.

The Company assesses whether a valuation allowance should be established against its deferred income tax assets based on consideration of available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecast of future profitability, the duration of statutory carry back and carry forward periods, the Company’s experience with tax attributes expiring unused, and tax planning alternatives.

Assessing the future tax consequences of events that have been recognized in the Company’s Consolidated Financial Statements or tax returns requires judgment. Variations in the actual outcome of these future tax consequences could materially impact the Company’s financial position, results of operations or cash flows.

Stock-Based Compensation. 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. No options were granted in fiscal years 2014 or 2013. The Company measured the fair value of stock options granted in fiscal year 2012 for 5,000 shares on the date of grant using a Black-Scholes option-pricing model.

The Company believes that the estimates related to stock-based compensation expense are critical accounting estimates because the assumptions used could significantly impact the timing and amount of stock-based compensation expense recorded in the Company’s Consolidated Financial Statements.

Foreign Exchange. The balance sheets of certain foreign subsidiaries of the Company and certain foreign-denominated investment products are translated at the current exchange rate as of the end of the accounting period and the related income or loss is translated at the average exchange rate in effect during the period. Net exchange gains and losses

resulting from these translations are excluded from income and are recorded in “accumulated other comprehensive income (loss)” on the Consolidated Balance Sheets. Investment transactions denominated in foreign currencies are converted to U.S. dollars using the exchange rate on the date of the transaction and any related gain or loss is included in “investment income (loss)” on the Consolidated Statements of Operations.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures

The Company's Consolidated Balance Sheets includes assets whose fair value is subject to market risk. Due to the Company's investments in securities recorded at fair value, price fluctuations represent a market risk factor affecting the Company's consolidated financial position. The carrying values of investments subject to price risks are based on quoted market prices or, if not actively traded, management's estimate of fair value as of the balance sheet date. Market prices fluctuate, and the amount realized in the subsequent sale of an investment may differ significantly from the reported market value.

The Company's investment activities are reviewed and monitored by Company compliance personnel, and various reports are provided to certain investment advisory clients. Written procedures are in place to manage compliance with the code of ethics and other policies affecting the Company's investment practices.

The table below summarizes the Company's price risks as of June 30, 2014, and shows the effects of a hypothetical 25 percent increase and a 25 percent decrease in market prices.

(dollars in thousands)	Fair Value	Hypothetical Percentage Change	Estimated Fair Value After Hypothetical Price Change	Increase (Decrease) in Shareholders' Equity, Net of Tax
Trading securities ¹	\$17,817	25% increase	\$22,271	\$2,940
		25% decrease	13,363	(2,940)
Available-for-sale ²	6,196	25% increase	7,745	1,022
		25% decrease	4,647	(1,022)

1. Unrealized and realized gains and losses on trading securities are included in earnings in the Consolidated Statements of Operations.

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

The selected hypothetical changes do not reflect what could be considered best- or worst-case scenarios. Results could be significantly different due to both the nature of markets and the concentration of the Company's investment portfolio.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Board of Directors and Stockholders

U.S. Global Investors, Inc.

San Antonio, Texas

We have audited U.S. Global Investors, Inc.'s (the "Company") internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on the COSO criteria.

As indicated in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Galileo Global Equity Advisors Inc. ("Galileo"), which was acquired on June 1, 2014, and which is included in the Consolidated Balance Sheet of U.S. Global Investors, Inc. as of June 30, 2014, and the related Consolidated Statement of Operations, Comprehensive Income (Loss), Shareholders' Equity, and Cash Flow for the year then ended. The acquired entity constituted 5.5% of total assets as of June 30, 2014, and 2.0% and (1.5)% of net revenues and loss from continuing operations before taxes, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Galileo because of the timing of the acquisition which was completed on June 1, 2014. Our audit of internal control over financial reporting of U.S. Global Investors, Inc. also did not include an evaluation of the internal control over financial reporting of Galileo.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balances Sheets of U.S. Global Investors, Inc. as of June 30, 2014 and 2013, and the related Consolidated Statements of Operations, Comprehensive Income (Loss), Shareholders' Equity, and Cash Flows for each of the three years in the period ended June 30, 2014 and our report dated August 27, 2014, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
BDO USA, LLP
Dallas, Texas
August 27, 2014

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Report of Independent Registered Public Accounting Firm on Consolidated

Financial Statements

Board of Directors and Stockholders

U.S. Global Investors, Inc.

San Antonio, Texas

We have audited the accompanying Consolidated Balance Sheets of U.S. Global Investors, Inc. (the “Company”) as of June 30, 2014 and 2013 and the related Consolidated Statements of Operations, Comprehensive Income (Loss), Shareholders’ Equity, and Cash Flows for each of the three years in the period ended June 30, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. Global Investors, Inc. at June 30, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), U.S. Global Investors, Inc.’s internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 27, 2014, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

Dallas, Texas

August 27, 2014

Table of ContentsU.S. GLOBAL INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2014	June 30, 2013
Assets		
(dollars in thousands)		
Current Assets		
Cash and cash equivalents	\$5,910	\$18,085
Trading securities, at fair value	17,817	4,758
Receivables	2,513	1,148
Prepaid expenses	525	605
Deferred tax asset	51	196
Total Current Assets	26,816	24,792
Net Property and Equipment	3,024	3,085
Other Assets		
Deferred tax asset, long-term	298	678
Investment securities available-for-sale, at fair value	6,196	9,053
Other investments	1,413	—
Intangible assets, net	86	—
Investment in Galileo	—	654
Total assets held related to discontinued operations	—	421
Other assets, long term	13	—
Total Other Assets	8,006	10,806
Total Assets	\$37,846	\$38,683
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$219	\$71
Accrued compensation and related costs	581	688
Dividends payable	232	232
Other accrued expenses	1,064	770
Total liabilities held related to discontinued operations	47	73
Total Current Liabilities	2,143	1,834
Commitments and Contingencies (Note 19)		
Shareholders' Equity		
Common stock (class A) - \$0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,866,361 and 13,865,021 shares at June 30, 2014, and June 30, 2013, respectively	347	347
Common stock (class B) - \$0.025 par value; nonvoting; authorized, 4,500,000 shares; no shares issued	—	—
Convertible common stock (class C) - \$0.025 par value; voting; authorized, 3,500,000 shares; issued, 2,069,187 and 2,070,527 shares at June 30, 2014, and June 30, 2013, respectively	52	52
Additional paid-in-capital	15,669	15,654
Treasury stock, class A shares at cost; 501,518 and 463,958 shares at June 30, 2014, and June 30, 2013, respectively	(1,280)	(1,129)
Accumulated other comprehensive income, net of tax	906	652
Retained earnings	19,376	21,273
Total U.S. Global Investors, Inc. Shareholders' Equity	35,070	36,849
Non-Controlling Interest in Subsidiary	633	—
Total Shareholders' Equity	35,703	36,849

Total Liabilities and Shareholders' Equity	\$37,846	\$38,683
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The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsU.S. GLOBAL INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share data)	Year Ended June 30,		
	2014	2013	2012
Operating Revenues			
Advisory fees	\$7,760	\$12,189	\$14,933
Distribution fees	1,974	2,817	4,070
Shareholder services fees	931	1,383	2,050
Administrative services fees	774	929	1,321
	11,439	17,318	22,374
Operating Expenses			
Employee compensation and benefits	6,806	8,345	8,796
General and administrative	5,201	5,311	5,229
Platform fees	1,903	2,663	3,995
Advertising	615	862	1,182
Depreciation and amortization	256	268	273
Subadvisory fees	60	60	60
	14,841	17,509	19,535
Operating Income (Loss)	(3,402	) (191	) 2,839
Other Income (Loss)			
Investment income (loss)	2,145	208	(177
Equity in earnings of Galileo	20	54	—
Total Other Income (Loss)	2,165	262	(177
Income (Loss) from Continuing Operations Before Income Taxes	(1,237	) 71	2,662
Provision for Federal Income Taxes			
Tax expense (benefit)	(517	) 100	1,024
Income (Loss) from Continuing Operations	(720	) (29	) 1,638
Discontinued Operations			
Loss from operations of discontinued transfer agent	(368	) (250	) (163
Tax benefit	(125	) (85	) (55
Loss from Discontinued Operations	(243	) (165	) (108
Net Income (Loss)	(963	) (194	) 1,530
Less: Net Income Attributable to Non-Controlling Interest	7	—	—
Net Income (Loss) Attributable to U.S. Global Investors, Inc.	\$(970	) \$(194	) \$1,530
Earnings Per Share Attributable to U.S. Global Investors, Inc.			
Basic			
Income (loss) from continuing operations	\$(0.04	) \$0.00	\$0.11
Loss from discontinued operations	(0.02	) (0.01	) (0.01
Net income (loss)	\$(0.06	) \$(0.01	) \$0.10
Diluted			
Income (loss) from continuing operations	\$(0.04	) \$0.00	\$0.11
Loss from discontinued operations	(0.02	) (0.01	) (0.01
Net income (loss)	\$(0.06	) \$(0.01	) \$0.10
Basic weighted average number of common shares outstanding	15,459,022	15,482,612	15,441,464
Diluted weighted average number of common shares outstanding	15,459,022	15,482,612	15,441,582

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

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U.S. GLOBAL INVESTORS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in thousands)	Year Ended June 30,		
	2014	2013	2012
Net Income (Loss)	\$(963	) \$(194	) \$1,530
Other Comprehensive Income (Loss), Net of Tax:			
Unrealized gains (losses) on available-for-sale securities arising during period	923	350	(464)
Less: reclassification adjustment for gains included in net income	(687	) (164	) (112)
Net change from available-for-sale investments, net of tax	236	186	(576)
Foreign currency translation adjustments	27	—	—
Other Comprehensive Income (Loss)	263	186	(576)
Comprehensive Income (Loss)	(700	) (8	) 954
Less: Comprehensive Income Attributable to Non-Controlling Interest	16	—	—
Comprehensive Income (Loss) Attributable to U.S. Global Investors, Inc.	\$(716	) \$(8	) \$954

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

(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, 2011 (13,862,445 shares of class A; 2,073,103 shares of class C)	\$ 347	\$ 52	\$ 15,267	\$(1,233)	\$ 1,042	\$ 25,582	\$ —	\$ 41,057
Purchases of stock under ESPP of 28,998 shares of Common Stock (class A)	—	—	120	68	—	—	—	188
Conversion of 60 shares of class C common stock for class A common stock	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	—	—	(3,708)	—	(3,708)
Stock bonuses	—	—	135	58	—	—	—	193
Stock-based compensation expense	—	—	26	—	—	—	—	26
Other comprehensive loss, net of tax	—	—	—	—	(576)	—	—	(576)
Net income	—	—	—	—	—	1,530	—	1,530
Balance at June 30, 2012 (13,862,505 shares of class A; 2,073,043 shares of class C)	347	52	15,548	(1,107)	466	23,404	—	38,710
Purchases of 55,052 shares of Common Stock (class A)	—	—	—	(174)	—	—	—	(174)
Purchases of stock under ESPP of 48,679 shares of Common Stock (class A)	—	—	69	116	—	—	—	185
Conversion of 2,516 shares of class C common stock for class A common stock	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	—	—	(1,937)	—	(1,937)
Stock bonuses	—	—	28	36	—	—	—	64
Stock-based compensation expense	—	—	9	—	—	—	—	9
Other comprehensive income, net of tax	—	—	—	—	186	—	—	186
Net loss	—	—	—	—	—	(194)	—	(194)
Balance at June 30, 2013 (13,865,021 shares of class A; 2,070,527 shares of class C)	347	52	15,654	(1,129)	652	21,273	—	36,849
Purchases of 93,351 shares of Common Stock (class A)	—	—	—	(289)	—	—	—	(289)

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Purchases of stock under ESPP of 52,191 shares of Common Stock (class A)	—	—	27	129	—	—	—	156
Conversion of 1,340 shares of class C common stock for class A common stock	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	—	—	(927)	—	(927)
Stock bonuses	—	—	2	9	—	—	—	11
Stock-based compensation expense	—	—	(14)	—	—	—	—	(14)
Galileo acquisition - non-controlling interest	—	—	—	—	—	—	617	617
Other comprehensive income, net of tax	—	—	—	—	254	—	9	263
Net income (loss)	—	—	—	—	—	(970)	7	(963)
Balance at June 30, 2014 (13,866,361 shares of class A; 2,069,187 shares of class C)	\$ 347	\$ 52	\$ 15,669	\$(1,280)	\$ 906	\$ 19,376	\$ 633	\$ 35,703

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

Table of ContentsU.S. GLOBAL INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	Year Ended June 30,		
	2014	2013	2012
Cash Flows from Operating Activities:			
Net income (loss)	\$(963	) \$(194	) \$1,530
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	259	275	282
Net recognized loss (gain) on disposal of property and equipment	26	—	(75)
Net recognized loss (gain) on securities	(878	) 26	(158)
Gain on acquisition of Galileo	(290) —	—
Net income from equity method investment	(20	) (54) —
Provision for deferred taxes	387	9	(283)
Stock bonuses	11	64	193
Stock-based compensation expense	1	9	33
Changes in operating assets and liabilities:			
Accounts receivable	(634	) 617	1,387
Prepaid expenses	109	1	211
Trading securities	(13,222	) 213	485
Accounts payable and accrued expenses	25	(505	) (1,788)
Total adjustments	(14,226	) 655	287
Net cash provided by (used in) operating activities	(15,189	) 461	1,817
Cash Flows from Investing Activities:			
Purchase of property and equipment	(30	) (39	) (18)
Purchase of Galileo shares	—	(600) —
Cash acquired in excess of payment to acquire Galileo shares	1,236	—	—
Purchase of available-for-sale securities	(1,317	) (473	) (5,065)
Purchase of other investments	(1,187) —	—
Proceeds on sale of available-for-sale securities	5,305	744	170
Return of capital on investment	43	—	19
Net cash provided by (used in) investing activities	4,050	(368	) (4,894)
Cash Flows from Financing Activities:			
Issuance of common stock	156	185	188
Repurchases of common stock	(289	) (174) —
Dividends paid	(928	) (2,632	) (3,706)
Net cash used in financing activities	(1,061	) (2,621	) (3,518)
Effect of exchange rate changes on cash and cash equivalents	25	—	—
Net decrease in cash and cash equivalents	(12,175	) (2,528	) (6,595)
Beginning cash and cash equivalents	18,085	20,613	27,208
Ending cash and cash equivalents	\$5,910	\$18,085	\$20,613
Supplemental Disclosures of Cash Flow Information			
Cash paid for income taxes	\$—	\$118	\$1,365

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

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Notes to Consolidated Financial Statements

NOTE 1. ORGANIZATION

U.S. Global Investors, Inc. (the “Company” or “U.S. Global”) serves as investment adviser to U.S. Global Investors funds (“USGIF” or the “Fund(s)”), a Delaware statutory trust that is a no-load, open-end investment company offering shares in numerous mutual funds to the investing public. The Company also provides administrative services and distribution to USGIF and through December 6, 2013, provided transfer agency functions. For these services, the Company receives fees from USGIF. The Company also provides advisory services to offshore clients and, effective June 1, 2014, holds a controlling interest in Galileo Global Equity Advisors Inc. (“Galileo”), a privately held Toronto-based asset management firm. See Note 2 Significant Accounting Policies and Note 3 Business Combination for additional information on the acquisition of controlling interest of Galileo.

U.S. Global formed the following companies to provide transfer agent and distribution services to USGIF: United Shareholder Services, Inc. (“USSI”) and U.S. Global Brokerage, Inc. (“USGB”).

The Company formed three subsidiaries utilized primarily for corporate investment purposes: U.S. Global Investors (Guernsey) Limited (“USGG”), incorporated in Guernsey (on August 3, 2013, USGG was dissolved), U.S. Global Investors (Bermuda) Limited (“USBERM”), incorporated in Bermuda, and U.S. Global Investors (Canada) Limited (“USCAN”), formed in March 2013. In addition, in July 2013, the Company created U.S. Global Indices, LLC, a Texas limited liability company, of which the Company is the sole member. U.S. Global Indices, LLC did not have operations during fiscal year 2014.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: USSI, USGB, USGG, USBERM and USCAN.

In addition, effective June 1, 2014, the Company, through USCAN, completed its purchase of an additional 15 percent interest in Galileo from the company’s founder, Michael Waring. This additional investment brings USCAN’s ownership to 65 percent of the issued and outstanding shares of Galileo and represents a controlling interest of Galileo. With the additional investment, the Company expects to increase its presence in Canada. The non-controlling interest in this subsidiary is included in “non-controlling interest in subsidiary” in the equity section of the Consolidated Balance Sheets. See Note 3 Business Combination for additional information. After the purchase of the additional interest, Galileo changed its fiscal year end from December 31 to June 30, effective June 30, 2014, to correspond to the Company’s year end. This change was treated as a change in accounting principle.

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

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, the funds it advises. The Company has determined that these entities qualify for the Investment Company deferral in ASC 810-10-65-2 (aa) and thus determines whether it is the primary beneficiary of these entities by virtue of its exposure to the expected losses and expected residual returns of the entity. The Company’s interests in these entities consist of the Company’s direct ownership therein, which in each case is insignificant to the total ownership of the fund, and any fees earned but uncollected. In the ordinary course of business, the Company may choose to waive certain fees or assume operating expenses of the funds it advises for competitive, regulatory or contractual reasons (see Note 6 Investment Management and Other Fees for information regarding fee waivers). The Company has not provided financial support to any of these entities outside the ordinary course of business. The Company’s risk of loss with respect to these managed entities is limited to the carrying value of its investments in, and fees receivable from, the entities. The Company does not consolidate these VIEs because it is not the primary beneficiary of these VIEs.

Prior to March 31, 2014, the Company classified investments in private and venture capital companies as available-for-sale Level 3 securities. Since these equity investments do not have readily determinable fair values, these investments should have been classified as “other investments” on the Consolidated Balance Sheets and accounted for under the cost method of accounting rather than at fair value. The Company determined that the difference between the fair value and the value using the cost method of accounting for these securities is not material to “accumulated other comprehensive income (loss)” or “other comprehensive income (loss)” and did not affect net income or earnings per share. To correct this balance sheet misclassification, the Company

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has reclassified \$385,000 of investments as “other investments” on the face of the Consolidated Balance Sheets at cost adjusted for impairments. This reclassification was not material to “accumulated other comprehensive income (loss)” or “other comprehensive income (loss)” and did not affect net income or earnings per share.

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts have been reclassified for comparative purposes.

Business Combinations. Business combinations are accounted for under the acquisition method of accounting. Results of operations of an acquired business are included from the date of acquisition. Management estimates the fair value of the acquired assets, including identifiable intangible assets, assumed liabilities, and non-controlling interest in the acquiree based on their estimated fair values as of the date of acquisition. Any excess acquisition date fair value of the consideration transferred over fair value of the acquired net assets, if any, is recorded as “goodwill” on the Consolidated Balance Sheets. Any excess fair value of the acquired net assets over the acquisition date fair value of the consideration transferred is recorded as a gain on the Consolidated Statements of Operations.

Cash and Cash Equivalents. Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

Investments. The Company classifies its investments based on intent at the time of purchase and reevaluates such designation as of each reporting period date. 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.

Trading Securities. Securities that are purchased and held principally for the purpose of selling in the near term are classified as trading securities and reported at fair value. Unrealized gains and losses on these securities are included in Investment income (loss).

Held-to-Maturity Securities. Investments in debt securities that are purchased with the intent and ability to hold until maturity are classified as held-to-maturity and measured at amortized cost. The Company currently has no investments in held-to-maturity securities.

Available-for-sale Securities. Investments that are neither trading securities nor held-to-maturity securities and for which the Company does not have significant influence are classified as available-for-sale securities and reported at fair value. Unrealized gains and losses on these available-for-sale securities are excluded from earnings, reported net of tax as a separate component of shareholders’ equity, and recorded in earnings on the date of sale.

The Company evaluates its available-for-sale investments for other-than-temporary decline in value on a periodic basis. This may exist when the fair value of an investment security has been below the current value for an extended period of time. When a security in the Company’s investment portfolio has an unrealized loss in fair value that is deemed to be other than temporary, the Company reduces the book value of such security to its current fair value, recognizing the credit related decline as a realized loss in the Consolidated Statements of Operations and a revised GAAP cost basis for the security is established. For available-for-sale securities with declines in value deemed other than temporary, the unrealized loss recorded net of tax in accumulated other comprehensive income (loss) is realized as a charge to net income.

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. These equity investments are accounted for under the cost method of accounting and evaluated for impairment. The Company considers many factors in determining impairment, including the severity and duration of the decline in value below cost, the Company’s interest and ability to hold the security for a period of time sufficient for an anticipated recovery in value, and the financial condition and specific events related to the issuer.

Equity Method Investments (Investment in Galileo). 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 Company’s proportional share of investee’s underlying net income or loss is recorded as a component of “other income” 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. No impairment was recognized for the Company’s equity method investment during the years presented.

No investments were held at June 30, 2014, that are accounted for using the equity method. See Note 3 Business Combination for further information.

Fair Value of Financial Instruments. The financial instruments of the Company are reported on the Consolidated Balance Sheets at market or fair values or at carrying amounts that approximate fair values because of the short maturity of the instruments.

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Receivables. Receivables consist primarily of monthly advisory and other fees owed to the Company by USGIF as well as receivables related to offshore investment advisory fees. Receivables also include advisory fees owed to Galileo by the funds and clients it manages. Management considers various factors including current sales amounts, historical charge-offs and specific accounts identified as high risk. Uncollectible accounts receivable, if any, are charged against the allowance for doubtful accounts when all reasonable efforts to collect the amounts due have been exhausted. The Company had no allowance for doubtful accounts as of June 30, 2014, and 2013.

Property and Equipment. Fixed assets are recorded at cost. Other than as noted below, depreciation for fixed assets is recorded using the straight-line method over the estimated useful life of each asset as follows: furniture and equipment are depreciated over 3 to 10 years, and the building and related improvements are depreciated over 14 to 40 years.

Galileo fixed assets, consisting of furniture, equipment and leasehold improvements, are depreciated over 2 to 5 years.

Impairment of Long-Lived Assets. The Company reviews property and equipment and other long-lived assets for impairment whenever events or changes in business circumstances indicate the net book values of the assets may not be recoverable. Impairment is indicated when the assets' net book value is less than fair value of the asset. If this occurs, an impairment loss is recognized for the difference between the fair value and net book value. Factors that indicate potential impairment include: a significant decrease in the market value of the asset or a significant change in the asset's physical condition or use. No impairments of long-lived assets were recorded during the years included in these financial statements.

Intangible Asset. An intangible asset, consisting of a non-compete agreement, acquired in connection with the acquisition of Galileo shares effective June 1, 2014, is recorded at fair value determined using a discounted cash flow model as of the date of acquisition. The discounted cash flow model included various factors to project future cash flows expected to be generated from the asset, including: (1) an estimated rate of change for underlying managed assets; (2) expected revenue per managed assets; (3) incremental operating expenses; and (4) a discount rate.

Management estimates a rate of change for underlying managed assets based on an estimated net redemption or sales rate. Expected revenue per managed assets and incremental operating expenses of the acquired assets are generally based on contract terms.

The Company has determined that the non-compete agreement has a finite useful life. The Company will amortize this finite-lived identifiable intangible asset on a straight-line basis over its estimated useful life, currently expected to be approximately 2 years. Management periodically evaluates the remaining useful lives and carrying values of intangible assets to determine whether events and circumstances indicate that a change in the useful life or impairment in value may have occurred. Indicators of impairment monitored by management include a decline in the level of managed assets, changes to contractual provisions underlying the intangible assets and reductions in underlying operating cash flows. Should there be an indication of a change in the useful life or impairment in value of the finite-lived intangible asset, the Company compares the carrying value of the asset and its related useful life to the projected discounted cash flows expected to be generated from the underlying managed assets over its remaining useful life to determine whether impairment has occurred. If the carrying value of the asset exceeds the discounted cash flows, the asset is written down to its fair value determined using discounted cash flows.

Non-Controlling Interests. The Company reports "non-controlling interest in subsidiary" as equity, separate from parent's equity, on the Consolidated Balance Sheets. In addition, the Company's Consolidated Statements of Operations includes "net income (loss) attributable to non-controlling interest."

Treasury Stock. Treasury stock purchases are accounted for under the cost method. The subsequent issuances of these shares are accounted for based on their weighted-average cost basis.

Stock-Based Compensation. 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.

Income Taxes. The Company and its subsidiaries file a consolidated federal income tax return. Provisions for income taxes include deferred taxes for temporary differences in the bases of assets and liabilities for financial and tax purposes resulting from the use of the liability method of accounting for income taxes. The liability method requires that deferred tax assets be reduced by a valuation allowance in cases where it is more likely than not that the deferred tax assets will not be realized.

The Company accounts for income taxes in accordance with ASC 740, Income Taxes. The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2014, the Company did not have any accrued interest or penalties related to uncertain tax positions. The tax years from 2010 through 2013 remain open to examination by the tax jurisdictions to which the Company is subject.

Revenue Recognition. The Company earns substantially all of its revenues from advisory, distribution services, and administrative fees that are calculated as a percentage of assets under management and are recorded as revenue as services are performed. Offshore advisory client contracts provide for monthly management fees, in addition to performance fees. The advisory contract for the equity funds within USGIF provides for a performance fee on the base advisory fee that are calculated and recorded monthly.

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Shareholder services fees are based on the assets of the funds held through institutions. Revenue shown on the Consolidated Statements of Operations is net of fee waivers.

Dividends and Interest. Dividends are recorded on the ex-dividend date, and interest income is recorded on an accrual basis. Both dividends and interest income are included in investment income.

Advertising Costs. The Company expenses advertising costs as they are incurred. Certain sales materials, which are considered tangible assets, are capitalized and then expensed during the period in which they are distributed. Net advertising expenditures were \$615,000; \$862,000; and \$1.2 million during fiscal years 2014, 2013, and 2012, respectively.

Foreign Exchange. The balance sheets of certain foreign subsidiaries of the Company and certain foreign-denominated investment products are translated at the current exchange rate as of the end of the accounting period and the related income or loss is translated at the average exchange rate in effect during the period. Net exchange gains and losses resulting from these translations are excluded from income and are recorded in “accumulated other comprehensive income (loss)” on the Consolidated Balance Sheets. Investment transactions denominated in foreign currencies are converted to U.S. dollars using the exchange rate on the date of the transaction and any related gain or loss is included in “investment income (loss)” on the Consolidated Statements of Operations.

Use of Estimates. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Earnings Per Share. The Company computes and presents earnings per share attributable to U.S. Global Investors, Inc. in accordance with ASC 260, Earnings Per Share. Basic earnings per share (“EPS”) excludes dilution and is computed by dividing net income (loss) attributable to U.S. Global Investors, Inc. 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 Company has two classes of common stock with outstanding shares. Both classes share equally in dividend and liquidation preferences.

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 the unrealized gains and losses on securities classified as available-for-sale and foreign currency translation adjustments.

Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standard Update (“ASU”) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). ASU 2013-11 became effective for the Company on July 1, 2014. Management is evaluating the ASU and its potential impact on the financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The 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 is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach 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). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in

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NOTE 3. BUSINESS COMBINATION

Effective March 31, 2013, the Company, through USCAN, purchased 50 percent of the issued and outstanding shares of Galileo Global Equity Advisors, Inc., a privately held Toronto-based asset management firm, for \$600,000 cash. Effective June 1, 2014, the Company, through USCAN, completed its purchase of an additional 15 percent interest in Galileo from the company's founder, Michael Waring, for \$180,000 cash. This strategic investment brings USCAN's ownership to 65 percent of the issued and outstanding shares of Galileo, which represents a controlling interest of Galileo. Through Galileo, the Company expects to increase its presence in Canada. The non-controlling interest in this subsidiary is included in "non-controlling interest in subsidiaries" in the equity section of the Consolidated Balance Sheets. Frank Holmes, CEO, and Susan McGee, President and General Counsel, serve as directors of Galileo. From March 31, 2013, to June 1, 2014, the Company accounted for its interest in Galileo under the equity method with its share of Galileo's profit or loss recognized in earnings, including \$20,000 and \$54,000 in other income in fiscal year 2014 and 2013, respectively.

The Company accounted for the June 1, 2014, Galileo share purchase using the acquisition method of accounting, which requires, among other things, that the fair values of assets acquired, including an intangible asset, and liabilities assumed, along with the fair value of the non-controlling interest in the subsidiary, be recognized on the Consolidated Balance Sheets as of the acquisition date.

Business combinations achieved in stages also must value prior investments at fair value. A \$161,000 increase in fair value of the Company's initial investment was recognized as a gain and included in investment income.

The Company recognized a gain of \$129,000 on the June 1, 2014, purchase since the fair value of the net assets acquired was greater than the fair value of consideration given. This gain is also included within investment income. The Consolidated Balance Sheet as of June 30, 2014, reflects the purchase price allocations based on an assessment of the fair value of the assets acquired, liabilities assumed and non-controlling interest in subsidiary. The Company is continuing to evaluate the transaction and future changes to the amounts recorded could occur. The table below presents the preliminary purchase price allocation as of the June 1, 2014, acquisition date:

(dollars in thousands)

Fair value of acquisition components

Current assets	\$1,788
Property and equipment	149
Intangible asset re: non-compete agreement	90
Other noncurrent assets	