U S GLOBAL INVESTORS INC
Form 10-Q
May 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2013
OR

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

Commission File Number 0-13928

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

Texas (State or other jurisdiction of incorporation or organization)	**74-1598370** (IRS Employer Identification No.)
7900 Callaghan Road **San Antonio, Texas** (Address of principal executive offices)	**78229-1234** (Zip Code)

(210) 308-1234

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

YES [X] NO [ ]

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

YES [X] NO [ ]

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller Reporting Company [ ]

(Do not check if a smaller reporting company)

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

YES [ ] NO [X]

On April 18, 2013, there were 13,864,961 shares of Registrant s class A nonvoting common stock issued and 13,407,113 shares of Registrant s class A nonvoting common stock issued and outstanding, no shares of Registrant s class B nonvoting common shares outstanding, and 2,070,587 shares of Registrant s class C voting common stock issued and outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets

Assets	March 31, 2013 (UNAUDITED)	June 30, 2012
Current Assets		
Cash and cash equivalents	$ 19,143,748	$ 20,612,721
Trading securities, at fair value	4,993,965	5,216,139
Receivables		
Mutual funds	1,541,388	1,709,507
Offshore clients	23,250	33,354
Income tax	314,815	407,377
Employees	10,820	900
Other	55,471	8,247
Prepaid expenses	661,930	606,048
Deferred tax asset	65,517	162,569
Total Current Assets	26,810,904	28,756,862
Net Property and Equipment	3,192,205	3,359,376
Other Assets		
Deferred tax asset, long term	638,498	815,245
Investment securities available-for-sale, at fair value	9,192,008	8,824,311
Investment in Galileo	600,000	-
Total Other Assets	10,430,506	9,639,556
Total Assets	$ 40,433,615	$ 41,755,794

The accompanying notes are an integral part of this statement.

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U.S. Global Investors, Inc.

Liabilities and Shareholders Equity	March 31, 2013 (UNAUDITED)	June 30, 2012
Current Liabilities		
Accounts payable	$ 25,432	$ 67,560
Accrued compensation and related costs	888,600	1,040,262
Dividends payable	232,371	927,820
Other accrued expenses	1,565,850	1,010,506
Total Current Liabilities	2,712,253	3,046,148
Commitments and Contingencies		
Shareholders Equity		
Common stock (class A) - $0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,864,961 and 13,862,505 shares at March 31, 2013, and June 30, 2012, respectively	346,624	346,563
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, 2,070,587 and 2,073,043 shares at March 31, 2013, and June 30, 2012, respectively	51,765	51,826
Additional paid-in-capital	15,652,989	15,547,907
Treasury stock, class A shares at cost; 449,748 and 472,685 shares at March 31, 2013, and June 30, 2012, respectively	(1,085,435)	(1,106,733)
Accumulated other comprehensive income, net of tax	800,085	466,268
Retained earnings	21,955,334	23,403,815
Total Shareholders Equity	37,721,362	38,709,646
Total Liabilities and Shareholders Equity	$ 40,433,615	$ 41,755,794

The accompanying notes are an integral part of this statement.

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U.S. Global Investors, Inc.

Consolidated Statements of Operations and Comprehensive Income (Unaudited)

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenues				
Mutual fund advisory fees	$ 9,522,556	$ 11,649,691	$ 3,110,084	$ 2,848,116
Distribution fees	2,246,930	3,264,166	694,862	962,395
Transfer agent fees	2,100,286	2,886,989	660,075	855,140
Administrative services fees	741,657	1,058,160	230,516	312,110
Other advisory fees	253,534	263,634	83,960	86,536
Other	30,498	30,679	8,835	8,967
Investment income (loss)	345,557	56,256	(16,081)	464,863
	15,241,018	19,209,575	4,772,251	5,538,127
Expenses				
Employee compensation and benefits	7,246,346	7,781,417	2,291,612	2,368,646
General and administrative	4,531,650	4,392,153	1,459,393	1,412,290
Platform fees	2,106,056	3,150,296	657,724	869,437
Advertising	625,091	1,007,665	194,003	6,743
Depreciation	206,329	212,744	68,752	70,586
Subadvisory fees	45,000	45,000	15,000	15,000
	14,760,472	16,589,275	4,686,484	4,742,702
Income Before Income Taxes	480,546	2,620,300	85,767	795,425
Provision for Federal Income Taxes				
Tax expense	224,594	974,262	44,600	308,287
Net Income	255,952	1,646,038	41,167	487,138
Other Comprehensive Income, Net of Tax:				
Unrealized gains (losses) on available-for-sale securities arising during period	477,169	(149,083)	429,283	263,894
Less: reclassification adjustment for gains/losses included in net income	(143,352)	(112,327)	-	(112,327)
Comprehensive Income	$ 589,769	$ 1,384,628	$ 470,450	$ 638,705
Basic Net Income per Share	$ 0.02	$ 0.11	$ 0.00	$ 0.03
Diluted Net Income per Share	$ 0.02	$ 0.11	$ 0.00	$ 0.03
Basic weighted average number of common shares outstanding	15,484,371	15,436,601	15,490,020	15,448,100

Diluted weighted average number of common shares outstanding	15,484,371	15,436,959	15,490,020	15,448,518

The accompanying notes are an integral part of this statement.

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U.S. Global Investors, Inc.

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Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended March 31, 2013	2012
Cash Flows from Operating Activities:		
Net income	$ 255,952	$ 1,646,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	206,329	212,744
Net recognized gain on disposal of fixed assets	-	(78,638)
Net recognized loss (gain) on securities	51,755	(157,668)
Provision for deferred taxes	101,833	(130,206)
Stock bonuses	61,109	188,300
Stock-based compensation expense	8,930	25,424
Changes in operating assets and liabilities:		
Accounts receivable	213,641	862,849
Prepaid expenses	(55,882)	101,969
Trading securities	(22,452)	201,860
Accounts payable and accrued expenses	361,554	(1,695,476)
Total adjustments	926,817	(468,842)
Net cash provided by operating activities	1,182,769	1,177,196
Cash Flows from Investing Activities:		
Purchase of property and equipment	(39,158)	(18,374)
Purchase of Galileo shares	(600,000)	-
Purchase of available-for-sale securities	(348,057)	(5,002,332)
Proceeds on sale of available-for-sale securities	679,014	170,192
Return of capital on investment	-	18,542
Net cash used in investing activities	(308,201)	(4,831,972)
Cash Flows from Financing Activities:		
Issuance of common stock	141,324	142,062
Repurchases of common stock	(84,983)	-
Dividends paid	(2,399,882)	(2,778,406)
Net cash used in financing activities	(2,343,541)	(2,636,344)
Net decrease in cash and cash equivalents	(1,468,973)	(6,291,120)
Beginning cash and cash equivalents	20,612,721	27,207,896
Ending cash and cash equivalents	$ 19,143,748	$ 20,916,776

Supplemental Disclosures of Cash Flow Information		
Cash paid for income taxes	$ -	$ 1,365,000

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

U.S. Global Investors, Inc. (the Company or U.S. Global) has prepared the consolidated financial statements pursuant to accounting principles generally accepted in the United States of America (U.S. GAAP) and the rules and regulations of the United States Securities and Exchange Commission (SEC) that permit reduced disclosure for interim periods. The financial information included herein reflects all adjustments (consisting solely of normal recurring adjustments), which are, in management s opinion, necessary for a fair presentation of results for the interim periods presented. The Company has consistently followed the accounting policies set forth in the notes to the consolidated financial statements in the Company s Form 10-K for the fiscal year ended June 30, 2012.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, United Shareholder Services, Inc. (USSI), U.S. Global Brokerage, Inc., U.S. Global Investors (Guernsey) Limited, U.S. Global Investors (Bermuda) Limited and U.S. Global Investors (Canada) Ltd. The Canadian subsidiary was formed in February 2013.

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts have been reclassified for comparative purposes. The results of operations for the nine months ended March 31, 2013, are not necessarily indicative of the results to be expected for the entire year.

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

Note 2. Purchase of Galileo Shares

In January 2013, the Company entered into a Stock Purchase Agreement with Galileo Global Equity Advisors Inc. (Galileo), a privately held Toronto-based asset management firm, to purchase 50 percent of the issued and outstanding shares of Galileo for $600,000. The closing date of the transaction was March 31, 2013. Galileo will continue to have overall control of the operations and investment management activities of Galileo, including its management of the Galileo Funds. The Company will account for its interest in Galileo under the equity method with its share of Galileo s profit or loss recognized in earnings. After one year, Galileo may terminate the agreement or allow the Company to purchase an additional 15 percent of its shares. Since the transaction closed on March 31, 2013, the Company is continuing to evaluate the transaction, and future changes to the amounts recorded could occur. Frank Holmes, CEO, and Susan McGee, President and General Counsel, serve as directors of Galileo.

Note 3. 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 Company lowered its monthly dividend to $0.005 per share per month beginning in January 2013 from its previous $0.02 per share per month dividend. A monthly dividend of $0.005 per share is authorized through June 2013 and will be reviewed by the board quarterly.

Note 4. Share Repurchase Plan

The Board of Directors approved a share repurchase program on December 7, 2012, authorizing the Company to purchase up to $2.75 million of its outstanding common shares as market and business conditions warrant on the open market in compliance with Rule 10b-18 of the Securities Exchange Act of 1934. The share repurchase authorization expires at the end of calendar 2013. As of March 31, 2013, the Company had repurchased 22,203 class A shares using cash of $84,983. There remains approximately $2.665 million available for repurchase under this authorization.

Note 5. Investments

As of March 31, 2013, the Company held trading and available-for-sale investments with a market value of approximately $14.2 million and a cost basis of approximately $13.4 million. The market value of these investments is approximately 35.1 percent of the Company s total assets.

Investments in securities classified as trading are reflected as current assets on the consolidated balance sheet at their fair market value. Unrealized holding gains and losses on trading securities are included in earnings in the consolidated statements of operations and comprehensive income.

Investments in securities classified as available-for-sale, which may not be readily marketable, are reflected as non-current assets on the consolidated balance sheet at their fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income as a separate component of shareholders equity until realized.

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

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The following summarizes the market value, cost, and unrealized gain or loss on investments as of March 31, 2013, and June 30, 2012.

Securities	Market Value	Cost	Unrealized Gain (Loss)	Unrealized holding gains on available-for-sale securities, net of tax
Trading[1]	$ 4,993,965	$ 5,457,989	$ (464,024)	N/A
Available-for-sale[2]	9,192,008	7,979,758	1,212,250	$ 800,085
Total at March 31, 2013	$ 14,185,973	$ 13,437,747	$ 748,226	
Trading[1]	$ 5,216,139	$ 5,960,634	$ (744,495)	N/A
Available-for-sale[2]	8,824,311	8,117,844	706,467	$ 466,268
Total at June 30, 2012	$ 14,040,450	$ 14,078,478	$ (38,028)	

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

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

The following details the components of the Company s available-for-sale investments as of March 31, 2013, and June 30, 2012.

	March 31, 2013 (in thousands)			
		Gross Unrealized		
	Cost	Gains	(Losses)	Market Value
Available-for-sale securities				
Common stock	$ 785	$ 574	$ (8)	$ 1,351
Venture capital investments	168	-	(5)	163
Offshore fund	5,000	-	(86)	4,914
Mutual funds	2,027	738	(1)	2,764
Total available-for-sale securities	$ 7,980	$ 1,312	$ (100)	$ 9,192

	June 30, 2012 (in thousands)			
		Gross Unrealized		
	Cost	Gains	(Losses)	Market Value
Available-for-sale securities				
Common stock	$ 920	$ 360	$ (52)	$ 1,228
Venture capital investments	168	-	-	168
Offshore fund	5,000	-	(189)	4,811
Mutual funds	2,030	591	(4)	2,617

Total available-for-sale securities	$ 8,118	$ 951	$ (245)	$ 8,824

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

	March 31, 2013 (in thousands)					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Common stock	$ -	$ -	$ 34	$ (8)	$ 34	$ (8)
Venture capital investments	163	(5)	-	-	163	(5)
Offshore fund	4,914	(86)	-	-	4,914	(86)
Mutual funds	5	(1)	-	-	5	(1)
Total available-for-sale securities	$ 5,082	$ (92)	$ 34	$ (8)	$ 5,116	$ (100)

	June 30, 2012 (in thousands)					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Common stock	$ 135	$ (52)	$ -	$ -	$ 135	$ (52)
Offshore fund	4,811	(189)	-	-	4,811	(189)
Mutual funds	16	(4)	-	-	16	(4)
Total available-for-sale securities	$ 4,962	$ (245)	$ -	$ -	$ 4,962	$ (245)

Investment income can be volatile and varies depending on market fluctuations, the Company s ability to participate in investment opportunities, and timing of transactions. A significant portion of the unrealized gains and losses for the three and nine months ended March 31, 2013, is concentrated in a small number of issuers. The Company expects that gains and losses will continue to fluctuate in the future.

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

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

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

Investment Income	**Nine Months Ended March 31, 2013**	**2012**
Realized gains on sales of available-for-sale securities	$ 234,709	$ 179,379
Realized losses on sales of trading securities	(244,627)	(2,638)
Unrealized gains (losses) on trading securities	280,472	(201,860)
Realized foreign currency gains (losses)	1,658	(646)
Other-than-temporary declines in available-for-sale securities	(41,837)	(19,073)
Dividend and interest income	115,182	101,094
Total Investment Income	$ 345,557	$ 56,256

Investment Income	**Three Months Ended March 31, 2013**	**2012**
Realized gains on sales of available-for-sale securities	$ 17,509	$ 179,379
Unrealized gains (losses) on trading securities	(68,267)	277,192
Realized foreign currency gains (losses)	4,409	(253)
Other-than-temporary declines in available-for-sale securities	-	(19,036)
Dividend and interest income	30,268	27,581
Total Investment Income (Loss)	$ (16,081)	$ 464,863

Note 6. Fair Value Disclosures

Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosure*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value and requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., Levels 1, 2, and 3 inputs, as defined below). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Additionally, companies are required to provide enhanced disclosures regarding instruments in the Level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending values separately for each major category of assets or liabilities.

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

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

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

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

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

For actively traded securities, the Company values investments using the closing price of the securities on the exchange or market on which the securities principally trade. If the security is not actively traded, it is valued based on the last bid and/or ask quotation. Securities that are not traded on an exchange or market are generally valued at cost, monitored by management and fair value adjusted as considered necessary. The Company values the mutual funds, offshore funds and a venture capital investment at net asset value.

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The following table presents fair value measurements, as of March 31, 2013, for the three major categories of U.S. Global s investments measured at fair value on a recurring basis:

	Fair Value Measurement using (in thousands) March 31, 2013			
	Quoted Prices (Level 1)	**Significant Other Inputs** (Level 2)	**Significant Unobservable Inputs** (Level 3)	**Total**
Trading securities				
Common stock	$ 30	$ -	$ -	$ 30
Mutual funds	4,057	-	-	4,057
Offshore fund	-	907	-	907
Total trading securities	4,087	907	-	4,994
Available-for-sale securities				
Common stock	1,351	-	-	1,351
Venture capital investments	-	-	163	163
Mutual funds	2,764	-	-	2,764
Offshore fund	-	4,914	-	4,914
Total available-for-sale securities	4,115	4,914	163	9,192
Total Investments	$ 8,202	$ 5,821	$ 163	$ 14,186

Approximately 58 percent of the Company s financial assets measured at fair value are derived from Level 1 inputs including SEC-registered mutual funds and equity securities traded on an active market, 41 percent of the Company s financial assets measured at fair value are derived from Level 2 inputs, including an investment in an offshore fund, and the remaining one percent are Level 3 inputs. The Company recognizes transfers between levels at the end of each quarter. The Company did not transfer any securities between Level 1 and Level 2 during the nine months ended March 31, 2013.

In Level 2, the Company has an investment in an offshore fund it advises with a fair value of $906,856 that invests in companies in the energy and natural resources sectors. The Company may redeem this investment on the first business day of each month after providing a redemption notice at least forty-five days prior to the proposed redemption date. The Company also has a Level 2 investment in an offshore fund with a fair value of $4,914,065, that invests in dividend-paying equity and debt securities of companies located around the world. The Company may redeem this investment on the first business day of each month after providing a redemption notice at least forty-five days prior to the proposed redemption date.

The Company has a venture capital investment that was measured at fair value using significant unobservable inputs (Level 3) at March 31, 2013, with a fair value of $162,841 that primarily invests in companies in the medical and medical technology sectors. The Company may redeem this investment with general partner approval. As of March 31, 2013, the Company has an unfunded commitment of $62,500 related to this investment.

The following table presents additional information about investments measured at fair value on a recurring basis and for which the Company has utilized significant unobservable inputs to determine fair value:

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis For the Nine Months Ended March 31, 2013 (in thousands)	Venture Capital Investments
Beginning Balance	$ 168
Return of capital	-
Total gains or losses (realized/unrealized)	
Included in earnings (or changes in net assets)	-
Included in other comprehensive income	(5)
Purchases, issuances, and settlements	-
Transfers in and/or out of Level 3	-
Ending Balance	$ 163

NOTE 7. INVESTMENT MANAGEMENT, TRANSFER AGENT AND OTHER FEES

The Company serves as investment adviser to U.S. Global Investors Funds (USGIF) and receives a fee based on a specified percentage of net assets under management.

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

The advisory agreement for the nine equity funds provides for a base advisory fee that is adjusted upwards or downwards by 0.25 percent when there is a performance difference of 5 percent or more between a fund s performance and that of its designated benchmark index over the prior rolling 12 months. For the three and nine months ended March 31, 2013, the Company adjusted its base advisory fees upward by $108,969 and downward by $56,095, respectively. For the corresponding periods in fiscal 2012, base advisory fees were adjusted downward by $1,137,345 and $1,787,199.

The Company has voluntarily waived or reduced its fees and/or agreed to pay expenses on all thirteen funds. These caps will continue on a voluntary basis at the Company s discretion. Effective with the March 1, 2010, offering of institutional class shares in three USGIF funds, the Company voluntarily agreed to waive all institutional class-specific expenses. The aggregate fees waived and expenses borne by the Company for the three and nine months ended March 31, 2013, were $798,138 and $2,502,737 compared with $773,394 and $2,372,547, respectively, for the corresponding periods in fiscal 2012.

The above waived fees include amounts waived under an agreement whereby the Company has voluntarily agreed to waive fees and/or reimburse the U.S. Treasury Securities Cash Fund and the U.S. Government Securities Savings Fund to the extent necessary to maintain the respective fund s yield at a certain level as determined by the Company (Minimum Yield). For the three and nine months ended March 31, 2013, total fees waived and/or expenses reimbursed as a result of this agreement were $298,128 and $885,273. For the corresponding periods in fiscal year 2012, the total fees waived and/or expenses reimbursed were $349,661 and $1,150,573.

The Company may recapture any fees waived and/or expenses reimbursed within three years after the end of the funds fiscal year of such waiver and/or reimbursement to the extent that such recapture would not cause the funds yield to fall below the Minimum Yield. Thus, $1,562,956 of these waivers is recoverable by the Company through December 31, 2013; $1,604,076 through December 31, 2014; $1,245,458 through December 31, 2015; and $298,128 through December 31, 2016. Management believes that these potential recoveries will be realized only in a rising interest rate environment and that these waivers could increase in the future. Such increases in fee waivers could be significant and will negatively impact the Company s revenues and net income. Management cannot predict the impact of the waivers and/or reimbursements due to the number of variables and the range of potential outcomes.

The Company provides advisory services for three offshore clients and receives monthly advisory fees based on the net asset values of the clients and performance fees, if any, based on the overall increase in net asset values. The Company recorded advisory and performance fees from these clients totaling $83,960 and $253,534 for the three and nine months ended March 31, 2013. The Company recorded advisory and performance fees totaling $86,536 and $263,634 for the corresponding periods in fiscal 2012. 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 offshore clients.

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

Substantially all of the cash and cash equivalents included in the balance sheet at March 31, 2013, and June 30, 2012, is invested in USGIF money market funds.

Note 8. Borrowings

As of March 31, 2013, the Company has no long-term liabilities.

The Company has access to a $1 million credit facility with a one-year maturity for working capital purposes. The credit agreement requires the Company to maintain certain quarterly financial covenants to access the line of credit. As of March 31, 2013, this credit facility remained unutilized by the Company.

Note 9. Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718 *Compensation Stock Compensation*. Stock-based compensation expense is recorded for the cost of stock options. Stock-based compensation expense for the three and nine months ended March 31, 2013, was $610 and $8,930 compared to $7,882 and $25,424 in the corresponding periods in fiscal 2012. As of March 31, 2013, and 2012, respectively, there was approximately $8,337 and $25,300 of total unrecognized share-based compensation cost related to share-based compensation granted under the plans that will be recognized over the remainder of their respective vesting periods.

Stock compensation plans

The Company s stock option plans provide for the granting of class A shares as either incentive or nonqualified stock options to employees and non-employee directors. Options are subject to terms and conditions determined by the Compensation Committee of the Board of Directors. The following table summarizes information about the Company s stock option plans for the nine months ended March 31, 2013.

	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	29,000	$ 17.03
Granted	-	-
Exercised	-	-
Forfeited	-	-
Options outstanding, end of period	29,000	$ 17.03
Options exercisable, end of period	25,000	$ 18.71

NOTE 10. EARNINGS PER SHARE

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

The following table sets forth the computation for basic and diluted EPS:

	Nine Months Ended March 31,			
		2013		2012
Net income	$	255,952	$	1,646,038
Weighted average number of outstanding shares				
Basic		15,484,371		15,436,601
Effect of dilutive securities				
Employee stock options		-		358
Diluted		15,484,371		15,436,959
Earnings per share				
Basic	$	0.02	$	0.11
Diluted	$	0.02	$	0.11

	Three Months Ended March 31,			
		2013		2012
Net income	$	41,167	$	487,138
Weighted average number of outstanding shares				
Basic		15,490,020		15,448,100
Effect of dilutive securities				
Employee stock options		-		418
Diluted		15,490,020		15,448,518
Earnings per share				
Basic	$	0.00	$	0.03
Diluted	$	0.00	$	0.03

The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price for the period. For the three and nine months ended March 31, 2013, 29,000 options were excluded from diluted EPS and 24,300 were excluded in the corresponding periods in fiscal 2012.

The Company may repurchase stock pursuant to a share repurchase plan. The Company repurchased 22,203 shares of its class A, no shares of class B, and no shares of class C common stock during the nine months ended March 31, 2013. Upon repurchase, these shares are classified as treasury shares and are deducted from outstanding shares in the earnings per share calculation. See Note 4 for additional information regarding the share repurchase plan.

Note 11. Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Provisions for income taxes include deferred taxes for temporary differences in the bases of assets and liabilities for financial and tax purposes, resulting from the use of the liability method of accounting for income taxes. The current deferred tax asset primarily consists of unrealized losses on trading securities as well as temporary differences in the deductibility of accrued liabilities. The long-term deferred tax asset is composed primarily of capital loss carryovers, unrealized losses on available-for-sale securities and the difference in tax treatment of stock options.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. No valuation allowance was included or deemed necessary at March 31, 2013, or June 30, 2012.

NOTE 12. FINANCIAL INFORMATION BY BUSINESS SEGMENT

The Company operates principally in two business segments: providing investment management services to the funds it manages and investing for its own account in an effort to add growth and value to its cash position. The following schedule details total revenues and income by business segment:

	Investment Management Services	Corporate Investments	Consolidated
Nine months ended March 31, 2013			
Net revenues	$ 14,903,662	$ 337,356	$ 15,241,018
Net income before income taxes	155,654	324,892	480,546
Depreciation	206,329	-	206,329
Capital expenditures	39,158	-	39,158
Gross identifiable assets at March 31, 2013	24,272,585	15,457,015	39,729,600
Deferred tax asset			704,015
Consolidated total assets at March 31, 2013			$ 40,433,615
Nine months ended March 31, 2012			
Net revenues	$ 19,171,019	$ 38,556	$ 19,209,575
Net income before income taxes	2,591,491	28,809	2,620,300
Depreciation	212,744	-	212,744
Capital expenditures	18,374	-	18,374
Three months ended March 31, 2013			
Net revenues	$ 4,766,173	$ 6,078	$ 4,772,251
Net income (loss) before income taxes	86,097		