U S GLOBAL INVESTORS INC
Form 10-K
September 06, 2018

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, 2018

or

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

for the transition period from _____ to _____

Commission File Number 0-13928

U.S. GLOBAL INVESTORS, INC.

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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Yes No

The aggregate market value of the 9,708,879 shares of nonvoting class A common stock held by nonaffiliates of the registrant was $37,864,628, based on the last sale price quoted on NASDAQ as of December 31, 2017, 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 4,297 shares of the class C common stock held by nonaffiliates of the registrant on December 31, 2017 (based on the last sale price of the class C common stock in a private transaction) was $1,074. 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 24, 2018, there were 13,866,691 shares of Registrant's class A nonvoting common stock issued and 13,075,749 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's class B nonvoting common stock outstanding, and 2,068,857 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:

1. Investment Management Services, through which the Company offers, to U.S. Global Investors Funds (“USGIF” or the “Fund(s)”), offshore clients, and exchange traded fund (“ETF”) clients, a range of investment management products and services to meet the needs of individual and institutional investors;
2. Investment Management Services - Canada, through which the Company owns a 65 percent 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
3. 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.

As part of its investment management businesses, the Company provides: (1) investment advisory services and (2) administrative services to the mutual funds advised by the Company. The fees from these services, as well as investment income, are the primary sources of the Company’s revenue. The Company also provided distribution services through December 2015 to USGIF.

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.

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 2018. Management anticipates that the advisory agreement will be renewed.

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In addition to providing advisory services to USGIF, the Company provides advisory services to two ETFs. U.S. Global Jets ETF commenced operations in April 2015, and U.S. Global GO GOLD and Precious Metal Miners ETF commenced operations in June 2017.

The Company also provided advisory services to two offshore clients. The offshore clients liquidated during fiscal 2018.

Net assets under management on June 30, 2018, and June 30, 2017, are detailed in the following table.

Assets Under Management ("AUM")

Fund	**Ticker**	**June 30, 2018**	**June 30, 2017**
(dollars in thousands)			
U.S. Global Investors Funds			
Natural Resources			
Global Resources	PSPFX/PIPFX	$84,769	$90,690
World Precious Minerals	UNWPX/UNWIX	98,063	130,382
Gold and Precious Metals	USERX	91,507	98,530
Total Natural Resources		274,339	319,602
International Equity			
Emerging Europe	EUROX	38,706	45,654
China Region	USCOX	21,592	20,812
Total International Equity		60,298	66,466
Fixed Income			
U.S. Government Securities Ultra-Short Bond	UGSDX	47,997	52,555
Near-Term Tax Free	NEARX	58,234	83,945
Total Fixed Income		106,231	136,500
Domestic Equity			
Holmes Macro Trends	MEGAX	39,453	40,190
All American Equity	GBTFX	15,352	16,658
Total Domestic Equity		54,805	56,848
Total U.S. Global Investors Funds		495,673	579,416
ETF Clients			
U.S. Global Jets ETF	JETS	92,542	114,929
U.S. Global GO GOLD and Precious Metal Miners ETF	GOAU	12,083	2,376
Total ETF Clients		104,625	117,305
Offshore Advisory Clients		-	15,213
		600,298	711,934
Total Canada AUM (see separate discussion)		46,731	47,787
Total AUM		$647,029	$759,721

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. Prior to December 10, 2015, it provided 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 compensated all personnel, officers, directors and interested trustees of the Funds if such persons were also employees of the Company or its affiliates. Effective December 10, 2015, the Company entered into an amended administrative services agreement with USGIF whereby the Company and a third party act as co-administrators to the Funds. The Company continues to assist with certain administrative tasks. Effective December 10, 2015, the annual rate changed from 0.10 percent to 0.05 percent for each investor class and from 0.08 percent to 0.04 percent for each institutional class, and the previous $7,000 annual per fund fee was eliminated. 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 2018. Management anticipates that the administrative services agreement will be renewed.

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Distribution Services. Prior to December 10, 2015**,** the Company provided distribution services to USGIF. In doing so, the Company had 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. Effective December 10, 2015, USGB ceased to be the distributor for USGIF. The Company filed Form BDW, the Uniform Request Withdrawal From Broker-Dealer Registration, with FINRA, which was approved in February 2016. On July 27, 2018, USGB was dissolved.

Shareholder Services. Prior to December 10, 2015, 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 received 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 helped to offset related platform costs. This agreement ceased on December 10, 2015.

Investment Management Services - Canada

Assets Under Management ("AUM")

(dollars in thousands)	**Ticker**	**June 30, 2018**	**June 30, 2017**
Galileo Funds			
Galileo High Income Plus Fund	N/A [1]	$ 35,647	$ 42,916
Galileo Growth and Income Fund	N/A [1]	2,565	3,181
Galileo Partners Fund	N/A [1]	1,823	39
Galileo Technology and Blockchain Fund	N/A [1]	1,112	-
Total Galileo Funds		41,147	46,136
U.S. Global GO GOLD and Precious Metal Miners ETF	GOGO [1]	4,023	-
Other Advisory Clients		1,561	1,651
Total Canada AUM		$ 46,731	$ 47,787

1. *The funds managed by Galileo ("Galileo Funds") are registered in Canada and are not available in the United States.*

The Company, through its wholly-owned subsidiary, U.S. Global Investors (Canada) Limited ("USCAN"), owns 65 percent of the issued and outstanding shares of Galileo Global Equity Advisors Inc., a privately held Toronto-based asset management firm, which represents controlling interest of Galileo. 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, serves as a director of Galileo. Lisa Callicotte, CFO, also serves as a director of Galileo effective July 2018.

Galileo Equity Management Inc. was incorporated under the Business Corporations Act (Ontario) on July 16, 1999. In May, 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 Alberta Securities Commission, and the British Columbia Securities Commission. Additionally, the company is registered as an investment fund manager in Ontario, Quebec and Newfoundland and Labrador.

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 15, Financial Information by Business Segment, of this Annual Report on 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 15, Financial Information by Business Segment, of this Annual Report on Form 10-K.

Employees

As of June 30, 2018, U.S. Global and its wholly-owned subsidiaries employed 24 full-time employees and 1 part-time employee. The Company considers its relationship with its employees to be good.

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Competition

The mutual fund industry is highly competitive. According to the Investment Company Institute, at the end of 2017 there were approximately 9,400 domestically registered open-end investment companies and approximately 1,900 exchange-traded funds of varying sizes and investment policies, whose shares are being offered to the public in the U.S. 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, and other financial institutions. Many of these institutions are able to engage in more liberal advertising than mutual funds and ETFs 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 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 business 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 and other clients effectively. Sales of Fund shares generate management and administrative services fees (which are based on the assets of the Funds). 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.

Supervision and Regulation

The Company and the clients the Company manages and administers operate under certain laws, including federal and state securities laws, governing their organization, registration, operation, 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 its clients 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.

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 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 and the ETFs 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 and ETFs 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.

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U.S. Global is required to keep and maintain certain reports and records, which must be made available to the SEC 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 Galileo's business and relationships with Galileo’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 Canadian funds for which Galileo acts as the investment fund manager are registered with the OSC pursuant to 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 Galileo, or the Canadian funds which Galileo advises, to comply with the requirements of the OSC could have a material adverse effect on Galileo.

U.S. Global and Galileo manage clients’ portfolios on a discretionary basis, with the authority to enter into security transactions, select broker-dealers to execute trades, and negotiate brokerage commissions. The Company may receive soft dollar credits from certain broker-dealers that are used to pay for research and related services or products, which therefore has the effect of reducing certain operating expenses. These soft dollar arrangements are intended to be within the safe harbor provisions of the Securities Exchange Act of 1934 and National Instrument 23-102, as applicable. If the ability to use soft dollar arrangements were reduced or eliminated as a result of statutory amendments, new regulations or change in business practices, the Company’s operating expenses would increase.

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 considers its relationships with the Funds to be good, and management has no reason to believe that the 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.

In addition, the Company is also dependent on its relationships with its exchange traded fund clients. Even though the Company views its relationship with its exchange traded fund clients as stable, the Company could be adversely affected if that relationship 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.") 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.

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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

https://twitter.com/USGlobalETFs

https://www.linkedin.com/company/u-s-global-investors

https://www.instagram.com/usglobal

https://pinterest.com/usfunds

https://www.youtube.com/c/usglobalinvestorssanantonio

https://www.youtube.com/channel/UCDkX1zvbWPyWc99esHOhwRQ

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

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.

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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, including trading policies, regulatory requirements, tariffs and other barriers. 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.

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.

In addition, the Company has invested in a security in the cryptocurrency mining industry through its corporate investments and indirectly through investments accounted for under the equity method of accounting. Cryptocurrency markets and related stocks have been, and are expected to continue to be, volatile. This volatility may materially impact the Company's financial statements and thus affect the Company's common stock market price. In addition, the price of the Company's common stock may fluctuate to the extent that shareholders invest in the Company's common stock as a proxy for cryptocurrency. The investing public may be influenced by future anticipated appreciation or depreciation in value of cryptocurrencies or blockchain generally, factors over which the Company has little or no influence or control. The Company's stock price may also be subject to volatility due to supply and demand factors associated with few or limited public company options for investment in the segment, which may change over time.

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The Company has exposure to the cryptocurrency markets through its investments.

The Company has invested in a security in the cryptocurrency mining industry through its corporate investments and indirectly through investments accounted for under the equity method of accounting. Cryptocurrency markets and related stocks have been, and are expected to continue to be, volatile. Cryptocurrency mining is considered an early stage high-risk industry, and the nature of mining is expected to evolve. There is potential for significant volatility in the valuation of the Company's cryptocurrency-related investments.

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 effect 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 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 and 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 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.

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

During the past two decades, 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 our 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. 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 certain confidential information about the Company and its 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.

Adverse changes in foreign currencies could negatively impact financial results.

Our subsidiary Galileo conducts its business in Canada. We translate Galileo’s foreign currency financial statements into U.S. dollars in the financial statement consolidation process. Adverse changes in foreign currency exchange rates would lower the carrying value of Galileo’s assets and reduce its results in the consolidated U.S. financial statements. We also have certain corporate investments held in foreign currencies. Adverse changes in foreign currency exchange rates would also lower the value of those corporate investments. Certain assets under management also have exposure to foreign currency fluctuations in various markets, which could impact their valuation and thus the revenue we receive.

Acquisitions involve inherent risks that could compromise the success of the combined business and dilute the holdings of current stockholders.

As part of our business strategy, we may pursue corporate development transactions, including the acquisition of asset management firms. These transactions involve assessing the value, strengths, weaknesses, liabilities and potential profitability of the transactions, and if our assessment is incorrect, the success of the combined business could be jeopardized. In addition, such transactions are subject to acquisition costs and expenses, are likely to divert the attention of management’s time, and can dilute the stockholders of the combined company if the acquisition is made for stock of the combined company.

Item 1B. Unresolved Staff Comments

Not applicable for smaller reporting companies.

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, 2018, and June 30, 2017. The quotations represent prices between dealers and do not include any retail markup, markdown, or commission.

	Sales Price			
	2018		**2017**	
	High ($)	**Low ($)**	**High ($)**	**Low ($)**
First quarter (9/30)	2.40	1.25	2.33	1.70
Second quarter (12/31)	7.49	1.96	1.95	1.25
Third quarter (3/31)	5.41	2.37	2.05	1.39
Fourth quarter (6/30)	3.20	1.46	1.59	1.25

Holders

On August 24, 2018, there were approximately 143 holders of record of class A common stock, no holders of record of class B common stock, and 27 holders of record of class C common stock.

Dividends

The Company paid $0.0025 per share per month in fiscal 2018 and fiscal 2017. A monthly dividend of $0.0025 has been authorized from July 2018 through September 2018, 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."

Purchases of equity securities by the issuer

The Company has a share repurchase program, approved by the Board of Directors, authorizing the Company to annually purchase up to $2.75 million of its outstanding common shares, as market and business conditions warrant, on the open market in compliance with Rule 10b-18 of the Securities Exchange Act of 1934 through December 31, 2018. The repurchase program has been in place since December 2012, and the Board of Directors has annually renewed the repurchase program each calendar year.

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For the quarter ended June 30, 2018, the Company purchased a total of 1,000 class A shares using cash of $2,000. The Company may repurchase class A stock from employees; however, none were repurchased from employees during the quarter ended June 30, 2018. The Company did not repurchase any classes B or C common stock during the quarter ended June 30, 2018.

(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**
04-01-18 to 04-30-18	-	$ -	N/A	-	$ 2,742
05-01-18 to 05-31-18	-	-	N/A	-	2,742
06-01-18 to 06-30-18	1,000	2	1.68	1,000	2,740
Total	1,000	$ 2	$ 1.68	1,000	

1. *The Board of Directors of the Company approved on December 7, 2012, and renewed on December 12, 2013, December 10, 2014, December 9, 2015, December 6, 2016, and December 5, 2017, a repurchase of up to $2.75 million in each of calendar years 2013, 2014, 2015, 2016, 2017, and 2018, respectively, of its outstanding class A common stock from time to time on the open market 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.*
3. *The repurchase plan was approved on December 7, 2012, renewed on December 12, 2013, December 10, 2014, December 9, 2015, December 6, 2016, and December 5, 2017, and will continue through calendar year 2018. The total dollar amount of shares that may be repurchased in 2018 under the renewed program is $2.75 million.*

Item 6. Selected Financial Data

Not applicable for smaller reporting companies.

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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 two fiscal years and other factors that may affect future financial performance. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K.

Recent Trends in Financial Markets

The Company's operating revenues are highly correlated to the level of assets under management ("AUM") and fees associated with various investment products. While AUM is directly impacted by changes in the financial markets, it is also impacted by cash inflows or outflows due to shareholder activity. Performance fees on certain equity fund products may also impact revenues, either positively or negatively. Various products may have different fees, so changes in our product mix may also affect revenues. For example, international equity products will generally have a higher fee than fixed income products, so changes in assets in those products will have a larger impact on revenues.

While products are offered for a wide variety of markets, the Company has traditionally focused on gold mining and exploration, natural resources and emerging markets. These markets are volatile and cyclical.

Spot gold finished the fiscal year ended June 30, 2018, at $1,253.17, up just under 1 percent for the trailing 12 months. Prices averaged closer to $1,300, and on at least a half dozen occasions, gold traded above $1,350 but was not able to sustain those price levels given the Federal Reserve's interest rate hikes. The inflation rate as measured by the consumer price index ("CPI") rose to 2.9 percent in June 2018, compared to 1.6 percent from a year earlier. The Fed noted it was comfortable with letting inflation overshoot the 2 percent target in the near term. Oil prices climbed throughout fiscal year 2018, starting at just under $50 per barrel and steadily reaching $70. Copper and other base metals also ended the fiscal year higher but with more volatility.

The Company's emerging markets products experienced mixed conditions. In general, for the China and Eastern European regions, markets were in rally mode for the first half of the fiscal year, but with the start of 2018 and President Donald Trump's imposition of tariffs on steel and aluminum, markets turned lower. Eastern European markets held on to modest gains for fiscal year 2018. China, by contrast, saw a pullback. Throughout the fiscal year, President Trump often tweeted his negative view on Chinese trade and technology transfers and threatened to saddle all Chinese trade under tariff protection. The Shanghai Stock Exchange Composite fell 6.65 percent during fiscal year 2018.

In addition to its gold, natural resources and emerging markets funds, the Company has domestic equity and fixed income funds in the U.S. and, through a subsidiary, Canada. While these products do not drive the Company's profitability as much as the more specialized products, they provide an opportunity to offer shareholders diversification and less volatility than the niche markets.

Congress passed a tax cut that President Trump signed into law in December 2017. Supporters anticipate faster economic growth under the policy. But with the Fed trying to normalize interest rates, stronger growth could present a challenge to its plans. While economic growth has been on track, the challenges presented by the talk of more tariffs may slow down some business decisions.

Mutual funds in general continued to see outflows compared to other investment alternatives, including ETFs. In April 2015, the Company launched its first ETF product, the U.S. Global Jets ETF (ticker JETS), which concentrates on the U.S. and international airline industry. The industry experienced some headwinds with rising fuel costs over the course of the year, but financial discipline was maintained.

The Company launched its second ETF offering in June 2017, the U.S. Global GO GOLD and Precious Metal Miners ETF (ticker GOAU). Galileo launched the Canadian version of this ETF on the Toronto Stock Exchange in September 2017 (Canadian ticker GOGO). These ETFs enable the Company to expand its expertise in precious metals in a different product structure.

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

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Business Segments

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

1. Investment management services, through which the Company offers, to U.S. Global Investors Funds ("USGIF" or the "Fund(s)"), ETF and offshore clients, a range of investment management products and services to meet the needs of individual and institutional investors;

2. Investment management services - Canada, through which the Company owns a 65 percent 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

3. 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.

Assets Under Management ("AUM")

(dollars in thousands)	**June 30, 2018**	**June 30, 2017**
Investment Management Services		
USGIF	$495,673	$579,416
ETF Clients	104,625	117,305
Offshore Advisory Clients	-	15,213
Total AUM	600,298	711,934
Investment Management Services - Canada		
Galileo Funds	41,147	46,136
ETF Client	4,023	-
Other Advisory Clients	1,561	1,651
Total AUM	46,731	47,787
Total AUM	$647,029	$759,721

On June 30, 2018, total AUM as of period end was $647 million versus $760 million on June 30, 2017, a decrease of 14.8 percent. The decrease was primarily due to shareholder redemptions in USGIF, the Galileo Funds and other Canadian advisory clients and the liquidation of the offshore clients.

During fiscal year 2018, average AUM was $729 million versus $843 million in fiscal year 2017, a decrease of 13.5 percent. The decrease was primarily due to market depreciation and shareholder redemptions in the gold funds starting in fiscal year 2017 and continuing into fiscal year 2018 due to unfavorable market conditions in the gold and precious metals sectors. In addition, average AUM decreased due to shareholder redemptions in the fixed income funds, the offshore clients liquidating in fiscal 2018 and net shareholder redemptions in the Galileo funds. This was somewhat offset by an increase in ETF average AUM from $60 million to $117 million, or 95 percent, as new ETFs were launched in June 2017 and September 2017.

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

Investment Management Services

In fiscal year 2018, the Company generated a majority of its operating revenues from managing and servicing the Funds. The Company recorded advisory and administrative services fees from USGIF totaling approximately $4.1 million and $5.2 million in fiscal 2018 and fiscal 2017, respectively. 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 Funds managed by the Company within USGIF can be found on the Company’s website, www.usfunds.com, including the prospectus and performance information for each Fund. The mutual fund shareholders in USGIF are not required to give advance notice prior to redemption of shares in the Funds, and the USGIF funds do not currently charge a redemption fee.

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The Company also provides advisory services for two ETFs and receives monthly advisory fees based on the net asset values. The Company recorded advisory fees from the ETF clients totaling $701,000 and $357,000 in fiscal 2018 and fiscal 2017, respectively. Information on the ETFs can be found at www.usglobaletfs.com, including the prospectus, performance and holdings. The ETFs' authorized participants are not required to give advance notice prior to redemption of shares in the ETFs, and the ETFs do not charge a redemption fee.

The Company provided advisory services for two offshore clients and received 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 fees from the offshore clients of $3,000 and $135,000 in fiscal years 2018 and 2017, respectively. No performance fees from the offshore clients were recorded in fiscal years 2018 and 2017. Frank Holmes, CEO, served as a director of the two offshore clients. The offshore clients liquidated during fiscal 2018.

The following tables summarize the changes in assets under management for USGIF for fiscal years 2018 and 2017.

	2018		
(dollars in thousands)	**Equity**	**Fixed Income**	**Total**
Beginning Balance	$442,916	$136,500	$579,416
Market appreciation	388	289	677
Dividends and distributions	(34,478)	(1,270)	(35,748)
Net shareholder redemptions	(19,384)	(29,288)	(48,672)
Ending Balance	$389,442	$106,231	$495,673
Average investment management fee	1.00 %	0.06 %	0.80 %
Average net assets	$434,649	$121,138	$555,787

	2017		
(dollars in thousands)	**Equity**	**Fixed Income**	**Total**
Beginning Balance	$525,778	$177,242	$703,020
Market depreciation	(32,633)	(594)	(33,227)
Dividends and distributions	(7,722)	(1,577)	(9,299)
Net shareholder redemptions	(42,507)	(38,571)	(81,078)
Ending Balance	$442,916	$136,500	$579,416
Average investment management fee	0.97 %	0.01 %	0.74 %
Average net assets	$504,524	$158,723	$663,247

As shown above, average assets under management for USGIF decreased in fiscal year 2018 compared to fiscal year 2017. Period-end assets also decreased.

The decrease in average assets under management in fiscal year 2018 and period-end assets was primarily due to shareholder redemptions in the natural resources, international equity and fixed income funds. A significant portion of the dividends and distributions shown above are reinvested and included in net shareholder purchases (redemptions).

The average annualized investment management fee rate (total advisory fees, excluding performance fees, as a percentage of average assets under management) was 80 basis points in fiscal year 2018 and 74 basis points in fiscal year 2017. The average investment management fee for equity funds in fiscal year 2018 and 2017 was 100 and 97 basis points, respectively. The average investment management fee for the fixed income funds in fiscal year 2018 and 2017 was 6 and 1 basis points, respectively. The low fee rate for the fixed income funds is due to voluntary fee waivers on these funds as discussed in Note 4, Investment Management and Other Fees, in the Consolidated Financial Statements of this Annual Report on Form 10-K.

Investment Management Services – Canada

The Company, through its wholly-owned subsidiary, U.S. Global Investors (Canada) Limited ("USCAN"), owns 65 percent of the issued and outstanding shares of Galileo, a privately held Toronto-based asset management firm, which represented 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. Frank Holmes, CEO, serves as a director of Galileo. Lisa Callicotte, CFO, also serves as a director of Galileo effective July 2018.

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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, 2018, and June 30, 2017.

Securities	Market Value	Cost	Unrealized Gain (Loss)	Unrealized gains on available-for-sale securities, net of tax
(dollars in thousands)				
Trading[1]	$8,179	$8,365	$ (186)	N/A
Available-for-sale[2]	7,086	3,948	3,138	$ 2,089
Total at June 30, 2018	$15,265	$12,313	$ 2,952	
Trading[1]	$9,720	$10,648	$ (928)	N/A
Available-for-sale[2]	3,401	2,940	461	$ 461
Total at June 30, 2017	$13,121	$13,588	$ (467)	

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.*

The investments shown above include investments at fair value of $9.6 million and $11.1 million, as of June 30, 2018, and 2017, respectively, invested in USGIF and offshore funds the Company advised.

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 but have readily determinable fair values, 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;
- other-than-temporary impairments on held-at-cost 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 2018 and 2017, the Company had total investment income of $1.5 million and $346,000, respectively. Due to market volatility, the Company expects that gains or losses will continue to fluctuate in the future.

A substantial portion of the available-for-sale securities recorded at fair value in the above table is an investment in HIVE Blockchain Technologies Ltd. ("HIVE"), which was valued at $5.6 million at June 30, 2018. HIVE is discussed in more detail in Note 3, Investments, to the Consolidated Financial Statements of this Annual Report on Form 10-K. HIVE is a company that is headquartered and traded in Canada with cryptocurrency mining facilities in Iceland and Sweden. Frank Holmes, CEO, is the non-executive chairman of HIVE. Effective August 31, 2018, upon the retirement of HIVE's CEO and until a new CEO is hired, Mr. Holmes became Interim Executive Chairman of HIVE. Cryptocurrency markets and related stocks have been, and are expected to continue to be, volatile. Cryptocurrency mining is considered an early stage high-risk industry, and the nature of mining is expected to evolve. There is potential for significant volatility in the market price of HIVE, which could materially impact the investment's value included on the balance sheet and unrealized gain (loss).

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As discussed in Note 2, Significant Accounting Policies, to the Consolidated Financial Statements of this Annual Report on Form 10-K, the Company will adopt ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, effective July 1, 2018. Thereafter, changes in the fair value of investments formerly classified as available-for-sale will be reported through earnings rather than through other comprehensive income. The Company anticipates that this will cause investment income (loss), and thus the Company's net income (loss), to be more volatile.

In addition to the investments above, as of June 30, 2018, and 2017, the Company owned other investments of approximately $2.2 million and $2.1 million, respectively, accounted for under the cost method of accounting. The Company also had invested in notes receivable of approximately $234,000 and $2.2 million at June 30, 2018, and 2017, respectively.

The Company also held an investment of approximately $283,000 as of June 30, 2018, accounted for under the equity method of accounting. This investment was in the Galileo Technology and Blockchain Fund, a Canadian unit trust investment fund managed by Galileo. During fiscal 2018, the Company was invested in another Galileo fund accounted for under the equity method of accounting that was redeemed prior to fiscal year end. Under the equity method, the Company's proportional share of the fund's net income or loss, which primarily consists of realized and unrealized gains and losses on investments offset by fund expenses, is recognized in the Company's earnings. Income from these equity method investments for the year ended June 30, 2018, was $1.6 million. See further discussion on these equity method investments in Note 3, Investments, to the Consolidated Financial Statements of this Annual Report on Form 10-K.

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.

	Year Ended June 30,	
(dollars in thousands, except per share data)	**2018**	**2017**
Net Income (Loss)	$689	$(544)
Less: Net Income (Loss) Attributable to Non-Controlling Interest	42	(31)
Net Income (Loss) Attributable to U.S. Global Investors, Inc.	$647	$(513)
Weighted average number of outstanding shares		
Basic	15,158,067	15,212,008
Effect of dilutive securities		
Employee stock options	-	-
Diluted	15,158,067	15,212,008

Earnings Per Share Attributable to U.S. Global Investors, Inc.		
Basic	$0.04	$(0.03)
Diluted	$0.04	$(0.03)

Year Ended June 30, 2018, Compared with Year Ended June 30, 2017

The Company posted net income attributable to U.S. Global Investors, Inc., as shown in the Consolidated Statements of Operations, of $647,000 ($0.04 per share) for the year ended June 30, 2018, compared with a net loss attributable to U.S. Global Investors, Inc. of $513,000 ($0.03 loss per share) for the year ended June 30, 2017, an increase in net income of approximately $1.2 million. The increase is primarily due to income from equity method investments, somewhat offset by a decrease in revenues, which was the result of a decrease in assets under management, and an increase in expenses as discussed further below.

Operating Revenues

Total consolidated operating revenues for the year ended June 30, 2018, decreased $502,000, or 7.4 percent, compared with the year ended June 30, 2017. This decrease was primarily attributable to the following:

- Advisory fees decreased by $466,000, or 7.2 percent, as the result of lower assets under management and higher performance fees paid. Advisory fees are comprised of two components: a base management fee and a performance fee.

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- Base management fees decreased $440,000. Base fees for USGIF and Galileo clients decreased primarily as a result of lower average assets under management, primarily due to shareholder redemptions. Base management fees for the offshore funds decreased due to these funds liquidating in the current year. These decreases were somewhat offset by an increase in ETF unitary management fees due to an increase in ETF average assets under management.
- Performance fee adjustments for USGIF paid out in the current year were $539,000 compared to $49,000 paid out in the prior year, reducing revenue by $490,000. The USGIF performance fee, which applies to the equity funds only, 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.
- Performance fees for Galileo clients received in the current year were $464,000 compared to none in the prior year, increasing revenue by $464,000. Galileo may receive performance fees from certain clients when market appreciation or realized net gains exceeds established benchmarks. The majority of the performance fees recorded in the period are annual performance fees calculated at calendar year-end.

- Administrative services fees decreased by $36,000, or 12.7 percent, primarily as a result of lower net assets under management upon which these fees are based in the current period.

Operating Expenses

Total consolidated operating expenses for the year ended June 30, 2018, increased by $913,000, or 12.0 percent, compared with the prior year. The change in operating expenses was primarily attributable to an increase in employee compensation and benefits expenses of $516,000, or 13.7 percent, primarily due to increased bonuses and group insurance costs, and an increase in general and administrative expenses of $372,000, or 10.6 percent, primarily due to increased ETF costs and increased costs by Galileo related to new fund startup costs.

Other Income

Total consolidated other income for the year ended June 30, 2018, increased $2.8 million, or 817.3 percent, compared with the year ended June 30, 2017. The increase was primarily due to investments made in fiscal 2018 in two Galileo funds that are accounted for under the equity method of accounting. Under the equity method of accounting, the Company's share of each fund's net income or loss, which primarily consists of realized and unrealized gains and losses on investments offset by fund expenses, is recognized in the Company's earnings. The Galileo funds' investments are concentrated in cryptocurrency mining stocks. Cryptocurrency markets and related stocks have been, and are expected to continue to be, volatile. Cryptocurrency mining is considered an early stage high-risk industry, and the nature of mining is expected to evolve. There is potential for significant volatility in the valuation of the funds' investments, and thus the funds' net income or loss that is included in the Company's earnings. Income from these equity method investments for the year ended June 30, 2018, was $1.6 million. See further discussion on these equity method investments in Note 3, Investments, to the Consolidated Financial Statements of this Annual Report on Form 10-K.

Investment income for the year ended June 30, 2018, increased $1.2 million, or 334.7 percent, compared with the year ended June 30, 2017. This increase was primarily due to a positive change in unrealized gains/losses on trading securities of $727,000 and $483,000 less in impairment losses, somewhat offset by a decrease in net realized gains/losses on sales of securities of $98,000.

Provision for Income Taxes

Tax expense was $197,000 for the year ended June 30, 2018, compared to tax expense of $17,000 for the year ended June 30, 2017. Note that the Company currently has net operating loss carryovers in most jurisdictions, including the U.S. A valuation allowance has been recorded to fully reserve for net operating loss carryovers, other carryovers and certain book/tax differences in the balance sheet. The tax expense in the current year is primarily the result of tax-basis realized gain on the sale of an equity method investment held by U.S. Global Investors (Canada).

The Tax Cuts and Jobs Act ("the Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35 percent to 21 percent, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. In the second quarter of fiscal 2018, the Company revised its estimated annual effective rate to reflect a change in its federal statutory rate from 34 percent to 21 percent. The rate change was effective on January 1, 2018; therefore, the Company's blended statutory tax rate for the fiscal year ended June 30, 2018, is approximately 28 percent. At June 30, 2018, the Company has not completed its accounting for all of the tax effects of enactment of the Act; and final transitional impacts of the Act may differ from the initial estimates.

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Operating Revenues and Other Income

(dollars in thousands)	**2018**	**2017**	**$ Change**	**% Change**
Investment advisory fees:				