

U S GLOBAL INVESTORS INC
Form 10-Q
May 12, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2016

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

NO

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

YES

NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 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

On May 2, 2016, there were 13,866,421 shares of Registrant’s class A nonvoting common stock issued and outstanding, no shares of Registrant’s class B nonvoting common shares outstanding, and 2,069,127 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, 2016 (UNAUDITED)	June 30, 2015
(dollars in thousands)		
Current Assets		
Cash and cash equivalents	\$ 3,057	\$3,507
Investment securities - trading, at fair value	13,102	15,640
Investment securities - held-to-maturity	750	-
Receivables	749	1,653
Prepaid expenses	329	410
Total assets held related to discontinued operations	-	184
Total Current Assets	17,987	21,394
Net Property and Equipment	2,537	2,736
Other Assets		
Investment securities - available-for-sale, at fair value	4,013	4,263
Other investments	2,025	2,303
Intangible assets, net	8	41
Other assets, long term	109	33
Total Other Assets	6,155	6,640
Total Assets	\$ 26,679	\$30,770
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 158	\$114
Accrued compensation and related costs	342	456
Dividends payable	115	231
Other accrued expenses	509	692
Total liabilities held related to discontinued operations	-	134
Total Current Liabilities	1,124	1,627
Commitments and Contingencies (Note 11)		
Shareholders' Equity		
Common stock (class A) - \$0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,866,421 at March 31, 2016, and June 30, 2015	347	347
Common stock (class B) - \$0.025 par value; nonvoting; authorized, 4,500,000 shares; no shares issued	-	-
Convertible common stock (class C) - \$0.025 par value; voting; authorized, 3,500,000 shares; issued, 2,069,127 shares at March 31, 2016, and June 30, 2015	52	52
Additional paid-in-capital	15,653	15,694
Treasury stock, class A shares at cost; 664,894 and 555,786 shares at March 31, 2016, and June 30, 2015, respectively	(1,624)	(1,464)
Accumulated other comprehensive loss, net of tax	(45)	(483)

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Retained earnings	10,649	14,423
Total U.S. Global Investors Inc. Shareholders' Equity	25,032	28,569
Non-Controlling Interest in Subsidiary	523	574
Total Shareholders' Equity	25,555	29,143
Total Liabilities and Shareholders' Equity	\$ 26,679	\$30,770

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

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(dollars in thousands, except per share data)	Nine Months Ended March 31,		Three Months Ended March 31,	
	2016	2015	2016	2015
Operating Revenues				
Advisory fees	\$3,615	\$5,359	\$1,279	\$1,248
Administrative services fees	254	516	51	141
	3,869	5,875	1,330	1,389
Operating Expenses				
Employee compensation and benefits	3,953	4,101	886	1,269
General and administrative	2,963	3,113	765	1,001
Platform fees	382	671	106	166
Advertising	182	81	33	43
Depreciation and amortization	240	246	80	81
	7,720	8,212	1,870	2,560
Operating Loss	(3,851)	(2,337)	(540)	(1,171)
Other Income				
Investment income	411	522	148	249
Total Other Income	411	522	148	249
Loss Before Income Taxes	(3,440)	(1,815)	(392)	(922)
Provision for Federal Income Taxes				
Tax expense (benefit)	(5)	22	(16)	26
Loss from Continuing Operations	(3,435)	(1,837)	(376)	(948)
Discontinued Operations				
Loss from discontinued operations of distributor	(18)	(89)	-	(47)
Tax benefit	-	(1)	-	(1)
Loss from Discontinued Operations	(18)	(88)	-	(46)
Net Loss	(3,453)	(1,925)	(376)	(994)
Less: Net Income (Loss) Attributable to Non-Controlling Interest	(23)	53	(26)	13
Net Loss Attributable to U.S. Global Investors, Inc.	\$(3,430)	\$(1,978)	\$(350)	\$(1,007)
Basic Net Loss per Share:				
Loss from continuing operations	\$(0.22)	\$(0.12)	\$(0.02)	\$(0.06)
Loss from discontinued operations	-	(0.01)	-	(0.01)
Basic Net Loss per Share	\$(0.22)	\$(0.13)	\$(0.02)	\$(0.07)
Diluted Net Loss per Share:				
Loss from continuing operations	\$(0.22)	\$(0.12)	\$(0.02)	\$(0.06)
Loss from discontinued operations	-	(0.01)	-	(0.01)
Diluted Net Loss per Share	\$(0.22)	\$(0.13)	\$(0.02)	\$(0.07)
Basic weighted average number of common shares outstanding	15,306,676	15,406,189	15,277,098	15,379,365
Diluted weighted average number of common shares outstanding	15,306,676	15,406,189	15,277,098	15,379,365

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(dollars in thousands)	Nine Months Ended March 31,		Three Months Ended March 31,	
	2016	2015	2016	2015
Net Loss Attributable to U.S. Global Investors, Inc.	\$ (3,430)	\$ (1,978)	\$ (350)	\$ (1,007)
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gains (losses) on available-for-sale securities arising during period	774	(862)	417	(13)
Less: reclassification adjustment for gains/losses included in net income	(286)	(321)	(14)	(69)
Net change from available-for-sale investments, net of tax	488	(1,183)	403	(82)
Foreign currency translation adjustment	(79)	(285)	95	(136)
Other Comprehensive Income (Loss)	409	(1,468)	498	(218)
Comprehensive Income (Loss)	(3,021)	(3,446)	148	(1,225)
Less: Comprehensive Income (Loss) Attributable to Non-Controlling Interest	(28)	(100)	33	(48)
Comprehensive Income (Loss) Attributable to U.S. Global Investors, Inc.	\$ (2,993)	\$ (3,346)	\$ 115	\$ (1,177)

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)	Nine Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities:		
Net loss	\$(3,453	) \$(1,925
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	240	246
Net recognized loss on disposal of fixed assets	-	26
Net recognized (gain) loss on securities	2	(483
Provision for deferred taxes	-	37
Stock bonuses	11	9
Changes in operating assets and liabilities:		
Accounts receivable	1,080	570
Prepaid and other assets	2	21
Trading securities	2,505	1,371
Accounts payable and accrued expenses	(378	) (510
Total adjustments	3,462	1,287
Net cash provided by (used in) operating activities	9	(638
Cash Flows from Investing Activities:		
Purchase of property and equipment	(13	) (40
Purchase of available-for-sale securities	-	(186
Purchase of other investments	(750	) (1,000
Proceeds on sale of available-for-sale securities	1,014	754
Return of capital on investment	32	19
Net cash provided by (used in) investing activities	283	(453
Cash Flows from Financing Activities:		
Issuance of common stock	59	91
Repurchases of common stock	(269	) (266
Distributions to non-controlling interests in subsidiary	-	(27
Dividends paid	(460	) (693
Net cash used in financing activities	(670	) (895
Effect of exchange rate changes on cash and cash equivalents	(72	) (253
Net decrease in cash and cash equivalents	(450	) (2,239
Beginning cash and cash equivalents	3,507	5,910
Ending cash and cash equivalents	\$3,057	\$3,671
Supplemental Disclosures of Cash Flow Information		
Cash paid for income taxes	\$-	\$-

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

U.S. Global Investors, Inc. (the “Company” or “U.S. Global”) has prepared the consolidated financial statements pursuant to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the United States Securities and Exchange Commission (“SEC”) that permit reduced disclosure for interim periods. The financial information included herein reflects all adjustments (consisting solely of normal recurring adjustments), which are, in management’s opinion, necessary for a fair presentation of results for the interim periods presented. The Company has consistently followed the accounting policies set forth in the notes to the consolidated financial statements in the Company’s Form 10-K for the fiscal year ended June 30, 2015.

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 (Bermuda) Limited, U.S. Global Investors (Canada) Limited (“USCAN”), and U.S. Global Indices, LLC, and its 65 percent interest in Galileo Global Equity Advisor Inc. (“Galileo”). The Company’s wholly-owned subsidiary, USSI, which ceased operations in fiscal year 2014, was legally dissolved in December 2015. U.S. Global Brokerage, Inc. ceased operations in December 2015 as discussed in Note 12.

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

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

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, the funds it advises. The Company has determined that these entities qualify for the investment company deferral in Accounting Standards Codification (“ASC”) 810-10-65-2 (aa) and thus determines whether it is the primary beneficiary of these entities by virtue of its exposure to the expected losses and expected residual returns of the entity. The Company’s interests in these entities consist of the Company’s direct ownership therein, which in each case is insignificant to the total ownership of the fund, and any fees earned but uncollected. In the ordinary course of business, the Company may choose to waive certain fees or assume operating expenses of the funds it advises for competitive, regulatory or contractual reasons (see Note 4 for information regarding fee waivers). The Company has not provided financial support to any of these entities outside the ordinary course of business. The Company’s risk of loss with respect to these managed entities is limited to the carrying value of its investments in, and fees receivable from, the entities. The Company does not consolidate these VIEs because it is not the primary beneficiary of these VIEs.

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, 2016, are not necessarily indicative of the results to be expected for the entire year.

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

Recent Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). ASU 2014-08 became effective for the Company on July 1, 2015. The adoption of ASU 2014-08 was not material to the consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2018.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (“ASU 2014-15”). This update requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). When conditions or events raise substantial doubts about an entity's ability to continue as a going concern, management shall disclose: i) the principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern; ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and iii) management's plans that are intended to mitigate the conditions or events - and whether or not those plans alleviate the substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and early application is permitted. Management does not currently anticipate that this update will have any impact on the Company's financial statement disclosures.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis (“ASU 2015-02”), which amends the consolidation requirements in ASC 810, Consolidation. This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements, as well as the available transition methods.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (“ASU 2015-07”). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015, and early adoption is permitted. The update requires the retrospective adoption approach. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”). ASU 2015-17 requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. It simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current or noncurrent in a classified balance sheet. Netting by tax jurisdiction is still required under the new guidance. The update is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, and early adoption is permitted. Entities are permitted to apply the amendments either prospectively or retrospectively. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 amends the guidance on the classification and measurement of investments in equity securities. It also amends certain presentation and disclosure requirements. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

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

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

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In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and disclosed. ASU 2016-09 is effective for public entities for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption will be permitted in any interim or annual period, as long as all elements of the new standard are adopted at the same time. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

NOTE 2. INVESTMENTS

As of March 31, 2016, the Company held investments with a fair value of approximately \$17.1 million and a cost basis of approximately \$17.9 million. The fair value of these investments is approximately 64.2 percent of the Company’s total assets. In addition, the Company owned held-to-maturity and other investments of \$750,000 and \$2.0 million, respectively, accounted for at amortized cost and under the cost method of accounting, respectively. On March 31, 2016, the Company had \$14.2 million and \$345,000 at fair value invested in USGIF and an offshore fund the Company advises, respectively. These amounts were included in the Consolidated Balance Sheet as “trading securities” and “available-for-sale securities.”

Investments in securities classified as trading are reflected as current assets on the Consolidated Balance Sheets at their fair value. Unrealized holding gains and losses on trading securities are included in earnings in the Consolidated Statements of Operations.

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

Investments in securities held-to-maturity consist of debt securities, maturing October 2016, that are purchased with the intent and ability to hold until maturity. These investments are accounted for at amortized cost.

Other investments consist of equity investments in entities over which the Company is unable to exercise significant influence and which do not have readily determinable fair values. These investments are accounted for under the cost method of accounting and evaluated periodically for impairment.

The Company considers many factors in determining impairment, including the severity and duration of the decline in value below cost, the Company’s interest and ability to hold the security for a period of time sufficient for an anticipated recovery in value, and the financial condition and specific events related to the issuer. When an impairment of a security is determined to be other than temporary, the impairment is recognized as a loss in the Company’s earnings.

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

The following details the components of the Company’s investments recorded as fair value as of March 31, 2016, and June 30, 2015.

(dollars in thousands)	Cost	March 31, 2016		Fair Value
		Gains	(Losses)	
Trading securities ¹				

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Offshore fund	\$1,184	\$-	\$(839) \$345
Mutual funds - Fixed income	12,290	125	(1) 12,414
Mutual funds - Domestic equity	535	-	(192) 343
Other	46	-	(46) -
Total trading securities	\$14,055	\$125	\$(1,078	) \$13,102
Available-for-sale securities ²				
Common stock - Domestic	\$109	\$9	\$-	\$118
Common stock - International	613	57	(50	) 620
Corporate debt	1,355	152	-	1,507
Mutual funds - Fixed income	1,229	14	(34	) 1,209
Mutual funds - Domestic equity	394	5	-	399
Other	163	2	(5) 160
Total available-for-sale securities ³	\$3,863	\$239	\$(89) \$4,013

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(dollars in thousands)	June 30, 2015			
	Cost	Gains	(Losses)	Fair Value
Trading securities¹				
Offshore fund	\$1,184	\$-	\$(703)	) \$481
Mutual funds - Fixed income	14,691	68	(5)	) 14,754
Mutual funds - Domestic equity	535	-	(130)	) 405
Other	81	-	(81)) -
Total trading securities	\$16,491	\$68	\$(919)	) \$15,640
Available-for-sale securities²				
Common stock - Domestic	\$535	\$316	\$(9)	) \$842
Common stock - International	695	309	(39)	) 965
Corporate debt	1,433	-	(817)	) 616
Mutual funds - Fixed income	1,227	9	(22)	) 1,214
Mutual funds - Domestic equity	543	-	(80)	) 463
Other	169	1	(7)	) 163
Total available-for-sale securities³	\$4,602	\$635	\$(974)	) \$4,263

- 1 Unrealized and realized gains and losses on trading securities are included in earnings in the statement of operations.
- 2 Unrealized gains and losses on available-for-sale securities are excluded from earnings and recorded in other comprehensive income as a separate component of shareholders' equity until realized.
- 3 Net unrealized gains (losses) on available-for-sale securities gross and net of tax as of March 31, 2016, are \$150 and \$150, respectively, and as of June 30, 2015, are \$(339) and \$(339), respectively.

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:

(dollars in thousands)	March 31, 2016					
	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 - Domestic	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Common stock - International	164	(31)	27	(19)	191	(50)
Corporate debt	-	-	-	-	-	-
Mutual funds - Fixed income	2	-	194	(34)	196	(34)
Mutual funds - Domestic equity	-	-	-	-	-	-
Other	101	(5)	-	-	101	(5)
Total available-for-sale securities	\$ 267	\$ (36)	\$ 221	\$ (53)	\$ 488	\$ (89)

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(dollars in thousands)	Less Than 12 Months		June 30, 2015 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 - Domestic	\$ 77	\$ (7)	\$ 107	\$ (2)	\$ 184	\$ (9)
Common stock - International	114	(23)	39	(16)	153	(39)
Corporate debt	386	(817)	-	-	386	(817)
Mutual funds - Fixed income	67	(7)	139	(15)	206	(22)
Mutual funds - Domestic equity	463	(80)	-	-	463	(80)
Other	112	(7)	-	-	112	(7)
Total available-for-sale securities	\$ 1,219	\$ (941)	\$ 285	\$ (33)	\$ 1,504	\$ (974)

Investment income can be volatile and varies depending on market fluctuations, the Company's ability to participate in investment opportunities, and timing of transactions. The Company expects that gains and losses will continue to fluctuate in the future.

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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.

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

(dollars in thousands)	Nine Months Ended March 31,		Three Months Ended March 31,	
Investment Income	2016	2015	2016	2015
Realized gains on sales of available-for-sale securities	\$545	\$591	\$14	\$209
Realized gains (losses) on sales of trading securities	(32)	(3)	3	3
Unrealized gains (losses) on trading securities	(103)	(548)	30	(21)
Realized foreign currency gains (losses)	24	82	(28)	58
Other-than-temporary declines in available-for-sale securities	(259)	(105)	-	(105)
Other-than-temporary declines in securities held at cost	(258)	-	-	-
Dividend and interest income	494	505	129	105
Total Investment Income	\$411	\$522	\$148	\$249

Included in investment income were other-than temporary declines in value on available-for-sale securities of approximately \$259,000 for the nine months ended March 31, 2016, and \$105,000 for the three and nine months ended March 31, 2015. The impairment losses resulted from fair values of securities being lower than book value and from proposed changes to debt securities. For the nine months ending March 31, 2016, there were eight securities with a combined cost basis of \$702,000 that were written down to a combined fair value of \$466,000. Also during the nine months ended March 31, 2016, another security with a cost basis of \$970,000 was written down to \$947,000 based on the net present value of estimated cash flows. The impairment losses in the 2015 fiscal year resulted from issuers defaulting on scheduled payments. One security with a cost basis of \$44,000 was written down to its fair value of \$15,000, and another security with a cost basis of \$310,000 was written down to \$234,000 based on the net present value of estimated cash flows. In making these determinations, the Company considered the length of time and extent to which the fair value has been less than the cost basis, financial condition and prospects of the issuers, and the Company's ability to hold the investment until recovery. Also included in investment income were other-than-temporary declines in value on securities held at cost of approximately \$258,000 for the nine months ended March 31, 2016. The impairment loss resulted from the estimated values of certain securities being lower than cost. Three securities held at cost with a combined cost basis of \$1.1 million were written down to a combined adjusted cost basis of \$867,000.

NOTE 3. FAIR VALUE DISCLOSURES

ASC 820, Fair Value Measurement and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value and requires

companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., Levels 1, 2, and 3 inputs, as defined below). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

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

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

Level 2 – Valuations based on quoted prices in markets for which not all significant inputs are observable, directly or indirectly. Corporate debt securities valued in accordance with the evaluated price supplied by an independent service are categorized as Level 2 in the hierarchy. Other securities categorized as Level 2 include securities valued at the mean between the last reported bid and ask quotation.

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

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with the investing in those securities. Because of the inherent uncertainties of valuation, the values reflected may materially differ from the values received upon actual sale of those investments.

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

The following presents fair value measurements, as of March 31, 2016, and June 30, 2015, for the major categories of U.S. Global's investments measured at fair value on a recurring basis:

(dollars in thousands)	March 31, 2016			Total
	Quoted Prices (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Trading securities				
Offshore fund	\$-	\$345	\$-	\$345
Mutual funds - Fixed income	12,414	-	-	12,414
Mutual funds - Domestic equity	343	-	-	343
Other	-	-	-	-
Total trading securities	12,757	345	-	13,102
Available-for-sale securities				
Common stock - Domestic	118	-	-	118
Common stock - International	620	-	-	620
Corporate debt	1,001	294	212	1,507
Mutual funds - Fixed income	1,209	-	-	1,209
Mutual funds - Domestic equity	399	-	-	399
Other	160	-	-	160
Total available-for-sale securities	3,507	294	212	4,013
Total	\$16,264	\$639	\$212	\$17,115

	June 30, 2015		
	Quoted Prices	Significant Other Inputs	Significant

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(dollars in thousands)	(Level 1)	(Level 2)	Unobservable Inputs (Level 3)	Total
Trading securities				
Offshore fund	\$-	\$481	\$-	\$481
Mutual funds - Fixed income	14,754	-	-	14,754
Mutual funds - Domestic equity	405	-	-	405
Other	-	-	-	-
Total trading securities	15,159	481	-	15,640
Available-for-sale securities				
Common stock - Domestic	842	-	-	842
Common stock - International	965	-	-	-