Armour Residential REIT, Inc.
Form DEF 14A
April 04, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)
Filed by the Registrant x
Filed by a Party other than the Registrant ¨
Check the appropriate box:
¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12
ARMOUR Residential REIT, Inc.
(Name of Registrant as Specified In Its Charter)
Not Applicable
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)
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(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

ARMOUR RESIDENTIAL REIT, INC.
3001 Ocean Drive
Suite 201
Vero Beach, Florida 32963
Telephone: (772) 617-4340
April 4, 2018
Dear Stockholder:

You are cordially invited to attend the 2018 annual meeting of stockholders of ARMOUR Residential REIT, Inc. We will hold the meeting on Tuesday, May 15, 2018, at 8:00 a.m. (EDT) at the Vero Beach Hotel & Spa, 3500 Ocean Drive, Vero Beach, Florida 32963. We hope that you will be able to attend. Your voice and your vote are very important to us. We look forward to the opportunity to meet with stockholders in person at the annual meeting.

Whether or not you plan to attend the annual meeting in person, your shares should be represented and voted. After reading the enclosed proxy statement, please vote your shares as soon as possible. Stockholders may vote in person at the annual meeting, by completing and returning a proxy card or by telephone or Internet, as further explained in the proxy statement. Submitting a vote before the annual meeting will not preclude you from voting in person at the annual meeting should you decide to attend. In addition, this proxy statement, the notice of annual meeting, the proxy card and our 2017 annual report will be mailed or made accessible via the Internet on the Company's website at www.armourreit.com on or about April 4, 2018.

On behalf of our Board of Directors, I extend our appreciation for your continued support.

Sincerely,
Scott J. Ulm
Co-Chief Executive Officer and Co-Vice Chairman

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS ON MAY 15, 2018

The annual meeting of stockholders of ARMOUR Residential REIT, Inc. (“ARMOUR”) will be held on Tuesday, May 15, 2018 at 8:00 a.m. (EDT) at the Vero Beach Hotel & Spa, 3500 Ocean Drive, Vero Beach, Florida 32963, for the purpose of considering and acting on the following proposals:

(1) To elect nine (9) directors to ARMOUR’s Board of Directors until our 2019 annual meeting of stockholders and until their successors are duly elected and qualified;

(2) To ratify the appointment of Deloitte & Touche LLP (“Deloitte”) as ARMOUR’s independent registered certified public accountants for fiscal year 2018;

(3) To approve, by a non-binding advisory vote, ARMOUR’s 2017 executive compensation; and

(4) To transact any other business as may properly come before the annual meeting or any adjournments or postponements of the meeting.

Only holders of ARMOUR’s common stock of record at the close of business on March 23, 2018, the record date and time fixed by ARMOUR’s Board of Directors, are entitled to notice of and to vote at the annual meeting. Additional information regarding the proposals to be acted on at the annual meeting can be found in the accompanying proxy statement.

Our Board of Directors unanimously recommends that you vote your shares “FOR” proposals 1, 2 and 3.

By Order of the Board of Directors,
Scott J. Ulm
Co-Chief Executive Officer and Co-Vice Chairman
April 4, 2018

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

In accordance with the rules of the Securities and Exchange Commission, we are furnishing our proxy materials, including this proxy statement and our 2017 annual report, to our stockholders via the Internet. During the week of April 4, 2018, we will mail to certain of our stockholders a Notice of Internet Availability of Proxy Materials (the “Notice of Internet Availability”) that contains instructions on how to access our proxy materials on the Internet. The Notice of Internet Availability also contains instructions on how to vote via the Internet or by telephone. Other stockholders, in accordance with their prior requests, will receive an email with instructions on how to access our proxy materials and vote via the Internet, or will be mailed paper copies of our proxy materials and a proxy card or voting form. Stockholders may request to receive all future proxy materials in printed form by mail or electronically by email by following the instructions contained in the Notice of Internet Availability.

Important Notice Regarding the Availability of Proxy Materials
for the ARMOUR Annual Meeting of Stockholders to be held on May 15, 2018

This proxy statement and our 2017 annual report are available online at www.armourreit.com.

ADMISSION TO THE 2018 ANNUAL MEETING

An admission ticket (or other proof of share ownership) and some form of government-issued photo identification (such as a valid driver's license or passport) will be required for admission to ARMOUR's 2018 annual meeting of stockholders. Only stockholders who own common stock as of the close of business on March 23, 2018 and invited guests will be entitled to attend the meeting. An admission ticket will serve as verification of your ownership.

- If your shares are registered in your name, an admission ticket will be held for you at the check-in area at the annual meeting.
- If your shares are held in a bank or brokerage account, contact your bank or broker to obtain a written legal proxy in order to vote your shares at the meeting. If you do not obtain a legal proxy from your bank or broker, you will not be entitled to vote your shares, but you can still attend the annual meeting if you bring a recent bank or brokerage statement showing that you owned common stock on March 23, 2018.

If you plan to attend the annual meeting, you can obtain directions to the Vero Beach Hotel & Spa from the hotel's website at http://www.verobeachhotelandspa.com.

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the board of directors of ARMOUR Residential REIT, Inc. (“Board” or “Board of Directors”) for the 2018 annual meeting of stockholders to be held on Tuesday, May 15, 2018, at 8:00 a.m. (EDT) (the “annual meeting”). In this 2018 proxy statement (the “proxy statement”), except where the context suggests otherwise, references to “we,” “us,” “ARMOUR” or the “Company” are to ARMOUR Residential REIT, Inc. and its subsidiaries.

Questions and Answers about Proxy Materials, the Annual Meeting and Voting Your Common Shares

Why am I receiving these materials?

The Board has made these proxy materials available to you on the Internet, or has delivered printed versions of these materials to you by mail, in connection with the solicitation of proxies for use at the annual meeting. As a stockholder, you are invited to attend the annual meeting and are requested to vote on the proposals described in this proxy statement. This proxy statement includes information that we are required to provide to you under Securities and Exchange Commission (“SEC”) rules and is designed to assist you in voting your shares.

Why did I receive a notice in the mail regarding the Internet availability of the proxy materials instead of a paper copy of the proxy materials?

In accordance with rules adopted by the SEC, we may furnish proxy materials, including this proxy statement and our 2017 annual report to our stockholders, by providing access to such documents over the Internet instead of mailing printed copies. Most stockholders will not receive printed copies of the proxy materials. Instead, the Notice of Internet Availability, which was mailed to most of our stockholders, will instruct you as to how you may access and review all of the proxy materials on the Internet. If you would like to receive a paper copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice of Internet Availability.

Who is entitled to vote?

Each holder of record of ARMOUR common stock as of the close of business on March 23, 2018, the record date for the annual meeting, is entitled to attend and vote at the annual meeting.

How many votes do I have?

Every holder of a share of common stock on the record date will be entitled to one vote per share for each director to be elected at the annual meeting and to one vote per share on each other matter presented at the annual meeting. As of the close of business on March 23, 2018, the record date for the annual meeting, there were 41,898,404 shares of common stock outstanding and entitled to vote at the annual meeting.

What proposals are being presented at the annual meeting?

ARMOUR intends to present proposals numbered 1, 2 and 3 for stockholder consideration and voting at the annual meeting. These proposals are for:

(1) Election of nine (9) members of ARMOUR’s Board of Directors;
(2) Ratification of the appointment of Deloitte & Touche LLP (“Deloitte”) as ARMOUR’s independent registered certified public accountants for fiscal year 2018; and
(3) Approval, by a non-binding advisory vote, of ARMOUR’s 2017 executive compensation.

Other than the matters set forth in this proxy statement and matters incident to the conduct of the annual meeting, we do not know of any business or proposals to be considered at the annual meeting. If any other business

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is proposed and properly presented at the annual meeting, the proxies received from our stockholders give the proxy holders the authority to vote on such matter in their discretion.

How does the Board recommend that I vote?

The Board unanimously recommends that you vote your shares:

(1) "FOR" the election of each of the nine (9) nominees as directors;
(2) "FOR" the ratification of the appointment of Deloitte as ARMOUR's independent registered certified public accountants for fiscal year 2018; and
(3) "FOR" the approval, by a non-binding advisory vote, of ARMOUR's 2017 executive compensation.

How do I attend the annual meeting?

All stockholders are invited to attend the annual meeting. An admission ticket (or other proof of share ownership) and some form of government-issued photo identification (such as a valid driver's license or passport) will be required for admission to the annual meeting. Only stockholders who own common stock as of the close of business on March 23, 2018 and invited guests will be entitled to attend the meeting. An admission ticket will serve as verification of your ownership. Registration will begin at 7:30 a.m. (EDT) and the annual meeting will begin at 8:00 a.m. (EDT).

- If your shares are registered in your name and if you received your proxy materials by mail and voted by completing your proxy card or voted by telephone or Internet and indicated that you plan to attend the meeting, an admission ticket will be held for you at the check-in area at the annual meeting.
- If your ARMOUR shares are held in a bank or brokerage account, contact your bank or broker to obtain a written legal proxy in order to vote your shares at the meeting. If you do not obtain a legal proxy from your bank or broker, you will not be entitled to vote your shares, but you can still attend the annual meeting if you bring a recent bank or brokerage statement showing that you owned our common stock on March 23, 2018. You should report to the check-in area for admission to the annual meeting.

What is a proxy?

A "proxy" allows someone else (the "proxy holder") to vote your shares on your behalf. Our Board of Directors is asking you to allow either of the following persons to vote your shares at the annual meeting: Jeffrey J. Zimmer or Scott J. Ulm.

How do I vote?

If your ARMOUR shares are registered in your name you may vote your shares in person at the annual meeting by completing and returning a proxy card, or by telephone or Internet as set forth in the proxy card or Notice of Internet Availability mailed to you. If you hold your common stock in an account with a bank or broker (i.e. in "street name"), you may vote by following the instructions on the voting instruction card provided to you by your bank or broker.

May I change or revoke my vote?

Yes. You may change your vote in one of several ways at any time before your proxy is exercised:

- Submit another proxy card (or voting instruction card) with a date later than your previously delivered proxy card (or voting instruction card) before the annual meeting;
- Notify Jeffrey J. Zimmer or Scott J. Ulm in writing, addressed to either of them at: ARMOUR Residential REIT, Inc., 3001 Ocean Drive, Suite 201, Vero Beach, Florida 32963, before the annual

meeting that you are revoking your proxy or, if you hold your shares in "street name," follow the instructions on the voting instruction card;

- Vote again via the Internet or by telephone before the annual meeting; or
- If you are a holder of record, or a beneficial owner with a proxy from the holder of record, vote in person at the annual meeting.

What is a quorum?

A quorum is necessary to hold a valid meeting. The presence, in person or by proxy, of stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting on any matter shall constitute a quorum for the conduct of business.

What vote is required in order to approve each proposal?

For Proposal 1: Election of Directors, the affirmative vote of the holders of common stock having a majority of the votes cast on such proposal at the annual meeting is required. See "The Board of Directors, Its Committees and Other Corporate Governance Information - Corporate Governance - Majority Voting for Directors and Director Resignation Policy." For Proposal 2: Ratification of the Appointment of Independent Registered Certified Public Accountants, the affirmative vote of the holders of common stock having a majority of the votes cast on such proposal at the annual meeting is required. For Proposal 3: Advisory Vote Approving Executive Compensation, the affirmative vote of the holders of common stock having a majority of the votes cast on such proposal at the annual meeting is required.

A "broker non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Under the rules of the New York Stock Exchange ("NYSE"), a broker does not have the discretion to vote on Proposal 1 - Election of Directors and Proposal 3 - Advisory Vote Approving Executive Compensation. As a result, no broker will have the discretion to vote on Proposal 1 and Proposal 3, but will have the discretion to vote on Proposal 2.

Accordingly, for Proposals 1 and 3 above, shares of common stock that are represented by broker non-votes are not included in the determination of the common stock voting on such matter and will not have an effect on the votes, but are counted for quorum purposes. For Proposal 2 above, shares of common stock which are represented by broker non-votes are included in the determination of the common stock voting on such matter and are counted for quorum purposes. For all three Proposals above, shares which abstain from voting on any matter are counted for quorum purposes.

Who will bear the cost of soliciting proxies?

The cost of soliciting proxies will be borne by the Company. In addition to solicitation by mail, solicitations may also be made by telephone, telegram, facsimile, email or in person by directors, officers or other personnel of the Company, who will receive no additional compensation for such services.

PROPOSAL 1 - ELECTION OF DIRECTORS
Director Nominees

ARMOUR's Board of Directors is currently comprised of nine (9) members. The nine (9) nominees are listed below. All nine nominees are presently directors of ARMOUR.

If instructed, the persons named on the accompanying proxy card will vote for the election of the nominees named below to serve for the ensuing year and until their successors are elected and qualified. If any nominee for director shall become unavailable (which management has no reason to believe will be the case), it is intended that the shares represented by the enclosed proxy card will be voted for any such replacement or substitute nominee as may be nominated by our Board.

Director Nominees	Age	Director Since	Current Positions
Scott J. Ulm	59	2009	Co-Chief Executive Officer, Co-Vice Chairman and Chief Risk Officer
Jeffrey J. Zimmer	60	2009	Co-Chief Executive Officer, Co-Vice Chairman and President
Daniel C. Staton	65	2009	Non-Executive Chairman
Marc H. Bell	50	2009	Director
Carolyn Downey	68	2013	Independent Director
Thomas K. Guba	67	2009	Lead Independent Director
Robert C. Hain	64	2009	Independent Director
John P. Hollihan, III	68	2009	Independent Director
Stewart J. Paperin	70	2009	Independent Director

The following is a brief biographical statement for each director nominee:

Scott J. Ulm has been the Co-Chief Executive Officer, Co-Vice Chairman and Chief Risk Officer of ARMOUR since November 2009. Mr. Ulm was the Chief Investment Officer until March 2018 when Mr. Gruber assumed that position. Mr. Ulm was a Co-Managing Member of ARMOUR Residential Management, LLC, our external manager ("ARRM"), from March 2008 until December 2014. Since December 2014, Mr. Ulm has been the managing member of the entity that acts as one of the general partners of ARMOUR Capital Management LP, the successor to ARRM as our external manager ("ACM"). Mr. Ulm has also served as the Co-Chief Executive Officer, Co-Vice Chairman, Chief Investment Officer and Head of Risk Management of JAVELIN, formerly a publicly-traded real estate investment trust ("REIT"). In April 2016, JAVELIN was acquired by ARMOUR pursuant to a tender offer and subsequent second-step merger (the "Merger"). Pursuant to the Merger, JAVELIN became a wholly-owned, qualified REIT subsidiary of ARMOUR and delisted its common stock from the NYSE. Mr. Ulm has also been a director of JAVELIN, since the Merger. JAVELIN is also externally-managed by ACM. Mr. Ulm has also served as the Co-Chief Executive Officer of Staton Bell Blank Check LLC, the sub-manager to ACM ("SBBC"), since January 2015. Mr. Ulm also serves as Chairman of the Board and Head of Corporate Finance for BUCKLER Securities LLC ("BUCKLER"), an affiliate of ACM that operates as a FINRA-registered broker-dealer and provides trading and investment banking services to other financial institutions. Mr. Ulm is also the Chairman of the Board of Cary Institute of Ecosystems Studies. Mr. Ulm is also the 1st Vice President of the Nantucket Community Sailing and a member of its Investment and Audit Committees. Mr. Ulm has nearly 30 years of structured finance and debt capital markets experience, including mortgage-backed securities. Mr. Ulm has advised numerous U.S., European, and Asian financial institutions and corporations on balance sheet and capital raising matters. From 2005 to 2009, Mr. Ulm was Chief Executive Officer of Litchfield Capital Holdings. From 1986 to 2005, he held a variety of senior positions at Credit Suisse both in New York and London, including Global Head of Asset-Backed Securities, Head of United States and European Debt Capital Markets and the Global Co-Head of Collateralized Debt Obligations, both cash and synthetic. While at Credit Suisse, Mr. Ulm was responsible for the underwriting and execution of

more than $100 billion of mortgage- and asset-backed securities. At Credit Suisse, he was a member of the Fixed Income Operating Committee and the European Investment Banking Operating Committee. Mr. Ulm holds a B.A. summa cum laude from Amherst College, an M.B.A. from Yale School of Management and a J.D. degree from Yale Law School.

As a result of Mr. Ulm’s 30 plus years of experience in structured finance and debt capital markets, including mortgage-backed securities, he is able to provide valuable business, leadership, and management advice to our Board of Directors in many critical areas.

Jeffrey J. Zimmer has been the Co-Chief Executive Officer, Co-Vice Chairman and President of ARMOUR since November 2009. Mr. Zimmer also served as Chief Financial Officer of ARMOUR from November 2009 to September 2012 and the Secretary of ARMOUR from November 2009 to March 2014. Mr. Zimmer was a Co-Managing Member of ARRM from March 2008 until December 2014. Since December 2014, Mr. Zimmer has been the managing member of the entity that acts as one of the general partners of ACM.Mr. Zimmer has also been the Co-Chief Executive Officer, Co-Vice Chairman and President of JAVELIN, since June 2012, and a director of JAVELIN, since the Merger. Mr. Zimmer has also served as the Co-Chief Executive Officer of SBBC since January 2015. Mr. Zimmer has significant experience in the mortgage-backed securities market over a 30 plus year period. From September 2003 through March 2008, he was the co-founder and Chief Executive Officer of Bimini Capital Management, Inc., a publicly-traded REIT. From 1990 to 2003, he was a managing Director at RBS/Greenwich Capital in the Mortgage-Backed and Asset-Backed Department where he held various positions that included working closely with some of the nation’s largest mortgage banks, hedge funds and investment management firms on various mortgage-backed securities investments. Mr. Zimmer was employed at Drexel Burnham Lambert in the institutional mortgage-backed sales area from 1984 until 1990. Mr. Zimmer also is the sole owner and manager of Zimmer Advisors LLC, which advises one client, with total capital of under $20 million, on investing and financing mortgage bonds. He received his M.B.A. degree in finance from Babson College and a B.A. degree in economics and speech communication from Denison University.

As a result of Mr. Zimmer’s 30 plus years of experience in the mortgage-backed securities market, including serving as president and chief executive officer of other publicly-traded mortgage REITs, he is able to provide valuable business, leadership, and management advice to our Board of Directors in many critical areas.

Daniel C. Staton has been the Non-Executive Chairman of ARMOUR since November 2009 and was the President, Chief Executive Officer and Director of Enterprise Acquisition Corp., a blank check company formed for the purpose of acquiring an operating business (“Enterprise”), from its inception in 2007 until its merger with ARMOUR in November 2009. Mr. Staton was also the Non-Executive Chairman of JAVELIN from June 2012 until the Merger in April 2016. Since January 2015, Mr. Staton has indirectly owned a minority limited partnership interest in ACM. Mr. Staton has more than 15 years of experience sourcing private equity and venture capital investments. Mr. Staton also served as Chairman of the Board of Storage Realty Trust from 1997 to 1999, when he led its merger with Public Storage (NYSE: PSA), where he has continued to serve as a Director since the merger. Mr. Staton has served as a director of Terran Orbital, an aerospace company that designs and manufactures nanosatellites for the U.S. government and military (“Terran Orbital”), since July 2014 and Here Today, a chain of discount retail stores in the Midwest (“Here Today”), since July 2012. Since February 2003, he has been Managing Director of the private equity firm, Staton Capital LLC, and also served as the Chairman of the Board of FriendFinder Networks Inc. (“FriendFinder”), an Internet-based social networking and multimedia entertainment company, from October 2004 until June 2012. Mr. Staton was a Co-Chairman of the Board of FriendFinder, which went public in May 2011, from July 2012 to December 2013, and a consultant to FriendFinder from October 2012 until December 2013. Under Mr. Staton's leadership as Co-Chairman of the Board, FriendFinder was strategically restructured pursuant to a consensual prepackaged plan of reorganization in federal bankruptcy court effective in 2013. Between 1997 and 2007, Mr. Staton was President of The Walnut Group, a private investment firm, where he served as initial investor and Director of Build-A-Bear Workshop, the initial investor in Deal$: Nothing Over a Dollar (until its sale to Supervalu Inc.), and

Director of Skylight Financial. Prior to The Walnut Group, Mr. Staton was General Manager and Partner of Duke Associates from 1981 until its initial public offering in 1993, and then served as Chief Operating Officer and Director of Duke Realty Investments, Inc. (NYSE: DRE) until 1997. Mr. Staton supplements his professional network by co-producing and investing in numerous Broadway musicals as well as with relationships with not-for-profit organizations. Mr. Staton majored in Finance at the University of Missouri and holds a B.S. degree in Specialized Business from Ohio University and a B.S. degree in Business (Management) from California Coast University.

Mr. Staton has extensive experience serving on the boards of directors of private and public companies and sourcing private equity and venture capital investments and brings significant corporate governance expertise to our Board of Directors.

Marc H. Bell has been a director of ARMOUR since November 2009 and was the Chairman of the Board of Directors and Treasurer of Enterprise from its inception in 2007 until its merger with ARMOUR in November 2009. Mr. Bell was also a director of JAVELIN from June 2012 until the Merger in April 2016. Since January 2015, Mr. Bell has indirectly owned a minority limited partnership interest in ACM. He is a co-founder and has been the Chairman of Terran Orbital since its inception in July 2014. Mr. Bell has served as director of Here Today since September 2015. Mr. Bell founded Marc Bell Capital, LLC, an investment firm which invests in diverse industries, including media, entertainment, real estate, technology, Internet and consumer brands, in July 2003. Mr. Bell previously served as the Chief Executive Officer of FriendFinder, from October 2004 to June 2012, the President from October 2004 until March 2012, the Co-Chairman of the Board of FriendFinder from July 2012 to December 2013, a consultant to FriendFinder from October 2012 to December 2013, and its Chief Strategy Officer during 2012. Under Mr. Bell's leadership as Co-Chairman of the Board, FriendFinder was strategically restructured pursuant to a consensual prepackaged plan of reorganization in federal bankruptcy court effective in 2013. Previously, Mr. Bell was the founder and President of Globix Corporation, a full-service commercial Internet Service Provider. Mr. Bell served as Chairman of the Board of Globix Corporation from 1998 to 2003 and Chief Executive Officer from 1998 to 2001. Mr. Bell was also a member of the Board of Directors of EDGAR Online, Inc. (NASDAQ: EDGR), an Internet-based provider of filings made by public companies with the SEC, from 1998 to 2000. Mr. Bell has also been a co-producer of Broadway musicals, and serves as a member of the Board of Trustees of New York University and Board of Overseers of New York University Langone Medical Center. Mr. Bell is also a member of the Board of Directors of the SOS Children’s Villages, the Boca Raton Police Foundation and the Boca Raton Museum of Arts. Mr. Bell holds a B.S. degree in Accounting from Babson College and an M.S. degree in Real Estate Development from New York University.

Mr. Bell’s experience as managing director of an investment firm, as well as serving on the boards of directors of several public companies, allows him to provide valuable business, leadership, and management advice to our Board of Directors in many critical areas.

Carolyn Downey has been a director of ARMOUR since September 2013. Ms. Downey has nearly 30 years of institutional capital markets experience working with leading institutions in global finance. From 1989 through 2007, Ms. Downey held various executive positions at, including as a Managing Director of, RBS Greenwich Capital, a fixed-income sales, trading and finance firm serving institutional clients, and a U.S. Government securities primary dealer. At RBS Greenwich Capital, Ms. Downey was responsible for relationships with real-estate investment trusts, financial institutions, hedge funds, investment managers and proprietary trading desks, participated in structuring and distribution of net interest margin securities, commercial mortgage securities and collateralized mortgage obligations, and advised on hedging strategies using derivative products and synthetic swaps. Prior to her time at RBS Greenwich Capital, Ms. Downey was a Vice President of Fixed Income Sales at Salomon, Inc. from 1981 through 1989, where she was for some time responsible for residual product placement and other equity tranches of structured debt and sourcing residuals from mortgage originators and security issuers. Ms. Downey also previously served as a mortgage product specialist in London and a thrift specialist in New York. She holds a B.A. degree from St. Mary’s College in Sociology, a B.S. degree in Accounting from Boston University and an M.B.A. degree from the Stanford University Graduate School of Business. Ms. Downey serves on the Advisory Board of St. Ann School, Manhattan, a partnership of patrons, the Archdiocese and school leaders, and previously served as a member of the Board of Directors of the Student Sponsor Partners.

As a result of Ms. Downey's 30 plus years of experience in structured finance, investment banking and capital markets, she provides significant financial, leadership and management advice to our Board of Directors in many critical areas.

Thomas K. Guba has been a director of ARMOUR since November 2009 and the lead independent director of ARMOUR since March 2014. Mr. Guba was also a director of JAVELIN from June 2012 until the Merger in April 2016 and the lead independent director of JAVELIN from March 2014 until April 2016. Mr. Guba has been the senior executive or head trader of various Wall Street mortgage and government departments in his over 40 years in the securities business. Since 2009, Mr. Guba has been employed by Auriga Capital Management, LLC, an asset management firm registered with the SEC. From 2001 through 2008, Mr. Guba was President and Principal of the Winter Group, a fully integrated mortgage platform and money management firm. He was Managing Director of Structured Product Sales at Credit Suisse First Boston from 2000 to 2002, Managing Director and Department Manager of Mortgages and U.S. Treasuries at Donaldson Lufkin Jenrette, which was subsequently purchased by Credit Suisse First Boston, from 1994 to 2000, Executive Vice President and Head of Global Fixed Income at Smith Barney from 1993 to 1994, Managing Director of the Mortgage and U.S. Treasuries Department at Mabon Securities from 1990 to 1993, Senior Vice President and Mortgage Department Manager at Drexel Burnham Lambert from 1984 to 1990, Senior Vice President and Head Mortgage Trader at Paine Webber from 1977 to 1984, and a trader of mortgaged backed securities at Bache & Co. from 1975 to 1977. Mr. Guba was also a Second Lieutenant, Military Police Corps, in the United States Army from 1972 to 1974. Mr. Guba holds a B.A. degree in political science from Cornell University and a M.B.A. degree in finance from New York University and serves on the Board of the SIFMA Foundation.

Mr. Guba’s experience on Wall Street allows him to provide valuable insights and advice to our Board of Directors, particularly as it pertains to the capital markets.

Robert C. Hain has been a director of ARMOUR since November 2009. Mr. Hain was also a director of JAVELIN from June 2012 until the Merger in April 2016. Mr. Hain has been Executive Chairman of City Financial Investment Company Limited (“City Financial”) since 2006 and a director of Wittering Limited since 2005, each of which is engaged in asset management in the United Kingdom, Europe, Hong Kong, Singapore and the United States. Mr. Hain is also a director of HomeChoice International Plc (Malta), a retailer of home furnishings to South Africans listed on the Johannesburg Stock Exchange. He is a director of Sound Diplomacy Holdings Ltd., a London-based music consulttancy, Minois Limited, a British snack food distributor, and a partner at Laurier Partners LLP, a specialist consulting firm in London. Previously, Mr. Hain was a partner at Shadbolt Partners LLP from 2005 to 2018, a director of Majorpoint Limited from 2006 to 2014 and Kingsway Consultancy Limited from 2007 to 2017, the Non-Executive Chairman of Dundee Wealth SA (Luxembourg) from 2007 to 2009, a director of Tailwind Financial Inc. (Canada) from 2006 to 2009 and the Vice Chairman of CSS Stellar Holdings Inc. from 2005 to 2006. Mr. Hain was also the Chief Executive Officer of Invesco UK, a prominent British asset manager, from 2002 to 2004, and Chief Executive Officer of AIM Trimark, a Canadian mutual fund company, from 1998 to 2002. Mr. Hain was a member of the Executive Management Committee of Amvescap Plc (now Invesco Ltd.), from 1998 to 2005. Mr. Hain’s career in financial services includes senior executive positions in marketing, private banking and retail financial services in North America and Europe, and has comprised major acquisitions, integrations, and product and service delivery innovations. In addition, Mr. Hain has served on the boards and committees of financial services, business, arts, health and social services organizations at the national and local levels in Toronto, Zurich, Winnipeg, Halifax and London. He holds degrees from the University of Toronto (Innis College) and the University of Oxford (Merton College).

Mr. Hain’s extensive experience managing investments allows him to provide our Board of Directors with valuable knowledge regarding financial markets and investment opportunities.

John “Jack” P. Hollihan, III has been a director of ARMOUR since November 2009. Mr. Hollihan was also a director of JAVELIN from June 2012 until the Merger in April 2016. Mr. Hollihan has over 30 years of investment banking and investment experience. Mr. Hollihan has served as the lead independent director of City Financial Investment Company Limited (London) and Executive Chairman of Litchfield Capital Holdings (Florida) since 2005. Mr.

Hollihan was also a trustee of American Financial Realty Trust (NYSE: AFR) from 2005 until its sale in 2008 and of Recombine LLC from its inception in 2012 until 2014. From 2000 to 2002, Mr. Hollihan was the Head of European Industry Investment Banking for Banc of America Securities ("BAS"), where he was a member of the BAS European Capital Committee and Board, and where he had responsibility for a loan book of approximately $8 billion. Prior to that, from 1986 to 2000, Mr. Hollihan was Head of Global Project and Asset Based Finance and Leasing at Morgan Stanley and was a member of the Morgan Stanley International Investment Banking Operating Committee. In that capacity, he managed approximately $45 billion in asset based and structured financings and leasing arrangements. Mr. Hollihan holds B.S. (Wharton) and B.A. degrees from the University of Pennsylvania, and a J.D. from the University of Virginia School of Law.

Mr. Hollihan's 30 plus years of investment banking and investment experience provide valuable insights and advice to our Board of Directors, particularly as it pertains to the capital markets.

Stewart J. Paperin has been a director of ARMOUR since November 2009. Mr. Paperin served as a member of Enterprise's Board of Directors from its inception in July 2007 to its merger with ARMOUR in November 2009. Mr. Paperin was also a director of JAVELIN from June 2012 until the Merger in April 2016. Mr. Paperin currently serves as the managing member of Leopard Rock Property Group, a real property development and investment firm located in Los Angeles and San Diego, California. Mr. Paperin served as Executive Vice President of the Soros Foundation, a worldwide private philanthropic foundation, from 1996 to 2013, where he oversaw financial, administrative and economic development activities. From 1996 to July 2005, Mr. Paperin served as a Senior Advisor and portfolio manager for Soros Fund Management LLC, a financial services company, and from July 2005 to June 2014, he served as a consultant to Soros Fund Management LLC. From 1996 to 2007, Mr. Paperin served as a Director of Penn Octane Corporation (NASDAQ: POCC), a company engaged in the purchase, transportation and sale of liquefied petroleum gas. Prior to joining the Soros organizations, Mr. Paperin served as President of Brooke Group International, an investment firm concentrated on the former Soviet Union, from 1990 to 1993, and as Senior Vice President and Chief Financial Officer of Western Union Corporation, a provider of money transfer and message services, which was controlled by Brooke Group, from 1988 to 1990. Prior to Western Union Corporation, Mr. Paperin served as Chief Financial Officer of Timeplex Corporation, a telecommunications equipment provider, from 1986 to 1988 and of Datapoint Corporation, a computer equipment manufacturer, from 1985 to 1986. Prior to Datapoint Corporation, Mr. Paperin served as a financial officer of Pepsico Corporation (NYSE: PEP) from 1980 to 1985 and as a management consultant at Cresap McCormick & Paget from 1975 to 1980. Mr. Paperin also served as a member of the Board of Directors of Community Bankers Acquisition Corp., a blank check company formed to acquire an operating business in the banking industry (NYSE MKT LLC: BTC). Mr. Paperin holds a B.A. degree and an M.S. degree from the State University of New York at Binghamton. He is a member of the Council on Foreign Relations and was awarded an honorary Doctor of Humane Letters by the State University of New York.

Mr. Paperin's pertinent experience, qualifications, attributes and skills include financial literacy and expertise, and allows him to provide significant expertise in accounting and financial matters and in analyzing and evaluating financial statements.

Recommendation of the Board of Directors

ARMOUR's Board of Directors unanimously recommends a vote "FOR" each of the nine nominees for director.

THE BOARD OF DIRECTORS, ITS COMMITTEES AND OTHER
CORPORATE GOVERNANCE INFORMATION

ARMOUR's Mortgage REIT Peer Group

Our Board and management refer to the FTSE NAREIT Mortgage REIT index of 36 companies to identify overall performance and other trends in the mortgage REIT industry. Our Board and management have also identified a focused peer group of nine publicly-traded mortgage REITs that we believe are most directly comparable to ARMOUR. The peer group companies are: American Capital Agency Corp., Annaly Capital Management Inc., Anworth Mortgage Asset Corporation, Capstead Mortgage Corporation, CYS Investments Inc., Dynex Capital, Inc., Ellington Residential Mortgage REIT, MTGE Investment Corp. and Western Asset Mortgage Capital Corporation. In addition to reviewing general industry trends and market and regulatory factors applicable to our company, our management carefully reviews these specific companies periodically as part of the process of developing appropriate operating, corporate governance and compensation practices and policies for our company.

Corporate Governance

We are committed to sound and effective corporate governance practices. We have adopted various policies, guidelines and prohibitions designed to align the interests of the Board and management with those of our stockholders:

- Proactive investor engagement;
- Majority voting and director resignation policy;
- Minimum stock ownership guidelines and retention policies applicable to our senior executive officers and directors; and
- Stock hedging and pledging prohibition for our directors and officers.

Investor Outreach

In our continuing effort to promote dialogue with our investors about our business, governance, and executive compensation practices, we contacted all stockholders who reportedly held

As of June 30, 2006, and 2005, the Company held approximately $1.6 and $2.0 million, respectively, in investments other than USGIF, USGAF and offshore clients the Company advises.

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

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

realized gains and losses on sales of securities;

unrealized gains and losses on trading securities;

realized foreign currency gains and losses;

other-than-temporary impairments on available-for-sale securities; and dividend and interest income.

Investment income can be volatile and varies depending on market fluctuations, the Company s ability to participate in investment opportunities, and timing of transactions. A significant portion of the unrealized gains and losses is concentrated in a small number of issuers. For fiscal years 2006, 2005, and 2004, the Company had net realized gains (losses) of approximately $827,700, ($184,000), and $291,000, respectively. The Company expects that gains or losses will continue to fluctuate in the future.

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Consolidated Results of Operations

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

	2006	2005	% Change	2005	2004	% Change
Net income (in thousands)	$10,435	$1,446	622%	$1,446	$2,167	(33.3)%
Net income per share						
Basic	$ 1.39	$ 0.19	632%	$ 0.19	$ 0.29	(34.5)%
Diluted	$ 1.38	$ 0.19	626%	$ 0.19	$ 0.29	(34.5)%
Weighted average shares outstanding (in thousands)						
Basic	7,516	7,480		7,480	7,469	
Diluted	7,573	7,564		7,564	7,533	

Year Ended June 30, 2006, Compared with Year Ended June 30, 2005

The Company posted net after-tax income of $10,435,362 ($1.39 per share) for the year ended June 30, 2006, compared with net after-tax income of $1,446,471 ($0.19 per share) for the year ended June 30, 2005. The increase in profitability is primarily attributable to the following factors:

The Company s advisory fees, boosted primarily by the positive impact of market gains and shareholder investments in natural resource and foreign equity funds, increased by 165.2%, or $23.1 million.

Investment income increased by 727.3%, or $2.6 million, primarily due to realized and unrealized gains on corporate investments.

Transfer agent fees increased by 67.3%, or $2.1 million, primarily as a result of growth in the number of shareholder accounts.

These factors were somewhat offset by an overall increase in expenses of 96.6% in fiscal year 2006 primarily driven by the following:

Consistent with continued growth in the Eastern European Fund, subadvisory fees increased by 180.1%, or $4.9 million;

Driven by strong mutual fund and offshore fund performance, employee compensation expense increased by 75.8%, or $4.5 million primarily due to higher incentive bonuses and new hires;

Omnibus fees increased by 166.3%, or $3.0 million, due to increased asset inflows through broker/dealer platforms; and,

General and administrative expenses increased 42.9%, or $1.6 million, due to additional Sarbanes-Oxley related consulting, audit, and accounting fees; communication; legal fees; and marketing-related travel and entertainment costs.

Year Ended June 30, 2005, Compared with Year Ended June 30, 2004

The Company posted net after-tax income of $1,446,471 million ($0.19 per share) for the year ended June 30, 2005, compared with net after-tax income of $2,166,642 ($0.29 per share) for the year ended June 30, 2004. The decrease in profitability in fiscal year 2005 is primarily a result of increased subadvisory fees of $1.7 million consistent with continued growth in the Eastern European Fund, decreased investment income of $1.4 million due to unrealized losses on corporate investments classified as trading securities, and increased general administrative expenses of $1.2 million due to additional consulting, communication, and marketing-related travel costs. Additionally, employee incentive bonus expense increased by $0.9 million due to strong mutual fund performance, and omnibus fees increased by $0.9 million due to increase asset inflows through broker platforms.

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Revenues

(Dollars in Thousands)	2006	2005	% Change	2005	2004	% Change
Investment advisory fees:						
USGIF Money market	$ 1,687	$ 1,638	3.0%	$ 1,638	$ 1,744	(6.1)%
USGIF Other	11,068	6,010	84.2%	6,010	4,668	28.7%
USGIF Total	12,755	7,648	66.8%	7,648	6,412	19.3%
USGAF	15,767	6,059	160.2%	6,059	2,097	188.9%
Other advisory fees	8,622	299	2783.5%	299	670	(55.4)%
Total investment advisory fees	37,144	14,006	165.2%	14,006	9,179	52.6%
Transfer agent fees	5,332	3,187	67.3%	3,187	2,610	22.1%
Investment income (loss)	2,203	(351)	727.7%	(351)	1,023	(134.3)%
Other revenues	175	139	25.9%	139	171	(18.7)%
Total	$ 44,854	$ 16,981	164.1%	$ 16,981	$ 12,983	30.8%

As a percentage of total revenues, SEC-registered mutual fund advisory fees account for 64%, offshore investment advisory fees constitute 19%, transfer agent fees account for 12%, and investment income and miscellaneous income together make up the remaining 5%.

Investment Advisory Fees. Investment advisory fees, the largest component of the Company s revenues, are derived from two sources: SEC-registered mutual fund advisory fees, which in fiscal 2006 accounted for 77% of the Company s total advisory fees, and offshore investment advisory fees, which accounted for 23% of total advisory fees.

SEC-registered mutual fund investment advisory fees are calculated as a percentage of average net assets, ranging from 0.375% to 1.375%, and are paid monthly. These advisory fees increased by approximately $14.8 million, or 108.1%, in fiscal 2006 over fiscal 2005. Advisory fees benefited from an increase in assets, particularly in the foreign equity and natural resource funds.

The Company has agreed to waive or reduce its fees and/or pay expenses for several USGIF funds and one USGAF fund through November 1, 2007, and February 28, 2007, respectively, or such later date as the Company determines for purposes of enhancing the funds competitive market positions, in particular the money market and fixed income funds. The aggregate amount of fees waived and expenses borne by the Company totaled approximately $1,181,000, $1,332,000, and $1,471,000, in 2006, 2005, and 2004, respectively. The Company expects to continue to waive fees and/or pay for fund expenses if market and economic conditions warrant. However, subject to the Company s commitment to certain funds with respect to fee waivers and expense limitations, the Company may reduce the amount of fund expenses it is bearing.

Mutual fund investment advisory fees are also affected by changes in assets under management, which include:

market appreciation or depreciation;

the addition of new client accounts;

client contributions of additional assets to existing accounts;

withdrawals of assets from and termination of client accounts;

exchanges of assets between accounts or products with different fee structures; and

the amount of fees voluntarily reimbursed.

Offshore investment advisory fees increased by $8.3 million in fiscal 2006 compared to fiscal 2005. Due to potential market volatility, performance fees are subject to fluctuation and are not necessarily predictive of future revenue.

In the first quarter of fiscal year 2005, the Company began providing advisory services for the Meridian Global Gold and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded fees totaling $1,353,454 and $299,144 for the years ended June 30, 2006 and June 30, 2005, respectively. Frank Holmes, a director and CEO of the Company, is a director of Meridian Global Gold and Resources Fund Ltd., and Meridian Fund Managers Ltd., the manager of the fund.

In the first quarter of fiscal year 2006, the Company began providing advisory services to the U.S. Global Investors Balanced Natural Resources Fund, Ltd., an offshore fund. For these services, the Company is paid a monthly advisory fee and a quarterly performance fee, if any. The Company recorded fees totaling $212,828 for the year ended June 30, 2006. Holmes is a director of U.S. Global Investors Balanced Natural Resources Fund Ltd.

In the third quarter of fiscal year 2006, the Company began providing investment advisory services to Endeavour Mining Capital Corp., an offshore company. The Company is paid a monthly advisory fee based on the net asset value of the portfolio and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity. The Company recorded a total of $7,055,267 in advisory fees from Endeavour comprised of $6,611,582 in annual performance fees and $443,685 in monthly advisory fees for the year ended June 30, 2006. The performance fees for this advisory client are calculated and recorded only once a year at the end of each fiscal year in accordance with the terms of the advisory agreement. This and other performance fees may fluctuate significantly from year to year based on factors that may be out of the Company s control. For more information, see Item 1A. Risk Factors and the section entitled Revenue Recognition under Critical Accounting Estimates. Holmes is Chairman of the Board of Directors of Endeavour Mining Capital Corp.

In August of 2006, subsequent to the Company s fiscal year end, the Company began providing advisory services for the Meridian Global Energy and Resources Fund Ltd., an offshore fund. The Company will receive a monthly advisory fee and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded no fees for the year ending June 30, 2006. Holmes is a director of Meridian Global Energy and Resources Fund Ltd., and Meridian Fund Managers Ltd., the manager of the fund.

Transfer Agent Fees. United Shareholder Services, Inc., a wholly owned subsidiary of the Company, provides transfer agency, lockbox, and printing services for Company clients. The Company receives an annual fee per account as compensation for services rendered as transfer agent, and is reimbursed for out-of-pocket expenses associated with processing shareholder information. In addition, the Company collects custodial fees on IRAs and other types of retirement plans invested in USGIF and USGAF. Transfer agent fees are therefore affected by the number of client accounts.

The increase in transfer agent fees in fiscal years 2006 and 2005 was primarily a result of an increase in the number of mutual fund shareholder accounts due to improved performance of the natural resource and foreign equity funds.

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

realized gains and losses on sales of securities;

unrealized gains and losses on trading securities;

realized foreign currency gains and losses;

other-than-temporary impairments on available-for-sale securities; and

dividend and interest income.

This source of revenue is dependent on market fluctuations and does not remain at a consistent level. Timing of transactions and the Company s ability to participate in investment opportunities largely affect this source of revenue.

Investment income increased by $2.6 million in fiscal 2006 compared to fiscal 2005. This increase can be attributed primarily to a $935,000 increase in realized gains and a $1.3 million increase in unrealized gains on corporate investments. Included in investment income were other-than-temporary

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impairments of $28,655, $106,000 and $41,448 for the fiscal years ending 2006, 2005 and 2004, respectively.
The decrease in investment income of $1.4 million in fiscal 2005 compared to fiscal 2004 was primarily attributable to $991,000 increase in unrealized losses on corporate investments classified as trading securities. In addition, realized losses on sales of securities increased by $369,000, and other-than-temporary impairments on available-for-sale securities increased by $65,000. These were slightly offset by an increase in dividend and interest income of $50,000.

Expenses

(Dollars in Thousands)	2006	2005	% Change	2005	2004	% Change
Employee compensation and benefits	$ 10,359	$ 5,891	75.8%	$ 5,891	$ 4,986	18.2%
Subadvisory fees	7,619	2,720	180.1%	2,720	1,019	166.9%
General and administrative	5,460	3,821	42.9%	3,821	2,623	45.7%
Omnibus fees	4,882	1,833	166.3%	1,833	959	91.1%
Advertising	513	370	38.7%	370	373	(0.8)%
Depreciation	153	110	39.0%	110	108	1.9%
Interest					73	(100.0)%
Total	$ 28,986	$ 14,745	96.6%	$ 14,745	$ 10,141	45.4%

Employee Compensation and Benefits. Employee compensation and benefits increased by $4.5 million, or 75.8%, in 2006 and $900,000, or 18.2%, in fiscal 2005, primarily due to incentive bonuses associated with strong mutual fund performance, mutual fund asset growth, strong offshore advisory performance and increased shareholder accounts.

Subadvisory Fees. Subadvisory fees are calculated as a percentage of average net assets of the three funds that are subadvised by third-party managers. The increases in subadvisory fees of $4.9 million and $1.7 million in fiscal years 2006 and 2005, respectively, resulted primarily from the sizeable growth in assets in the Eastern European Fund.

General and Administrative. The increase in general and administrative expenses of $1.6 million, or 42.9%, in fiscal year 2006 resulted primarily from increased consulting, auditing and accounting fees of approximately $905,000 attributable primarily to Sarbanes-Oxley and compliance costs. In addition, communication, legal, and marketing-related travel and entertainment costs also increased. The increase in general and administrative expenses of $1.2 million, or 45.7%, in fiscal year 2005 is primarily attributable to increased consulting, communication, and marketing-related travel and entertainment costs.

Omnibus Fees. Much of the mutual fund asset growth across all funds has been realized through broker/dealer platforms. These broker/dealers typically charge an asset-based fee for assets held in their platforms. Accordingly, net omnibus fee expenses have increased by $3.0 million and $874,000 during fiscal years 2006 and 2005, respectively. The incremental assets received through the broker/dealer platforms are not as profitable as those received from direct shareholder accounts due to margin compression from paying omnibus fees on those assets.

Advertising. Advertising expense increased by approximately $143,000 in fiscal 2006 and remained flat in fiscal 2005.

Depreciation. Depreciation expense increased by $43,000 in fiscal year 2006 as a result of a slight increase in capital purchases. Depreciation expense remained flat in fiscal year 2005 primarily due to assets becoming fully depreciated without being replaced with additional capital purchases.

Interest. No interest expense was incurred during fiscal 2006 or 2005. This is attributable to the payment in full of the note related to the Company s building in fiscal 2004.

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Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Provisions for income taxes include deferred taxes for temporary differences in the bases of assets and liabilities for financial and tax purposes, resulting from the use of the liability method of accounting for income taxes. For federal income tax purposes at June 30, 2006, the Company has $14,584 in capital loss carryovers.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. As such, management included no valuation allowance at June 30, 2006 providing for the utilization of investment tax credits. The valuation allowance was reduced to zero in fiscal 2005 as the credits expired.

Contractual Obligations

A summary of contractual obligations of the Company as of June 30, 2006, is as follows:

		Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**1 3 Years**	**3 5 years**	**More than 5 years**
Operating Lease Obligations	$ 220,809	$ 153,384	$ 67,425		
Contractual Obligation	108,350	83,400	24,950		
Total	329,159	236,784	92,375		

Operating leases consist of telephone equipment, printers, and copiers leased from several vendors. Contractual obligation consists of an agreement with a vendor to provide an e-mail server and a web server. Other contractual obligations consist of subadvisory contracts and agreements to waive or reduce advisory fees and/or pay expenses on several funds, which are renewed annually. Future obligations under these agreements are dependent upon future levels of fund assets.

Liquidity and Capital Resources

At fiscal year end, the Company had net working capital (current assets minus current liabilities) of approximately $18.3 million and a current ratio of 3.1 to 1. With approximately $10.1 million in cash and cash equivalents and $4.7 million in marketable securities, the Company has adequate liquidity to meet its current obligations. Total shareholders equity was approximately $20.5 million, with cash, cash equivalents, and marketable securities comprising 50.9% of total assets. The Company has no long-term debt; thus, the Company s only material commitment going forward is for operating expenses. The Company also has access to a $1 million credit facility, which can be utilized for working capital purposes. The Company s available working capital and potential cash flow are expected to be sufficient to cover current expenses.

The investment advisory and related contracts between the Company and USGIF and USGAF will expire on February 28, 2007, and May 31, 2007, respectively. Management anticipates that the trustees of both USGIF and USGAF will renew the contracts. With respect to offshore advisory clients, the contracts between the Company and the clients expire periodically and management anticipates that its offshore clients will renew the contracts.

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

Critical Accounting Estimates

Security Investments. The Company accounts for its investments in securities in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). In accordance with SFAS 115, the Company classifies its investments in equity and debt securities based on intent. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each reporting period date.

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

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

Investments classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities and reported at fair value. Unrealized gains and losses on these available-for-sale securities are excluded from earnings, reported net of tax as a separate component of shareholders equity, and recorded in earnings on the date of sale.

The Company evaluates its investments for other-than-temporary declines in value on a periodic basis. This may exist when the fair value of an investment security has been below the current value for an extended period of time. For available-for-sale securities with declines in value deemed other than temporary, the unrealized loss recorded net of tax in accumulated other comprehensive income is realized as a charge to net income.

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.

Valuation of Investments. Securities traded on a securities exchange are valued at the last sale price. Securities for which over-the-counter market quotations are available, but for which there was no trade on or near the balance sheet date, are valued at the mean price between the last price bid and last price asked. Securities for which quotations are not readily available are valued at management s estimate of fair value..

Taxes. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company s financial statements or tax returns.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109 by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would recognize in its financial statements the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement of the tax position. FIN 48 will be effective for the fiscal years beginning after December 15, 2006. The provisions of FIN 48 are required to be applied to all tax positions in all open tax years. The Company is in the process of evaluating the impact, if any, of adoption on the Company s financial position and results of operation.

Adoption of SFAS123R. In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires

all companies to apply a fair-value-based measurement method in accounting for generally all share-based payment transactions with employees.

On July 1, 2005 (the first day of the Company s 2006 fiscal year), the Company adopted SFAS 123R. The provisions of SFAS 123R became effective the first annual reporting period beginning after June 15, 2005, and the Company adopted SFAS 123R using a modified prospective application, as permitted under SFAS 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Revenue Recognition on Advisory Contract. In the third quarter of fiscal year 2006, the Company began providing investment advisory services for Endeavour Mining Capital Corp. (EMCC), an offshore company. The Company is paid a monthly advisory fee based on the net asset value of the portfolio, and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity.

EITF Abstract Topic No. D-96, Accounting for Management Fees Based on a Formula, identifies two methods by which incentive revenue may be recorded. Under Method 1, incentive fees are recorded at the end of the contract year; under Method 2, the incentive fees are recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract was terminated at that date. Management has chosen the more conservative method (Method 1), in which performance fees are recorded annually at the end of each fiscal year of EMCC. The Company recorded $6,611,582 in annual performance fees and $443,685 in advisory fees for the year ended June 30, 2006.

Related Party Transactions

The Company had $12.6 million and $4.8 million at fair value invested in USGIF and USGAF funds included in the balance sheet in cash and cash equivalents and trading securities at June 30, 2006, and 2005, respectively. The Company recorded $49,380 in dividend income and $100,952 in unrealized gains on its investments in the funds. Receivables from mutual funds shown on the Consolidated Balance Sheets represent amounts due the Company and its wholly owned subsidiaries for investment advisory fees, transfer agent fees, and out-of-pocket expenses, net of amounts payable to the mutual funds.

In the first quarter of fiscal year 2005, the Company began providing advisory services for the Meridian Global Gold and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded fees totaling $1,353,454 and $299,144 for the years ended June 30, 2006 and June 30, 2005, respectively. Frank Holmes, a director and CEO of the Company, is a director of Meridian Global Gold and Resources Fund Ltd., and Meridian Fund Managers Ltd., the manager of the fund.

In the first quarter of fiscal year 2006, the Company began providing advisory services to the U.S. Global Investors Balanced Natural Resources Fund, Ltd., an offshore fund. For these services, the Company is paid a monthly advisory fee and a quarterly performance fee, if any. The Company recorded advisory fees totaling $212,828 for the year ended June 30, 2006. The Company has an investment in the U.S. Global Investors Balanced Natural Resources Fund, Ltd. with a market value of $682,000 as of June 30, 2006, and earned $182,000 in unrealized gains, which were recorded as investment income in fiscal 2006. Holmes is a director of U.S. Global Investors Balanced Natural Resources Fund Ltd.

In the third quarter of fiscal year 2006, the Company began providing investment advisory services to Endeavour Mining Capital Corp., an offshore company. The Company is paid a monthly advisory fee based on the net asset value of the portfolio and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity. The Company recorded a total of $7,055,267 in advisory fees from Endeavour comprised of $6,611,582 in annual performance fees and $443,685 in monthly advisory fees for the year ended June

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30, 2006. The performance fees for this advisory client are calculated and recorded only once a year at the end of each fiscal year in accordance with the terms of the advisory agreement. For more information, see the section entitled Revenue Recognition under Critical Accounting Policies. Holmes is Chairman of the Board of Directors of Endeavour Mining Capital Corp.

In August of 2006, subsequent to the Company s fiscal year end, the Company began providing advisory services for the Meridian Global Energy and Resources Fund Ltd., an offshore fund. The Company will receive a monthly advisory fee and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded no fees for the year ending June 30, 2006. The Company invested $500,000 in the fund in August 2006. Holmes is a director of Meridian Global Energy and Resources Fund Ltd., and Meridian Fund Managers Ltd., the manager of the fund.

The Company owns a position in Franc-Or Resources at June 30, 2006, with an estimated fair value of approximately $400,000, recorded as a trading security on the balance sheet. Holmes served as an independent director of Franc-Or Resources from June 2000 to November 2003.

Holmes also served as an independent director for BCS Global Networks (formerly Broadband Collaborative Solutions), a private company, from May 2000 to June 30, 2002, when the entity became a public company. Holmes personally owned shares of BCS Global Networks at June 30, 2005. The Company owned a position in BCS Global Networks at June 30, 2005, with an estimated fair value of approximately $42,000 recorded as available for sale on the balance sheet. In the first quarter of fiscal 2006, both the Company and Holmes sold their holdings in BCS Global Networks in response to a tender offer, with the Company realizing a loss of $31,560.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures

The Company s balance sheet includes assets whose fair value is subject to market risks. Due to the Company s investments in equity securities, equity price fluctuations represent a market risk factor affecting the Company s consolidated financial position. The carrying values of investments subject to equity price risks are based on quoted market prices or, if not actively traded, management s estimate of fair value as of the balance sheet date. Market prices fluctuate, and the amount realized in the subsequent sale of an investment may differ significantly from the reported market value. The Company s investment activities are reviewed and monitored by Company compliance personnel, and various reports are provided to investment advisory clients. The Company has in place a code of ethics that addresses the trading activity by the Company. Written procedures are also in place to manage compliance with the code of ethics.

The table below summarizes the Company s equity price risks as of June 30, 2006, and shows the effects of a hypothetical 25% increase and a 25% decrease in market prices.

	Fair Value at June 30, 2006 ($)	Hypothetical Percentage Change	Estimated Fair Value After Hypothetical Price Change ($)	Increase (Decrease) in Shareholders Equity, Net of Tax ($)
Trading securities[1]	4,659,824	25% increase	5,824,780	768,871
		25% decrease	3,494,868	(768,871)
Available-for-sale[2]	82,202	25% increase	102,753	13,563
		25% decrease	61,652	(13,563)

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

2 *Unrealized gains and losses on available-for-sale securities are excluded from earnings and recorded in other comprehensive*

income as a separate component of shareholders equity until realized.

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

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Item 8. Financial Statements and Supplementary Data

Management s Annual Report on Internal Control Over Financial Reporting

U.S. Global Investors, Inc. s (Company) management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements in this annual report. These consolidated financial statements and notes have been prepared in conformity with U.S. generally accepted accounting principles from accounting records which management believes fairly and accurately reflect the Company s operations and financial position. The consolidated financial statements include amounts based on management s best estimates and judgments considering currently available information and management s view of current conditions and circumstances.

Management is responsible for establishing and maintaining adequate internal control over financial reporting that is designed to provide a reasonable assurance of the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the effectiveness of the Company s internal control over financial reporting as of June 30, 2006, in relation to criteria for effective internal control over financial reporting as described in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of June 30, 2006, its system of internal control over financial reporting is properly designed and operating effectively to achieve the criteria of the Internal Control Integrated Framework.

BDO Seidman, LLP, independent registered public accounting firm, has audited the consolidated financial statements included in this annual report and has issued a report on management s assessment of the Company s internal control over financial reporting.

U.S. Global Investors, Inc.

Frank E. Holmes	Catherine A. Rademacher
Chief Executive Officer and Chief Investment Officer	Chief Financial Officer

August 28, 2006

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Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

Board of Directors and Stockholders
U.S. Global Investors, Inc.
San Antonio, Texas

We have audited management s assessment, included in the accompanying Management s Assessment of Internal Control Over Financial Reporting, that U.S. Global Investors, Inc. (the Company) maintained effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of June 30, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of June 30, 2006 and 2005, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the three years in the period ended June 30, 2006, of the Company and our report dated August 28, 2006 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
Dallas, Texas
August 28, 2006

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Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

Board of Directors and Stockholders
U.S. Global Investors, Inc.
San Antonio, Texas

We have audited the accompanying consolidated balance sheets of U.S. Global Investors, Inc. as of June 30, 2006 and 2005 and the related consolidated statements of operations and comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended June 30, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. Global Investors, Inc. at June 30, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2006**,** in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 28, 2006, expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
Dallas, Texas
August 28, 2006

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U.S. Global Investors, Inc.
Consolidated Balance Sheets

	June 30, 2006	June 30, 2005
Assets		
Current Assets		
Cash and cash equivalents	$ 10,056,043	$ 3,814,178
Trading securities, at fair value	4,659,824	2,612,529
Receivables		
Advisory, net of allowance	11,290,240	2,275,288
Employees	7,669	750
Other	184,962	43,274
Prepaid expenses	580,813	450,963
Deferred tax asset		80,989
Total Current Assets	26,779,551	9,277,971
Net Property and Equipment	2,122,889	1,768,334
Other Assets		
Long-term deferred tax asset	62,211	165,749
Investment securities available-for-sale, at fair value	82,202	890,461
Total Other Assets	144,413	1,056,210
Total Assets	$ 29,046,853	$ 12,102,515
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable	$ 343,364	$ 193,249
Accrued compensation and related costs	2,961,836	525,140
Deferred tax liability	178,707	
Other accrued expenses	5,019,735	1,481,038
Total Current Liabilities	8,503,642	2,199,427
Total Liabilities	8,503,642	2,199,427
Shareholders Equity		
Common stock (class A) $0.05 par value; nonvoting; authorized 7,000,000 shares; issued, 6,402,974 and 6,316,474 shares at June 30, 2006, and 2005, respectively	320,149	315,824
Common stock (class B) $0.05 par value; nonvoting; authorized 2,250,000 shares; no shares issued		
Common stock (class C) $0.05 par value; voting; authorized 1,750,000 shares; issued, 1,496,800 shares	74,840	74,840
Additional paid-in capital	11,754,779	11,008,535
	(830,330)	(650,592)

Treasury stock, class A shares at cost; 327,057 and 326,988 shares at June 30, 2006, and 2005, respectively		
Accumulated other comprehensive income, net of tax	24,259	390,329
Retained earnings (deficit)	9,199,514	(1,235,848)
Total Shareholders Equity	20,543,211	9,903,088
Total Liabilities and Shareholders Equity	$ 29,046,853	$ 12,102,515

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

U.S. Global Investors, Inc.
Consolidated Statements of Operations and Comprehensive Income

	Year Ended June 30, 2006	2005	2004
Revenue			
Investment advisory fees	$ 37,143,150	$ 14,006,508	$ 9,179,200
Transfer agent fees	5,332,066	3,187,487	2,610,029
Investment income (loss)	2,203,393	(351,248)	1,023,441
Other	174,979	138,592	170,830
	44,853,588	16,981,339	12,983,500
Expenses			
Employee compensation and benefits	10,359,365	5,891,162	4,985,449
General and administrative	5,460,442	3,821,129	2,622,773
Subadvisory fees	7,618,466	2,719,603	1,018,572
Omnibus fees	4,882,144	1,833,096	959,523
Advertising	513,076	369,927	373,492
Depreciation	152,755	109,899	108,065
Interest		81	73,145
	28,986,248	14,744,897	10,141,019
Income Before Income Taxes	15,867,340	2,236,442	2,842,481
Provision for Federal Income Taxes			
Tax expense	5,431,978	789,971	675,839
Net Income	10,435,362	1,446,471	2,166,642
Other comprehensive income, net of tax:			
Unrealized gains (losses) on available-for-sale securities arising during period	(2,473)	(142,745)	646,244
Less: reclassification adjustment for gains included in net income	(363,596)		(102,287)
Comprehensive Income	$ 10,069,293	$ 1,303,726	$ 2,710,599
Basic Net Income per Share	$ 1.39	$ 0.19	$ 0.29
Diluted Net Income per Share	$ 1.38	$ 0.19	$ 0.29
Basic weighted average number of common shares outstanding	7,515,789	7,479,998	7,469,164
Diluted weighted average number of common shares outstanding	7,573,115	7,564,269	7,533,134

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

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U.S. Global Investors, Inc.
Consolidated Statements of Shareholders Equity

	Common Stock (Class A)	Common Stock (Class C)	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at June 30, 2003 (6,311,474 shares of Class A; 1,496,800 shares of Class C)	315,574	74,840	10,806,655	(4,848,961)	(663,536)	(10,883)	5,673,689
Purchase of 16,741 shares of Common Stock (Class A)					(72,246)		(72,246)
Reissuance of 39,191 shares of Common Stock (Class A)			34,398		69,881		104,279
Exercise of 500 options for Common Stock (Class A)	25		1,400				1,425
Issuance of option for 20,000 shares of Common Stock (Class A)			17,600				17,600
Recognition of current year portion of deferred compensation			50,000				50,000
Unrealized gain on securities available-for-sale (net of tax)						543,957	543,957
Net Income				2,166,642			2,166,642
Balance at June 30, 2004 (6,311,974 shares of Class A; 1,496,800 shares of Class C)	315,599	74,840	10,910,053	(2,682,319)	(665,901)	533,074	8,485,346
Purchase of 2,980 shares of Common Stock (Class A)					(13,968)		(13,968)

Reissuance of 15,490 shares of Common Stock (Class A)			33,959		29,277		63,236
Exercise of 4,500 options for Common Stock (Class A)	225		14,524				14,749
Recognition of current year portion of deferred compensation			50,000				50,000
Unrealized gain (loss) on securities available-for-sale (net of tax)						(142,746)	(142,746)
Net Income				1,446,471			1,446,471
Balance at June 30, 2005 (6,316,474 shares of Class A; 1,496,800 shares of Class C)	315,824	74,840	11,008,536	(1,235,848)	(650,592)	390,328	9,903,088
Purchase of 17,050 shares of Common Stock (Class A)					(215,196)		(215,196)
Reissuance of 16,981 shares of Common Stock (Class A)			109,325		35,458		144,783
Exercise of 86,500 options for Common Stock (Class A)	4,325		560,333				564,658
Recognition of current year portion of deferred compensation			50,000				50,000
FAS 123R compensation expense			26,585				26,585
Unrealized gain (loss) on securities available-for-sale and reclassification (net of tax)						(366,069)	(366,069)
Net Income				10,435,362			10,435,362

Balance at June 30, 2006 (6,402,974 shares of Class A; 1,496,800 shares of Class C)	320,149	74,840	11,754,779	9,199,514	(830,330)	24,259	20,543,211

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

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U.S. Global Investors, Inc.
Consolidated Statements of Cash Flows

	Year Ended June 30, 2006	2005	2004
Cash Flow from Operating Activities			
Net income	$ 10,435,362	$ 1,446,471	$ 2,166,642
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	152,755	109,899	108,065
Net recognized loss (gain) on securities	(827,718)	184,253	(861,552)
Provision for deferred taxes	551,815	49,624	604,296
Deferred compensation	50,000	50,000	50,000
Class A option issued to non-employee			17,600
Provision for losses on accounts receivable	(8,988)	26,488	(64,488)
Loss on disposal of equipment	3,494	889	4,827
Termination of annuity liability			(102,909)
Changes in assets and liabilities, impacting cash from operations:			
Accounts receivable	(9,154,571)	(867,701)	327,072
Prepaid expenses and other	(129,850)	(143,552)	229,498
Trading securities	(1,741,825)	(1,018,428)	(200,908)
Accounts payable and accrued expenses	6,125,508	1,148,177	391,785
Total adjustments	(4,979,380)	(460,351)	503,286
Net cash provided by operations	5,455,982	986,120	2,669,928
Cash Flow from Investing Activities			
Purchase of property and equipment	(510,804)	(67,634)	(145,548)
Purchase of available-for-sale securities	(8,420)		(200,520)
Proceeds on sale of available-for-sale securities	784,277		315,740
Net cash (used in) provided by investing activities	265,053	(67,634)	(30,328)
Cash Flow from Financing Activities			
Payments on annuity			(9,564)
Payments on note payable			(956,560)
SFAS 123R compensation expense	26,585		
Benefits from tax deduction in excess of stock-based compensation expense	404,817		
Proceeds from issuance or exercise of stock, warrants, and options	304,624	77,984	68,203
Purchase of treasury stock	(215,196)	(13,968)	(72,246)
Net cash provided by (used in) financing activities	520,830	64,016	(970,167)
Net Increase in Cash and Cash Equivalents	6,241,865	982,502	1,669,433

Beginning Cash and Cash Equivalents	3,814,178	2,831,676	1,162,243
Ending Cash and Cash Equivalents	$ 10,056,043	$ 3,814,178	$ 2,831,676
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	$	$ 81	$ 73,145
Cash paid for income taxes	$ 1,753,000	$ 645,251	$ 29,095

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

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Notes to Consolidated Financial Statements

Note 1. Organization

U.S. Global Investors, Inc. (the Company or U.S. Global) serves as investment adviser and transfer agent to U.S. Global Investors Funds (USGIF) and U.S. Global Accolade Funds (USGAF), both Massachusetts business trusts that are no-load, open-end investment companies offering shares in numerous mutual funds to the investing public. The Company has served as investment adviser and manager since the inception of USGIF and USGAF and assumed the transfer agency function of USGIF in November 1984, and of USGAF in October 1994, the commencement of operations. For these services, the Company receives fees from USGIF and USGAF.

U.S. Global formed the following companies to provide supplementary services to USGIF and USGAF: United Shareholder Services, Inc. (USSI), A&B Mailers, Inc. (A&B), and U.S. Global Brokerage, Inc. (USGB).

The Company formed two subsidiaries utilized primarily for corporate investment purposes: U.S. Global Investors (Guernsey) Limited (USGG), which was incorporated in Guernsey on August 20, 1993 and U.S. Global Investors (Bermuda) Limited (USBERM) which was incorporated in Bermuda on June 15, 2005.

Note 2. Significant Accounting Policies

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

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

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

Security Investments. The Company accounts for its investments in securities in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). In accordance with SFAS 115, the Company classifies its investments in equity and debt securities based on intent. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each reporting period date.

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

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

Investments classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities and reported at fair value. Unrealized gains and losses on these available-for-sale securities are excluded from earnings, reported net of tax as a separate component of shareholders equity, and recorded in earnings on the date of sale.

The Company evaluates its investments for other-than-temporary decline in value on a periodic basis. This may exist when the fair value of an investment security has been below the current value for an extended period of time. For available-for-sale securities with declines in value deemed other than temporary, the unrealized loss recorded net of tax in accumulated other comprehensive income is realized as a charge to net income.

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.

Advisory Receivables. Advisory receivables consist primarily of monthly investment advisory and transfer agent fees owed to the Company by USGIF and USGAF as well as offshore investment advisory fees receivable. In addition, mutual fund receivables include amounts reimbursed to the Company for certain advertising and distribution expenses incurred on behalf of USGAF in accordance with Rule 12b-1of the Investment Company Act of 1940. The Company evaluates the collectibility of these 12b-1 receivables on an ongoing basis, and, as a result, placed an allowance of $17,500 and $26,488 against the receivable balance as of June 30, 2006, and June 30, 2005, respectively. The allowance is based on the amount estimated to be collected within one year. If the receivable exceeds the estimate, an allowance is recorded for the difference.

Property and Equipment. Fixed assets are recorded at cost. Depreciation for fixed assets is recorded using the straight-line method over the estimated useful life of each asset as follows: furniture and equipment are depreciated over 3 to 10 years, and the building and related improvements are depreciated over 32 to 40 years.

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

Stock-Based Compensation. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R eliminates the alternative to use the intrinsic value method of accounting provided in SFAS 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all companies to apply a fair-value-based measurement method in accounting for generally all share-based payment transactions with employees.

On July 1, 2005 (the first day of the Company s 2006 fiscal year), the Company adopted SFAS 123R. The provisions of SFAS 123R became effective the first annual reporting period beginning after June 15, 2005, and the Company adopted SFAS 123R using a modified prospective application, as permitted under SFAS 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

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The following table details the effect on net income and earnings per share had compensation expense for the employee stock-based awards been recorded in the prior year ended June 30, 2005, based on the fair value method under SFAS 123. The reported and pro forma net income and earnings per share for the current year ended June 30, 2006, are the same since stock-based compensation expense is calculated under the provisions of SFAS 123R. The amounts for the years ended June 30, 2005 and 2004 are included in the table below solely to provide the detail for a comparative presentation to the period of the previous year.

	Year Ended June 30,		
	2006	2005	2004
Net income, as reported	$ 10,435,362	$ 1,446,471	$ 2,166,642
Add: Stock-based employee compensation expense included in reported net income, net of tax	46,135	33,000	33,000
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of tax	(46,135)	(36,217)	(36,753)
Pro forma net income	$ 10,435,362	$ 1,443,254	$ 2,162,889
Earnings per share:			
Basic as reported	$ 1.39	$ 0.19	$ 0.29
Diluted as reported	$ 1.38	$ 0.19	$ 0.29
Basic pro forma	$ 1.39	$ 0.19	$ 0.29
Diluted pro forma	$ 1.38	$ 0.19	$ 0.29

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options vesting period. The fair value of these options was estimated at the date of the grant using a Black-Scholes option-pricing model. During fiscal 2006, an option for 5,000 shares was granted with a fair value, net of tax, of $43,400. During fiscal year 2005, options for 20,000 shares were granted with a fair value, net of tax, of $30,750. No options were granted during fiscal year 2004.

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

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109 by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would recognize in its financial statements the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement of the tax position. FIN 48 will be effective for the fiscal years beginning after December 15, 2006. The provisions of FIN 48 are required to be applied to all tax positions in all open tax years. The Company is in the process of evaluating the impact, if any, of adoption on the Company s financial position and results of operation.

Revenue Recognition. The Company earns substantially all of its revenues from investment advisory and transfer agency services. Mutual fund investment advisory fees, calculated as a percentage of assets under management, are recorded as revenue as services are performed. Advisory client contracts provide for monthly management fees, in addition to a quarterly or annual performance fees. Transfer agency fees are calculated using a charge based upon the number of shareholder accounts serviced. Revenue shown on the Consolidated Statements of Operations and Comprehensive Income are net of any fee waivers.

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In the third quarter of fiscal year 2006, the Company began providing investment advisory services for Endeavour Mining Capital Corp. (EMCC), an offshore company. The Company is paid a monthly advisory fee based on the net asset value of the portfolio, and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity.

EITF Abstract Topic No. D-96, Accounting for Management Fees Based on a Formula, identifies two methods by which incentive revenue may be recorded. Under Method 1, incentive fees are recorded at the end of the contract year; under Method 2, the incentive fees are recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract was terminated at that date. Management has chosen the more conservative method (Method 1), in which performance fees are recorded annually at the end of each fiscal year of EMCC. The Company recorded $6,611,582 in annual performance fees and $443,685 in advisory fees for the year ended June 30, 2006.

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

Advertising Costs. The Company expenses advertising costs as they are incurred. Certain sales materials, which are considered tangible assets, are capitalized and then expensed during the period in which they are distributed. At June 30, 2006, 2005, and 2004, the Company had capitalized sales materials of approximately $59,000, $48,000, and $16,000, respectively. Net advertising expenditures were approximately $513,000, $370,000, and $373,000 during fiscal 2006, 2005, and 2004, respectively.

Foreign Currency Transactions. Transactions between the Company and foreign entities are converted to U.S. dollars using the exchange rate on the date of the transactions. Security investments valued in foreign currencies are translated to U.S. dollars using the applicable exchange rate as of the reporting date. Realized foreign currency gains and losses are immaterial and are therefore included as a component of investment income rather than other comprehensive income.

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

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

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Note 3. Investments

As of June 30, 2006, the Company held investments with a market value of $4.7 million and a cost basis of $4.1 million. The market value of these investments is approximately 16.3 percent of the Company s total assets. The following table summarizes investment activity over the last three fiscal years:

	Year Ended June 30, 2006	2005	2004
Realized gains (losses) on sale of trading securities	$ 305,469	$ (78,253)	$ 135,789
Trading securities, at cost	4,011,961	3,040,700	1,857,171
Trading securities, at fair value [1]	4,659,824	2,612,529	1,672,354
Net change in unrealized gains (losses) on trading securities (included in earnings) [2]	1,076,034	(243,355)	748,018
Available-for-sale securities, at cost	45,444	299,055	405,055
Available-for-sale securities, at fair value [1]	82,202	890,461	1,212,742
Gross realized gains on sale of available-for-sale securities	582,475		158,387
Gross realized losses on sale of available-for-sale securities	(31,572)		(3,406)
Gross unrealized losses recorded in shareholders equity	(3,137)	(76,746)	(180,727)
Gross unrealized gains recorded in shareholders equity	39,896	668,152	988,414
Losses on available-for-sale securities deemed to have other-than-temporary declines in value	(28,655)	(106,000)	(41,448)

(1) These categories of securities are comprised primarily of equity investments, including those investments discussed in Note 15 regarding related party transactions.

(2) Total gross unrealized gains on trading securities recorded in fiscal 2006 are comprised primarily of the unrealized gain on four securities, which makes up

$826,240 of the
$1,076,034, or
77%, of the
gross unrealized
gains recorded.

The following table summarizes equity investments that are in an unrealized loss position at each balance sheet date, categorized by how long they have been in a continuous loss position. These investments do not include trading securities or those available-for-sale securities with declines in value deemed other than temporary as their unrealized losses are recognized in earnings.

	Less Than 12 Months		**12 Months or Greater**		**Total**	
Fiscal Year	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
2006	$ 7,614	$ 3,137	$ 0	$ 0	$ 7,614	$ 3,137
2005	$ 112,702	$ 35,953	$ 51,039	$ 40,793	$ 163,741	$ 76,746

The aggregate gross unrealized loss of $3,137 and $76,746 at June 30, 2006 and 2005, respectively, was primarily related to one and three securities, respectively. Many of the investments included above are early-stage or start-up businesses whose fair values fluctuate.

Note 4. Investment Management, Transfer Agent, and Other Fees

The Company serves as investment adviser to USGIF and USGAF and receives a fee based on a specified percentage of net assets under management. Three of the four funds within USGAF are sub-advised by third-party managers, who are in turn compensated out of the investment advisory fees received by the Company. The Company also serves as transfer agent to USGIF and USGAF and

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receives a fee based on the number of shareholder accounts. Additionally, the Company provides in-house legal services to USGIF and USGAF for which it is reimbursed and receives certain miscellaneous fees directly from USGAF and USGIF shareholders. Fees for providing investment and transfer agent services to USGIF and USGAF continue to be the Company s primary revenue source.

The Company has voluntarily waived or reduced its advisory fees and/or has agreed to pay expenses on several USGIF funds and one USGAF fund through November 1, 2007, and February 28, 2007, respectively, or such later date as the Company determines. The aggregate fees waived and expenses borne by the Company were $1,181,000, $1,332,000, and $1,471,000, in 2006, 2005, and 2004, respectively.

The investment advisory and related contracts between the Company and USGIF and USGAF will expire in February 2007 and May 2007, respectively. Management anticipates the trustees of both USGIF and USGAF will renew the contracts.

The Company provides advisory services to various offshore clients. The Company generally receives a monthly advisory fee and a quarterly or annual performance fee, if any, based on an agreed-upon performance measurement. The contracts between the Company and the offshore clients expire periodically and management anticipates that its offshore clients will renew the contracts.

The Company receives additional revenue from several sources including custodial fee revenues, revenues from miscellaneous transfer agency activities including lockbox functions, mailroom operations from A&B, as well as investment income.

Note 5. Property and Equipment

Property and equipment are composed of the following:

	June 30, 2006	June 30, 2005
Building and land	$ 2,523,623	$ 2,303,014
Furniture, equipment, and other	1,678,790	1,773,327
	4,202,413	4,076,341
Accumulated depreciation	(2,079,524)	(2,308,007)
Net property and equipment	$ 2,122,889	$ 1,768,334

Note 6. Other Accrued Expenses

Other accrued expenses consist of the following:

	June 30, 2006	June 30, 2005
Taxes payable	$ 2,907,266	$ 181,099
Omnibus fees	981,524	509,185
Subadvisory fees	642,644	295,500
Vendors payable	286,168	286,880
Legal, professional, and consulting fees	176,619	127,713
Other	25,514	80,661
Total other accrued expenses	$ 5,019,735	$ 1,481,038

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Note 7. Borrowings

As of June 30, 2006, the Company has no long-term liabilities.

The Company has access to a $1 million credit facility with a one-year maturity for working capital purposes. The Company must maintain certain quarterly financial covenants to access the line of credit. The covenants include: (1) liquidity of $1 million or more in cash, cash equivalents and marketable securities, (2) a debt to equity ratio of .75 or less, and (3) a ratio of current assets to current liabilities of 2.0 or greater. The Company has been in compliance with all financial covenants during the fiscal year. Any use of this credit facility will be secured by the Company s eligible accounts receivable. As of June 30, 2006, this credit facility remained unutilized by the Company.

Note 8. Lease Commitments

The Company has operating leases for computers and equipment that expire from fiscal years 2007 through 2009. Total lease expenses were $416,491, $360,778, and $245,776 in fiscal years 2006, 2005, and 2004, respectively. Future minimum lease payments required under these leases are as follows:

Fiscal Year	Amount
2007	$ 153,384
2008	58,752
2009	8,673
Total	$ 220,809

Note 9. Benefit Plans

The Company offers a savings and investment plan qualified under Section 401(k) of the Internal Revenue Code covering substantially all employees. In connection with this 401(k) plan, participants can voluntarily contribute a portion of their compensation, up to certain limitations, to this plan, and the Company will match 50% of participants contributions up to 4% of compensation. The Company has recorded expenses related to the 401(k) plan for contributions of $73,166, $55,018, and $51,523 for fiscal years 2006, 2005, and 2004, respectively.

The 401(k) plan allows for a discretionary profit sharing contribution by the Company, as authorized by the board of directors. The Company paid a profit sharing contribution in fiscal year 2006 of $220,000. In addition, the Company accrued an additional $166,000 through June 30, 2006 for a potential profit sharing contribution in fiscal 2007. The Company neither accrued nor paid a contribution for fiscal years 2005 and 2004.

The Company has continued the program pursuant to which it offers employees, including its executive officers, an opportunity to participate in savings programs using mutual funds managed by the Company, which essentially all such employees accepted. Employees may contribute to an IRA, and the Company matches these contributions on a limited basis. Similarly, certain employees may contribute to the Tax Free Fund, and the Company will match these contributions on a limited basis. A similar savings plan utilizing UGMA accounts is offered to employees to save for the education of their minor relatives. The Company match, reflected in base salary expense, aggregated in all programs to $61,061, $54,616, and $50,903 in fiscal years 2006, 2005, and 2004, respectively.

The Company has a program whereby eligible employees can purchase treasury shares, at market price, and the Company will match their contribution up to 3% of gross salary. During fiscal years 2006, 2005, and 2004, employees purchased 12,881, 15,127 and 28,180 shares of treasury stock from the Company, respectively.

Additionally, the Company self-funds its employee health care plan. The Company has obtained reinsurance with both a specific and an aggregate stop-loss in the event of catastrophic claims. The Company has accrued an amount representing the Company s estimate of claims incurred but not paid at June 30, 2006.

Note 10. Shareholders Equity

On a per share basis, the holders of the class C common stock and the nonvoting class A common stock participate equally in dividends as declared by the Company s board of directors, with the exception that any dividends declared must first be paid to the holders of the class A stock to the extent of 5 percent of the Company s after-tax prior year net earnings. The holders of the class A stock have a liquidation preference equal to the par value of $.05 per share. In the event of a full liquidation, the total liquidation preference of the holders of the class A stock would be $320,149, based on shares outstanding at June 30, 2006.

During fiscal year 1999, the board of directors of the Company approved the issuance of 1,000,000 shares of class C common stock to Frank Holmes (Holmes) in exchange for services and cancellation of the option to purchase 400,000 shares of class C common stock held by Holmes and the cancellation of warrants to purchase 586,122 shares of class C common stock held by Holmes and F.E. Holmes Organization, Inc. The 1,000,000 shares vest over a ten-year period beginning July 1, 1998, and will vest fully on June 30, 2008, or in the event of Holmes death, and were valued at $.50 per share for compensation purposes. The agreement was executed on August 10, 1999. At June 30, 2006, the unvested balance of this deferred compensation arrangement is $100,000 and is included in additional paid-in capital.

During the fiscal years ended June 30, 2006, 2005, and 2004 the Company purchased 17,050, 2,980, and 16,741 shares, respectively, of its class A common stock at an average price of $12.62, $4.69, and $4.32, per share, respectively.

During the year ended June 30, 2006, the Company granted 4,100 shares of class A common stock to certain employees at a weighted average fair value on grant date of $12.18. During the year ended June 30, 2005, the Company granted no shares of class A common stock to employees. During the year ended June 30, 2004, the Company granted 15,000 shares of class A common stock to certain employees at a weighted average fair value on grant date of $1.77.

In November 1989, the board of directors adopted the 1989 Non-Qualified Stock Option Plan (1989 Plan), amended in December 1991, which provides for the granting of options to purchase 800,000 shares of the Company s class A common stock to directors, officers, and employees of the Company and its subsidiaries. Since adoption of the 1989 Plan, options have been granted at prices ranging from $1.50 to $5.69 per share, which equaled or exceeded the fair market value at date of grant. Options issued under the 1989 Plan vest six months from the grant date or 20 percent on the first, second, third, fourth, and fifth anniversaries of the grant date.

In April 1997, the board of directors adopted the 1997 Non-Qualified Stock Option Plan (1997 Plan), which provides for the granting of stock appreciation rights (SARs) and/or options to purchase 200,000 shares of the Company s class A common stock to directors, officers, and employees of the Company and its subsidiaries. Options issued prior to fiscal 2005 that were outstanding at June 30, 2006, were 100 percent vested at June 30, 2006. In October 2004, options for 20,000 shares were granted at an exercise price of $3.29 per share and vesting of 50 percent on the first and second anniversary dates. In February 2006, an option for 5,000 shares was granted at an exercise price of $15.38 per share and vesting of 50 percent on the first and second anniversary dates.

Options issued under the 1989 Plan and the 1997 Plan expire ten years after issuance. It is the Company s policy to issue class A common stock upon exercise of stock options.

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Stock option transactions under the various employee stock option plans for the past three fiscal years are summarized below:

	Shares	Weighted Average Exercise Price ($)
Outstanding June 30, 2003	161,500	1.94
Granted		
Canceled	10,000	1.58
Exercised	500	1.82
Outstanding June 30, 2004	151,000	1.94
Granted	20,000	3.29
Canceled	2,000	2.07
Exercised	4,500	1.63
Outstanding June 30, 2005	164,500	2.11
Granted	5,000	15.38
Canceled	10,000	2.00
Exercised	86,500	2.19
Outstanding June 30, 2006	73,000	2.93

As of June 30, 2006, 2005, and 2004, exercisable employee stock options totaled 58,000, 144,500, and 144,000 shares and had weighted average exercise prices of $1.80, $1.95, and $1.96 per share, respectively.
Class A common stock options outstanding and exercisable under the employee stock option plans at June 30, 2006, were as follows:

		Options Outstanding			Options Exercisable	
	Date of Option Grant	Number Outstanding	Remaining Life in Years	Weighted Average Exercise Price ($)	Number Exercisable	Weighted Average Option Price ($)
1989 Plan	12/03/99	15,000	3.42	1.50	15,000	1.50
Class A		15,000	3.42	1.50	15,000	1.50
1997	06/04/97	26,000	.92	1.82	26,000	1.82
Plan	12/03/99	12,000	3.42	1.50	12,000	1.50
Class A	10/01/04	15,000	8.25	3.29	5,000	3.29
	02/24/06	5,000	9.65	15.38	0	15.38
		58,000	4.09	3.30	43,000	1.90
All Plans	12/99 through 02/06	73,000	3.95	2.93	58,000	1.80

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Note 11. Income Taxes

The reconciliation of income tax computed at the U.S. federal statutory rates to income tax expense is:

	Year Ended June 30,					
	2006	% of Pretax	2005	% of Pretax	2004	% of Pretax
Tax expense at statutory rate	$ 5,479,589	34.5%	$ 760,390	34.0%	$ 966,443	34.0%
Change in valuation allowance			(34,472)	(1.5%)	(280,921)	(9.9%)
Other	(47,611)	(0.3%)	64,053	2.9%	(9,683)	(0.3)%
	$ 5,431,978	34.2%	$ 789,971	35.3%	$ 675,839	23.8%

Components of total tax expense are as follows:

	Year Ended June 30,		
	2006	2005	2004
Current tax expense	$ 4,875,027	$ 740,347	$ 71,543
Deferred tax expense	556,951	49,624	604,296
Total tax expense	$ 5,431,978	$ 789,971	$ 675,839

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company s deferred total assets and liabilities using a 34% tax rate are as follows:

	Year Ended June 30,	
	2006	2005
Book/tax differences in the balance sheet		
Trading securities	$ (220,273)	$ 145,578
Prepaid expenses	(167,574)	(145,089)
Accumulated depreciation	(22,531)	12,086
Accrued expenses	209,141	80,499
FAS 123R compensation expense	12,136	
Available-for-sale securities	58,021	147,680
Option issued to vendor		5,984
	(131,080)	246,738
Tax carryovers		
Capital loss carryover	14,584	
	14,584	
Total gross deferred tax asset (liability)	(116,496)	246,738
Valuation allowance		
Net deferred tax asset (liability)	$ (116,496)	$ 246,738

For federal income tax purposes at June 30, 2006, the Company has $14,584 in capital loss carryovers that will expire in 2010.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax amount will not be realized. As such, management included no valuation allowance at June 30, 2006 providing for the utilization of investment tax credits. The valuation allowance was reduced to zero in fiscal 2005 as the credits expired.

Note 12. Earnings Per Share

The following table sets forth the computation for basic and diluted earnings per share (EPS):

	Year Ended June 30, 2006	2005	2004
Basic and diluted net income	$ 10,435,362	$ 1,446,471	$ 2,166,642
Weighted average number of outstanding shares			
Basic	7,515,789	7,479,998	7,469,164
Effect of dilutive securities			
Employee stock options	57,326	84,271	63,970
Diluted	7,573,115	7,564,269	7,533,134
Earnings per share			
Basic	$ 1.39	$ 0.19	$ 0.29
Diluted	$ 1.38	$ 0.19	$ 0.29

The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price for the period. For the years ended June 30, 2006, 2005, and 2004, employee stock options for 5,000, 0, and 0 shares, respectively, were excluded from diluted EPS.

Note 13. Comprehensive Income

The Company has disclosed the components of comprehensive income in the consolidated statements of operations and comprehensive income.

	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
June 30, 2006			
Change in unrealized losses on available-for-sale securities	$ (3,746)	$ 1,273	$ (2,473)
Less: reclassification adjustment for gains included in net income	(550,903)	187,307	(363,596)
Other comprehensive income	$ (554,649)	$ 188,580	$ (366,069)
June 30, 2005			
Change in unrealized losses on available-for-sale securities	$ (216,280)	$ 73,535	$ (142,745)
Other comprehensive income	$ (216,280)	$ 73,535	$ (142,745)
June 30, 2004			
Change in unrealized gains on available-for-sale securities	$ 979,158	$ (332,914)	$ 646,244
Less: reclassification adjustment for gains included in net income	(154,981)	52,694	(102,287)
Other comprehensive income	$ 824,177	$ (280,220)	$ 543,957

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Note 14. Financial Information by Business Segment

The Company operates principally in two business segments: providing investment management services to its clients and investing for its own account in an effort to add growth and value to its cash position. The following details total revenues and income (loss) by business segment:

	Investment Management Services	Corporate Investments	Consolidated
Year ended June 30, 2006			
Net revenues	$ 42,959,530	$ 1,894,058	$ 44,853,588
Net income before income taxes	13,997,166	1,870,174	15,867,340
Depreciation	152,755		152,755
Interest expense			
Capital expenditures	510,804		510,804
Gross identifiable assets at June 30, 2006	24,220,565	4,764,077	28,984,642
Deferred tax asset			62,211
Consolidated total assets at June 30, 2006			29,046,853
Year ended June 30, 2005			
Net revenues (loss)	$ 17,408,377	$ (427,038)	$ 16,981,339
Net income (loss) before income taxes	2,691,479	(455,037)	2,236,442
Depreciation	109,899		109,899
Interest expense	81		81
Capital expenditures	67,634		67,634
Gross identifiable assets at June 30, 2005	8,331,233	3,524,544	11,855,777
Deferred tax asset			246,738
Consolidated total assets at June 30, 2005			12,102,515
Year ended June 30, 2004			
Net revenues	$ 11,979,314	$ 1,004,186	$ 12,983,500
Net income before income taxes	1,839,764	1,002,717	2,842,481
Depreciation	108,065		108,065
Interest expense	72,962	183	73,145

Gain on litigation settlement			
Capital expenditures	145,548		145,548
Gross identifiable assets at June 30, 2004	6,428,674	2,885,096	9,313,770
Deferred tax asset			222,826
Consolidated total assets at June 30, 2004			9,536,596

Note 15. Related Party Transactions

The Company had $12.6 million and $4.8 million at fair value invested in USGIF and USGAF funds, included in the balance sheet in cash and cash equivalents and trading securities, at June 30, 2006, and 2005, respectively. The Company recorded $49,380 in dividend income and $100,952 in unrealized gains on its investments in the funds. Receivables from mutual funds shown on the Consolidated Balance Sheets represent amounts due the Company and its wholly owned subsidiaries for investment advisory fees, transfer agent fees, and out-of-pocket expenses, net of amounts payable to the mutual funds.

In the first quarter of fiscal year 2005, the Company began providing advisory services for the Meridian Global Gold and Resources Fund Ltd., an offshore fund. The Company receives a monthly advisory fee and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded fees totaling $1,353,454 and $299,144 for the years ended June 30, 2006 and June 30, 2005, respectively. Frank Holmes, a director and CEO of the

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Company, is a director of Meridian Global Gold and Resources Fund Ltd., and Meridian Fund Managers Ltd., the manager of the fund.

In the first quarter of fiscal year 2006, the Company began providing advisory services to the U.S. Global Investors Balanced Natural Resources Fund, Ltd., an offshore fund. For these services, the Company is paid a monthly advisory fee and a quarterly performance fee, if any. The Company recorded advisory fees totaling $212,828 for the year ended June 30, 2006. The Company has an investment in the U.S. Global Investors Balanced Natural Resources Fund, Ltd. with a market value of $682,000 and $500,000 as of June 30, 2006, and 2005, respectively. The Company earned $182,000 in unrealized gains on its investment in the fund in fiscal 2006, which was recorded as investment income. Holmes is a director of U.S. Global Investors Balanced Natural Resources Fund Ltd.

In the third quarter of fiscal year 2006, the Company began providing investment advisory services to Endeavour Mining Capital Corp., an offshore company. The Company is paid a monthly advisory fee based on the net asset value of the portfolio and an annual performance fee, if any, based on a percentage of consolidated net income from operations in excess of a predetermined percentage return on equity. The Company recorded $7,055,267 in performance and advisory fees for the year ended June 30, 2006. Holmes is Chairman of the Board of Directors of Endeavour Mining Capital Corp.

In August of 2006, subsequent to the Company s fiscal year end, the Company began providing advisory services for the Meridian Global Energy and Resources Fund Ltd., an offshore fund. The Company will receive a monthly advisory fee and a quarterly performance fee, if any, based on the overall increase in value of the net assets in the fund for the quarter. The Company recorded no fees for the year ending June 30, 2006. The Company invested $500,000 in the fund in August 2006. Holmes is a director of Meridian Global Energy and Resources Fund Ltd., and Meridian Fund Managers Ltd., the manager of the fund.

The Company owns a position in Franc-Or Resources Corporation at June 30, 2006, with an estimated fair value of approximately $400,000, recorded as a trading security on the balance sheet. Holmes served as an independent director of Franc-Or Resources Corporation from June 2000 to November 2003.

Holmes also served as an independent director for BCS Global Networks (formerly Broadband Collaborative Solutions), a private company, from May 2000 to June 30, 2002, when the entity became a public company. Holmes personally owned shares of BCS Global Networks at June 30, 2005. The Company owned a position in BCS Global Networks at June 30, 2005, with an estimated fair value of approximately $42,000 recorded as available for sale on the balance sheet. In the first quarter of fiscal 2006, both the Company and Holmes sold their holdings in BCS Global Networks in response to a tender offer, with the Company realizing a loss of $31,560.

Note 16. Contingencies and Commitments

The Company continuously reviews all investor, employee and vendor complaints, and pending or threatened litigation. The likelihood that a loss contingency exists is evaluated under the criteria of SFAS No. 5, Accounting for Contingencies, through consultation with legal counsel, and a loss contingency is recorded if the contingency is probable and reasonably estimable at the date of the financial statements.

During the normal course of business, the Company may be subject to claims, legal proceedings, and other contingencies. These matters are subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably. The Company establishes accruals for matters for which the outcome is probable and can be reasonably estimated. Management believes that any liability in excess of these accruals upon the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial statements of the Company.

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Note 17. Selected Quarterly Financial Data (Unaudited)

Note that some rows may not add to the correct annual total due to rounding.

Fiscal 2006	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(in thousands except per share figures)				
Revenues	$ 6,575	$ 7,761	$ 11,557	$ 18,961
Expenses	4,859	6,048	7,459	10,620
Income Before Income Taxes	1,716	1,713	4,098	8,341
Net Income	1,095	1,168	2,550	5,622
Earnings per Share:				
Basic	$ 0.15	$ 0.16	$ 0.34	$ 0.74
Diluted	$ 0.14	$ 0.15	$ 0.34	$ 0.74

Fiscal 2005	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(in thousands except per share figures)				
Revenues	$ 2,962	$ 4,106	$ 4,884	$ 5,029
Expenses	2,631	3,495	4,154	4,465
Income Before Income Taxes	331	611	730	564
Net Income	240	407	449	350
Earnings per Share:				
Basic	$ 0.03	$ 0.05	$ 0.06	$ 0.05
Diluted	$ 0.03	$ 0.05	$ 0.06	$ 0.05

Fiscal 2004	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(in thousands except per share figures)				
Revenues	$ 2,629	$ 4,337	$ 3,217	$ 2,800
Expenses	1,946	2,514	2,870	2,811
Income (Loss) Before Income Taxes	683	1,823	347	(11)
Net Income	688	1,248	240	(10)
Earnings per Share:				
Basic	$ 0.09	$ 0.17	$ 0.03	$ (0.00)
Diluted	$ 0.09	$ 0.17	$ 0.03	$ (0.00)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with accountants on accounting and financial disclosure during the two most recent fiscal years.

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Item 9A. Controls and Procedures

Disclosure Controls and Procedures. An evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2006, was conducted under the supervision and with the participation of management, including the chief executive officer and chief financial officer. Based on that evaluation the chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures were effective as of June 30, 2006.

Internal Control over Financial Reporting.

(a) Management s Annual Report on Internal Control Over Financial Reporting

The management report on U.S. Global Investors, Inc. s internal control over financial reporting required by Item 9A appears in Item 8 on page 22 of this report, and is incorporated herein by reference.

(b) Attestation Report of the Independent Registered Public Accounting Firm.

The report of BDO Seidman, LLP on our management s assessment of U.S. Global Investors, Inc. s internal control over financial reporting appears in Item 8 on page 23 of this report., and is incorporated herein by reference.

(c) Changes in Internal Control Over Financial Reporting.

There has been no change in the Company s internal control over financial reporting that occurred during the quarter ended June 30, 2006, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

None.

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Part III of Annual Report on Form 10-K

Item 10. Directors and Executive Officers of the Company

The directors and executive officers of the Company are as follows:

Name	Age	Position
Frank E. Holmes	51	Director of the Company and Chief Executive Officer of the Company since October 1989, and Chief Investment Officer since June 1999. Since October 1989, Mr. Holmes has served and continues to serve in various positions with the Company, its subsidiaries, and the investment companies it sponsors. Mr. Holmes has also served as Director of 71316 Ontario, Inc. since April 1987. Director, President, and Secretary of F.E. Holmes Organization, Inc. since July 1978. Mr. Holmes served as Director of Franc-Or Resources Corporation from June 2000 to November 2003, Chairman and Director of Fortress IT Corp (formerly Consolidated Fortress) from November 2000 to November 2003, and Director of Broadband Collaborative Solutions from May 2000 to June 2002.
Jerold H. Rubinstein	68	Chairman of the Board of Directors since February 2006 and Director of the Company since October 1989. Board member and Chairman of the Audit Committee of CKR since June 2006. Chief Executive Officer and founder of Music Imaging & Media, Inc. from July 2002 to present. Chairman of Musicplex, Inc. from September 1999 to June 2002. Chairman of Xtra Music Services from July 1997 to May 2000. Chairman of the Board of Directors and Chief Executive Officer of DMX Inc. from May 1986 to July 1997.
Roy D. Terracina	60	Director of the Company since December 1994 and Vice Chairman of the Board of Directors since May 1997. Owner of Sunshine Ventures, Inc., an investment company, since January 1994.
Thomas F. Lydon, Jr.	46	Director of the Company since June 1997. Chairman of the Board and President of Global Trends Investments since April 1996. President, Vice President and Account Manager with Fabian Financial Services, Inc. from April 1984 to March 1996. Member of the Advisory Board for Schwab Institutional from 1989 to 1991 and from 1995 to 1996. Member of the Advisory Board of Rydex Series Trust since January 1999. Fund Relations Chair for SAAFTI since 1994.
Susan B. McGee	47	President of the Company since February 1998, General Counsel since March 1997. Since September 1992, Ms. McGee has served and continues to serve in various positions with the Company, its subsidiaries, and the

		investment companies it sponsors.
Catherine A. Rademacher	46	Chief Financial Officer of the Company since August 2004. Controller of the Company from April 2004 until August 2004. Associate with Resources Connection from July 2003 to February 2004. Recruiting Manager with Robert Half International from November 2002 to June 2003. Controller of Luby s Inc. from June 2000 to October 2002. Assistant Controller of Hunt Building Corp. from April 1995 to October 1998. Senior auditor with KPMG Peat Marwick from October 1993 to March 1995.

None of the directors or executive officers of the Company has a family relationship with any of the other directors or executive officers.

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The members of the board of directors are elected for one-year terms or until their successors are elected and qualified. The board of directors appoints the executive officers of the Company. The Company s Compensation Committee assists the board of directors in carrying out its responsibilities with respect to (a) employee qualified benefit plans and employee programs, (b) executive compensation programs, (c) stock option plans, and (d) director compensation programs, and consists of Messrs. Lydon, Rubinstein, and Terracina. The Company s Audit Committee consists of Messrs. Lydon, Rubinstein, and Terracina. The board of directors has determined that a member of the Audit Committee, namely Roy D. Terracina, is an audit committee financial expert and is independent (as defined by the SEC). The Company does not have a Nominating Committee.

Code of Ethics for Senior Financial Officers

The Company has adopted a Code of Ethics for Senior Financial Officers that applies to the Company s principal executive officer and principal financial officer. This code charges these individuals with responsibilities regarding honest and ethical conduct, the preparation and quality of the disclosures in documents and reports the Company files with the Securities and Exchange Commission, and compliance with applicable laws, rules and regulations.

Compliance with Section 16(a) of the 1934 Act

Section 16(a) of the 1934 Act requires directors and officers of the Company, and persons who own more than 10% of the Company s class A common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of the stock. Directors, officers and more than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company s knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the year ended June 30, 2006, all Section 16(a) filing requirements applicable to its directors, officers and more than 10% beneficial owners were met.

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Item 11. Executive Compensation

The Company has intentionally omitted columns (g), (h), and (i) as they are not applicable.

Executive compensation includes amounts identified for 401(k) contributions and amounts for Company savings plans (calculable through the end of the June 30, 2006, fiscal year).

	Annual Compensation				Long-Term Compensation Awards
(a) Name and Principal Position During FY 2006	**(b) Year**	**(c) Salary ($)**	**(d) Bonus ($)**	**(e) Other Annual Compen-sation ($)**	**(f) Restricted Stock Awards ($)**
Frank Holmes	2006	488,390(1)	1,617,762	3,375(3)	50,000(2)
Chairman, Chief	2005	492,040(1)	273,805	(3)	50,000(2)
Executive Officer	2004	486,190(1)	206,640	(3)	50,000(2)
Susan B. McGee	2006	188,714	567,896	163,275(3)	
President, General	2005	188,714	213,186	(3)	
Counsel	2004	188,714	168,210	(3)	
Catherine A. Rademacher	2006	102,953	112,037	51,950(3)	
Chief Financial Officer	2005	96,116	23,630	(3)	

(1) Includes trustee fees of $43,600, $47,250, and $40,400 paid by the Company during fiscal year 2006, 2005, and 2004, respectively.

(2) In June 1999, the board of directors granted Holmes 1,000,000 shares of class C common stock to be vested, in equal parts, over a ten-year period beginning with fiscal year 1999, with an annual compensation value of $50,000. Holmes will be

fully vested on June 30, 2008. Issuance was in part to compensate him for his efforts and upon cancellation of Holmes warrants and option to acquire 986,122 shares of class C common stock.

(3) Any amounts shown represent options exercised. The Company believes that the aggregate amounts of any omitted personal benefits do not exceed the lesser of $50,000 or 10% of the total of annual salary and bonus reported in columns (c) and (d) for the named executive officers.

Incentive Compensation

Executive officers, except Mr. Holmes, participate in a team performance pay program based on each employee s annual salary to recognize monthly completion of departmental goals. Additionally, key executive officers are compensated based on individual performance pay arrangements.

401(k) Plan

The Company offers a 401(k) plan covering substantially all employees. The Company will match a certain percentage of a participating employee s pay deferment. The Company contributes to participants accounts at the same time that the employee s pay deferral is made. Employees are immediately vested in both their 401(k) salary deferral contribution and the Company s matching contribution.

The 401(k) plan allows for a discretionary profit sharing contribution by the Company, as authorized by the board of directors. The Company made a profit sharing contribution of $220,000 in fiscal year 2006. In addition, the Company accrued an additional $166,000 through June 30, 2006 for a potential profit sharing contribution in fiscal 2007. The Company did not make a profit sharing contribution for the 2005 or 2004 fiscal years.

Savings Plans

The Company has continued the program pursuant to which it offers employees, including its executive officers, an opportunity to participate in savings programs using managed investment companies. Limited employee contributions to an Individual Retirement Account are matched by the Company. Similarly, certain employees may contribute monthly to the Tax Free Fund, and the Company will match these contributions on a limited basis. A similar savings plan utilizing UGMA accounts is offered to employees to save for the education of their minor relatives.

Stock Purchase Plan

The Company has a program whereby eligible employees can purchase treasury shares, at market price, and the Company will match their contribution up to 3% of gross salary. During fiscal years 2006, 2005, and 2004, employees purchased 12,881, 15,127, and 28,180 shares of treasury stock from the Company, respectively.

Stock Option Plans

In November 1989 the board of directors adopted the 1989 Non-Qualified Stock Option Plan (1989 Plan) which provides for the granting of options to purchase shares of the Company s class A common stock to directors, officers and employees of the Company and its subsidiaries. On December 6, 1991, shareholders approved and amended the 1989 Plan to provide provisions to cause the plan and future grants under the plan to qualify under 1934 Act Rule 16b-3. The 1989 Plan is administered by the Compensation Committee consisting of three outside members of the board of directors. The maximum number of shares of class A common stock initially approved for issuance under the 1989 Plan is 800,000 shares. During the fiscal year ended June 30, 2006, there were no grants. As of June 30, 2006, under this amended plan, 866,700 options had been granted, 426,500 options had been exercised, 425,200 options had expired, 15,000 options remained outstanding, and 358,500 options are available for grant.

In April 1997, the board of directors adopted the 1997 Non-Qualified Stock Option Plan (1997 Plan), which shareholders approved on April 25, 1997. It provides for the granting of stock appreciation rights (SARs) and/or options to purchase shares of the Company s class A common stock to directors, officers, and employees of the Company and its subsidiaries. The 1997 Plan expressly requires that all grants under the plan qualify under 1934 Act Rule 16b-3. The 1997 Plan is administered by the Compensation Committee consisting of three outside members of the board of directors. The maximum number of shares of class A common stock initially approved for issuance under the 1997 Plan is 200,000 shares. During the fiscal year ended June 30, 2006, there was one option for 5,000 shares granted. As of June 30, 2006, 265,500 options had been granted, 75,500 shares had been exercised, 132,000 options had expired, 58,000 options remained outstanding, and 66,500 options are available for grant.

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The following table shows, as to each of the officers of the Company listed in the cash compensation table, aggregated option exercises during the last fiscal year and fiscal year-end option values. During fiscal year 2006, no options were granted to an officer of the Company.

(a) Name	(b) Number of Shares Acquired on Exercise	(c) Dollar Value Realized	(d) Number of Securities Underlying Unexercised Options/SARs at FY End (#) Exercisable/ Unexercisable	(e) Value of Unexercised In-The-Money Options/SARs at FY End ($) Exercisable/ Unexercisable
Frank E. Holmes	1,000	$ 3,375	0/0	$ 0/$0
Susan B. McGee	11,000	$ 163,275	40,000/0	$778,000/$0
Catherine A. Rademacher	5,000	$ 51,950	0/5,000	$ 0/$89,300

Compensation of Directors

The Company may grant nonemployee directors options under the Company s 1989 and 1997 Stock Option Plans. Their compensation is subject to a minimum of $6,000 in any quarter paid in arrears. For the fiscal year ended June 30, 2006, the three nonemployee directors received compensation of $62,000, $27,000 and $24,000. Directors are reimbursed for reasonable travel expenses incurred in attending the meetings held by the board of directors.

Report on Executive Compensation

The board appointed Messrs. Lydon, Terracina, and Rubinstein as members of the Compensation Committee. There are no compensation committee interlocks to report. The Compensation Committee reviews Mr. Holmes compensation annually to determine an acceptable base compensation, reflecting an amount competitive with industry peers and taking into account the relative cost of living in San Antonio, Texas. The Compensation Committee also reviews Mr. Holmes performance in managing the Company s securities portfolio, in overseeing the management of the Company s client portfolios and the results of the Company s operational earnings. Mr. Holmes receives a bonus based on achieving certain benchmarks in each of these areas.

During fiscal year 1999, Mr. Holmes, in addition to his other duties, became the Company s Chief Investment Officer responsible for supervising management of clients portfolios. In August 1999, in part to compensate him for these efforts and upon cancellation of Mr. Holmes warrants and option to acquire 986,122 shares of class C common stock, the board approved the issuance of 1,000,000 shares of class C common stock to Mr. Holmes to be vested over a ten-year period beginning with fiscal year 1998, with an annual compensation value of $50,000. Mr. Holmes will be fully vested on June 30, 2008.

The base pay of the executives is relatively fixed, but the executive has the opportunity to increase his/her compensation through bonuses or by participating directly in retirement and savings programs whereby the Company will contribute amounts relative to the executive s contribution.

The Company has utilized option grants under the 1989 Plan and the 1997 Plan to induce qualified individuals to join the Company with a base pay consistent with the foregoing, thereby providing the individual with an opportunity to benefit if there is significant Company growth. Similarly, options

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have been utilized to reward existing employees for long and faithful service and to encourage them to stay with the Company. The Compensation Committee administers the stock option plans.

Company Performance Presentation

The graph above compares the cumulative total return for the Company s class A common stock (GROW) to the cumulative total return for both the S&P 500 Index and the American Stock Exchange Gold BUGS Index (HUI) for the Company s last five fiscal years. The graph assumes an investment of $10,000 in the class A common stock and in each index as of June 30, 2001, and that all dividends are reinvested.

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Item 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

Class C Common Stock (Voting Stock)

On August 25, 2006, there were 1,496,800 shares of the Company s class C common stock outstanding. The following table sets forth, as of such date, information regarding the beneficial ownership of the Company s class C common stock by each person known by the Company to own 5% or more of the outstanding shares of class C common stock.

Name and Address of Beneficial Owner	Class C Common Shares Beneficially Owned	Percent of Class (%)
Frank E. Holmes 7900 Callaghan Road San Antonio, TX 78229	1,392,211(1)	93.01%

(1) Includes 1,000,000 shares of class C common stock issued to Mr. Holmes that will be vested in equal amounts over a ten-year period and will be fully vested on June 30, 2008; 387,280 shares owned directly by Mr. Holmes; and 4,931 shares owned by Mr. Holmes in an IRA.

Class A Common Stock (Nonvoting Stock)

On August 25, 2006, there were 6,077,029 shares of the Company s class A common stock issued and outstanding. The following table sets forth, as of such date, information regarding the beneficial ownership of the Company s class A common stock by each person known by the Company to own 5% or more of the outstanding shares of class A common stock.

Name and Address of Beneficial Owner	Class A Common Shares Beneficially Owned	Percent of Class (%)
Praetorian Capital Management, LLC Miami Beach, Florida(1)	720,000(1)	11.85%
Insight Capital Research & Management, Inc. Walnut Creek, California(2)	557,508(2)	9.17%

Whitebox Advisors, LLC	Minneapolis, Minnesota(3)	354,428(3)	5.83%
Osmium Partners, LLC	San Francisco, California(4)	348,270(4)	5.73%
Royce & Associates, LLC.	New York, New York(5)	336,804(5)	5.54%
Navellier & Associates, Inc.	Reno, Nevada(6)	307,878(6)	5.07%

(1) Information is from Schedule 13G for period ending December 31, 2005, filed with the SEC on January 13, 2006.

(2) Information is from Schedule 13F for period ending June 30, 2006, filed with the SEC on August 9, 2006.

(3) Information is from Schedule 13F Amendment Number 2 for the period ending June 30, 2006, filed with the SEC on August 18, 2006.

(4) Information is from Schedule 13G Amendment Number 1 for the period ending September 14, 2005, filed with the SEC on February 10, 2006.

(5)

Information is from Schedule 13G for the period ending July 31, 2006, filed with the SEC on August 7, 2006.

(6) Information is from Schedule 13F for the period ending June 30, 2006, filed with the SEC on July 20, 2006.

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Security Ownership of Management

The following table sets forth, as of August 25, 2006, information regarding the beneficial ownership of the Company s class A and class C common stock by each director and named executive officers and by all directors and executive officers as a group. Except as otherwise indicated in the notes below, each director owns directly the number of shares indicated in the table and has sole voting power and investment power with respect to all such shares.

	Class C Common Stock		**Class A Common Stock**	
Beneficial Owner	**Number of Shares**	**%**	**Number of Shares**	**%**
Frank E. Holmes, CEO, Director	1,392,211(1)	93.01%	99,320	1.63%
Susan B. McGee, President, General Counsel			54,754(2)	0.90%
Catherine A. Rademacher, CFO			6,206(3)	0.10%
Roy D. Terracina, Director			20,000	0.33%
All directors and executive officers as a group (four persons)	1,392,211	93.01%	180,280	2.97%

(1) Includes 1,000,000 shares of class C common stock issued to Mr. Holmes that will be vested in equal amounts over a period of ten years and will be fully vested on June 30, 2008; 387,280 shares owned directly by Mr. Holmes; and 4,931 shares owned by Mr. Holmes in an IRA.

(2) Includes 40,000 shares of class A common stock underlying presently exercisable options held directly and 14,754 shares owned directly by

Ms. McGee.

(3) Includes 5,000 shares of class A common stock underlying options not presently exercisable and 1,206 shares owned directly by Ms. Rademacher.

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Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights *(a)*	Weighted-average exercise price of outstanding options, warrants and rights *(b)*	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) *(c)*
Equity compensation plans approved by security holders	N/A	N/A	N/A
Equity compensation plans not approved by security holders			
1989 Stock Option Plan [(1)]	15,000	$ 1.50	358,500
1997 Non-Qualified Stock Option Plan [(2)]	58,000	$ 3.30	66,500
Employee Stock Purchase Plan [(3)]	N/A	N/A	21,900
Total	73,000		446,900

(1) Stock options under this plan may be granted to directors, officers, and employees of the Company from authorized but unissued shares or treasury shares.

(2) Stock options under this plan may be granted to directors, executives, and key salaried employees of the Company from authorized but unissued shares or

treasury shares. The term of the option periods must be less than ten years.

(3) The Company has adopted a stock purchase plan to provide eligible employees of the Company an opportunity to purchase common stock of the Company. There are 75,000 authorized shares of treasury stock reserved for issuance under the plan. The Company contributes on behalf of each participant an amount equal to lesser of (i) the aggregate amount of the participant s payroll deductions for the purchase period, or (ii) 3% of the participant s base compensation during the purchase period.

Item 13. Certain Relationships and Related Transactions

U.S. Global is invested in several of the mutual funds it manages. There is incorporated in this Item 13 those items appearing under Note 15 to the Consolidated Financial Statements and filed as a part of this report.

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Item 14. Principal Accounting Fees and Services

The following table represents fees for professional audit services for the audit of the Company s annual financial statements for the fiscal years ended June 30, 2006 and 2005, respectively, rendered by BDO Seidman, LLP.

	Fiscal year ended June 30, 2006	2005
Audit fees [1]	$ 418,335	$ 117,000
Audit-related fees [2]	7,490	14,900
Tax fees [3]	19,210	19,084
All other fees		
Total fees	$ 445,035	$ 150,984

(1) Audit fees consist of fees for professional services rendered by the principal accountant for the audit of the Company s annual financial statements and internal control report and review of the financial statements included in the Company s Form 10-Q and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees consist primarily of fees for assurance and related

services by the accountant that are reasonably related to the performance of the audit or review of the Company s financial statements. These fees also include professional services rendered in assistance with the Company s compliance with Sarbanes-Oxley requirements.

(3) Tax fees include the preparation of federal tax returns as well as tax planning and consultation on new tax legislation, regulations, rulings, and developments.

Audit Committee Pre-Approval Policies

The Audit Committee has established pre-approval policies pursuant to which all audit and auditor- provided non-audit engagement fees and terms must be approved. Pre-approval is generally provided and is detailed as to the particular service or category of services. The Audit Committee is also responsible for considering, to the extent applicable, whether the independent auditors provision of other non-audit services to the Company is compatible with maintaining the independence of the independent auditors.

All services provided by BDO Seidman, LLP in the fiscal years ended June 30, 2006 and 2005 were pre-approved by the Audit Committee.

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Part IV of Annual Report on Form 10-K

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements

The Consolidated Financial Statements including:

Management s Annual Report on Internal Controls Over Financial Reporting

Reports of Independent Registered Public Accounting Firm on Consolidated Financial Statements

Consolidated Balance Sheets as of June 30, 2006 and 2005

Consolidated Statements of Operations and Comprehensive Income for the three years ended June 30, 2006

Consolidated Statements of Shareholders Equity for the three years ended June 30, 2006

Consolidated Statements of Cash Flows for the three years ended June 30, 2006

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

None.

3. Exhibits

3.1 Third Restated and Amended Articles of Incorporation of Company, incorporated by reference to the Company s Form 10-K for the fiscal year ended June 30, 1996 (EDGAR Accession Number 0000754811-96-000025).

3.2 By-Laws of Company, incorporated by reference to Exhibit D of the Company s Registration Statement No. 33-33012 filed on Form S-8 with the Commission on January 30, 1990, as amended (EDGAR Accession Number 0000754811-00-000017).

10.1 Advisory Agreement dated October 27, 1989, by and between Company and United Services Funds, incorporated by reference to Exhibit (4)(b) of the Company s Form 10-K for fiscal year ended June 30, 1990 (EDGAR Accession No. 0000101507-99-000019).

10.2 Advisory Agreement dated September 21, 1994, by and between Company and Accolade Funds, incorporated by reference to Exhibit 10.2 of Company s Form 10-K for fiscal year ended June 30, 1995 (EDGAR Accession Number 0000754811-95-000002).

10.3 Sub-Advisory Agreement dated November 15, 1996, by and between Company, U.S. Global Accolade Funds/MegaTrends Fund, and Money Growth Institute, Inc., incorporated by reference to Post-Effective Amendment No. 5 to Registration Statement on Form N-1A dated June 21, 1996 (EDGAR Accession No. 0000902042-96-000046).

10.4 Sub-Advisory Agreement dated January 25, 2002, by and between Company, U.S. Global Accolade Funds/ Eastern European Fund, and Charlemagne Capital Limited, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2002 (EDGAR Accession No. 07777811-02-000019).

10.5 Transfer Agency Agreement dated December 15, 2000, by and between United Shareholder Services, Inc. and U.S. Global Accolade Funds incorporated by reference to Post-Effective Amendment No. 18 to Registration Statement on Form N-1A dated February 28, 2001 (EDGAR Accession No. 0000902042-01-500005).

10.6 Transfer Agency Agreement dated February 21, 2001, by and between United Shareholder Services, Inc. and U.S. Global Investors Funds, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2001 (EDGAR Accession No. 0000754811-01-500016).

10.7 Loan Agreement between Company and Bank One NA, dated February 1, 2001, for refinancing building, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2001 (EDGAR Accession No. 0000754811-01-500016).

10.8 Amendment No. 1, dated July 1, 2001, to loan agreement between Company and Bank One NA for refinancing building, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2003 (EDGAR Accession No. 0000754811-03-000018).

10.9 Amendment No. 2, dated February 1, 2003, to loan agreement between Company and Bank One NA for refinancing building, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2003 (EDGAR Accession No. 0000754811-03-000018).

10.10 Amendment dated June 3, 2005, to loan agreement between Company and Bank One NA, included herein.

10.11 United Services Advisors, Inc. 1985 Incentive Stock Option Plan as amended November 1989 and December 1991, incorporated by reference to Exhibit 4(b) of the Company s Registration Statement No. 33-3012, Post-Effective Amendment No. 2, filed on Form S-8 with the Commission on April 23, 1997 (EDGAR Accession No. 0000754811-97-000004).

10.12 United Services Advisors, Inc. 1989 Non-Qualified Stock Option Plan, incorporated by reference to Exhibit 4(a) of the Company s Registration Statement No. 33-3012, Post-Effective Amendment No. 2, filed on Form S-8 with the Commission on April 23, 1997 (EDGAR Accession No. 0000754811-97-000004).

10.13 U.S. Global Investors, Inc. 1997 Non-Qualified Stock Option Plan, incorporated by reference to Exhibit 4 of the Company s Registration Statement No. 333-25699 filed on Form S-8 with the Commission on April 23, 1997 (EDGAR Accession No. 0000754811-97-000003).

10.14 Custodian Agreement dated November 1, 1997, between U.S. Global Investors Funds and Brown Brothers Harriman & Co. incorporated by reference to Post-Effective Amendment No. 82 to Registration Statement on Form N-1A dated September 2, 1998 (EDGAR Accession No. 0000101507-98-000031).

10.15 Amendment dated June 30, 2001, to Custodian Agreement dated November 1, 1997, between U.S. Global Investors Funds and Brown Brothers Harriman & Co., incorporated by reference to Annual Report on Form

10-K for fiscal year ended June 30, 2001 (EDGAR Accession No. 0000754811-01-500016).

10.16 Amendment dated February 21, 2001, to Appendix B of the Custodian Agreement dated November 1, 1997, between U.S. Global Investors Funds and Brown Brothers Harriman & Co., incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2001 (EDGAR Accession No. 0000754811-01-500016).

10.17 Amendment dated April 23, 2006 to Custodian Agreement dated November 1, 1997, between U.S. Global Investors and Brown Brothers Harriman & Co., included herein.

10.18 Custodian Agreement dated November 1, 1997, between U.S. Global Accolade Funds and Brown Brothers Harriman & Co. incorporated by reference to Post-Effective Amendment No. 13 to Registration Statement on Form N-1A dated January 29, 1998 (EDGAR Accession No. 0000902042-98-000006).

10.19 Amendment dated May 14, 1999, to Custodian Agreement dated November 1, 1997, between U.S. Global Accolade Funds and Brown Brothers Harriman & Co. incorporated by reference to Post-Effective Amendment No. 16 to Registration Statement on Form N-1A dated February 29, 1999 (EDGAR Accession No. 0000902042-99-000004).

10.20 Amendment dated June 30, 2001, to Custodian Agreement dated November 1, 1997, between U.S. Global Accolade Funds and Brown Brothers Harriman & Co., incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2001 (EDGAR Accession No. 0000754811-01-500016).

10.21 Amendment dated March 21, 2002 to Appendix A of the Custodian Agreement dated November 1, 1997, between U.S. Global Accolade Funds and Brown Brothers Harriman & Co., incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2001 (EDGAR Accession No. 0000754811-01-500016).

10.22 Amendment dated September 30, 2004 to Custodian Agreement dated November 1, 1997, between U.S. Global Accolade Funds and Brown Brothers Harriman & Co., incorporated by reference to Post-Effective Amendment No. 26 to Registration Statement on Form N1-A dated January 20, 2005 (EDGAR Accession No. 902042-05-000004).

10.23 Amendment dated April 23, 2006 to Custodian Agreement dated November 1, 1997, between U.S. Global Accolade Funds and Brown Brothers Harriman & Co., included herein.

10.24 Amendment dated February 16, 2001, to Appendix B of the Custodian Agreement dated November 1, 1997, between U.S. Global Accolade Funds and Brown Brothers Harriman & Co. incorporated by reference to Post-Effective Amendment No. 18 to Registration Statement on Form N-1A dated February 28, 2001 (EDGAR Accession No. 0000902042-01-500005).

10.25 Distribution Agreement by and between U.S. Global Brokerage, Inc. and U.S. Global Accolade Funds dated September 3, 1998, incorporated by reference to Exhibit 10.12 of Company s Form 10-K for fiscal year ended June 30, 1998 (EDGAR Accession Number 0000754811-98-000009).

10.26 Distribution Agreement by and between U.S. Global Brokerage, Inc. and U.S. Global Investors Funds dated September 3, 1998, incorporated by reference to Exhibit 10.13 of Company s Form 10-K for fiscal year ended June 30, 1998 (EDGAR Accession Number 0000754811-98-000009).

14.01 Code of Ethics for Principal Executive and Senior Financial Officers, adopted December 15, 2003, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2004 (EDGAR Accession Number 0000950134-04-014177).

14.02	Code of Ethics, adopted June 28, 1989, and amended March 23, 2005, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2005 (EDGAR Accession Number 0000950134-05-018480).
21	List of Subsidiaries of the Company, included herein.

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24 Power of Attorney, incorporated by reference to Annual Report on Form 10-K for fiscal year ended June 30, 2001 (EDGAR Accession No. 0000754811-01-500016).

31.1 Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002), included herein.

32.1 Section 1350 Certifications (under Section 906 of the Sarbanes-Oxley Act of 2002), included herein.

(b) Reports on Form 8-K

(i) On July 21, 2005, the Company filed a Current Report on Form 8-K dated July 21, 2005, reporting Item 1.01 (Entry into a Material Definitive Agreement) announcing the approval of a bonus plan with specific performance criteria for Mr. Frank E. Holmes, Chief Executive Officer and Chief Investment Officer of U.S. Global Investors, Inc. for the fiscal year ended June 30, 2005.

(ii) On September 28, 2005, the Company filed a Current Report on Form 8-K dated September 28, 2005, reporting Item 2.02 (Results of Operations and Financial Condition) announcing a press release reporting earnings for the fiscal year ended June 30, 2005.

(iii) On November 14, 2005, the Company filed a Current Report on Form 8-K dated November 14, 2005, reporting Item 2.02 (Results of Operations and Financial Condition) announcing a press release reporting earnings for the quarter ended September 30, 2005.

(iv) On February 14, 2006, the Company filed a Current Report on Form 8-K dated February 14, 2006, reporting Item 2.02 (Results of Operations and Financial Condition) announcing a press release reporting earnings for the quarter ended December 31, 2005.

(v) On May 15, 2006, the Company filed a Current Report on Form 8-K dated May 15, 2006, reporting Item 2.02 (Results of Operations and Financial Condition) announcing a press release reporting earnings for the quarter ended March 31, 2006.

(vi) On August 10, 2006, the Company filed a Current Report on Form 8-K dated August 10, 2006 reporting Item 8.01 (Other Events) announcing a press release reporting the earnings of an annual performance fee for its role in providing advisory services to a merchant banking company that invests in the natural resources sector.

(vii) On September 8, 2006, the Company filed a Current Report on Form 8-K dated September 8, 2006 reporting Item 2.02 (Results of Operations and Financial Condition) announcing a press release reporting earnings for the fiscal year ended June 30, 2006.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

U.S. Global Investors, Inc.

By: /s/ Frank Holmes

Frank E. Holmes
Chief Executive Officer

Date: September 12, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity in which signed	Date
/s/ Frank Holmes Frank E. Holmes	Chairman of the Board of Directors Chief Executive Officer Chief Investment Officer	September 12, 2006
* /s/ Thomas F. Lydon, Jr. Thomas F. Lydon, Jr.	Director	September 12, 2006
* /s/ Jerold H. Rubinstein Jerold H. Rubinstein	Director	September 12, 2006
* /s/ Roy D. Terracina Roy D. Terracina	Director	September 12, 2006
/s/ Catherine A. Rademacher Catherine A. Rademacher	Chief Financial Officer	September 12, 2006
*BY: /s/ Susan B. McGee Susan B. McGee Attorney-in-Fact under Power of Attorney dated September 26, 2001		September 12, 2006