Risk Factors Comparison 2023-11-16 to 2022-09-02 Form: 10-K

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The Company faces a variety of significant and diverse risks, many of which are inherent in the business. Described below are certain risks that could materially affect the Company. Other risks and uncertainties that the Company does not presently consider to be material, or of which the Company is not presently aware, may become important factors that affect it in the future. The occurrence of any of the risks discussed below could materially and adversely affect the business, prospects, financial condition, results of operations, or cash flow. Risk Factors Related to Our Industry The investment management business is intensely competitive. Competition in the investment management business is based on a variety of factors, including: ● Investment performance; ● Investor perception of an investment team' s drive, focus, and alignment of interest with them; ● Quality of service provided to, and duration of relationships with, clients and shareholders; ● Business reputation; and ● Level of fees charged for services. The Company competes with a large number of investment management firms, commercial banks, broker- dealers, insurance companies, and other financial institutions. Competitive risk is heightened by the fact that some competitors may invest according to different investment styles or in alternative asset classes which the markets may perceive as more attractive than the Company' s investment approach. If the Company is unable to compete effectively, revenues and earnings may be reduced, and the business could be materially affected. Failure to comply with government regulations could result in fines, which could cause the Company' s earnings and stock price to decline. The Company is subject to a variety of foreign and domestic federal securities laws and agencies, including, but not limited to, the Advisers Act, the Investment Company Act, the S- Ox Act, the Gramm- Leach- Bliley Act of 1999, the Bank Secrecy Act of 1970, as amended, the USA PATRIOT Act of 2001, the SEC, FINRA, and NASDAQ. Moreover, financial reporting requirements and the processes, controls, and procedures that have been put in place to address them, are comprehensive and complex. While management has focused attention and resources on compliance policies and procedures, non- compliance with applicable laws or regulations could result in fines, sanctions or censures which could affect the Company' s reputation, and thus its revenues and earnings. Our business is subject to substantial risk from litigation, regulatory investigations and potential securities laws liability. Many aspects of U. S. Global' s business involve substantial risks of litigation, regulatory investigations and / or arbitration. The Company is exposed to liability under federal and state securities laws, other federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC and other regulatory bodies. U. S. Global, its subsidiaries, and / or officers could be named as parties in legal actions, regulatory investigations and proceedings. An adverse resolution of any lawsuit, legal or regulatory proceeding or claim against the Company could result in substantial costs or reputational harm to the Company and have a material adverse effect on the Company' s business, financial condition or results of operations, which, in turn, may negatively affect the market price of the Company' s common stock and U. S. Global' s ability to pay dividends. In addition to these financial costs and risks, the defense of litigation or arbitration may divert resources and management' s attention from operations. Increased regulatory and legislative actions and reforms could increase costs and negatively impact the Company' s profitability and future financial results. The Company is subject to financial services laws, regulations, corporate governance requirements, administrative actions and policies. During the past two decades, federal securities laws have been substantially augmented and made significantly more complex by the S- Ox Act, the USA PATRIOT Act of 2001, and the Dodd- Frank Wall Street Reform and Consumer Protection Act (" Dodd- Frank Act "). With new laws and changes in interpretations and enforcement of existing requirements, the associated time the Company must dedicate to, and related costs the Company must incur in, meeting the regulatory complexities of the business have increased. In order to comply with these requirements, the Company has had to expend additional time and resources. Future changes in financial institution regulation may increase the costs of compliance and the complexity of operations. Further, adverse results of regulatory investigations of mutual fund, investment advisory, and financial services firms could tarnish the reputation of the financial services industry generally, and mutual funds and investment advisers more specifically, causing investors to avoid further fund investments or redeem their balances. Redemptions would decrease the Company' s assets under management, which would reduce its advisory revenues and net income. **New tax legislation or changes to existing tax laws, our failure to adequately comply with tax laws, or the outcome of any audits or regulatory disputes with respect to our compliance with tax law could adversely affect us. Changes to tax law could be enacted in the future that could have a material adverse effect on our business, results of operations, and financial condition. Further, we are subject to potential tax audits in various jurisdictions and in such an event, tax authorities may review and challenge certain positions we have taken and assess penalties or additional taxes. These challenges may result in adjustments to, or impact the timing or amount of, taxable income, deductions or other tax allocations, which may adversely affect the Company' s effective tax rate and overall financial condition. While we regularly assess the likely outcomes of these potential audits, there can be no assurance that we will accurately predict the outcome of a potential audit, and an audit could have a material adverse impact on our business, results of operations, and financial condition.** Investment Company Act- Certain changes in control of the Company would automatically terminate our investment management agreements with our client ~~,~~ unless the funds' boards of directors and shareholders vote to continue the agreements. Under the Investment Company Act, an investment management agreement with a fund must provide for its automatic termination in the event of its assignment. The funds' board and shareholders must vote to continue the agreement following its assignment, the cost of which ordinarily would be borne by the Company. Under the Advisers Act, a client' s investment management agreement may not be assigned by the investment advisor without the client' s consent. An advisor' s ownership is considered to be assigned to another party when a controlling block of the advisor' s ownership is transferred. In our case, an assignment would occur with ~~a~~ **the** transfer or issuance of a controlling block of Class C shares. The Company cannot be certain that our clients will consent to assignments of our investment management agreements or approve new agreements with us if an assignment occurs. This restriction may discourage potential purchasers from acquiring a controlling interest in the Company. Risks Related to Our Common Stock One person beneficially owns substantially all of our voting stock and controls the outcome of all matters requiring a vote of stockholders, which may influence the value of our publicly traded non- voting stock. Frank Holmes, CEO, is the beneficial owner of over 99 percent of our class C voting convertible common stock, and is subject to the Investment Company Act as described above, and controls the outcome of all issues requiring a vote of stockholders. All of our publicly traded stock is nonvoting stock. Consequently, except to the extent provided by law, stockholders other than Frank Holmes have no vote with respect to the election of directors or any other matter requiring a vote of stockholders. Frank Holmes is able to determine the outcome of matters submitted to a vote of our shareholders for approval and will be able to cause or prevent a change in control of the Company. This lack of voting rights may adversely affect the market value of the publicly traded class A nonvoting common stock. The market price and trading volume of the Company' s class A common stock may be volatile, which could result in rapid and substantial losses for the Company' s stockholders. The market price of the Company' s class A common stock may be volatile, and the trading volume may fluctuate, causing significant price variations to occur. If the market price of the Company' s class A common stock declines significantly, stockholders may be unable to sell their shares at or above their purchase price. The Company cannot assure that the market price of its class A common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of the Company' s class A common stock, or result in fluctuations in price or trading volume, include: ● Decreases in assets under management; ● Variations in quarterly and annual operating results; ● Volatility in realized and unrealized gains or losses on corporate investments; ● Publication of research reports about the Company or the investment management industry; ● Departures of key personnel; ● Adverse market reactions to any indebtedness the Company may incur, acquisitions or disposals the Company may make, or securities the Company may issue in the future; ● Changes in market valuations of similar companies; ● Changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting the business, or enforcement of these laws and regulations, or announcements relating to these matters; ● Adverse publicity about the asset management industry, generally, or individual scandals, specifically; and ● General market and economic conditions. In addition, the Company has invested in convertible securities and warrants in the cryptocurrency mining industry through its corporate investments. Cryptocurrency markets and related stocks have been, and are expected to continue to be, volatile. This volatility may **have a** ~~materially~~ -- **material** impact **on** the Company' s financial statements and thus affect the Company' s common stock market price. In addition, the price of the Company' s common stock may fluctuate to the extent that shareholders invest in the Company' s common stock as a proxy for cryptocurrency. The investing public may be influenced by future anticipated appreciation or depreciation in value of cryptocurrencies or blockchain generally, factors over which the Company has little or no influence or control. The Company' s stock price may also be subject to volatility due to supply and demand factors associated with few or limited public company options for investment in the segment, which may change over time. Macroeconomic declines, including inflation; negative political developments, including volatile market conditions due to investor concerns regarding inflation and ~~potential~~ hostilities between Russia and Ukraine; adverse market conditions; and catastrophic events may cause a decline in the Company' s revenue, an increase in the Company' s costs, negatively affect the Company' s operating results, adversely affect the Company' s cash flow, and could result in a decline in the Company' s stock price. The market price of the Company' s class A common stock could decline due to the large number of shares of the Company' s class C common stock eligible for future sale upon conversion to class A shares. The market price of the Company' s class A common stock could decline as a result of sales of a large number of shares of class A common stock eligible for future sale upon the conversion of class C shares, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, **might** also ~~might~~ make it more difficult for the Company to raise additional capital by selling equity securities in the future, at a time and **at a** price the Company deems appropriate. The Company intends to pay regular dividends to its stockholders, but the ability to do so is subject to the discretion of the Board of Directors. The Company intends to pay cash dividends on a monthly basis, but the Board of Directors, at its discretion, may decrease the level or frequency of dividends or discontinue payment of dividends entirely based on earnings, operations, capital requirements, general financial condition of the Company, and general business conditions. Acquisitions involve inherent risks that could compromise the success of the combined business and dilute the holdings of current stockholders. As part of our business strategy, we may pursue corporate development transactions, including the acquisition of asset management firms. These transactions involve assessing the value, strengths, weaknesses, liabilities and potential profitability of the transactions, and if our assessment is incorrect, the success of the combined business could be jeopardized. In addition, such transactions are subject to acquisition costs and expenses, are likely to divert the attention of management' s time, and can dilute the stockholders of the combined company if the acquisition is made for stock of the combined company. Risks Related to Our Operations Natural disasters, ~~global~~ **epidemics,** pandemics and other unpredictable events could adversely affect our operations. Natural disasters, outbreaks of epidemics **or pandemics** , terrorist attacks, extreme weather events or other unpredictable events could adversely affect our revenues, expenses, and net income by: ● decreasing investment valuations in, and returns on, the investment portfolios that we manage and our corporate portfolio, thus causing reductions and volatility in revenue, ● causing disruptions in national or global economies that decrease investor confidence and make investment products generally less attractive, ● incapacitating or reducing the availability of key personnel necessary to conduct our business activities, ● interrupting the Company' s business operations or those of critical service providers, ● triggering technology delays or failures, and ● requiring substantial capital expenditures and operating expenses to remediate damage, replace our facilities, and restore our operations. The Company' s business operations are concentrated in San Antonio, Texas. The Company has developed various backup systems and contingency plans but cannot be assured that those preparations will be adequate in all circumstances that could arise, or that material interruptions and disruptions will not occur. The Company also relies to varying degrees on outside vendors for service delivery in addition to technology and disaster contingency support, and there is a risk that these vendors will not be able to perform in an adequate and timely manner. If the Company loses the availability of employees, or if it is unable to respond adequately to such an event in a timely manner, revenues, expenses, and net income could be negatively impacted. Specifically, the effects of the outbreak of the novel coronavirus (COVID- 19) had an adverse effect on the global economy, the United States economy and the global financial markets. Should this reoccur and continue for an extended period, it may disrupt the Company' s operations and the Company' s clients' operations, which could have an adverse effect on the Company' s business, financial condition and results of operations. ~~A recurrence of an~~ **An epidemic, pandemic, or** outbreak of any kind of ~~epidemic,~~ communicable disease or virus or major public health issue could cause a slowdown in the levels of economic activity generally, which would adversely affect the Company' s business, financial condition and operations. The loss of key personnel could negatively affect the Company' s financial performance. The success of the Company depends on key personnel, including the portfolio managers, analysts, and executive officers. Competition for qualified, motivated, and skilled personnel in the asset management industry remains significant. Moreover, in order to retain certain key personnel, the Company may be required to increase compensation to such individuals, resulting in additional expense. The loss of key personnel or the Company' s failure to attract replacement personnel could negatively affect its financial performance. The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information. As part of the Company' s normal operations, it maintains and transmits certain confidential information about the Company and its clients as well as proprietary information relating to its business operations. These systems could be victimized by unauthorized users or corrupted by computer viruses or other malicious software code, or authorized persons could inadvertently or intentionally release confidential or proprietary information. Such a breach could subject the Company to liability for a failure to safeguard client data, result in the termination of relationships with our existing customers, require significant capital and operating expenditures to investigate and remediate the breach and subject the Company to regulatory action. We rely upon certain critical information systems for the operation of our business, and the failure of any critical information system, including a cyber- security breach, may result in harm to our business. We are heavily dependent on technology infrastructure and rely upon certain critical information systems for the effective operation of our business. These information systems include data network and telecommunications, internet access and our websites, and various computer hardware equipment and software applications. These information systems are subject to damage or interruption from a number of potential sources including natural disasters, software viruses or other malware, power failures, cyber- attacks and other events ~~to the extent that these information systems are under our control~~. We have implemented measures, such as virus protection software, intrusion detection systems and emergency recovery processes to address the outlined risks. However, security measures for information systems cannot be guaranteed to be failsafe. Any compromise of our data security or our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business and subject us to additional costs and liabilities, which could adversely affect our results of operations. Finally, federal legislation relating to cyber- security threats could impose additional requirements on our operations. Higher insurance premiums and related insurance coverage risks could increase costs and reduce profitability. While U. S. Global carries insurance in amounts and under terms that it believes are appropriate, the Company cannot assure that its insurance will cover most liabilities and losses to which it may be exposed, or that our insurance policies will continue to be available at acceptable terms and fees. U. S. Global is subject to regulatory and governmental inquiries and civil litigation. An adverse outcome of any such proceeding could involve substantial financial penalties. From time to time, various claims against us arise in the ordinary course of business, including employment- related claims. There has been increased incidence of litigation and regulatory investigations in the financial services industry in recent years, including customer claims and class action suits alleging substantial monetary damages. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As U. S. Global' s insurance policies come up for renewal, the Company may need to assume higher deductibles or co- insurance liabilities, or pay higher premiums, which would increase the Company' s expenses and reduce net income. **We have identified material weaknesses in our internal control over financial reporting. These material weaknesses could continue to adversely affect our ability to report the results of operations and financial condition accurately and in a timely manner. As further described in Item 9A of this Form 10- K, management has concluded that, because of material weaknesses in internal control over financial reporting, our internal control over financial reporting and our disclosure controls and procedures were not effective as of June 30, 2023. A " material weakness " is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements would not be prevented or detected on a timely basis. If we fail to remediate these material weaknesses in our internal controls, or after having remediated such material weaknesses, thereafter fail to maintain the adequacy of our internal control over financial reporting or our disclosure controls and procedures, we could be subjected to regulatory scrutiny, civil or criminal penalties or shareholder litigation, the defense of any of which could cause the diversion of management' s attention and resources, we could incur significant legal and other expenses, and we could be required to pay damages to settle such actions if any such actions were not resolved in our favor. Moreover, we may be the subject of negative publicity focusing on these material weaknesses and we may be subject to negative reactions from shareholders and others with whom we do business.** Risks Related to Assets Under Management Poor investment performance could lead to a decline in revenues. Success in the investment management industry is largely dependent on investment performance relative to market conditions and the performance of competing products. Good relative performance generally attracts additional assets under management, resulting in additional revenues. Conversely, poor performance generally results in decreased sales and increased redemptions with a corresponding decrease in revenues. Therefore, poor investment performance relative to the portfolio benchmarks and to competitors could impair the Company' s revenues and growth. The equity funds within USGIF have a performance fee whereby the base advisory fee is adjusted upwards or downwards by 0. 25 percent if there is a performance difference of 5 percent or more between a Fund' s performance and that of its designated benchmark index over the prior rolling 12 months. The Company' s clients can terminate their agreements with the Company on short notice, which may lead to unexpected declines in revenue and profitability. The Company' s investment advisory agreements are generally terminable on short notice and subject to annual renewal. If the Company' s investment advisory agreements are terminated, which may occur in a short time frame, the Company may experience a decline in revenues and profitability. The Company derives a substantial portion of revenue from one fund under management. A substantial amount of assets under management is concentrated in the U. S. Global Jets ETF (**83 percent and** 86 ~~percent and 82~~ percent of average net assets for fiscal years **2023 and** 2022 ~~and 2021~~, respectively). Consequently, the Company' s revenues followed a similar pattern of concentration (**84 percent and** 82 ~~percent and 76~~ percent of total operating revenues for fiscal years **2023 and** 2022 ~~and 2021~~, respectively). As a result, our operating results are particularly dependent upon the performance of one fund and our ability to maintain and grow assets under management in that fund. If this fund were to experience a significant decrease in market value or redemptions, our assets under management would be reduced, adversely affecting our revenues. Difficult market conditions can adversely affect the Company by reducing the market value of the assets we manage or causing shareholders to make significant redemptions. Changes in economic or market conditions may adversely affect the profitability, performance of and demand for the Company' s investment products and services. Under the Company' s advisory fee arrangements, the fees received are primarily based on the market value of assets under management. Accordingly, a decline in the price of securities held in funds under management would be expected to cause revenues and net income to decline, which would result in lower advisory fees, or cause increased shareholder redemptions in favor of investments they perceive as offering greater opportunity or lower risk, which redemptions would also result in lower advisory fees. The ability of the Company to compete and grow is dependent on the relative attractiveness of the types of investment products the Company offers and its investment performance and strategies under prevailing market conditions. Market- specific risks may negatively impact the Company' s earnings. The Company manages certain funds in the emerging market and natural resources sectors, which are highly cyclical. The investments in the funds are subject to significant loss due to political, economic and diplomatic developments, currency fluctuations, social instability, and changes in governmental policies, including trading policies, regulatory requirements, tariffs and other barriers. Foreign trading markets, particularly in some emerging market countries, are often smaller, less liquid, less regulated and significantly more volatile than the U. S. and other established markets. Government relationship risks may negatively impact the Company' s earnings. The Company manages a fund with significant investments in China- based issuers. While companies in China may be subject to limitations on their business relationships under Chinese law, these laws may not be consistent with certain political and security concerns of the U. S. As a result, Chinese companies may have material direct or indirect business relationships with governments that are considered state sponsors of terrorism by the U. S. government, or governments that otherwise have policies in conflict with the U. S. government (an " Adverse Government "). If a fund under management invests in companies that have or develop a material business relationship with an Adverse Government, the fund will be subject to the risk that these companies' reputation and price in the market will be adversely or negatively impacted. Risks Related to Our Corporate Investments Investment income and assets may be negatively impacted by fluctuations in the Company' s corporate investments. The Company currently has a substantial portion of its assets in corporate investments. These investments are subject to investment market risk, and investment income could be adversely affected by the realization of losses upon disposition of investments or the recognition of significant unrealized losses or impairments. Due to the Company' s investments in debt securities carried at fair value, interest rate fluctuations represent a market risk factor affecting the Company' s consolidated financial position. Debt securities may fluctuate in value due to changes in interest rates. Typically, investments subject to interest rate risk will decrease in value when interest rates rise and increase in value when interest rates decline. Fluctuations in investment income are expected to continue in the future. The Company has **indirect** exposure to the cryptocurrency markets through its investments. ~~The~~ **Cryptocurrencies (also referred to as " virtual currencies " and " digital currencies ") are digital assets that are designed to act as a medium of exchange. Although the** Company has ~~invested~~ **no current intention of directly investing** in ~~convertible~~ **cryptocurrencies, the Company has indirect exposure to cryptocurrencies by investing in** securities ~~and warrants in~~ **of issuers with exposure to** the cryptocurrency ~~mining~~ industry ~~through its corporate investments~~. ~~Cryptocurrency~~ **Cryptocurrencies (some of the most well- known include Bitcoin, Dogecoin and Ethereum) are not backed by any government, corporation, or other identified body. Trading** markets **for cryptocurrencies are often unregulated** and **may be more exposed to operational or technical issues as well as the potential for fraud or manipulation than established,** ~~related~~ **regulated** ~~stocks~~ **exchanges for securities, derivatives and traditional currencies. Cryptocurrencies** have been **subject** ~~, and are expected~~ to **significant fluctuations in value** ~~continue to be, volatile~~. ~~There~~ -- **The** ~~is potential~~ **value of a cryptocurrency may significantly fluctuate precipitously (including declining to zero) and unpredictably** for **a variety** ~~significant volatility in the valuation~~ of **reasons, including, but not limited to: investor perceptions and expectations ; regulatory changes ; general economic conditions ; adoption and use in** the ~~Company' s~~ **retail and commercial marketplace ; public opinion regarding the environmental impact of the creation (" minting " or " mining ") of** cryptocurrency **; confidence in, and the maintenance and development of, its network and open** - ~~related investments~~ **source software protocols such as blockchain for ensuring the integrity of cryptocurrency transactional data ; and general risks tied to the use of information technologies, including cybersecurity risks** . Adverse changes in foreign currencies could negatively impact financial results. We have cash and certain corporate investments held in foreign currencies. Adverse changes in foreign currency exchange rates would also lower the value of those assets. Certain assets under management also have exposure to foreign currency fluctuations in various markets, which could **have an** impact **on** their valuation and thus the revenue we receive.