A-Mark Precious Metals, Inc.
Form 10-Q
February 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission File Number: 001-36347

A-MARK PRECIOUS METALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	11-2464169
(State of Incorporation)	(IRS Employer I.D. No.)

2121 Rosecrans Ave. Suite 6300
El Segundo, CA 90245
(Address of principal executive offices)(Zip Code)
(310) 587-1477
(Registrant’s Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	NASDAQ Global Select Market

Securities registered under Section 12 (g) of the Exchange Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes. þ No. ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes. þ No. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company þ	Emerging growth company ¨

(Do not check if a smaller reporting company)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes. ¨ No. þ

As of February 5, 2018, the registrant had 7,031,450 shares of common stock outstanding, par value $0.01 per share.

A-MARK PRECIOUS METALS, INC.

QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended December 31, 2017

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PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Index to the Condensed Consolidated Financial Statements

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A-MARK PRECIOUS METALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except for share data) (unaudited)

	December 31, 2017	June 30, 2017
ASSETS		
Current assets:		
Cash	$ 12,011	$ 13,059
Receivables, net	39,418	39,295
Derivative assets	1,399	17,587
Secured loans receivable	96,971	91,238
Inventories:		
Inventories	215,074	149,316
Restricted inventories	120,161	135,343
	335,235	284,659
Income taxes receivable	663	—
Prepaid expenses and other assets	2,233	1,183
Total current assets	487,930	447,021
Plant, property and equipment, net	7,890	6,607
Goodwill	10,331	8,881
Intangibles, net	8,656	4,065
Long-term investments	8,146	7,967
Deferred tax assets - non-current	4,170	3,959
Total assets	$ 527,123	$ 478,500
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Lines of credit	$ 214,000	$ 180,000
Liability on borrowed metals	19,526	5,625
Product financing arrangements	120,161	135,343
Accounts payable	59,754	41,947
Derivative liabilities	27,420	34,582
Note payable (related party)	—	500
Accrued liabilities	5,263	4,945
Income taxes payable	—	1,418
Total current liabilities	446,124	404,360
Debt obligation (related party)	6,873	—
Other long-term liabilities (related party)	1,103	1,117
Total liabilities	454,100	405,477
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, authorized 10,000,000 shares; issued and outstanding: none as of December 31, 2017 and June 30, 2017	—	—
	71	71

Common Stock, par value $0.01; 40,000,000 shares authorized; 7,031,450 shares issued and outstanding as of December 31, 2017 and June 30, 2017		
Additional paid-in capital	24,264	23,526
Retained earnings	45,143	45,994
Total A-Mark Precious Metals, Inc. stockholders' equity	69,478	69,591
Non-controlling interest	3,545	3,432
Total stockholders' equity	73,023	73,023
Total liabilities, non-controlling interest and stockholders' equity	$ 527,123	$478,500

See accompanying Notes to Condensed Consolidated Financial Statements

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A-MARK PRECIOUS METALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except for share and per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Revenues	$1,680,738	$2,126,361	$3,844,528	$3,932,014
Cost of sales	1,671,822	2,116,502	3,828,306	3,914,091
Gross profit	8,916	9,859	16,222	17,923
Selling, general and administrative expenses	(9,349)	(6,131)	(16,325)	(11,795)
Interest income	3,268	2,959	6,429	5,818
Interest expense	(3,359)	(2,447)	(6,092)	(4,688)
Other income	651	93	712	79
Unrealized gain (loss) on foreign exchange	139	(3)	38	(9)
Net income before provision for income taxes	266	4,330	984	7,328
Provision for income taxes	(324)	(1,590)	(598)	(2,649)
Net income (loss)	(58)	2,740	386	4,679
Add: Net gain (loss) attributable to non-controlling interest	147	(10)	113	(21)
Net income (loss) attributable to the Company	$(205)	$2,750	$273	$4,700
Basic and diluted income per share attributable to A-Mark Precious Metals, Inc.:				
Basic	$(0.03)	$0.39	$0.04	$0.67
Diluted	$(0.03)	$0.39	$0.04	$0.66
Dividends per share	$0.08	$0.07	$0.16	$0.14
Weighted average shares outstanding:				
Basic	7,031,400	7,023,300	7,031,400	7,027,400
Diluted	7,031,400	7,108,900	7,113,000	7,112,800

See accompanying Notes to Condensed Consolidated Financial Statements

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A-MARK PRECIOUS METALS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except for share data)

(unaudited)

	Common Stock (Shares)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total A-Mark Precious Metals, Inc. Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity
Balance, June 30, 2017	7,031,450	$ 71	$ 23,526	$45,994	$ 69,591	$ 3,432	$ 73,023
Net income	—	—	—	273	273	113	386
Share-based compensation	—	—	738	—	738	—	738
Dividends declared	—	—	—	(1,124)	(1,124)	—	(1,124)
Balance, December 31, 2017	7,031,450	$ 71	$ 24,264	$45,143	$ 69,478	$ 3,545	$ 73,023

See accompanying Notes to Condensed Consolidated Financial Statements

A-MARK PRECIOUS METALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(unaudited)

Six Months Ended	December 31, 2017	December 31, 2016
Cash flows from operating activities:		
Net income	$ 386	$ 4,679
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,312	707
Amortization of loan cost	595	378
Deferred income taxes	(211)	(3,341)
Interest added to principal of secured loans	(29)	(34)
Change in accrued earn-out (non-cash)	(529)	—
Share-based compensation	738	420
Earnings from equity method investment	(179)	(79)
Changes in assets and liabilities:		
Receivables	923	(38,643)
Secured loans	(289)	8,442
Secured loans to Former Parent	(1,502)	(1,453)
Derivative assets	17,013	(5,845)
Income tax receivable	(663)	5,889
Inventories	(38,035)	(45,866)
Prepaid expenses and other assets	(714)	(147)
Accounts payable	15,511	19,076
Derivative liabilities	(7,162)	37,904
Liabilities on borrowed metals	4,952	(881)
Accrued liabilities	(2,376)	(3,567)
Receivable from/payables to Former Parent	—	203
Income taxes payable	(1,418)	5,745
Net cash used in operating activities	(11,677)	(16,413)
Cash flows from investing activities:		
Capital expenditures for property and equipment	(417)	(944)
Secured loans, net	(3,913)	(17,390)
Acquisition of subsidiary, net of cash	(9,548)	(3,421)
Net cash used in investing activities	(13,878)	(21,755)
Cash flows from financing activities:		
Product financing arrangements, net	(15,182)	62,108
Dividends	(1,124)	(984)
Borrowings (repayments) under lines of credit, net	34,000	(27,000)
Proceeds from issuance of debt obligation payable to related party	7,500	—
Repayments on notes payable to related party	(500)	—
Stock award grant	—	172
Debt funding fees	(187)	—
Net cash provided by financing activities	24,507	34,296
Net decrease in cash, cash equivalents, and restricted cash	(1,048)	(3,872)

Cash, cash equivalents, and restricted cash, beginning of period	13,059	17,142
Cash, cash equivalents, and restricted cash, end of period	$ 12,011	$ 13,270

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 A-MARK PRECIOUS METALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(unaudited)

Six Months Ended	December 31, 2017	December 31, 2016
(- Continued from preceding page -)		
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense	$ 4,775	$ 3,968
Income taxes	$ 2,908	$ 365
Non-cash investing and financing activities:		
Interest added to principal of secured loans	$ 29	$ 34
Debt funding fee	$ 534	$ —
Contribution of assets from minority interest	$ —	$ 3,454
Payable to minority interest partner for acquired business	$ —	$ 500
Earn out obligation payable to minority interest partner	$ —	$ 1,523

See accompanying Notes to Condensed Consolidated Financial Statements

A-MARK PRECIOUS METALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Basis of Presentation

The condensed consolidated financial statements include the accounts of A-Mark Precious Metals, Inc. and its wholly- and majority-owned subsidiaries ("A-Mark" or the "Company"). Intercompany accounts and transactions have been eliminated.

Business Segments

The Company conducts its operations in two reportable segments: (1) Wholesale Trading & Ancillary Services, and (2) Direct Sales. Each of these reportable segments represents an aggregation of operating segments that meet the aggregation criteria set forth in the Segment Reporting Topic 280 of the FASB Accounting Standards Codification (“ASC”) (See Note 18).

Wholesale Trading & Ancillary Services

The Wholesale Trading & Ancillary Services segment operates as a full-service precious metals trading company. Its products include gold, silver, platinum and palladium for storage and delivery primarily in the form of coins, bars, wafers and grain. The Company's trading-related services include financing, consignment, logistics, hedging and various customized financial programs.

Through its wholly owned subsidiary, Collateral Finance Corporation (“CFC”), a licensed California Finance Lender, the Company offers loans on precious metals, rare coins and other collectibles to coin dealers, collectors and investors. Through its wholly owned subsidiary, A-Mark Trading AG (“AMTAG”), the Company promotes A-Mark bullion products throughout the European continent. Transcontinental Depository Services (“TDS”), also a wholly owned subsidiary of the Company, offers worldwide storage solutions to institutions, dealers and consumers.

The Company's wholly-owned subsidiary, A-M Global Logistics, LLC ("Logistics"), operates the Company's logistics fulfillment center based in Las Vegas, Nevada. Logistics provides customers an array of complementary services, including packaging, shipping, handling, receiving, processing, and inventorying of precious metals and custom coins on a secure basis.

In August 2016, the Company formed AM&ST Associates, LLC ("AMST"), a joint venture with SilverTowne, L.P., referred to as SilverTowne, an Indiana-based producer of minted silver. The Company and SilverTowne, L.P. own 55% and 45%, respectively, of AMST. AMST acquired the entire minting operations (referred to as SilverTowne Mint) of SilverTowne, L.P., with the goal of providing greater product selection to our customers and greater pricing stability within the supply chain, as well as to gain increased access to silver during volatile market environments.

Direct Sales (Recent Acquisition)

The Company's wholly-owned subsidiary, Goldline, Inc. ("Goldline"), is a direct retailer of precious metals to the investor community. Goldline markets its precious metal products primarily on radio, the internet and television. Goldline sells gold and silver bullion in the form of coins, and bars, as well as numismatic coins.

The Company entered into the Direct Sales segment through its acquisition of substantially all of the assets of Goldline, LLC ("Goldline, LLC" or the "Seller"), pursuant to the terms of an Asset Purchase Agreement (the “Purchase Agreement”), dated August 14, 2017, between Goldline (then known as Goldline Acquisition Corp.) and the Seller. The transaction closed on August 28, 2017 (the "Closing Date"). On the Closing Date, the estimated purchase price for the net assets was approximately $10.0 million (the “Initial Provisional Purchase Price”), which was based on the Seller’s preliminary balance sheet dated as of July 31, 2017. The net assets acquired consisted of both intangible assets, which the parties agreed had an aggregate fair value of $6.4 million, and specified net tangible assets of the Seller, which the parties initially agreed had an estimated aggregate fair value of $3.6 million, subject to post-closing adjustment as described below. In connection with the closing, Goldline paid to the Seller an amount equal to the Initial Provisional Purchase Price less $1.5 million (the "Holdback Amount"), which amount was held back and deposited into escrow to serve as security for the Seller’s indemnification obligations under the Purchase Agreement. As of December 31, 2017, none of the Holdback Amount had been released.

Based on the post-Closing Date net tangible asset value adjustment procedures conducted to date pursuant to the terms of the Purchase Agreement, the Company has adjusted the estimated total purchase price for the net assets from $10.0 million to $9.5 million (the “Revised Provisional Purchase Price”). The fair value of the acquired net tangible assets as of the Closing Date is still being reviewed by the Company and the Seller and therefore the total purchase price is subject to further adjustment. Under the terms of the Purchase Agreement, any amounts due back to the Company from the Seller as a result of the final determination of the fair value of the acquired net tangible assets is to be paid within three business days following such determination.

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The difference between the Initial Provisional Purchase Price and the Revised Provisional Purchase Price of $0.5 million ($10.0 million less $9.5 million) has been recorded in receivables in the condensed consolidated balance sheet as of December 31, 2017.

Acquisition costs of $0.8 million were expensed as incurred as selling, general and administrative expenses, of which $0.6 million was recorded by the Company during the six months ended December 31, 2017.

Purchase Price Allocation

The Revised Provisional Purchase Price of $9.5 million has been allocated to the acquired net assets purchased based on their fair values as follows (shown in thousands, and liability balances shown as negative amounts):

Working capital net assets:		
Receivables, net	$1,046	
Derivative assets	825	
Inventory	12,541	
Prepaid expenses and other assets	856	
Accounts payable and accrued liabilities	(2,616)	
Liability on borrowed metals	(8,949)	
Deferred income	(2,374)	
Subtotal		$1,329
Property and equipment		1,769
Intangible assets (identifiable):		
Trade names	$2,200	
Existing customer relationships	1,300	
Customer lead list	1,100	
Other	400	
Subtotal		5,000
Goodwill:		
Excess of cost over fair value of assets acquired		1,450
		$9,548

The purchase price allocation is subject to completion of the Company's analysis of the fair value of the assets acquired. The final valuation is expected to be completed as soon as practicable, but no later than one year from the closing date of the transaction. The estimates of the fair value of the contingent consideration, and the allocation of the tangible and identifiable intangible assets requires extensive use of accounting estimates and management judgment. These estimates could be material. The fair values assigned to the assets acquired are based on estimates and assumption from data currently available.

Pro Forma Information

The following unaudited pro forma information for the three and six months ended December 31, 2017 and 2016 assumes the acquisition of the net assets of Goldline, LLC occurred on July 1, 2016, that is, the first day of fiscal year 2017:

in thousands, except for EPS	(Unaudited)			
	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Pro forma revenue	$1,680,735	$ 2,156,420	$3,845,686	$ 3,998,948
Pro forma net (loss) income	$(205)	$ 3,587	$325	$ 5,877
Pro forma basic earnings per share	$(0.03)	$ 0.51	$0.05	$ 0.84
Pro forma dilutive earnings per share	$(0.03)	$ 0.50	$0.05	$ 0.83

The above pro forma supplemental information does not purport to be indicative of what the Company's operations would have been had these transactions occurred on July 1, 2016 and should not be considered indicative of future operating results. The Company believes the assumptions used provide a reasonable basis for reflecting the significant pro forma effects directly attributable to the acquisition of Goldline. The unaudited pro forma information accounts for amortization of acquired intangible assets (based on the preliminary purchase price allocation and an estimate of their useful lives), incremental financing costs resulting from the acquisition, elimination of prior sales and purchases between the entities, elimination of acquisition costs and an application

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of the Company's tax rate. For each of the presented periods shown above, the Company used the tax rate of 37.5% as an approximation of our historical statutory tax rate, which excludes the effects of the recently enacted Tax Cuts and Jobs Act legislation (see Note 12). The unaudited pro forma results do not include any anticipated cost savings or other effects of the planned integration of Goldline.

Related Agreements

In connection with the closing of the acquisition, Goldline entered into a privately placed credit facility in the amount of $7.5 million (the “Goldline Credit Facility”) with various lenders (the "Goldline Lenders"), which include some directors from the Company's Board, effective August 28, 2017 (see Note 14). Borrowings under the Goldline Credit Facility were used to finance a portion of the consideration payable under the Purchase Agreement.

On the Closing Date, the Seller and Goldline entered into a transition services agreement, pursuant to which Goldline will provide reasonable assistance to the Seller (including access to records and services of transferring employees) for a period of two years following the closing date in connection with assisting the Seller with its continuing obligations for its retained liabilities that were not assumed by Goldline.

Also on the Closing Date, the Seller and the former CEO of the Seller also agreed that, for the period commencing on the closing date until the third anniversary thereof, neither they nor any of their affiliates will, directly or indirectly own, manage, operate, join, control, participate in, invest in or otherwise provide assistance to, in any manner, any “competing business” (as defined in the Purchase Agreement).

Spinoff from Spectrum Group International, Inc.

On March 14, 2014, the Company's former parent, Spectrum Group International, Inc. ("SGI" or the "Former Parent"), effected a spinoff (the "spinoff" or the "Distribution") of the Company from SGI. As a result of the Distribution, the Company became a publicly traded company independent from SGI. On March 17, 2014, A-Mark’s shares of common stock commenced trading on the NASDAQ Global Select Market under the symbol "AMRK."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements reflect the financial condition, results of operations, statement of stockholder equity and cash flows of the Company, and were prepared using accounting principles generally accepted in the United States (“U.S. GAAP”). These condensed consolidated financial statements include the accounts of A-Mark, and its wholly owned subsidiaries, CFC, AMTAG, TDS, Logistics, Goldline and its majority owned affiliate AMST (collectively the “Company”). All intercompany accounts and transactions have been eliminated in consolidation. For the three and six months ended December 31, 2017 and 2016 net income (loss) equaled comprehensive income (loss) as there were no items of comprehensive income (loss).

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the condensed consolidated balance sheets, condensed consolidated statements of income, condensed consolidated statement of stockholders’ equity, and condensed consolidated statements of cash flows for the periods presented in accordance with U.S. GAAP. Operating results for the six months ended December 31, 2017 are not necessarily indicative of the results that may be expected for the year ending June 30, 2018 or for any other interim period during such fiscal year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (the “2017 Annual Report”), as filed with the SEC. Amounts related to disclosure of June 30, 2017 balances within these interim condensed consolidated financial statements were derived from the aforementioned audited consolidated financial statements and notes thereto included in the 2017 Annual Report.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. These estimates include, among others, determination of fair value, allowances for doubtful accounts, impairment assessments of plant, property and equipment and intangible assets, valuation allowance determination on deferred

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tax assets, contingent earn-out liabilities, and revenue recognition judgments. Significant estimates also include the Company's fair value determination with respect to its financial instruments and precious metals inventory. Actual results could materially differ from these estimates.

Concentration of Credit Risk

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced any losses related to these balances.

Assets that potentially subject the Company to concentrations of credit risk consist principally of receivables, loans of inventory to customers, and inventory hedging transactions. Concentration of credit risk with respect to receivables is limited due to the large number of customers composing the Company's customer base, the geographic dispersion of the customers, and the collateralization of substantially all receivable balances. Based on an assessment of credit risk, the Company typically grants collateralized credit to its customers. The Company enters into inventory hedging transactions, principally utilizing metals commodity futures contracts traded on national futures exchanges or forward contracts with credit worthy financial institutions. Credit risk with respect to loans of inventory to customers is minimal. All of our commodity derivative contracts are under master netting arrangements and include both asset and liability positions. Substantially all of these transactions are secured by the underlying metals positions.

Foreign Currency

The functional currency of the Company is the United States dollar ("USD"). Also, the functional currency of the Company's wholly-owned foreign subsidiary, AMTAG, is USD, but it maintains its books of record in Euros. The Company remeasures the financial statements of AMTAG into USD. The remeasurement of local currency amounts into USD creates remeasurement gains and losses, which are included in the condensed consolidated statements of income.

To manage the effect of foreign currency exchange fluctuations, the Company utilizes foreign currency forward contracts. These derivatives generate gains and losses when they are settled and/or when they are marked to market. The change in the value in the derivative instruments is shown on the face of the condensed consolidated statements of income as unrealized net gains (losses) on foreign exchange.

Business Combinations

The Company accounts for business combinations by applying the acquisition method in accordance with Accounting Standards Codification (“ASC”) 805, Business Combinations. The Company evaluates each purchase transaction to determine whether the acquired assets meet the definition of a business. Transaction costs related to the acquisition of a business are expensed as incurred and excluded from the fair value of consideration transferred. The identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity are recognized and measured at their estimated fair values. The excess of the fair value of consideration transferred over the fair values of identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity, net of fair value of any previously held interest in the acquired entity, is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets and liabilities. Contingent consideration is classified as a liability or equity, as applicable. Contingent consideration in connection with the acquisition of a business is measured at fair value on the acquisition date, and unless classified as equity, is remeasured at fair value each reporting period thereafter until the consideration is settled, with changes in fair value included in net income.

Net cash paid to acquire a business is classified as investing activities on the accompanying condensed consolidated statements of cash flow.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. The Company does not have any cash equivalents as of December 31, 2017 and June 30, 2017.

As of December 31, 2017 and June 30, 2017, the Company has $0.5 million and $0.0 million, respectively, in a bank account that is restricted and serves as collateral against a standby letter of credit issued by the bank in favor of the landlord for our office space in Los Angeles, California (see Note 15).

Inventories

Inventories principally include bullion and bullion coins that are acquired and initially recorded at fair market value. The fair market value of the bullion and bullion coins is comprised of two components: (1) published market values attributable to the costs of the raw precious metal, and (2) a published premium paid at acquisition of the metal. The premium is attributable to the additional value of the product in its finished goods form and the market value attributable solely to the premium may be readily determined, as it is published by multiple reputable sources.

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The Company's inventories, except for certain lower of cost or market basis products (as discussed below), are subsequently recorded at their fair market values, that is, "marked-to-market". The daily changes in the fair market value of our inventory are offset by daily changes in the fair market value of hedging derivatives that are taken with respect to our inventory positions; both the change in the fair market value of the inventory and the change in the fair market value of these derivative instruments are recorded in cost of sales in the condensed consolidated statements of income.

While the premium component included in inventories is marked-to-market, our commemorative coin inventory, including its premium component, is held at the lower of cost or market, because the value of commemorative coins is influenced more by supply and demand determinants than on the underlying spot price of the precious metal content of the commemorative coins. Unlike our bullion coins, the value of commemorative coins is not subject to the same level of volatility as bullion coins because our commemorative coins typically carry a substantially higher premium over the spot metal price than bullion coins. Neither the commemorative coin inventory nor the premium component of our inventory is hedged (see Note 6.)

Plant, Property and Equipment

Plant, property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using a straight line method based on the estimated useful lives of the related assets, ranging from three years to twenty-five years. Depreciation commences when the related assets are placed into service. Internal-use software development costs are capitalized during the application development stage. Internal-use software costs incurred during the preliminary project stage are expensed as incurred. Land is recorded at historical cost, and is not depreciated. Repair and maintenance costs are expensed as incurred. We have no major planned maintenance activities related to our plant assets associated with our minting operations.

The Company reviews the carrying value of these assets for impairment whenever events and circumstances indicate that the carrying value of the asset may not be recoverable. In evaluating for impairment, the carrying value of each asset is compared to the undiscounted estimated future cash flows expected to result from its use and eventual disposition. An impairment loss is recognized for the difference when the carrying value exceeds the undiscounted estimated future cash flows. The factors considered by the Company in performing this assessment include current and projected operating results, trends and prospects, the manner in which the these assets are used, and the effects of obsolescence, demand and competition, as well as other economic factors.

Definite-lived Intangible Assets

Definite-lived intangible assets consist primarily of customer relationships, non-compete agreements and employment contracts which are amortized on a straight-line basis over their economic useful lives ranging from three years to fifteen years. We review our definite-lived intangible assets for impairment under the same policy described above for plant, property, and equipment; that is, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill and Indefinite-lived Intangible Assets

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill and other indefinite-lived intangibles (such as trade names) are not subject to amortization, but are evaluated for impairment at least annually. However, for tax purposes, goodwill acquired in connection with a taxable asset acquisition is generally deductible.

The Company evaluates its goodwill and other indefinite-lived intangibles for impairment in the fourth quarter of the fiscal year (or more frequently if indicators of potential impairment exist) in accordance with the Intangibles - Goodwill and Other Topic 350 of the ASC. The Company may first qualitatively assess whether relevant events and circumstances make it more likely than not that the fair value of the reporting unit's goodwill is less than its carrying value. A qualitative assessment includes analyzing current economic indicators associated with a particular reporting unit such as changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there would be a significant decline to the fair value of a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

If, based on this qualitative assessment, management determines that goodwill is more likely than not to be impaired, a two-step impairment test is performed. The first step in this test includes comparing the fair value of each reporting unit to its carrying value, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step in the test is performed, which is measurement of the impairment loss. The impairment loss is calculated by comparing the implied fair value of goodwill, as if the reporting unit has been acquired in a business combination, to its carrying amount.

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Long-Term Investments

Investments in privately-held entities that are at least 20% but less than 50% owned by the Company are accounted for using the equity method. Under the equity method, the carrying value of the investment is adjusted for the Company's proportionate share of the investee's earnings or losses, with the corresponding share of earnings or losses reported in other income (expense). The carrying value of the investment is reduced by the amount of the dividends received from the equity-method investee, as they are considered a return of capital.

Investments in privately-held entities that are less than 20% owned by the Company are accounted for using the cost method, unless the Company can exercise significant influence or the investee is economically dependent upon the Company, in which case the equity method is used. Under the cost method, investments are carried at cost and other income is recorded when dividends are received from the cost-method investee.

We evaluate our long-term investments for impairment quarterly or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. As of December 31, 2017 and June 30, 2017, the Company did not identify any impairments.

Fair Value Measurement

The Fair Value Measurements and Disclosures Topic 820 of the ASC ("ASC 820"), creates a single definition of fair value for financial reporting. The rules associated with ASC 820 state that valuation techniques consistent with the market approach, income approach and/or cost approach should be used to estimate fair value. Selection of a valuation technique, or multiple valuation techniques, depends on the nature of the asset or liability being valued, as well as the availability of data (see Note 3.)

Contingent Earn-out Liability

We record an estimate of the fair value of contingent consideration related to the earn-out obligation to SilverTowne LP related to the SilverTowne Mint acquisition. On a quarterly basis, we revalue the liability and record increases or decreases in the fair value as an adjustment to earnings. Changes to the contingent consideration liability can result from adjustments to the discount rate, or from changes to the estimates of future throughput activity of AMST, which are considered Level 3 inputs (see Note 3). Consequentially, the assumptions used in estimating fair value require significant judgment. The use of different assumptions and judgments could result in a materially different estimate of fair value. As of December 31, 2017 and June 30, 2017 the balance of contingent liability was $0.6 million and $1.3 million respectively, and the current portion of this liability is shown as a component of accrued liabilities and the non-current portion is shown in other long-term liabilities. Below is a reconciliation of the contingent earn out liability for the six months ended December 31, 2017.

in thousands

Liabilities at fair value, based on Level 3 inputs:	Contingent Consideration
Balance at June 30, 2017	$ 1,325
Revaluation adjustment	(529)
Amount paid to SilverTowne	(208)
Balance at December 31, 2017	$ 588

Revenue Recognition

Settlement Date Accounting

Substantially all of the Company's sales of precious metals are conducted using sales contracts that meet the definition of derivative instruments in accordance with the Derivatives and Hedging Topic 815 of the ASC ("ASC 815"). The contract underlying A-Mark's commitment to deliver precious metals is referred to as a "fixed-price forward commodity contract" because the price of the commodity is fixed at the time the order is placed. Revenue is recognized on the settlement date, which is defined as the date on which: (1) the quantity, price and specific items being purchased have been established, (2) metals have been delivered to the customer, and (3) payment has been received or is covered by the customer's established credit limit with the Company.

All derivative instruments are marked to market during the interval between the trade date and the settlement date, with the changes in the fair value charged to cost of sales. The Company's hedging strategy to mitigate the market risk associated with its sales commitments is described separately below under the caption “Hedging Activities.”

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Trades Types which Products are Physically Delivered

The Company's contracts to sell precious metals to customers are usually settled with the physical delivery of metals to the customer, although net settlement (i.e., settlement at an amount equal to the difference between the contract value and the market price of the metal on the settlement date) is permitted. Below is a summary of the Company's major trade order types and the key factors that determine when settlement occurs and when revenue is recognized for each type:

- Traditional physical trade orders -- The quantity, specific product and price are determined on the trade date. Payment or sufficient credit is verified prior to delivery of the metals on the settlement date.
- Consignment trade orders -- The Company delivers the items requested by the customer prior to establishing a firm trade order with a price. Settlement occurs and revenue is recognized once the customer confirms its order (quantity, specific product and price) and remits full payment for the sale.
- Provisional trade orders -- The quantity and type of metal is established at the trade date, but the price is not set. The customer commits to purchasing the metals within a specified time period, usually within one year, at the then-current market price. The Company delivers the metal to the customer after receiving the customer's deposit, which is typically based on 110% of the prevailing current spot price. The unpriced metal is subject to a margin call if the deposit falls below 105% of the value of the unpriced metal. The purchase price is established and revenue is recognized at the time the customer notifies the Company that it desires to purchase the metal.
- Margin trade orders -- The quantity, specific product and price are determined at trade date; however, the customer is allowed to finance the transaction through the Company and to defer delivery by committing to remit a partial payment (approximately 20%) of the total order price. With the remittance of the partial payment, the customer locks in the purchase price for a specified time period (usually up to two years from the trade date). Revenue on margin trade orders is recognized when the order is paid in full and delivered to the customer.
- Borrowed precious metals trade orders -- The quantity and type of metal is established at the trade date, but the specific product is not yet determined. Revenue is not recognized until the customer selects the specific precious metal product it wishes to purchase, full payment is received, and the product is delivered to the customer.

Hedging Activities

The value of our inventory and our purchase and sale commitments are linked to the prevailing price of the underlying precious metal commodity. The Company seeks to minimize the effect of price changes of the underlying commodity and enters into inventory hedging transactions, principally utilizing metals commodity futures contracts traded on national futures exchanges or forward contracts with credit worthy financial institutions. The Company hedges by each commodity type (gold, silver, platinum, and palladium). All of our commodity derivative contracts are under master netting arrangements and include both asset and liability positions. Substantially all of these transactions are secured by the underlying metals positions.

Commodity forward, futures and option contracts entered into for hedging purposes are recorded at fair value on the trade date and are marked to market each period. The difference between the original contract values and the market values of these contracts are reflected as derivative assets or derivative liabilities in the condensed consolidated balance sheets at fair value, with the corresponding unrealized gain or losses included as a component of cost of sales. When these contracts are net settled, the unrealized gains and losses are reversed and the realized gains and losses for forward contracts are recorded in revenue and cost of sales and the net realized gains and losses for futures and option contracts are recorded in cost of sales.

The Company enters into futures, forward and option contracts solely for the purpose of hedging our inventory holding risk and our liability on price protection programs, and not for speculative market purposes. The Company's gains (losses) on derivative instruments are substantially offset by the changes in the fair market value of the underlying precious metals inventory, which is also recorded in cost of sales in the condensed consolidated statements of income (see Note 11.)

Other Sources of Revenue

In accordance with the Revenue Recognition Topic 605 of the ASC ("ASC 605") storage and logistics services revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, no obligations remain and collection is probable.

Interest Income

In accordance with the Interest Topic 835 of the ASC ("ASC 835") following are interest income generating activities of the Company:

- Secured Loans -- The Company uses the effective interest method to recognize interest income on its secured loans transactions. The Company maintains a security interest in the precious metals and records interest income over the terms of the secured loan receivable. Recognition of interest income is suspended and the loan is placed on non-accrual status when management determines that collection of future interest income is not probable. The interest income accrual is

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resumed, and previously suspended interest income is recognized, when the loan becomes contractually current and/or collection doubts are resolved. Cash receipts on impaired loans are recorded first against the principal and then to any unrecognized interest income (see Note 5.)

- Margin accounts -- The Company earns a fee (interest income) under financing arrangements related to margin trade orders over the period during which customers have opted to defer making full payment on the purchase of metals.
- Repurchase agreements -- Repurchase agreements represent a form of secured financing whereby the Company sets aside specific metals for a customer and charges a fee on the outstanding value of these metals. The customer is granted the option (but not the obligation) to repurchase these metals at any time during the open reacquisition period. This fee is earned over the duration of the open reacquisition period and is classified as interest income.
- Spot deferred trade orders -- Spot deferred trade orders are a special type of forward delivery trade that enable customers to purchase or sell certain precious metals from/to the Company at an agreed upon price but, are allowed to delay remitting or taking delivery up to a maximum of two years from the date of trade. Even though the contact allows for physical delivery, it rarely occurs for this type trade. As a result, revenue is not recorded from these transactions, because no product is delivered to the customer. Spot deferred trades are considered a type of financing transactions, where the Company earns a fee (interest income) under spot deferred arrangements over the period in which trade is open.

Interest Expense

The Company accounts for interest expense on the following arrangements in accordance with Interest Topic 835 of the ASC ("ASC 835"):

- Borrowings -- The Company incurs interest expense from its lines of credit and its debt obligations (related party) using the effective interest method (see Note 14.) Additionally, the Company amortizes capitalized loan fee costs to interest expense over the period of the loan agreement.
- Loan servicing fees -- When the Company purchases loan portfolios, the Company may have the seller service the loans that were purchased. The Company incurs a fee based on total interest charged to borrowers over the period the loans are outstanding. The servicing fee incurred by the Company is charged to interest expense.
- Product financing arrangements -- The Company incurs financing fees (classified as interest expense) from its product financing arrangements (also referred to as reverse-repurchase arrangements) with third party finance companies for the transfer and subsequent option to reacquire its precious metal inventory at a later date. These arrangements are accounted for as secured borrowings. During the term of this type of agreement, the third party charges a monthly fee as a percentage of the market value of the designated inventory, which the Company intends to reacquire in the future. No revenue is generated from these trades. The Company enters this type of transaction for additional liquidity.

Other Income

The Company's other income is derived from the Company's proportional interest in the investee's reported net income or net loss for its equity method investment and the gains or losses associated with revaluation adjustments to the contingent earn-out liability.

For the three months ended December 31, 2017 and 2016, the Company's proportional interest in the investee's reported net income from its equity method investment was $122,000 and $93,000, respectively; and for the six months ended December 31, 2017 and 2016 was $179,000 and $79,000, respectively.

For the three months ended December 31, 2017 and 2016, the net gains associated with revaluation adjustments to the contingent earn-out liability was $529,000 and zero, respectively; and for the six months ended December 31, 2017 and 2016 was $529,000 and zero, respectively.

Advertising

Advertising expense was $1,059,000 and $199,000, respectively, for the three months ended December 31, 2017 and 2016. Advertising expense was $1,576,000 and $366,000, respectively, for the six months ended December 31, 2017 and 2016.

Shipping and Handling Costs

Shipping and handling costs represent costs associated with shipping product to customers, and receiving product from vendors and are included in cost of sales in the condensed consolidated statements of income. Shipping and handling costs incurred totaled $1,099,000 and $1,177,000, respectively, for the three months ended December 31, 2017 and 2016. Shipping and handling costs incurred totaled $2,183,000 and $2,297,000, respectively, for the six months ended December 31, 2017 and 2016.

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Share-Based Compensation

The Company accounts for equity awards under the provisions of the Compensation - Stock Compensation Topic 718 of the ASC ("ASC 718"), which establishes fair value-based accounting requirements for share-based compensation to employees. ASC 718 requires the Company to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees as expense over the service period in the Company's condensed consolidated financial statements. The expense is adjusted for actual forfeitures of unvested awards as they occur.

Income Taxes

As part of the process of preparing its condensed consolidated financial statements, the Company is required to estimate its provision for income taxes in each of the tax jurisdictions in which it conducts business, in accordance with the Income Taxes Topic 740 of the ASC ("ASC 740"). The Company computes its annual tax rate based on the statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it earns income. Significant judgment is required in determining the Company's annual tax rate and in evaluating uncertainty in its tax positions. The Company recognizes a benefit for tax positions that it believes will more likely than not be sustained upon examination. The amount of benefit recognized is the largest amount of benefit that the Company believes has more than a 50% probability of being realized upon settlement. The Company regularly monitors its tax positions and adjusts the amount of recognized tax benefit based on its evaluation of information that has become available since the end of its last financial reporting period. The annual tax rate includes the impact of these changes in recognized tax benefits. When adjusting the amount of recognized tax benefits, the Company does not consider information that has become available after the balance sheet date, but does disclose the effects of new information whenever those effects would be material to the Company's condensed consolidated financial statements. The difference between the amount of benefit taken or expected to be taken in a tax return and the amount of benefit recognized for financial reporting represents unrecognized tax benefits. These unrecognized tax benefits are presented in the condensed consolidated balance sheets principally within accrued liabilities.

The Company accounts for uncertainty in income taxes under the provisions of ASC 740. These provisions clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, and prescribe a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The provisions also provide guidance on de-recognition, classification, interest, and penalties, accounting in interim periods, disclosure, and transition. The potential interest and/or penalties associated with an uncertain tax position are recorded in provision for income taxes on the condensed consolidated statements of income. Please refer to Note 12 for further discussion regarding these provisions.

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the net deferred tax assets will not be realized. The factors used to assess the likelihood of realization include the Company's forecast of the reversal of temporary differences, future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. Significant judgment is applied when assessing the need for valuation allowances. Areas of estimation include the Company's consideration of future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, the Company would adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income. Changes in recognized tax benefits and changes in valuation allowances could be material to the Company's results of operations for any period, but is not expected to be material to the Company's condensed consolidated financial position.

Based on our assessment it appears more likely than not that most of the net deferred tax assets will be realized through future taxable income. Management has established a valuation allowance against the deferred taxes related to certain state net operating loss carryovers. Management believes the utilization of these losses may be limited. We will continue to assess the need for a valuation allowance for our remaining deferred tax assets in the future.

The Company's condensed consolidated financial statements recognized the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods, as if the Company were a separate taxpayer prior to the date of the Distribution of the company when it was a member of the consolidated income tax return group of its Former Parent, Spectrum Group International, Inc. Following its spin-off, the Company files federal and state income tax filings that are

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separate from the Former Parent's tax filings. The Company recognizes current and deferred income taxes as a separate taxpayer for periods ending after the date of Distribution.

Earnings per Share ("EPS")

The Company computes and reports both basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the sum of the weighted average number of common shares and dilutive common stock equivalents outstanding during the period. Diluted EPS reflects the total potential dilution that could occur from outstanding equity awards, including unexercised stock options, utilizing the treasury stock method.

A reconciliation of shares used in calculating basic and diluted earnings per common shares for the three and six months ended December 31, 2017 and 2016, is presented below.

in thousands	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Basic weighted average shares outstanding	7,031	7,023	7,031	7,027
Effect of common stock equivalents — stock issuable under outstanding equity awards	—	86	82	86
Diluted weighted average shares outstanding	7,031	7,109	7,113	7,113

Since the Company incurred a net loss for the three months ended December 31, 2017, basic and diluted EPS were the same, as the inclusion of 856,582 potential common shares, related to outstanding stock options, in the computation of net loss per share would have been anti-dilutive.

Dividends

Dividends are recorded if and when declared by the Board of Directors. During the three months ended December 31, 2017, the Board of Directors declared a cash dividend of $0.08 per share, totaling $0.16 of dividends per share for the six months ended December 31, 2017. For the three months ended December 31, 2016, the Board of Directors declared a cash dividend of $0.07 per share, totaling $0.14 of dividends per share for the six months ended December 31, 2016 (see Note 16).

Recent Accounting Pronouncements Not Yet Adopted

From time to time, the Financial Accounting Standards Board ("FASB") or other standards setting bodies issue new accounting pronouncements. Updates to the FASB Accounting Standards Codification ("ASC") are communicated

through issuance of an Accounting Standards Update (“ASU”).
In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, (“ASU 2017-04”). The amendments of this ASU eliminate step 2 from the goodwill impairment test. The annual, or interim test is performed by comparing the fair value of a reporting unit with its carrying amount. The amendments of this ASU also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step 2 of the goodwill impairment test. This update is effective for the Company, on July 1, 2020 (for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years). Early adoption is permitted for interim or annual goodwill impairment test performed on testing dates after January 1, 2017. We continue to evaluate the impact of our upcoming adoption of ASU 2017-04 and do not believe that its adoption will have a material impact on our consolidated financial position, results of operations or cash flows and related disclosures.
In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, (“ASU 2017-01”). The objective of ASU 2017-01 is to clarify the definition of a business in order to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. ASU 2017-01 is effective for the Company for annual and interim reporting periods beginning July 1, 2018. We continue to evaluate the impact of our upcoming adoption of ASU 2017-01 and do not believe that its adoption will have a material impact on our consolidated financial position, results of operations or cash flows and related disclosures.
In August 2016 the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). This new standard will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. This update is effective for the Company on July 1, 2018 (for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years). The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case we would be required to apply the amendments

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prospectively as of the earliest date practicable. We are currently evaluating the impact of our upcoming adoption of ASU 2016-15 on our consolidated financial position, results of operations or cash flows and related disclosures.
In February 2016, FASB issued ASU No. 2016-02, (“ASU 2016-02”), Leases (Topic 842). The amendments in this update require lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases at the commencement date. This update is effective for the Company, on July 1, 2019 (for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years), and is to be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are evaluating the new guidelines, but believe that adoption will not have a material impact on our consolidated financial position, results of operations or cash flows and related disclosures, as the Company has minimal lease commitments.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU No. 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”). The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”). The amendments in ASU 2016-10 clarify aspects relating to the identification of performance obligations and improve the operability and understandability of the licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12("ASU 2016-12"), Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in ASU 2016-12 address certain issues identified on assessing collectability, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications at transition. For all of the ASUs noted above ("ASC 606"), the effective date for the Company is July 1, 2018 (for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years). Either the retrospective or cumulative effect transition method is permitted. The Company has been evaluating the impact of this new pronouncement and does not believe the implementation of ASC 606 will have a significant effect on the financial results of the Company for fiscal years beginning on and after July 1, 2018. This is because the major portion of the Company's revenues fall under the authoritative guidance of ASC 815, which are outside the scope of ASC 606.

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3. ASSETS AND LIABILITIES, AT FAIR VALUE

Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2017 and June 30, 2017.

in thousands

	December 31, 2017		June 30, 2017	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets:				
Cash	$12,011	$12,011	$13,059	$13,059
Receivables, net	39,418	39,418	39,295	39,295
Secured loans receivable	96,971	96,971	91,238	91,238
Derivative asset on open sale and purchase commitments, net	1,009	1,009	931	931
Derivative asset on option contracts	158	158	—	—
Derivative asset on futures contracts	179	179	1,273	1,273
Derivative asset on forward contracts	53	53	15,383	15,383
Income taxes receivable	663	663	—	—
Financial liabilities:				
Lines of credit	$214,000	$214,000	$180,000	$180,000
Debt obligation (related party)	6,873	6,873	—	—
Liability on borrowed metals	19,526	19,526	5,625	5,625
Product financing arrangements	120,161	120,161	135,343	135,343
Derivative liability on margin accounts	4,252	4,252	4,797	4,797
Derivative liability on price protection programs	84	84	—	—
Derivative liability on open sale and purchase commitments, net	2,561	2,561	29,785	29,785
Derivative liability on futures contracts	4,167	4,167	—	—
Derivative liability on forward contracts	16,356	16,356	—	—
Accounts payable	59,754	59,754	41,947	41,947
Accrued liabilities	5,263	5,263	4,945	4,945
Other long-term liabilities (related party) (1)	1,103	1,103	1,117	1,117
Income taxes payable	—	—	1,418	1,418
Note payable - related party	—	—	500	500

(1) Includes estimated contingent amounts due to SilverTowne and Goldline Lenders.

The fair values of the financial instruments shown in the above table as of December 31, 2017 and June 30, 2017 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk adjusted discount rates, and available observable and unobservable inputs.

The carrying amounts of cash, secured loans receivable, receivables, income taxes receivable, accounts payable, income taxes payable, note payable, and accrued liabilities approximate fair value due to their short-term nature. The carrying amounts of derivative assets and derivative liabilities, liability on borrowed metals and product financing arrangements are marked-to-market on a daily basis to fair value. The carrying amounts of lines of credit and debt obligation approximate fair value based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities. The carrying value of other long-term liabilities represents the long-term portion of a contingent earn-out liability that is remeasured on a quarterly basis.

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Valuation Hierarchy

Topic 820 of the ASC established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The significant assumptions used to determine the carrying value and the related fair value of the financial instruments are described below:

Inventory. Inventories, principally include bullion and bullion coins, are acquired and initially recorded at fair market value. The fair market value of the bullion and bullion coins are comprised of two components: 1) published market values attributable to the costs of the raw precious metal, and 2) a published premium paid at acquisition of the metal. The premium is attributable to the additional value of the product in its finished goods form and the market value attributable solely to the premium is readily determined, as it is published by multiple reputable sources. Except for commemorative coin inventory, which are included in inventory at the lower of cost or market, the Company's inventories are subsequently recorded at their fair market values on a daily basis. The fair value for commodities inventory (i.e., inventory excluding commemorative coins) is determined using pricing data derived from the markets on which the underlying commodities are traded. Precious metals commodities inventory are classified in Level 1 of the valuation hierarchy.

Derivatives. Futures contracts, forward contracts, option contracts and open sale and purchase commitments are valued at their fair values, based on the difference between the quoted market price and the contractual price (i.e., intrinsic value,) and are included within Level 1 of the valuation hierarchy.

Margin and Borrowed Metals Liabilities. Margin and borrowed metals liabilities consist of the Company's commodity obligations to margin customers and suppliers, respectively. Margin liabilities and borrowed metals liabilities are carried at fair value, which is determined using quoted market pricing and data derived from the markets on which the underlying commodities are traded. Margin and borrowed metals liabilities are classified in Level 1 of the valuation hierarchy.

Product Financing Arrangements. Product financing arrangements consist of financing agreements for the transfer and subsequent re-acquisition of the sale of gold and silver at an agreed-upon price based on the spot price with a third party. Such transactions allow the Company to repurchase this inventory on the termination (repurchase) date. The third party charges monthly interest as a percentage of the market value of the outstanding obligation, which is carried at fair value. The obligation is stated at the amount required to repurchase the outstanding inventory. Fair value is determined using quoted market pricing and data derived from the markets on which the underlying commodities are traded. Product financing arrangements are classified in Level 1 of the valuation hierarchy.

Liability on Price Protection Programs. The Company records an estimate of the fair value of the liability on price protection programs based on the difference between the contractual price at trade date and the retail price at the remeasurement date (i.e., quarter-end) based on the expected redemption rate of each program. As of December 31, 2017, the Company used the quoted market price based on the current spot rate and used an expected redemption rate of 100% for the price shield program, the most significant of the price protection programs. The use of a throughput rate of each program ignores the future price volatility that would affect the timing and rate of redemption under these programs, and, as a result, the liability on price protection programs is classified in Level 3 of the valuation hierarchy.

Contingent Earn-out Liability. The Company records an estimate of the fair value of contingent consideration related to the earn-out obligation to SilverTowne LP related to the SilverTowne Mint transaction. On a quarterly basis, the liability is remeasured and increases or decreases in the fair value are recorded as an adjustment to other income on the condensed consolidated statements of income. Changes to the contingent consideration liability can result from adjustments to the discount rate, or from changes to the estimates of future throughput activity of AMST. The assumptions used in estimating fair value require significant judgment. The use of different assumptions and judgments could result in a materially different estimate of fair value. The key inputs in determining fair value of our contingent consideration obligations include the changes in the assumed timing and amounts of future throughputs (i.e., operating income, operating cost per unit, and production volume) which affects the timing and amount of future earn-out payments. Contingent earn-out liability is classified in Level 3 of the valuation hierarchy.

The Company values the contingent obligation by determining the likelihood that the company has achieved the following targeted amount of performance thresholds for each annual earn-out period. Such thresholds include (1) Producing a targeted amount of silver ounces, (2) Earning a targeted amount of operating income, and (3) Generating an operating cost per ounce that

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is less than a targeted level. Each category triggers a different annual payout obligation if achieved over a 3 year period. The company re-assesses this contingent obligation each quarter based on the most current facts and market conditions. The obligation continues to remain as a liability at its original recorded value unless, based on each quarterly evaluation, it becomes evident the Company will not achieve all or part of the threshold performance targets. In such case, the obligation is adjusted to its more current estimated value.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and June 30, 2017, aggregated by the level in the fair value hierarchy within which the measurements fall:

	December 31, 2017			
in thousands	Quoted Price in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Inventory [1]	$335,106	$ —	$ —	$335,106
Derivative assets — open sale and purchase commitments, net	1,009	—	—	1,009
Derivative assets — option contracts	158	—	—	158
Derivative assets — futures contracts	179	—	—	179
Derivative assets — forward contracts	53	—	—	53
Total assets, valued at fair value	$336,505	$ —	$ —	$336,505
Liabilities:				
Liability on borrowed metals	$19,526	$ —	$ —	$19,526
Product financing arrangements	120,161	—	—	120,161
Derivative liabilities — price protection programs	—	—	84	84
Derivative liabilities — liability on margin accounts	4,252	—	—	4,252
Derivative liabilities — open sale and purchase commitments, net	2,561	—	—	2,561
Derivative liabilities — future contracts	4,167	—	—	4,167
Derivative liabilities — forward contracts	16,356	—	—	16,356
Contingent earn-out liability	$—	$ —	$ 588	$588
Total liabilities, valued at fair value	$167,023	$ —	$ 672	$167,695

[1] Commemorative coin inventory totaling $129,000 is held at lower of cost or market and is thus excluded from this table.

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in thousands	June 30, 2017 Quoted Price in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Inventory [1]	$284,619	$ —	$ —	$284,619
Derivative assets — open sale and purchase commitments, net	931	—	—	931
Derivative assets — futures contracts	1,273	—	—	1,273
Derivative assets — forward contracts	15,383	—	—	15,383
Total assets, valued at fair value	$302,206	$ —	$ —	$302,206
Liabilities:				
Liability on borrowed metals	$5,625	$ —	$ —	$5,625
Product financing arrangements	135,343	—	—	135,343
Derivative liabilities — liability on margin accounts	4,797	—	—	4,797
Derivative liabilities — open sale and purchase commitments, net	29,785	—	—	29,785
Contingent earn-out liability	—	—	1,325	1,325
Total liabilities, valued at fair value	$175,550	$ —	$ 1,325	$176,875

[1] Commemorative coin inventory totaling $40,000 is held at lower of cost or market and is thus excluded from this table.

There were no transfers in or out of Level 2 or 3 from other levels within the fair value hierarchy during the reported periods.

Assets Measured at Fair Value on a Non-Recurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only under certain circumstances. These include cost method and equity method investments that are written down to fair value when a decline in the fair value is determined to be other-than-temporary, and plant, property and equipment or goodwill that are written down to fair value when they are held for sale or determined to be impaired.

The Company uses Level 3 inputs to measure the fair value of its investments on a non-recurring basis. The Company's two investments in noncontrolled entities do not have readily determinable fair values. Quoted prices of the investments are not available, and the cost of obtaining an independent valuation appears excessive considering the carrying value of the instruments to the Company. As of December 31, 2017 and June 30, 2017, the carrying value of the Company's investments totaled $8.1 million and $8.0 million, respectively. During the three and six months ended December 31, 2017 and 2016, the Company did not record any impairments related to these investments.

The Company also uses Level 3 inputs to measure the fair value of goodwill and other intangibles on a non-recurring basis. These assets are measured at cost and are written down to fair value on the annual measurement dates or on the date of a triggering event, if impaired. As of December 31, 2017, there were no indications present that the Company's goodwill or other purchased intangibles were impaired, and therefore were not remeasured.