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
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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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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

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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 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 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

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[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.

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4. RECEIVABLES

Receivables consist of the following as of December 31, 2017 and June 30, 2017:
in thousands

	December 31, 2017	June 30, 2017
Customer trade receivables	$ 15,638	$31,949
Wholesale trade advances	13,445	2,457
Due from brokers	10,365	4,919
Subtotal	39,448	39,325
Less: allowance for doubtful accounts	(30)	(30)
Receivables, net	$ 39,418	$39,295

Customer Trade Receivables. Customer trade receivables represent short-term, non-interest bearing amounts due from precious metal sales, advances related to financing products, and other secured interests in assets of the customer. Also, the balance as of December 31, 2017 includes an estimate of the amount due from the seller of Goldline for $0.5 million for the difference between the initial provisional purchase price and the revised provisional purchase price (See Note 1).

Wholesale Trade Advances. Wholesale trade advances represent advances of various bullion products and cash advances for purchase commitments of precious metal inventory. Typically, these advances are unsecured, short-term, and non-interest bearing, and are made to wholesale metals dealers and government mints.

Due from Brokers. Due from brokers principally consists of the margin requirements held at brokers related to open futures contracts (see Note 11).

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded based on specifically identified receivables, which the Company has identified as potentially uncollectible. A summary of the activity in the allowance for doubtful accounts is as follows:
in thousands

Period ended:	Beginning Balance	Provision	Charge-off	Ending Balance
Six Months Ended December 31, 2017	$ 30	$ —	$ —	$ 30
Year Ended June 30, 2017	$ 30	$ —	$ —	$ 30

5. SECURED LOANS RECEIVABLE

Below is a summary of the carrying value of our secured loans as of December 31, 2017 and June 30, 2017:
in thousands

	December 31, 2017	June 30, 2017
Secured loans originated	$ 27,070	$30,864
Secured loans originated - with a related party	1,502	—
	28,572	30,864
Secured loans acquired	68,399 (1)	60,374 (2)
Secured loans (current and long-term)	$ 96,971	$91,238

(1) Includes $65,000 of loan premium as of December 31, 2017.
(2) Includes $72,000 of loan premium as of June 30, 2017.

Secured Loans - Originated: Secured loans include short-term loans, which include a combination of on-demand lines and short term facilities, and long-term loans that are made to our customers. These loans are fully secured by the customers' assets that include bullion, numismatic and semi-numismatic material, which are typically held in safekeeping by the Company. (See Note 13, for further information regarding our secured loans made to related parties.)

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Secured Loans - Acquired: Secured loans also include short-term loans, which include a combination of on-demand lines and short term facilities that are purchased from our customer. The Company acquires a portfolio of their loan receivables at a price that approximates the aggregate carrying value of each loan in the portfolio, as determined on the effective transaction date. Each loan in the portfolio is fully secured by the borrowers' assets, which include bullion, numismatic and semi-numismatic material that are held in safekeeping by the Company. Typically, the seller of the loan portfolio retains the responsibility for the servicing and administration of the loans.

As of December 31, 2017 and June 30, 2017, our secured loans carried weighted-average effective interest rates of 9.4% and 9.2%, respectively, and mature in periods generally ranging typically from on-demand to one year.

The secured loans that the Company generates with active customers of A-Mark are reflected as an operating activity on the condensed consolidated statements of cash flows. The secured loans that the Company generates with borrowers who are not active customers of A-Mark are reflected as an investing activity on the condensed consolidated statements of cash flows as secured loans, net. For the secured loans that are reflected as an investing activity and have terms that allow the borrower to increase their loan balance (at the discretion of the Company) based on the excess value of their collateral compared to their aggregate principal balance of loan and are repayable on demand or in the short-term, the borrowings and repayments are netted on the condensed consolidated statements of cash flows.

Credit Quality of Secured Loans Receivables and Allowance for Credit Losses

The Company applies a systematic methodology to determine the allowance for credit losses for secured loan receivables. The secured loan receivables portfolio is comprised solely of secured loans with similar risk profiles. This similarity allows the Company to apply a standard methodology to determine the credit quality for each loan. The credit quality of each loan is generally determined by the secured material, the initial and ongoing collateral value determination and the assessment of loan to value determination. Typically, the Company's secured loan receivables within its portfolio have similar credit risk profiles and methods for assessing and monitoring credit risk.

The Company evaluates its loan portfolio in one of two classes of secured loan receivables: those loans secured by: 1) bullion and 2) numismatic and semi-numismatic items. The Company's secured loans by portfolio class, which align with management reporting, are as follows:

in thousands

	December 31, 2017		June 30, 2017	
Bullion	$64,970	67.0 %	$61,767	67.7 %
Numismatic and semi-numismatic	32,001	33.0	29,471	32.3
	$96,971	100.0%	$91,238	100.0%

Each of the two classes of receivables have the same initial measurement attribute and a similar method for assessing and monitoring credit risk. The methodology of assessing the credit quality of the secured loans acquired by the Company is similar to the secured loans originated by the Company; they are administered using the same internal reporting system, collateralized by precious metals or other pledged assets, for which a loan to value determination procedures are applied.

Credit Quality of Loans and Non Performing Status

Generally, interest is due and payable within 30 days. A loan is considered past due if interest is not paid in 30 days or collateral calls are not met timely. Typically, loans do not achieve the threshold of non performing status due to the fact that customers are generally put into default for any interest past due over 30 days and for unsatisfied collateral calls. When this occurs the loan collateral is typically liquidated within 90 days.

For certain secured loans, interest is billed monthly and, if not paid, is added to the outstanding loan balance. These secured loans are considered past due if their current loan-to-value ratio fails to meet established minimum equity levels, and the borrower fails to meet the collateral call required to reestablish the appropriate loan to value ratio.

Non-performing loans have the highest probability for credit loss. The allowance for credit losses attributable to non-performing loans is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, the Company estimates the current market value of the collateral and considers credit enhancements such as additional collateral and third-party guarantees. Due to the accelerated liquidation terms of the Company's loan portfolio, all past due loans are generally liquidated within 90 days of default.

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Further information about the Company's credit quality indicators includes differentiating by categories of current loan-to-value ratios. The Company disaggregates its secured loans that are collateralized by precious metal products, as follows:

in thousands

	December 31, 2017		June 30, 2017	
Loan-to-value of 75% or more	$52,233	53.9 %	$60,432	66.2 %
Loan-to-value of less than 75%	44,738	46.1	30,806	33.8
Secured loans collateralized by precious metal products	$96,971	100.0%	$91,238	100.0%

The Company had no loans with a loan-to-value ratio in excess of 100% at December 31, 2017. At June 30, 2017, the Company had no loans with a loan-to-value ratio in excess of 100%.

Impaired loans

A loan is considered impaired if it is probable, based on current information and events, that the Company will be unable to collect all amounts due according to the contractual terms of the loan. Customer loans are reviewed for impairment and include loans that are past due, non-performing or in bankruptcy. 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. Accrual is resumed, and previously suspended interest income is recognized, when the loan becomes contractually current and/or collection doubts are removed. Cash receipts on impaired loans are recorded first against the receivable and then to any unrecognized interest income.

All loans are contractually subject to margin call. As a result, loans typically do not become impaired due to the fact the Company has the ability to require margin calls which are due upon receipt. Per the terms of the loan agreement, the Company has the right to liquidate the loan collateral in the event of a default. The material is highly liquid and easily sold to pay off the loan. Such circumstances would result in a short term impairment that would typically result in full repayment of the loan and fees due to the Company.

For the six months ended December 31, 2017 and 2016, the Company incurred no loan impairment costs.

6. INVENTORIES

Our inventory consists of the precious metals that the Company has physically received, and inventory held by third-parties, which, at the Company's option, it may or may not receive. Below, our inventory is summarized by classification at December 31, 2017 and June 30, 2017:

in thousands

	December 31, 2017	June 30, 2017
Inventory held for sale	$ 73,959	$43,787
Repurchase arrangements with customers	106,434	92,496
Consignment arrangements with customers	15,026	7,368
Commemorative coins, held at lower of cost or market	129	40
Borrowed precious metals	19,526	5,625
Product financing arrangements, restricted	120,161	135,343
	$ 335,235	$284,659

Inventory Held for Sale. Inventory held for sale represents precious metals, excluding commemorative coin inventory, that have been received by the Company that is not subject to repurchase or consignment arrangements with third parties. As of December 31, 2017 and June 30, 2017, the inventory held for sale totaled $74.0 million and $43.8 million, respectively.

Repurchase Arrangements with Customers. The Company enters into arrangements with certain customers under which A-Mark purchases precious metals products that are subject to repurchase by the customer at the fair value of the product on the repurchase date, whereby the Company retains legal title to the metals. The Company or the counterparty may typically terminate any such arrangement with 14 days' notice. Upon termination the customer’s rights to repurchase any remaining inventory is forfeited. As of December 31, 2017 and June 30, 2017, included within inventory is $106.4 million and $92.5 million, respectively, of precious metals products subject to repurchase.

Consignment Arrangements with Customers. The Company periodically loans metals to customers on a short-term consignment basis. Inventories loaned under consignment arrangements to customers as of December 31, 2017 and June 30, 2017 totaled $15.0 million and $7.4 million, respectively. Such transactions are recorded as sales and are removed from the Company's inventory at the time the customer elects to price and purchase the precious metals.

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Commemorative Coins. 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. Our commemorative coins are not hedged, and are included in inventory at the lower of cost or market and totaled $129,000 and $40,000 as of December 31, 2017 and June 30, 2017, respectively.

Borrowed Precious Metals. Inventories include amounts borrowed from suppliers and customers that arise from various arrangements including unallocated metal positions held by customers in the Company's inventory, as well as amounts due to suppliers for the use of consigned inventory, and shortages in unallocated metal positions held by the Company in the supplier's inventory. Unallocated or pool metal represents an unsegregated inventory position that is due on demand, in a specified physical form, based on the total ounces of metal held in the position. Amounts under these arrangements require delivery either in the form of precious metals or cash. Corresponding obligations related to liabilities on borrowed metals are reflected on the condensed consolidated balance sheets and totaled $19.5 million and $5.6 million as of December 31, 2017 and June 30, 2017, respectively.

Product Financing Arrangements. Inventories include amounts for obligations under product financing arrangements. The Company enters into a product financing agreement for the transfer and subsequent re-acquisition of gold and silver at an agreed-upon price based on the spot price with a third party finance company. This inventory is restricted and is held at a custodial storage facility in exchange for a financing fee, by the third party finance company. During the term of the financing, the third party finance company holds the inventory as collateral, and both parties intend for the inventory to be returned to the Company at an agreed-upon price based on the spot price on the finance arrangement termination date. These transactions do not qualify as sales and have been accounted for as financing arrangements in accordance with ASC 470-40 Product Financing Arrangements. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing and the underlying inventory are carried at fair value, with changes in fair value included in cost of sales in the condensed consolidated statements of income. Such obligations totaled $120.2 million and $135.3 million as of December 31, 2017 and June 30, 2017, respectively.

The Company mitigates market risk of its physical inventories and open commitments through commodity hedge transactions (see Note 11.) As of December 31, 2017 and June 30, 2017, the unrealized gains (losses) resulting from the difference between market value and cost of physical inventories were $5.6 million and $(4.5) million, respectively.

Premium component of inventory

The Company's inventories primarily include bullion and bullion coins and 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 cost 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. The premium is included in the cost of the inventory, paid at acquisition, and is a component of the total fair market value of the inventory. The precious metal component of the inventory may be hedged through the use of precious metal commodity positions, while the premium component of our inventory is not a commodity that may be hedged.

The Company's inventories are subsequently recorded at their fair market values, that is, "marked-to-market", except for our commemorative coin inventory. The daily changes in the fair market value of our inventory are offset by daily changes in fair market value of hedging derivatives that are taken with respects 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.

The premium component, at market value, included in the inventories as of December 31, 2017 and June 30, 2017 totaled $4.4 million and $4.1 million, respectively.

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7. PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consists of the following at December 31, 2017 and June 30, 2017:

in thousands	December 31, 2017	June 30, 2017
Office furniture, and fixtures	$ 2,010	$ 1,638
Computer equipment	727	462
Computer software	3,533	2,386
Plant equipment	2,048	1,979
Building	315	315
Leasehold improvements	2,789	2,571
Total depreciable assets	11,422	9,351
Less: accumulated depreciation	(4,789)	(3,885)
Property and equipment not placed in service	1,221	1,105
Land	36	36
Plant, property and equipment, net	$ 7,890	$ 6,607

Depreciation expense for the three months ended December 31, 2017 and 2016 was $530,000 and $275,000, respectively. Depreciation expense for the six months ended December 31, 2017 and 2016 was $902,000 and $500,000, respectively.

Pursuant to the Company's acquisition of Goldline (see Note 1) the Company recorded approximately $1.8 million of additional property and equipment, which represents the approximate fair value of these assets.

8. GOODWILL AND INTANGIBLE ASSETS

In connection with the acquisition of A-Mark by Former Parent on July 1, 2005, the accounts of the Company were adjusted using the push down basis of accounting to recognize the allocation of the consideration paid to the respective net assets acquired. In accordance with the push down basis of accounting, the Company's net assets were adjusted to their fair values as of the date of the acquisition based upon an independent appraisal.

Due to the Company's business combination with AMST that closed on August 31, 2016, the Company recorded an additional $2.5 million and $4.3 million of identifiable intangible assets and goodwill, respectively; these values were based upon an independent appraisal. The Company’s investment in AMST has resulted in synergies between the acquired minting operation and the Company’s established distribution network by providing a more steady and reliable fabricated source of silver during times of market volatility. The Company considers that much of the acquired goodwill relates to the “ ready state” of AMST's established minting operation with existing quality processes, procedures and ability to scale production to meet market needs.

Due to the Company's acquisition of Goldline (see Note 1), the Company recorded $5.0 million and $1.5 million of additional identifiable intangible assets and goodwill, respectively; these values were based upon an independent appraisal and represents their fair values at the acquisition date. The Company’s investment in Goldline is expected to create synergies between Goldline's direct marketing operation and the Company’s established distribution network, secured storage and lending operations that is expected to lead to increased product margin spreads, lower distribution and storage costs for Goldline, and a larger customer base for the Company's secured lending operations.

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The carrying value of goodwill and other purchased intangibles as of December 31, 2017 and June 30, 2017 is as described below:
dollar amounts in thousands

		December 31, 2017			June 30, 2017		
	Estimated Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Identifiable intangible Assets:							
Existing customer relationships	5 - 15	8,848	(5,012)	3,836	6,447	(4,636)	1,811
Non-compete and other	3 - 5	2,300	(2,022)	278	2,000	(2,000)	—
Employment agreement	3	295	(207)	88	195	(195)	—
Intangibles subject to amortization		11,443	(7,241)	4,202	8,642	(6,831)	1,811
Trade Name	Indefinite	$4,454	$ —	$4,454	$2,254	$ —	$2,254
		$15,897	$ (7,241)	$8,656	$10,896	$ (6,831)	$4,065
Goodwill	Indefinite	$10,331	$ —	$10,331	$8,881	$ —	$8,881

The Company's intangible assets are subject to amortization except for trade-names, which have an indefinite life. Intangible assets subject to amortization are amortized using the straight-line method over their useful lives, which are estimated to be three to fifteen years. Amortization expense related to the Company's intangible assets for the three months ended December 31, 2017 and 2016 was $253,000 and $111,000, respectively. Amortization expense related to the Company's intangible assets for the six months ended December 31, 2017 and 2016 was $410,000 and $207,000, respectively. For the six months ended December 31, 2017 and 2016, the Company did not identify any impairments related to the Company's goodwill or intangible assets.
Estimated amortization expense on an annual basis for the succeeding five years is as follows (in thousands):

Fiscal Year Ending June 30,	Amount
2018 (6 months remaining)	$ 506
2019	1,012
2020	1,012
2021	621
2022	571
Thereafter	480
Total	$ 4,202

9. LONG-TERM INVESTMENTS
The Company has two investments in privately-held entities, both of which are online precious metals retailers and customers of the Company. The Company has exclusive supplier agreements with each entity, for which these customers have agreed to purchase all bullion products required for their businesses exclusively from A-Mark, subject to certain limitations. The Company also provides fulfillment services to both of these customers. The following table shows the carrying value of the Company's investments in the privately held companies, categorized by type of investment:
in thousands

	December 31, 2017	June 30, 2017
Equity method investment	$ 7,646	$ 7,467
Cost method investment	500	500

$ 8,146	$ 7,967

Equity Method Investment

The Company applies the equity method of accounting for its investment in which it has aggregate ownership interest of 20.6%. Under the equity method of accounting, the carrying value of the investment is adjusted for the Company's proportional share of the investee's reported earnings or losses with the corresponding share of earnings or losses reported in other income (expense) on the condensed consolidated statements of income. The Company's proportionate share of the investee’s net income

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totaled $122,000 and $93,000 for the three months ended December 31, 2017 and 2016, respectively. The Company's proportionate share of the investee’s net income totaled $179,000 and $79,000 for the six months ended December 31, 2017 and 2016, respectively.

Cost Method Investment

The Company applies the cost method to its investment in which its ownership percentage, based on the number of fully dilutive common shares outstanding, was 2.5% as of December 31, 2017 and June 30, 2017. As of December 31, 2017 and June 30, 2017, the aggregate carrying balance of this investment was $0.5 million.

10. ACCOUNTS PAYABLE

Accounts payable consists of the following:

in thousands

	December 31, 2017	June 30, 2017
Trade payables to customers	$ 830	$277
Advances from customers	54,496	36,382
Liability on deferred revenue	2,805	3,777
Other accounts payable	1,623	1,511
	$ 59,754	$41,947

11. DERIVATIVE INSTRUMENTS AND HEDGING TRANSACTIONS

The Company is exposed to market risk, such as changes in commodity prices, and foreign exchange rates. To manage the volatility relating to these exposures, the Company enters into various derivative products, such as forwards and futures contracts. By policy, the Company historically has entered into derivative financial instruments for the purpose of hedging substantially all of Company's market exposure to precious metals prices, and not for speculative purposes.

Commodity Price Management

The Company manages the value of certain assets and liabilities of its trading business, including trading inventories, by employing a variety of hedging strategies. These strategies include the management of exposure to changes in the market values of the Company's trading inventories through the purchase and sale of a variety of derivative instruments, such as, forwards and futures contracts.

The Company enters into derivative transactions solely for the purpose of hedging its inventory subject to price risk, and not for speculative market purposes. Due to the nature of the Company's global hedging strategy, the Company is not using hedge accounting as defined under Topic 815 of the ASC, whereby the gains or losses would be deferred and included as a component of other comprehensive income. Instead, gains or losses resulting from the Company's futures and forward contracts and open sale and purchase commitments are reported as unrealized gains or losses on commodity contracts (a component of cost of sales) with the related unrealized amounts due from or to counterparties reflected as a derivative asset or liability on the condensed consolidated balance sheets.

The Company's trading inventories and purchase and sale transactions consist primarily of precious metal products. The value of these assets and liabilities are marked-to-market daily to the prevailing closing price of the underlying precious metals. The Company's precious metals inventories are subject to market value changes, created by changes in the underlying commodity market prices. Inventories purchased or borrowed by the Company are subject to price changes. Inventories borrowed are considered natural hedges, since changes in value of the metal held are offset by the obligation to return the metal to the supplier.

The Company’s open sale and purchase commitments typically settle within 2 business days, and for those commitments that do not have stated settlement dates, the Company has the right to settle the positions upon demand. Futures and forwards contracts open at end of any period typically settle within 30 days. Open sale and purchase commitments are subject to changes in value between the date the purchase or sale price is fixed (the trade date) and the date the metal is received or delivered (the settlement date). The Company seeks to minimize the effect of price changes of the underlying commodity through the use of forward and futures contracts.

The Company's policy is to substantially hedge its inventory position, net of open sale and purchase commitments that are subject to price risk. The Company regularly enters into precious metals commodity forward and futures contracts with financial institutions to hedge price changes that would cause changes in the value of its physical metals positions and purchase commitments and sale commitments. The Company has access to all of the precious metals markets, allowing it to place hedges. The Company also maintains relationships with major market makers in every major precious metals dealing center.

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The Company’s management sets credit and position risk limits. These limits include gross position limits for counterparties engaged in sales and purchase transactions with the Company. They also include collateral limits for different types of sale and purchase transactions that counterparties may engage in from time to time.

Derivative Assets and Liabilities

The Company's derivative assets and liabilities represent the net fair value of the difference (or intrinsic value) between market values and trade values at the trade date for open precious metals sale and purchase contracts, as adjusted on a daily basis for changes in market values of the underlying metals, until settled. The Company's derivative assets and liabilities represent the net fair value of open precious metals forwards and futures contracts. The precious metals forwards and futures contracts are settled at the contract settlement date.

All of our commodity derivative contracts are under master netting arrangements and include both asset and liability positions (i.e., offsetting derivative instruments). Substantially all of these transactions are secured by the underlying metals positions. As such, for the Company's derivative contracts with the same counterparty, the receivables and payables have been netted on the condensed consolidated balance sheets. Such derivative contracts include open sale and purchase commitments, futures, forwards and margin accounts. In the table below, the aggregate gross and net derivative receivables and payables balances are presented by contract type and type of hedge, as of December 31, 2017 and June 30, 2017.

	December 31, 2017				June 30, 2017			
in thousands	Gross Derivative	Amounts Netted	Cash Collateral Pledge	Net Derivative	Gross Derivative	Amounts Netted	Cash Collateral Pledge	Net Derivative
Nettable derivative assets:								
Open sale and purchase commitments	$1,911	$(902)	$—	$ 1,009	$1,625	$(694)	$—	$ 931
Option contracts	158	—	—	158	—	—	—	—
Future contracts	179	—	—	179	1,273	—	—	1,273
Forward contracts	53	—	—	53	15,754	(371)	—	15,383
	$2,301	$(902)	$—	$ 1,399	$18,652	$(1,065)	$—	$ 17,587
Nettable derivative liabilities:								
Open sale and purchase commitments	$10,162	$(7,601)	$—	$ 2,561	$31,568	$(1,783)	$—	$ 29,785
Margin accounts	6,974	—	(2,722)	4,252	7,936	—	(3,139)	4,797
Liability of price protection programs	84	—	—	84	—	—	—	—
Future contracts	4,167	—	—	4,167	—	—	—	—
Forward contracts	16,356	—	—	16,356	—	—	—	—
	$37,743	$(7,601)	$(2,722)	$ 27,420	$39,504	$(1,783)	$(3,139)	$ 34,582

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Gains or Losses on Derivative Instruments

The Company records the derivative at the trade date with a corresponding unrealized gain (loss), shown as a component of cost of sales in the condensed consolidated statements of income. The Company adjusts the derivatives to fair value on a daily basis until the transactions are settled. 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 contacts are recorded in cost of sales.

Below is a summary of the net gains (losses) on derivative instruments for the three and six months ended December 31, 2017 and 2016.

in thousands

Three Months Ended December 31,	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Gains (losses) on derivative instruments:				
Unrealized gains (losses) on open future commodity and forward contracts and open sale and purchase commitments, net	$(22,260)	$ (52,983)	$(10,003)	$ (34,833)
Realized (losses) gains on future commodity contracts, net	9,635	30,083	12,022	15,824
	$(12,625)	$ (22,900)	$2,019	$ (19,009)

Summary of Hedging Activity

In a hedging relationship, the change in the value of the derivative financial instrument is offset to a great extent by the change in the value of the underlying hedged item. The following table summarizes the results of our hedging activities, which shows the precious metal commodity inventory position, net of open sale and purchase commitments, that is subject to price risk as of December 31, 2017 and at June 30, 2017.

in thousands

	December 31, 2017	June 30, 2017
Inventory	$ 335,235	$284,659
Less unhedgable inventory:		
Commemorative coin inventory, held at lower of cost or market	(129)	(40)
Premium on metals position	(4,365)	(4,088)
Inventory value not hedged	(4,494)	(4,128)
Subtotal	330,741	280,531
Commitments at market:		
Open inventory purchase commitments	549,114	587,687
Open inventory sales commitments	(170,720)	(121,602)
Margin sale commitments	(6,974)	(7,936)
In-transit inventory no longer subject to market risk	(1,502)	(3,931)
Unhedgable premiums on open commitment positions	1,442	495
Borrowed precious metals	(19,526)	(5,625)
Product financing arrangements	(120,161)	(135,343)
Advances on industrial metals	6,487	1,580
Inventory subject to price risk	568,901	595,856
Inventory subject to derivative financial instruments:		
Precious metals forward contracts at market values	374,485	462,231
Precious metals futures contracts at market values	193,772	133,450
Total market value of derivative financial instruments	568,257	595,681
Net inventory subject to commodity price risk	$ 644	$175

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Notional Balances of Derivatives

The notional balances of the Company's derivative instruments, consisting of contractual metal quantities, are expressed at current spot prices of the underlying precious metal commodity. As of December 31, 2017 and June 30, 2017, the Company had the following outstanding commitments and open forward and future contracts:

in thousands

	December 31, 2017	June 30, 2017
Purchase commitments	$ 549,114	$ 587,687
Sales commitments	(170,720)	(121,602)
Margin sales commitments	(6,974)	(7,936)
Open forward contracts	374,485	462,231
Open futures contracts	193,772	133,450

The contract amounts (i.e., notional balances) of the Company's forward and futures contracts and the open sales and purchase commitments are properly not reflected in the accompanying condensed consolidated balance sheet. The Company records the difference between the market price of the underlying metal or contract and the trade amount at fair value.

The Company is exposed to the risk of failure of the counterparties to its derivative contracts. Significant judgment is applied by the Company when evaluating the fair value implications. The Company regularly reviews the creditworthiness of its major counterparties and monitors its exposure to concentrations. At December 31, 2017, the Company believes its risk of counterparty default is mitigated as a result of such evaluation and the short-term duration of these arrangements.

Foreign Currency Exchange Rate Management

The Company utilizes foreign currency forward contracts to manage the effect of foreign currency exchange fluctuations on its sale and purchase transactions. These contracts generally have maturities of less than one week. The accounting treatment of our foreign currency exchange derivative instruments is similar to the accounting treatment of our commodity derivative instruments, that is, the change in the value in the financial instrument is immediately recognized as a component of cost of sales. Unrealized gains (losses) on foreign exchange derivative instruments shown on the face of the condensed consolidated statements of income totaled $139,000 and $(3,000) for the three months ended December 31, 2017 and 2016, respectively. Unrealized gains (losses) on foreign exchange derivative instruments shown on the face of the condensed consolidated statements of income totaled $38,000 and $(9,000) for the six months ended December 31, 2017 and 2016, respectively. The market values (fair values) of the Company’s foreign exchange forward contracts and the net open sale and purchase commitment transactions, denominated in foreign currencies, outstanding at December 31, 2017 was $2.3 million and $3.8 million, respectively. The market values (fair values) of the Company’s foreign exchange forward contracts and the net open sale and purchase commitment transactions, denominated in foreign currencies, outstanding at June 30, 2017 was $2.2 million and $2.2 million, respectively.

12. INCOME TAXES

Income from operations before provision for income taxes is shown below:

in thousands	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
U.S.	$ 266	$ 4,330	$ 950	$ 7,314
Foreign	—	—	34	14
Income before provision for income taxes	$ 266	$ 4,330	$ 984	$ 7,328

The Company files a consolidated federal income tax return based on a June 30 tax year end. The provision for (benefit from) income taxes for the three and six months ended December 31, 2017 and 2016 consists of the following:

in thousands	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Federal	$314	$ 1,590	$566	$ 2,576
State and local	10	—	31	73
Foreign	—	—	1	—
Provision for income taxes	$324	$ 1,590	$598	$ 2,649

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The effective tax rate for the three and six months ended December 31, 2017 and 2016 are set forth below:

in thousands	Three Months Ended		Six Months Ended	
Three Months Ended December 31,	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Effective tax rate	121.8 %	36.7 %	60.8 %	36.1 %

Tax Cuts and Jobs Act

On December 22, 2017, the comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act makes broad and complex changes to the U.S. tax code. The Company has reviewed the anticipated tax impact of the recent legislation as it relates to the financial statements for the period ended December 31, 2017 and going forward.

The SEC staff has issued Staff Accounting Bulletin 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but the Company is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. A company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740.

The final transition impacts of the Tax Act may differ materially from our estimate, due to, among other things, changes in interpretations of the Tax Act, legislative action to address questions that arise as a result of the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, and updates or changes to estimates the Company has utilized to calculate the transition impacts. The Company has estimated its deferred tax assets as of the date of enactment. In addition, the Company has estimated the amount of the deferred tax assets expected to reverse by the end of the year. To the extent there are updates or changes to these estimates, there will be an adjustment to the amount recorded as expense related to the implementation of the Tax Act. These tax law changes are the primary reasons for the abnormally high effective tax rate for the three and six months periods ended December 31, 2017. The Company has been able to make reasonable estimates of the effects of elements of the Tax Act and has recorded provisional adjustments to incorporate these estimates in our financial statements.

With respect to deferred tax assets (net of deferred tax liabilities) that are in existence as of the enactment date (i.e., valued using a 35.0% federal tax rate), the Company has been negatively impacted by the (1) new corporate tax rates, and (2) the effective date of the new provision, the effect of which is to preclude taxpayers from carrying net operating losses (NOLs) back to prior taxable years. This is because any realization of deferred taxes during the remaining portion of the fiscal year against taxable income will be realized at a lower 28.06% blended tax rate. Further, to the extent the realization of such deferred tax assets were to exceed such taxable income, resulting in an NOL, such NOL can no longer be carried back to a prior tax year and can only be carried forward to subsequent years for realization at a 21.0% tax rate.

The Tax Act reduces the corporate tax rate from 35.0% to 21.0% for tax years beginning after December 31, 2017. For fiscal year taxpayers, a blended tax rate is required to compute the current tax liability. The Company has adjusted its deferred tax rate to 21.0% or 28.06% as of December 22, 2017 depending upon when the temporary differences are expected to reverse. For certain of our deferred tax assets and deferred tax liabilities, we have recorded a provisional decrease of $0.2 million, with a corresponding net adjustment to deferred income tax $0.2 million for the three and six months ended December 31, 2017. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, our estimate may be affected by other factors, including fluctuation in market pricing related to our inventory and related hedging activity. Accordingly, our estimate of the timing of the reversal of these items may ultimately impact the tax rate which is applied to the reversal of certain timing differences. The Company anticipates analyzing any adjustments each quarter and plans to finalize any adjustment within the allowable measurement period.

Tax Balances and Activity

Income Taxes Receivable and Payable

As of December 31, 2017 and June 30, 2017, income taxes receivable totaled $0.7 million and $0.0 million, respectively. As of December 31, 2017 and June 30, 2017, income taxes payable totaled $0.0 million and $1.4 million, respectively.

Deferred Tax Assets and Liabilities

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized by evaluating both positive and negative evidence. The ultimate realization

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of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. As of December 31, 2017 and June 30, 2017, management concluded that with the exception of certain state net operating losses, it was more likely than not that the Company would be able to realize the benefit of the U.S. federal and state deferred tax assets. We based this conclusion on historical and projected operating performance, as well as our expectation that our operations will generate sufficient taxable income in future periods to realize the tax benefits associated with the deferred tax assets.

As of December 31, 2017, the consolidated balance sheet reflects the deferred tax items for each tax-paying component (i.e., federal and state), resulting in a state deferred tax asset of $1.5 million and a federal deferred tax asset of $2.7 million. As of June 30, 2017, the consolidated balance sheet reflects the deferred tax items for each tax-paying component (i.e., federal and state), resulting in a state deferred tax asset of $1.4 million and a federal deferred tax asset of $2.5 million.

Net Operating Loss Carryforwards and Valuation Allowances

As of December 31, 2017 and June 30, 2017, the Company's state and city net operating loss carryforwards totaled approximately $12.5 million and $12.5 million, respectively. The Company's tax-effected net operating loss carryforwards totaled, as of December 31, 2017 and June 30, 2017, $0.7 million and $0.7 million, respectively. These net operating loss carryforwards start to expire in the year ending June 30, 2028. As of December 31, 2017 and June 30, 2017, the Company had $56,000 and $56,000, respectively, of valuation allowance for certain state and city net operating loss carryforwards, based on the Company's annual assessment of the realizability of its deferred tax assets.

Unrecognized Tax Benefits

The Company has taken or expects to take certain tax benefits on its income tax return filings that it has not recognized a tax benefit (i.e., an unrecognized tax benefit) on its consolidated statements of income. The Company's measurement of its uncertain tax positions is based on management's assessment of all relevant information, including, but not limited to prior audit experience, audit settlement, or lapse of the applicable statute of limitations. For the six months ended December 31, 2017, there was no material movement unrecognized tax benefits, including interest and penalties.

Tax Examinations

Refer to Note 12 of the Notes to Consolidated Financial Statements in the 2017 Annual Report for information relating to open tax examinations; there have been no significant changes.

13. RELATED PARTY TRANSACTIONS

Sales and Purchases Made to Affiliated Companies

During the three and six months ended December 31, 2017 and 2016, the Company made sales and purchases to various companies, which have been deemed to be related parties, as follows:

in thousands

	Three Months Ended				Six Months Ended			
	December 31, 2017		December 31, 2016		December 31, 2017		December 31, 2016	
	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases
Former Parent	$8,065	$ 1,152	$14,999	$ 12,137	$12,497	$ 3,541	$21,667	$ 23,336
Equity method investee	112,316	670	137,460	408	194,287	1,028	266,536	497
SilverTowne	4,133	6,280	12,030	130	7,283	6,379	18,819	2,742
	$124,514	$ 8,102	$164,489	$ 12,675	$214,067	$ 10,948	$307,022	$ 26,575

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Balances with Affiliated Companies or Persons

As of December 31, 2017 and June 30, 2017, the Company had related party receivables and payables balances as set forth below:

in thousands

	December 31, 2017		June 30, 2017	
	Receivables	Payables	Receivables	Payables
Former Parent	$1,424 [1]	$ —	$ —	$ 27
Equity method investee	1,835 [2]	—	—	558
SilverTowne	—	363 [3]	—	1,768
Goldline Lenders	—	8,015 [4]	—	—
	$3,259	$ 8,378	—	$ 2,353

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(1) Balance includes a secured line of credit with a balance of $1.5 million.
(2) Balance represents mostly open trade receivables.
(3) Balance includes: (a) a trade receivables of $0.2 million (shown as a component of receivables), and (b) a contingent earn-out liability of $0.6 million (shown as a component of other long-term liabilities).
(4) Balance includes: the face value the Goldline Credit Facility ($7.5 million), and the associated estimated debt funding fees payable ($0.5 million). The Goldline Credit facility and the debt funding fee is payable in August 2020.

Secured Loans Made to an Affiliated Company

On September 29, 2017, CFC entered into a loan agreement with Former Parent providing a secured line of credit, bearing interest at a competitive rate per annum. The loan is secured by numismatic and semi-numismatic products. As of December 31, 2017 and June 30, 2017, the aggregate carrying value of this loan was $1.5 million and $0.0 million, respectively, and is shown on the condensed consolidated balance sheets as a component of secured loans receivable (see Note 5).

Note payable to SilverTowne

On August 31, 2016, the Company signed a $500,000 promissory note with SilverTowne that was payable in one year related to our acquisition of AMST. This note was paid in full in August 2017.

Long Term Debt Obligations with Goldline Lenders

As of December 31, 2017, the carrying value of the long term debt obligation payable to Goldline Lenders totaled $6,873,000, and is shown in the condensed consolidated balance sheets as debt obligations (related party). The face value of this debt obligation is $7,500,000 and the related unamortized loan funding fee, a contra-liability, totaled $627,000 as of December 31, 2017 (see Note 14). The estimated loan funding fee payable to Goldline Lenders as of December 31, 2017 totaled $515,000 and is shown on the condensed consolidated balance sheets as component of other long-term liabilities.

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Activity with Affiliated Companies or Persons

Interest Income Earned from Affiliated Companies

During the three and six months ended December 31, 2017 and 2016, the Company earned interest income related to loans made to Former Parent and related to financing products sold to affiliated companies, as set forth below:

in thousands

	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Interest income from secured loan receivables	$ 51	$ 22	$ 53	$ 32
Interest income from finance products	576	687	1,120	1,355
	$ 627	$ 709	$ 1,173	$ 1,387

Interest Expense Incurred Related to Notes Payable and Long-Term Debt Obligation

During the three and six months ended December 31, 2017 and 2016, the Company incurred interest related to notes payable due to SilverTowne and a long-term debt payable to the Goldline Lenders, as set forth below:

in thousands

	Three Months Ended		Six Months Ended	
Three Months Ended December 31,	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Interest expense incurred related to notes payable	$ 1	$ —	$ 1	$ —
Interest expense incurred related to long-term debt obligation	201	—	279	—
	$ 202	$ —	$ 280	$ —

Other Income Earned from Equity Method Investee

During the three months ended December 31, 2017 and 2016, the Company recorded its proportional share of its equity method investee's net income (loss) as other income (expense) that total $122,000 and $93,000, respectively. During the six months ended December 31, 2017 and 2016, the Company recorded its proportional share of its equity method investee's net income (loss) as other income (expense) that total $179,000 and $79,000, respectively. As of December 31, 2017 and June 30, 2017, the carrying balance of the equity method investment was $7.6 million and $7.5 million, respectively.

14. FINANCING AGREEMENTS

Lines of Credit

The Company has an uncommitted demand revolving credit facility ("Trading Credit Facility”) provided to the Company by a syndicate of financial institutions, with Coöperatieve Rabobank U.A. ("Rabobank") acting as lead lender and administrative agent and Natixis, New York Branch acting as syndication agent. The Trading Credit Facility is secured by substantially all of the Company’s assets on a first priority basis. Currently, the Trading Credit Facility provides the Company with access up to $275.0 million, featuring a $225 million base with a $50.0 million accordion option, and is scheduled to mature on March 31, 2018. As of December 31, 2017, the Company incurred $1.9 million of loan costs in connection with the Trading Credit Facility, which was capitalized and is being amortized over the term of the Trading Credit Facility. As of December 31, 2017 and June 30, 2017, the remaining unamortized balance was approximately $0.3 million and $0.1 million, respectively.

The Company routinely uses the Trading Credit Facility to purchase precious metals from suppliers and for operating cash flow purposes. Amounts under the Trading Credit Facility bear interest based on London Interbank Offered Rate (“LIBOR”) plus a 2.50% margin for revolving credit line loans and a 4.50% margin for bridge loans (that is, for loans that exceed the available revolving credit line). The one-month LIBOR rate was approximately 1.56% and 1.17% as of December 31, 2017 and June 30, 2017, respectively. Borrowings are due on demand and totaled $214.0 million and $180.0 million at December 31, 2017 and at June 30, 2017, respectively. The amounts available under the respective borrowing facilities are determined at the end of each week following a specified borrowing base formula. The Company is able to access additional credit as needed to finance operations, subject to the overall limits of the borrowing facilities and lender approval of the revised borrowing base calculation. Based on the latest approved borrowing bases in effect, the amounts available under the Trading Credit Facility after taking into account current borrowings, totaled $35.9 million and $45.6 million as determined on the Friday before December 31, 2017 and on Friday, June 30, 2017, respectively.

The Trading Credit Facility has certain restrictive financial covenants, including one requiring the Company to maintain a minimum tangible net worth. As of December 31, 2017 the minimum tangible net worth financial covenant under the Trading

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Credit Facility was $47.5 million, as retroactively adjusted per a Trading Credit Facility amendment (see Note 19). The Company is in compliance with all restrictive financial covenants as of December 31, 2017.
Interest expense related to the Company’s lines of credit totaled $2.0 million and $1.6 million, which represents 59.2% and 63.5% of the total interest expense recognized, for the three months ended December 31, 2017 and 2016, respectively. Our lines of credit carried a daily weighted average effective interest rate of 3.81% and 3.36%, respectively, for the three months ended December 31, 2017 and 2016.
Interest expense related to the Company’s lines of credit totaled $3.7 million and $3.0 million, which represents 61.1% and 64.2% of the total interest expense recognized, for the six months ended December 31, 2017 and 2016, respectively. Our lines of credit carried a daily weighted average effective interest rate of 3.78% and 3.17%, respectively, for the six months ended December 31, 2017 and 2016.
Debt Obligation
On August 28, 2017, in connection with the closing of the Goldline acquisition (see Note 1), Goldline, then known as Goldline Acquisition Corp., entered into a privately placed credit facility in the amount of $7.5 million (the “Goldline Credit Facility”) with various lenders (the "Goldline Lenders"). Borrowings under the Goldline Credit Facility were used to finance a portion of the consideration payable pursuant to the Goldline acquisition.
The Goldline Credit Facility is secured by a first priority lien on substantially all of the assets of Goldline , and is guaranteed by the Company. Interest on the Goldline Credit Facility is payable quarterly in arrears at the rate of 8.5% per annum, and the Goldline Lenders under the Goldline Credit Facility are entitled to an additional funding fee payment at maturity equal to the greater of 3% of the principal amount of the Goldline Credit Facility and 10% of cumulative EBITDA (for the periods ending June 30, 2018, 2019 and 2020) of Goldline in excess of $10 million, on a pro rata basis. The Goldline Credit Facility has a three-year maturity, and all outstanding principal and unpaid interest is due upon maturity (August 28, 2020).
In connection with the Goldline Credit Facility, the Company incurred $0.2 million of loan funding costs and accrued $0.5 million of estimated loan funding fees that are due to the Goldline Lenders at maturity date. These loan funding fee were capitalized and are being amortized over the term of the Goldline Credit Facility. As of December 31, 2017, the carrying balance of the Goldline Credit facility was $6.9 million, and the remaining unamortized loan cost balance was approximately $0.6 million, which is amortized ratably through the maturity date. As of December 31, 2017, the balance of the loan fee payable was $0.5 million, of which $0.3 million was estimated based on discounted cash flow model of Goldline's projected results.
Interest expense related to the Goldline Credit Facility (including debt loan amortization costs) totaled $200,000 which represents 6.0% of the total interest expense recognized, for the three months ended December 31, 2017. The Goldline Credit Facility's weighted average effective interest rate was 9.29% for the three months ended December 31, 2017.
Interest expense related to the Goldline Credit Facility (including debt loan amortization costs) totaled $279,000 which represents 4.6% of the total interest expense recognized, for the six months ended December 31, 2017. The Goldline Credit Facility's weighted average effective interest rate was 9.33% for the six months ended December 31, 2017.
The obligations of Goldline and the Company pursuant to the documentation governing the Goldline Credit Facility are subordinated to the Company’s obligations under the Uncommitted Credit Agreement, dated as of March 31, 2016, as amended (see Lines of Credit, above in Note 14), among the Company, Coöperatieve Rabobank U.A. New York Branch, as administrative agent, and the Goldline Lenders named therein (the “Uncommitted Credit Agreement”) including, among other subordination terms, that the Goldline Lenders will be permitted to collect regularly scheduled payments of principal and interest, provided that no event of default is continuing under the Uncommitted Credit Agreement and the Company is in pro forma compliance with the financial covenants pursuant to the Uncommitted Credit Agreement.

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Goldline Lenders

The following table shows the directors, executive officer and principal stockholder that participated in the Goldline Credit Facility transaction, and provides related information:

Goldline Lenders	Position/Relationship		Amount of Company Indebtedness Acquired [1]	
Gregory N. Roberts	Chief Executive Officer, Director and principal stockholder	[2]	$ 587,500	[2]
William D. Richardson	Principal stockholder	[3]	587,500	[3]
Jeffrey D. Benjamin	Chairman of the Board and Director		1,000,000	
Ellis Landau	Director		375,000	
William Montgomery	Director		1,500,000	
Jess Ravich	Director		500,000	[4]
			4,550,000	
7 other persons	Non-affiliated members		2,950,000	
			$ 7,500,000	

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(1) The amount shown is expected to remain outstanding throughout the term of the Goldline Credit Facility, with repayment due in August 2020.

(2) Silver Bow Ventures LLC (“Silver Bow”) is the Lender. Mr. Roberts holds 50% of the ownership interests in and controls Silver Bow. Accordingly, the amount of indebtedness shown, and the interest amounts potentially payable on such indebtedness shown, represent 50% of the aggregate amounts of indebtedness held by and potential interest payable to Silver Bow.

(3) Silver Bow Ventures LLC (“Silver Bow”) is the Lender. Mr. Richardson holds 50% of the ownership interests in and controls Silver Bow. Accordingly, the amount of indebtedness shown, and the interest amounts potentially payable on such indebtedness shown, represent 50% of the aggregate amounts of indebtedness held by and potential interest payable to Silver Bow.

(4) Libra Securities Holdings, LLC is the Lender. Mr. Ravich and a trust for his family members holds 100% of the ownership interests and controls Libra Securities Holdings, LLC.

Liability on Borrowed Metals

The Company borrows precious metals from its suppliers under short-term agreements with our suppliers. Amounts under these arrangements require delivery either in the form of precious metals or cash. Liabilities also arise from unallocated position held by customers of the Company's inventory. The Company's inventories included borrowed metals with market values totaling $19.5 million and $5.6 million as of December 31, 2017 and June 30, 2017, respectively, with the corresponding liability on borrowed metals reflected on the condensed consolidated balance sheets.

Product Financing Arrangements

The Company has agreements with financial institutions (third parties) that allows the Company to transfer its gold and silver inventory at an agreed-upon price based on the spot price with these third parties. Such agreements allow the Company to repurchase this inventory at an agreed-upon price based on the spot price on the repurchase date. The third party charges a monthly fee as percentage of the market value of the outstanding obligation; such monthly charges are classified in interest expense. These transactions do not qualify as sales, and therefore have been accounted for as financing arrangements and reflected in the condensed consolidated balance sheet as product financing arrangements. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing obligation and the underlying inventory (which is entirely restricted) are carried at fair value, with changes in fair value recorded as a component of cost of sales in the condensed consolidated statements of income. Such obligation totaled $120.2 million and $135.3 million as of December 31, 2017 and June 30, 2017, respectively.

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15. COMMITMENTS AND CONTINGENCIES

Refer to Note 15 of the Notes to Consolidated Financial Statements in the 2017 Annual Report for information relating to minimum rental payments under operating and capital leases, consulting and employment contracts, and other commitments. Other that the following items, the Company is not aware of any material changes to commitments as summarized the 2017 Annual Report. In connection with the Goldline acquisition (see Note 1):

- the Company has guaranteed all of the obligations of Goldline under the Goldline Credit Facility (this guarantee is unconditional and constitutes a guarantee of payment and not merely of collection) (see Note 14);
- the Company leases approximately 19,700 square feet of office space in Los Angeles, California at a cost of $2.45 per square foot per month. The term of the lease is 7.0 years with annual base rent increases of 3%. The term of this lease expires on February 28, 2022 and the Company has the option to renew the lease term for an additional 5 years at the then current market rate. The lease requires the payment of related property taxes, insurance, maintenance and other cost related to the leased property;
- the Company provided the landlord of the office space in Los Angeles, California a standby letter of credit for $500,000 in value in lieu of of a security deposit. This letter of credit is renewed annually and reduces each lease anniversary date as provided in the lease agreement; and
- approximately 80 employees of Goldline were eligible to roll over funds from Goldline's 401(k) plan into A-Mark's 401(k) plan at the Closing Date. Goldline employees are eligible to make payroll contributions in A-Mark's 401(k) plan beginning on November 1, 2017. Employees' contributions are discretionary to a maximum of 90% of compensation. For all plan members, the Company contributes 30% of the eligible employees' contributions to the IRS maximum annual contribution.

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16. STOCKHOLDERS' EQUITY

Payment of Dividends

In fiscal 2015, the Board of Directors of the Company initiated a cash dividend policy that calls for the payment of quarterly dividends. The table below summarizes the eight most recent quarterly dividends declared pursuant to this policy:

Dividend Declaration Date	Record Date (at close of Business)	Type of Dividend	Basis of Payment	Payment Date
February 2, 2016	February 15, 2016	Cash	$0.07 per common share	February 29, 2016
April 29, 2016	May 13, 2016	Cash	$0.07 per common share	May 27, 2016
September 7, 2016	September 19, 2016	Cash	$0.07 per common share	October 7, 2016
November 1, 2016	November 14, 2016	Cash	$0.07 per common share	December 1, 2016
January 26, 2017	February 8, 2017	Cash	$0.08 per common share	February 24, 2017
May 2, 2017	May 15, 2017	Cash	$0.08 per common share	May 25, 2017
August 30, 2017	September 18, 2017	Cash	$0.08 per common share	September 27, 2017
November 13, 2017	November 24, 2017	Cash	$0.08 per common share	December 13, 2017

2014 Stock Award and Incentive Plan

Prior to the Distribution, the Company's Board of Directors ("Board") adopted and the Company's then sole stockholder approved the 2014 Stock Award and Incentive Plan, which was approved by the Company's stockholders in February 2015. On November 2, 2017, the Company's stockholders approved the amended and restated 2014 Stock Award and Incentive Plan (the "2014 Plan"), to (i) increase the available shares authorized for issuance under the plan by 525,000 shares, (ii) extend the term of the 2014 Plan until 2027, an additional five years, and (iii) eliminate provisions that add back to the share reserve shares surrendered or withheld to pay the exercise price of an option or withheld to cover tax withholding obligations for any type of award, and shares as to which a stock appreciation right is exercised that exceed the number of shares actually delivered.

Under the 2014 Plan, the Company may grant options and other equity awards as a means of attracting and retaining officers, employees, non-employee directors and consultants, to provide incentives to such persons, and to align the interests of such persons with the interests of stockholders by providing compensation based on the value of the Company's stock. Awards under the 2014 Plan may be granted in the form of incentive or non-qualified stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units, dividend equivalent rights and other stock-based awards (which may include outright grants of shares). The 2014 Plan also authorizes grants of performance-based cash incentive awards, including awards qualifying under Internal Revenue Code Section 162(m). The 2014 Plan is administered by the Compensation Committee of the Board of Directors, which, in its discretion, may select officers and other employees, directors (including non-employee directors) and consultants to the Company and its subsidiaries to receive grants of awards. The Board of Directors itself may perform any of the functions of the Compensation Committee under the 2014 Plan.

Under the 2014 Plan, the exercise price of options and base price of SARs, as set by the Compensation Committee, generally may not be less than the fair market value of the shares on the date of grant, and the maximum term of stock options and SARs is 10 years. The 2014 Plan limits the number of share-denominated awards that may be granted to any one eligible person to 250,000 shares in any fiscal year. Also, in the case of non-employee directors, the 2014 Plan limits the maximum grant-date fair value at $300,000 of stock-denominated awards granted to a director in a given fiscal year, except for a non-employee Chairman of the Board whose grant-date fair value maximum is $600,000 per fiscal year. The 2014 Plan will terminate when no shares remain available for issuance and no awards remain outstanding; however, the authority to grant new awards will terminate on December 13, 2022.

As of December 31, 2017, 573,545 shares were available for grant under the 2014 Plan.

Valuation and Significant Assumptions of Equity Awards Issued

The Company uses the Black-Scholes option pricing model, which uses various inputs such as the estimated common share price, the risk-free interest rate, volatility, expected life and dividend yield, all of which are estimates.

Stock Options

During the three months ended December 31, 2017 and 2016, the Company incurred $302,073 and $228,973 of compensation expense related to stock options, respectively. During the six months ended December 31, 2017 and 2016, the Company incurred $738,480 and $420,433 of compensation expense related to stock options, respectively. As of December 31, 2017, there was total remaining compensation expense of $2.1 million related to employee stock options, which will be recorded over a weighted average period of approximately 2.2 years.

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The following table summarizes the stock option activity for the six months ended December 31, 2017.

	Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (in thousands)	Weighted Average Grant Date Fair Value Per Award
Outstanding at June 30, 2017	741,327	$ 17.89	$ 1,514	$ 6.19
Granted	116,605	$ 17.23		
Cancellations, expirations and forfeitures	(1,350)	$ 20.19		
Outstanding at December 31, 2017	856,582	$ 17.80	$ 1,109	$ 6.04
Exercisable at December 31, 2017	396,348	$ 14.47	$ 1,104	$ 6.04

Following is a summary of the status of stock options outstanding at December 31, 2017:

Exercise Price Ranges		Options Outstanding			Options Exercisable		
From	To	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$—	$10.00	134,239	4.85	$ 8.39	134,239	4.85	$ 8.39
10.01	15.00	98,888	4.78	$ 11.94	97,888	4.75	$ 11.96
15.01	25.00	523,455	8.72	$ 19.85	139,221	8.59	20.13
25.01	60.00	100,000	8.14	$ 25.50	25,000	8.14	25.50
		856,582	7.59	$ 17.80	396,348	6.35	$ 14.47

Certain Anti-Takeover Provisions

The Company’s certificate of incorporation and by-laws contain certain anti-takeover provisions that could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company without negotiating with its Board. Such provisions could limit the price that certain investors might be willing to pay in the future for the Company’s securities. Certain of such provisions provide for a Board with staggered terms, allow the Company to issue preferred stock with rights senior to those of the common stock, or impose various procedural and other requirements which could make it more difficult for stockholders to effect certain corporate actions.

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17. CUSTOMER AND SUPPLIER CONCENTRATIONS

Customer Concentration

Customers providing 10 percent or more of the Company's revenues for the three and six months ended December 31, 2017 are presented on a comparative basis in the table below:

in thousands

	Three Months Ended				Six Months Ended			
Three Months Ended December 31,	December 31, 2017		December 31, 2016		December 31, 2017		December 31, 2016	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total revenue	$1,680,738	100.0%	$2,126,361	100.0%	$3,844,528	100.0%	$3,932,014	100.0%
Customer concentrations								
HSBC Bank USA	$407,509	24.2 %	$467,688	22.0 %	$918,773	23.9 %	$974,475	24.8 %
Mitsubishi Intl. Corp.	382,761	22.8	300,848	14.1	919,874	23.9	504,741	12.8
	$790,270	47.0 %	$768,536	36.1 %	$1,838,647	47.8 %	$1,479,216	37.6 %

The loss of any of the above listed customers could have a material adverse effect on the operations of the Company.

Supplier Concentration

The Company buys precious metals from a variety of sources, including through brokers and dealers, from sovereign and private mints, from refiners and directly from customers. The Company believes that no one or small group of suppliers is critical to its business, since other sources of supply are available that provide similar products on comparable terms.

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18. SEGMENTS AND GEOGRAPHIC INFORMATION

The Company evaluates segment reporting in accordance with FASB ASC 280, Segment Reporting, each reporting period, including evaluating the organizational structure the reporting package reviewed by the Chief Operation Decision Maker (“CODM”). The Company has concluded the Chief Executive Officer and the President collectively act as the CODM. The Company's operations are organized under two business segments — Wholesale Trading & Ancillary Services and Direct Sales.

Our Direct Sales segment was created on August 28, 2017 as a result of our recent acquisition (see Note 1), and thus comparative prior period data is not available ("N/A").

Revenue

in thousands

Three Months Ended September 30,	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Revenue by segment				
Wholesale Trading & Ancillary Services	$1,651,442	$ 2,126,361	$3,804,862	$ 3,932,014
Direct Sales	29,296 (1)	N/A	39,666 (2)	N/A
Total revenue	$1,680,738	$ 2,126,361	$3,844,528	$ 3,932,014

(1) Includes $10.8 million of intercompany sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment. The elimination of these intercompany sales are reflected in the Wholesale Trading & Ancillary Services segment.
(2) Includes $17.7 million of intercompany sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment. The elimination of these intercompany sales are reflected in the Wholesale Trading & Ancillary Services segment.

in thousands

Three Months Ended September 30,	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Revenue by geographic region				
(as determined by the shipping address or where the services were performed):				
United States	$1,579,893	$ 2,009,168	$3,631,814	$ 3,719,247
Europe	73,022	56,565	127,380	103,585
North America, excluding United States	26,896	55,247	81,774	100,050
Asia Pacific	374	4,039	1,726	6,574
Africa	1	—	1	—
Australia	552	1,342	1,833	2,558
Total revenue	$1,680,738	$ 2,126,361	$3,844,528	$ 3,932,014

Gross Profit and Gross Margin Percentage

in thousands

Three Months Ended September 30,	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Gross profit by segment				
Wholesale Trading & Ancillary Services	$7,168	$ 9,859	$12,813	$ 17,923
Direct Sales	1,748	N/A	3,409	N/A

Total gross profit	$8,916		$ 9,859		$16,222		$ 17,923	
Gross margin percentage by segment								
Wholesale Trading & Ancillary Services	0.434	%	0.464	%	0.337	%	0.456	%
Direct Sales	5.967	%	N/A		8.594	%	N/A	
Weighted average gross margin percentage	0.530	%	0.464	%	0.422	%	0.456	%

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Operating Expenses and Income
in thousands

Three Months Ended September 30,	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Operating income and expenses by segment				
Wholesale Trading & Ancillary Services				
General and administrative expenses	$(5,724)	$ (6,131)	$(11,517)	$ (11,795)
Interest income	$3,268	$ 2,959	$6,429	$ 5,818
Interest expense	$(3,159)	$ (2,447)	$(5,813)	$ (4,688)
Other expense	$790	$ 90	$750	$ 70
Direct Sales				
General and administrative expenses	$(3,625)	N/A	$(4,808)	N/A
Interest expense	$(200)	N/A	$(279)	N/A

Depreciation and Amortization
in thousands

Three Months Ended September 30,	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Depreciation and amortization by segment				
Wholesale Trading & Ancillary Services	$(428)	$ (386)	$(760)	$ (707)
Direct Sales	(355)	N/A	(552)	N/A
Total depreciation and amortization	$(783)	$ (386)	$(1,312)	$ (707)

Advertising expense
in thousands

Three Months Ended September 30,	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Advertising expense by segment				
Wholesale Trading & Ancillary Services	$(190)	$ (199)	$(302)	$ (366)
Direct Sales	(869)	N/A	(1,274)	N/A
Total advertising expense	$(1,059)	$ (199)	$(1,576)	$ (366)

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Inventory

in thousands	December 31, 2017	June 30, 2017
Inventories by segment		
Wholesale Trading & Ancillary Services	$ 324,194	$284,659
Direct Sales	11,041	N/A
Total inventories	$ 335,235	$284,659

in thousands	December 31, 2017	June 30, 2017
Inventories by geographic region		
United States	$ 323,005	$276,809
Europe	4,481	3,154
North America, excluding United States	7,240	4,310
Asia	509	386
Total inventories	$ 335,235	$284,659

Assets

in thousands	December 31, 2017	June 30, 2017
Assets by segment		
Wholesale Trading & Ancillary Services	$ 498,020	$478,500
Direct Sales	29,103	N/A
Total assets	$ 527,123	$478,500

in thousands	December 31, 2017	June 30, 2017
Assets by geographic region		
United States	$ 510,504	$469,114
Europe	8,870	4,690
North America, excluding United States	7,240	4,310
Asia	509	386
Total assets	$ 527,123	$478,500

Long-term Assets

in thousands	December 31, 2017	June 30, 2017
Long-term assets by segment		
Wholesale Trading & Ancillary Services	$ 31,354	$31,479
Direct Sales	7,839	N/A
Total long-term assets	$ 39,193	$31,479

in thousands	December 31, 2017	June 30, 2017
Long-term assets by geographic region		
United States	$ 39,138	$31,423
Europe	55	56
Total long-term assets	$ 39,193	$31,479

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Capital Expenditures for Property and Equipment
in thousands

Three Months Ended September 30,	Six Months Ended December 31, 2017	December 31, 2016
Capital expenditures on property and equipment by segment		
Wholesale Trading & Ancillary Services	$ 269	$ 944
Direct Sales	148	N/A
Total capital expenditures on property and equipment	$ 417	$ 944

Goodwill
in thousands

	December 31, 2017	June 30, 2017
Goodwill by segment		
Wholesale Trading & Ancillary Services	$ 8,881	$ 8,881
Direct Sales	1,450	N/A
Total goodwill	$ 10,331	$ 8,881

19. SUBSEQUENT EVENTS

Dividend Declaration

Effective January 30, 2018, the Board of Directors of the Company declared a quarterly cash dividend of $0.08 per common share to stockholders of record at the close of business on February 13, 2018 which is scheduled to be paid on or about February 27, 2018.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q ("Form 10-Q") contains statements that are considered forward-looking statements. Forward-looking statements give the Company's current expectations and forecasts of future events. All statements other than statements of current or historical fact contained in this Quarterly Report, including statements regarding the Company's future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “estimate,” “expect,” “intend,” “may,” “plan,” and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. These statements are based on the Company's current plans, and the Company's actual future activities and results of operations may be materially different from those set forth in the forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. Any or all of the forward-looking statements in this Quarterly Report may turn out to be inaccurate. The Company has based these forward-looking statements largely on its current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs. The forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and assumptions. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events occurring after the date hereof. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements contained in this Form 10-Q.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes contained elsewhere in this Form 10-Q. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those factors discussed below and elsewhere in this Quarterly Report, particularly in “Risk Factors.”

INTRODUCTION

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to the accompanying condensed consolidated financial statements and related notes to help provide an understanding of our results of operations and financial condition. Our discussion is organized as follows:

- Executive overview. This section provides a general description of our business, as well as significant transactions and events that we believe are important in understanding the results of operations.
- Results of operations. This section provides an analysis of our results of operations presented in the accompanying condensed consolidated statements of income by comparing the results for the respective years. Included in our analysis is a discussion of five performance metrics: (i) ounces of gold sold, (ii) ounces of silver sold, (iii) Wholesale trading ticket volume, (iv) Direct Sales ticket volume, (v) inventory turnover ratio and (vi) number of secured loans at period-end.
- Financial condition and liquidity and capital resources. This section provides an analysis of our cash flows, as well as a discussion of our outstanding debt as of December 31, 2017. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund our future commitments, as well as a discussion of other financing arrangements.
- Critical accounting estimates. This section discusses those accounting policies that both are considered important to our financial condition and results, and require significant judgment and estimates on the part of management in their application. In addition, all of our policies, including critical accounting policies, are summarized in Note 2 to the accompanying condensed consolidated financial statements.
- Recent accounting pronouncements. This section discusses new accounting pronouncements, dates of implementation and impact on our accompanying condensed consolidated financial statements.

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EXECUTIVE OVERVIEW

Our Business

We conduct our operations in two reportable segments: (1) Wholesale Trading & Ancillary Services, and (2) Direct Sales.

Wholesale Trading & Ancillary Services Segment

The Wholesale Trading & Ancillary Services segment operates as a full-service precious metals trading company. We offer gold, silver, platinum and palladium in the form of bars, plates, powder, wafers, grain, ingots and coins. Our Industrial unit services manufacturers and fabricators of products utilizing or incorporating precious metals. Our Coin and Bar unit deals in over 200 coin and bar products in a variety of weights, shapes and sizes for distribution to dealers and other qualified purchasers. We have trading centers in El Segundo, California and Vienna, Austria for buying and selling precious metals. In addition to wholesale trading activity, A-Mark offers its customers a variety of services, including financing, storage, consignment, logistics and various customized financial programs. As a U.S. Mint-authorized purchaser of gold, silver and platinum coins, A-Mark purchases product directly from the U.S. Mint and other sovereign mints for sale to its customers.

Through our wholly-owned subsidiary Collateral Finance Corporation, referred to as CFC, a licensed California Finance Lender, we offer loans collateralized by numismatic and semi-numismatic coins and bullion to coin and precious metal dealers, investors and collectors. Through our wholly-owned subsidiary Transcontinental Depository Services, referred to as TDS, we offer a variety of managed storage options for precious metals products to financial institutions, dealers, investors and collectors around the world. TDS started doing business in 2012. Our financing business generates interest income that is not classified as revenues. If interest income generated by the financing business were classified as revenues, it would represent less than 1% of our total revenues for each of the periods presented. Our storage business generated less than 1% of total revenues for each of the periods presented.

The Company's wholly-owned subsidiary, A-M Global Logistics, LLC, referred to as Logistics, commenced operations as a logistics fulfillment center in July 2015. Logistics, based in Las Vegas, Nevada, provides our customers an array of complementary services, including receiving, handling, inventorying, processing, packing, and shipping of precious metals and custom coins on a secure basis. Our logistics business generated less than 1% of the total revenues for each of the periods presented.

In August 2016, the Company formed 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, which have historically resulted in higher demand for precious metals products.

Direct Sales Segment

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, internet and television. Goldline sells gold and silver bullion in the form of coins, and bars, as well as numismatic coins. We entered into the Direct Sales segment through our acquisition of substantially all of the net assets of Goldline, LLC ("Goldline, LLC" or the "Seller"), effective August 28, 2017. (See Note 1.)

Goldline, LLC has been a leading direct retailer of precious metals to the metals community and has experienced a history of profitability that goes back 20 years. Its direct-to-customer model places a strong emphasis on providing exemplary customer service, allowing that company the ability to achieve higher margins and a broader array of service options than many of its competitors.

In recent years, Goldline, LLC’s revenues and gross profits declined, and the Seller experienced losses after December 31, 2016. The Company believes that this decline in performance was attributable to a number of factors, including the entrance of new competition (e.g., internet retailers), shifting behaviors of its key customer base in light of the change in political environment, and capital resource limitations. As a result, during the eight months prior to the acquisition by the Company, the Seller scaled back its business significantly, including by effecting a reduction in force.

The decline in performance and other conditions allowed A-Mark the opportunity to acquire the net assets of Goldline, LLC at a favorable price as compared to the assets reflected on the balance sheet of the Seller at December 31, 2016.

Going forward, the Company intends to leverage Goldline's depth of experience in the industry, and to vertically integrate its wholesale operations with Goldline's retail business. Among the synergies the Company hopes to realize include the integration and cross-selling of our financing, fulfillment and storage operations between the two segments.

Our Strategy

The Company has grown from a small numismatics firm in 1965 to a significant participant in the bullion and coin markets, with approximately $7.0 billion and $6.8 billion in revenues for the years ended June 30, 2017 and 2016, respectively. Our strategy continues to focus on growth, including the volume of our business, our geographic presence, particularly in Europe, and the scope of complementary products and services that we offer to our customers. We intend to promote our growth by leveraging off of the strengths of our existing integrated operations: the depth of our customer relations; our access to market makers, suppliers and government mints and other mints; our trading offices in the U.S. and Europe, which are open 21 hours a day 5 days a week; our expansive precious metals dealer network; our depository relationships around the world; our knowledge of secured lending; our logistics capabilities; our trading expertise; and the quality and experience of our management team.

Our Customers

Our customers include financial institutions, bullion retailers, industrial manufacturers and fabricators, sovereign mints, refiners, coin and metal dealers, investors and collectors. The Company makes a two way market, which results in many customers also operating as our suppliers. This diverse base of customers purchases a variety of products from the Company in a multitude of grades, primarily in the form of coins and bars.

Factors Affecting Revenues, Gross Profits, Interest Income and Interest Expense

Revenues. The Company enters into transactions to sell and deliver gold, silver, platinum and palladium to industrial and commercial users, coin and bullion dealers, mints, and financial institutions. The metals are investment or industrial grade and are sold in a variety of shapes and sizes.

The Company also sells precious metals on forward contracts at a fixed price based on current prevailing precious metal spot prices with a certain delivery date in the future (up to six months from date of the forward contract.) Typically, these forward contracts are net settled against our other forward positions or are settled in cash, whereby no physical product is delivered. Sales on forward contracts can be a substantial portion of revenues in any given period. We enter into these forward contacts as part of our hedging strategy to mitigate our price risk of holding inventory; they are not entered into for speculative purposes.

In addition, the Company earns revenue by providing storage solutions for precious metals and numismatic coins for financial institutions, dealers, investors and collectors worldwide and by providing storage and order-fulfillment services to our retail customers. These revenue streams are complementary to our trading activity, and represents less than 1% of our revenues.

The Company operates in a high volume/low margin industry. Revenues are impacted by three primary factors: product volume, market prices and market volatility. A material change in any one or more of these factors may result in a significant change in the Company’s revenues. A significant increase or decrease in revenues can occur simply based on changes in the underlying commodity prices and may not be reflective of an increase or decrease in the volume of products sold.

Gross Profits. Gross profit is the difference between our revenues and the cost of our products. Since we quote prices based on the current commodity market prices for precious metals, we enter into a combination of forward and futures contracts to effect a hedge position equal to the underlying precious metal commodity value, which substantially represents inventory subject to price risk. We enter into these derivative transactions solely for the purpose of hedging our inventory, and not for speculative purposes. Our gross profit includes the gains and losses resulting from these derivative instruments. However, the gains and losses on the derivative instruments are substantially offset by the gains and losses on the corresponding changes in the market value of our precious metals inventory. As a result, our results of operations generally are not materially impacted solely by changes in commodity prices.

Volatility also affects our gross profits. Greater volatility typically causes the trading spreads to widen resulting in an increase in the gross profit. Product supply constraints during extended periods of higher volatility has historically resulted in a heightening of wider trading spreads resulting in further improvement in the gross profit.

Interest Income. The Company enters into secured loans and secured financing structures with its customers under which it charges interest. Through its wholly owned subsidiary, CFC, the Company also enters into loans secured by precious metals and numismatic material owned by the borrowers and held by the Company for the term of the loan. The Company offers a number of secured financing options to its customers to finance their precious metals purchases including consignments and other structured inventory finance products whereby the Company earns a fee based on the underlying value of the precious metal.

Interest Expense. The Company incurs interest expense as a result of usage under its lines of credit. The Company also incurs interest expense as a result of its product financing agreements for the transfer and subsequent re-acquisition of gold and silver at a fixed price with a third-party finance company, and may incur interest expense when we borrow precious metals from our suppliers under short-term arrangements, which can bear interest at a designated rate.

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Performance Metrics

In addition to financial statement indicators, management also utilizes certain key operational metrics to assess the performance of our business.

We look at the number of ounces of gold and silver sold and delivered to our customers (excluding ounces recorded on forward contracts). These metrics reflect our business volume without regard to changes in commodity pricing, which also impacts revenue and can mask actual business trends.

Another measure of our business volume, unaffected by changes in commodity pricing, is Wholesale Trading & Ancillary segment ticket volume and Direct Sales segment ticket volume, which is the total number orders processed by our trading desks in El Segundo, California and Vienna, Austria. In periods of higher volatility, there is generally increased trading in the commodity markets, and increased demand for our products, which translates into higher business volume.

Inventory turnover is another performance measure on which we are focused. We define inventory turnover as the cost of sales during the relevant period divided by the average inventory during the period. Inventory turnover is a measure of how quickly inventory has moved during the period. A higher inventory turnover ratio, which we typically experience during periods of higher volatility when trading is more robust, reflects a more efficient use of our capital.

Finally, as a measure of the size of our lending business, we look at the number of outstanding secured loans to customers at the end of the fiscal quarter.

Fiscal Year

Our fiscal year end is June 30 each year. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

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RESULTS OF OPERATIONS

Overview of Results of Operations for the Three Months Ended December 31, 2017 and 2016

Condensed Consolidated Results of Operations

The operating results of our business for the three months ended December 31, 2017 and 2016 are as follows:

in thousands, except per share data and performance metrics

Three Months Ended December 31,	2017		2016		$	%
	$	% of revenue	$	% of revenue	Increase/(decrease)	Increase/(decrease)
Revenues	$1,680,738	100.000 %	$2,126,361	100.000 %	$ (445,623)	(21.0)%
Gross profit	8,916	0.530 %	9,859	0.464 %	$ (943)	(9.6)%
Selling, general and administrative expenses	(9,349)	(0.556)%	(6,131)	(0.288)%	$ 3,218	52.5 %
Interest income	3,268	0.194 %	2,959	0.139 %	$ 309	10.4 %
Interest expense	(3,359)	(0.200)%	(2,447)	(0.115)%	$ 912	37.3 %
Other income	651	0.039 %	93	0.004 %	$ 558	600.0 %
Unrealized (loss) gain on foreign exchange	139	0.008 %	(3)	— %	$ 142	NM
Net income before provision for income taxes	266	0.016 %	4,330	0.204 %	$ (4,064)	(93.9)%
Provision for income taxes	(324)	(0.019)%	(1,590)	(0.075)%	$ (1,266)	(79.6)%
Net income (loss)	(58)	(0.004)%	2,740	0.129 %	$ (2,798)	(102.1)%
Add: Net gain (loss) attributable to non-controlling interest	147	0.009 %	(10)	— %	$ 137	NM
Net income (loss) attributable to the Company	$(205)	(0.012)%	$2,750	0.129 %	$ (2,955)	(107.5)%
Basic and diluted income per share attributable to A-Mark Precious Metals, Inc.:						
Per Share Data:						
Basic	$(0.03)		$0.39		$ (0.42)	(107.7)%
Diluted	$(0.03)		$0.39		$ (0.42)	(107.7)%
Performance Metrics:						
Gold ounces sold[1]	376,000		772,000		(396,000)	(51.3)%
Silver ounces sold[2]	11,964,000		22,816,000		(10,852,000)	(47.6)%
Inventory turnover ratio[3]	5.2		7.2		(2.0)	(27.8)%
Number of secured loans at period end[4]	2,823		1,698		1,125	66.3 %

NM Not meaningful.

(1) Gold ounces sold represents the ounces of gold product sold and delivered to the customer during the three-month period, excluding ounces of gold recorded on forward contracts.

(2) Silver ounces sold represents the ounces of silver product sold and delivered to the customer during the three-month period, excluding ounces of silver recorded on forward contracts.

(3) Inventory turnover ratio is the cost of sales divided by average inventory.

(4) Number of outstanding secured loans to customers at the end of the period.

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Overview of Results of Operations for the Six Months Ended December 31, 2017 and 2016

Condensed Consolidated Results of Operations

The operating results of our business for the six months ended December 31, 2017 and 2016 are as follows:

in thousands, except per share data and performance metrics

Six Months Ended December 31,	2017		2016		$	%
	$	% of revenue	$	% of revenue	Increase/(decrease)	Increase/(decrease)
Revenues	$3,844,528	100.000 %	$3,932,014	100.000 %	$ (87,486)	(2.2)%
Gross profit	16,222	0.422 %	17,923	0.456 %	$ (1,701)	(9.5)%
Selling, general and administrative expenses	(16,325)	(0.425)%	(11,795)	(0.300)%	$ 4,530	38.4 %
Interest income	6,429	0.167 %	5,818	0.148 %	$ 611	10.5 %
Interest expense	(6,092)	(0.159)%				