

A-Mark Precious Metals, Inc.
Form 10-Q
February 10, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2014
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-36347

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

Delaware
(State of Incorporation)
429 Santa Monica Blvd.
Suite 230
Santa Monica, CA 90401
(Address of principal executive offices)(Zip Code)
(310) 587-1477
(Registrant's Telephone Number, Including Area Code)

11-2464169
(IRS Employer I.D. No.)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company) Smaller reporting company
Yes. No.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

As of February 4, 2015, the registrant had 6,962,742 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, 2014

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2014	June 30, 2014
ASSETS		
Current assets:		
Cash	\$5,113	\$13,193
Receivables, net	125,206	102,824
Inventories:		
Inventories	143,111	150,944
Restricted inventories	80,660	24,610
	223,771	175,554
Deferred tax assets	4,507	—
Income taxes receivable	197	—
Income taxes receivable from Former Parent	3,139	3,139
Prepaid expenses and other assets	658	613
Total current assets	362,591	295,323
Property and equipment, net	1,491	1,678
Goodwill	4,884	4,884
Intangibles, net	2,561	2,753
Long-term receivables	800	—
Long-term investments	1,611	500
Total assets	\$373,938	\$305,138
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Lines of credit	\$151,000	\$135,200
Liability on borrowed metals	5,684	8,709
Product financing arrangement	80,660	24,610
Accounts payable	80,767	77,426
Accrued liabilities	3,416	6,070
Income taxes payable	—	2,178
Deferred tax liability - current	—	1,456
Total current liabilities	321,527	255,649
Deferred tax liabilities	33	33
Total liabilities	321,560	255,682
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares; issued and outstanding; none as of December 31, 2014 and June 30, 2014	—	—
Common Stock, par value \$0.01; 40,000,000 authorized; 6,962,742 and 6,962,742 issued and outstanding as of December 31, 2014 and June 30, 2014, respectively	70	70

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Additional paid-in capital	22,439	22,317
Retaining earnings	29,869	27,069
Total stockholders' equity	52,378	49,456
Total liabilities and stockholders' equity	\$373,938	\$305,138

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, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Revenues	\$1,538,871	\$1,488,691	\$2,992,337	\$2,984,716
Cost of sales	1,531,678	1,480,819	2,979,414	2,969,815
Gross profit	7,193	7,872	12,923	14,901
Selling, general and administrative expenses	(4,754)	) (4,503)	) (8,973)	) (8,151)
Interest income	1,398	1,365	2,875	2,822
Interest expense	(969)	) (889)	) (2,032)	) (1,877)
Unrealized gains (losses) on foreign exchange	(75)	) 24	(84)	) 60
Net income before provision for income taxes	2,793	3,869	4,709	7,755
Provision for income taxes	(1,131)	) (1,621)	) (1,909)	) (3,141)
Net income	\$1,662	\$2,248	\$2,800	\$4,614
Basic and diluted income per share:				
Basic - net income	\$0.24	\$0.29	\$0.40	\$0.60
Diluted - net income	\$0.24	\$0.29	\$0.40	\$0.59
Weighted average shares outstanding:				
Basic	6,962,742	7,729,181	6,962,742	7,729,401
Diluted	7,059,400	7,885,640	7,062,300	7,886,167

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 Stockholders' Equity
Balance, June 30, 2014	6,962,742	\$70	\$22,317	\$27,069	\$49,456
Net income	—	—	—	2,800	2,800
Share-based compensation	—	—	122	—	122
Balance, December 31, 2014	6,962,742	\$70	\$22,439	\$29,869	\$52,378

See accompanying Notes to Condensed Consolidated Financial Statements

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A-MARK PRECIOUS METALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

Six Months Ended December 31,	2014	2013
Cash flows from operating activities:		
Net Income	\$2,800	\$4,614
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	455	443
Deferred income taxes	(5,963)) —
Interest added to principal of secured loans	(144)) —
Share-based compensation	122	75
Changes in assets and liabilities:		
Receivables	(21,871)	) 7,824
Secured loans to Former Parent	(2,711)) —
Income tax receivable	(197)) —
Inventories	(48,217)	) 2,349
Prepaid expenses and other current assets	(45)	) (381)
Accounts payable	3,341	(1,400)
Liabilities on borrowed metals	(3,025)	) (8,891)
Accrued liabilities	(2,654)	) (1,616)
Receivable from/ payables to Former Parent	—	(1,905)
Income taxes payable	(2,178)) —
Net cash (used in) provided by operating activities	(80,287)	) 1,112
Cash flows from investing activities:		
Capital expenditures for property and equipment	(76)	) (264)
Purchase of cost method investment	(1,111)) —
Secured loans, net	1,544	(350)
Net cash provided by (used in) investing activities	357	(614)
Cash flows from financing activities:		
Product financing arrangement, net	56,050	(13,048)
Dividends paid to Former Parent	—	(5,000)
Borrowings under lines of credit, net	15,800	11,000
Net cash provided by (used in) financing activities	71,850	(7,048)
Net decrease in cash and cash equivalents	(8,080)	) (6,550)
Cash and cash equivalents, beginning of period	13,193	21,565
Cash and cash equivalents, end of period	\$5,113	\$15,015
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense	\$1,719	\$1,851
Income taxes	\$10,247	\$3,925
Non-cash investing and financing activities:		
Interest added to principal of secured loans	\$144	\$—
Secured loans received in satisfaction of customer receivable	\$—	\$12,800
See accompanying <u>Notes to Condensed Consolidated Financial Statements</u>		

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A-MARK PRECIOUS METALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

A-Mark Precious Metals, Inc. and its subsidiaries (“A-Mark” or the “Company”) is 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 collateral to coin dealers, collectors and investors, most of whom are active customers of A-Mark. 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 recently formed a wholly-owned subsidiary, A-M Global Logistics, LLC (“A-M Logistics”), which will operate the Company's logistics fulfillment center based in Las Vegas, Nevada.

Spinoff from Spectrum Group International, Inc.

The Company filed a registration statement on Form S-1 in connection with the distribution (the “Distribution”) by Spectrum Group International, Inc. (“SGI” or the “Former Parent”) to its stockholders of all the outstanding shares of common stock of the Company, par value \$0.01 per share. The registration statement was declared effective by the Securities and Exchange Commission (“SEC”) on February 11, 2014. On March 11, 2014, the Company filed a Form 8-A with the SEC to register its shares of common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended. The Distribution, which effected a spinoff of the Company from SGI, was made on March 14, 2014 to SGI stockholders of record on February 12, 2014. On the Distribution date, stockholders of SGI received one share of A-Mark common stock for each four shares of SGI common stock held.

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.” An aggregate of 7,402,664 shares of A-Mark common stock were distributed in the Distribution. All share and per share information has been retrospectively adjusted to give effect to the Distribution, determined based on the Former Parent's common shares outstanding for the periods presented prior to the Distribution multiplied by distribution ratio of one share of the Company's common stock for every four shares of the Former Parent's common stock, and determined based on A-Mark's common shares outstanding after the Distribution.

Subsequent to the Distribution, SGI informed the Company that an aggregate of 71,922 shares of A-Mark's common stock should not have been distributed because the SGI shares with respect to which those shares were distributed had been incorrectly classified as outstanding. Accordingly, effective as of March 14, 2014, those 71,922 shares were canceled and returned to the status of authorized but unissued stock.

In connection with the spinoff, the Company entered into various agreements with SGI, each effective as of March 14, 2014. These agreements are described below.

Distribution Agreement

The Distribution Agreement (the “Distribution Agreement”) set forth the principal actions to be taken in connection with the Distribution and also governs our ongoing relationship with SGI following the Distribution.

A-Mark-SGI Arrangements. All agreements, arrangements, commitments and understandings, including most intercompany accounts payable or accounts receivable, between us and our subsidiaries and other affiliates, on the one hand, and SGI and its other subsidiaries and other affiliates, on the other hand, terminated effective as of the Distribution, except certain agreements and arrangements that we and SGI expressly provided will survive the Distribution.

The Distribution; Conditions. The Distribution Agreement governed the rights and obligations of the parties regarding the proposed Distribution and set forth the conditions that must be satisfied or waived by SGI in its sole discretion.

Exchange of Information. The Company and SGI have agreed to provide each other with access to information in the other party's possession or control owned by such party and created prior to the Distribution date, or as may be reasonably necessary to comply with reporting, disclosure, filing or other requirements of any national securities exchange or governmental authority, for use in judicial, regulatory, administrative and other proceedings and to satisfy audit, accounting, litigation and other similar requests. The Company and SGI have also agreed to retain such information in accordance with our respective record retention policies as in effect on the date of the Distribution Agreement, but in no event for fewer than seven years from the Distribution date. Until the end of the first full fiscal year following the

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Distribution, each party has also agreed to use its reasonable best efforts to assist the other with respect to its financial reporting and audit obligations.

Release of Claims. The Company and SGI agreed to broad releases pursuant to which we released the other and its affiliates, successors and assigns and their respective shareholders, directors, officers, agents and employees from any claims against any of them that arise out of or relate to events, circumstances or actions occurring or failing to occur or any conditions existing at or prior to the time of the Distribution. These releases are subject to certain exceptions set forth in the Distribution Agreement.

Indemnification. The Company and SGI agreed to indemnify each other and each other's current and former directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing against certain liabilities in connection with the Distribution and each other's respective businesses.

Tax Separation Agreement

The tax separation agreement (the "Tax Separation Agreement") with SGI governs the respective rights, responsibilities and obligations of SGI and us with respect to, among other things, liabilities for U.S. federal, state, local and other taxes. In addition to the allocation of tax liabilities, the Tax Separation Agreement addresses the preparation and filing of tax returns for such taxes and disputes with taxing authorities regarding such taxes. Under the terms of the Tax Separation Agreement, SGI has the responsibility to prepare and file tax returns for tax periods ending prior to the Distribution date and for tax periods which include the Distribution date but end after the Distribution date, which will include A-Mark and its subsidiaries.

These tax returns will be prepared on a basis consistent with past practices. A-Mark has agreed to cooperate in the preparation of these tax returns and have an opportunity to review and comment on these returns prior to filing. A-Mark will pay all taxes attributable to A-Mark and its subsidiaries, and will be entitled to any refund with respect to taxes it has paid.

Secondment Agreement

Under the terms of the secondment agreement (the "Secondment Agreement"), A-Mark has agreed to make Gregory N. Roberts, our Chief Executive Officer, and Carol Meltzer, our Executive Vice President, General Counsel and Secretary, available to SGI for the performance of specified management and professional services following the spinoff in exchange for an annual secondment fee of \$150,000 (payable monthly) and reimbursement of certain bonus payments.

Neither Mr. Roberts nor Ms. Meltzer will devote more than 20% of their professional working time on a monthly basis to SGI and in no event will the performance of services for SGI interfere with the performance of the duties and responsibilities of Mr. Roberts and Ms. Meltzer to A-Mark. In addition, to the services to be provided under the Secondment Agreement, both Mr. Roberts and Ms. Meltzer are expected to serve as officers and directors of SGI following the spinoff. The Secondment Agreement will terminate on June 30, 2016 and is subject to earlier termination under certain circumstances. Under the Secondment Agreement, SGI will be obligated to reimburse A-Mark for the portion of the performance bonus payable under Mr. Roberts' employment agreement with A-Mark (to be effective at the time of the spinoff) attributable to pre-tax profits of SGI.

Equity Awards

Holders of share-based awards denominated in and settleable by delivery of shares of Former Parent's common stock received share-based awards denominated in and settleable by delivery of shares of the Company's common stock based on the exchange ratio of one to 4.17, for which the ratio was based on the three-day-average closing stock price of SGI prior to the Distribution compared to the three-day-average closing stock price of A-Mark after the Distribution. This formula, which was selected because it measured the aggregate intrinsic value of each Former Parent equity award immediately before the spinoff (by reference to Former Parent's share prices), and provided for the grant of a replacement A-Mark equity award with substantially the same aggregate intrinsic value immediately after the spinoff (by reference to A-Mark share prices), was different from the ratio of one share of the Company's common stock for every four shares of the Former Parent's common stock used in the spinoff.

As a result, the Company issued 130,646 restricted stock units, 8,990 stock appreciation rights ("SARs") and options to purchase 249,846 shares of common stock. The shares subject to A-Mark equity awards issued as a result of the adjustments described above were not drawn from A-Mark's 2014 Stock Award and Incentive Plan; instead, such

shares were issued and/or delivered based on A-Mark's assumption of the rights and obligations under the SGI equity compensation plans pursuant to which the pre-distribution SGI awards were granted and related SGI award agreements.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the current fiscal year's condensed consolidated financial statement presentation.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements reflect the financial condition, results of operations, and cash flows of the Company, and were prepared using accounting principles generally accepted in the United States (“U.S. GAAP”). The Company operated in one segment for all periods presented.

These condensed consolidated financial statements include the accounts of A-Mark, and its wholly owned subsidiaries, CFC, AMTAG, A-M Logistics and TDS (collectively the “Company”). All significant inter-company accounts and transactions have been eliminated in consolidation. The condensed consolidated statements of income include all revenues and costs attributable to the Company's operations, including costs for certain functions and services performed by SGI and directly charged or allocated based on usage or other systematic methods. The allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if the Company's operations had been operated as a separate stand-alone entity. Allocations for inter-company shared service expense are made on a reasonable basis to approximate market costs for such services; these allocations are only applicable for periods prior to the spinoff. Management believes the allocation methods are reasonable.

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 statements of stockholders' equity, and condensed consolidated statements of cash flows for the periods presented in accordance with U.S. GAAP. Operating results for the three and six months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the year ending June 30, 2015 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, 2014 (the “2014 Annual Report”), as filed with the SEC. Amounts related to disclosure of June 30, 2014 balances within these interim condensed consolidated financial statements were derived from the aforementioned audited consolidated financial statements and notes thereto included in the 2014 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, and allowances for doubtful accounts, impairment assessments of long-lived assets and intangible assets, valuation reserve determination on deferred tax assets, and revenue recognition judgments. Significant estimates also include the Company's fair value determination with respect to its financial instruments and precious metals materials. 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 never 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. 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.

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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 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.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

Concentration of Suppliers

A-Mark 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.

Concentration of Customers

Customers providing 10 percent or more of the Company's revenues for the three and six months ended December 31, 2014 and 2013 are listed below:

in thousands

	Three Months Ended			Six Months Ended				
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total revenue	\$1,538,871	100.0 %	\$1,488,691	100.0 %	\$2,992,337	100.0 %	\$2,984,716	100.0 %
Customer concentrations								
HSBC Bank USA	\$448,453	29.1 %	\$393,148	26.4 %	\$982,991	32.9 %	\$705,693	23.6 %
Total	\$448,453	29.1 %	\$393,148	26.4 %	\$982,991	32.9 %	\$705,693	23.6 %

Customers providing 10 percent or more of the Company's accounts receivable, excluding \$42.6 million and \$41.3 million of secured loans and derivative assets of \$18.1 million and \$22.2 million, as of December 31, 2014 and June 30, 2014, respectively, are listed below:

in thousands

	December 31, 2014		June 30, 2014	
	Amount	Percent	Amount	Percent
Total accounts receivable, net (excluding secured loans and derivative assets)	\$65,360	100.0 %	\$39,409	100.0 %
Customer concentrations				
United States Mint	\$18,839	28.8 %	\$—	— %
Sunshine Mint	9,680	14.8	—	—
Total	\$28,519	43.6 %	\$—	— %

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Customers providing 10 percent or more of the Company's secured loans as of December 31, 2014 and June 30, 2014, respectively, are listed below:
in thousands

	December 31, 2014		June 30, 2014		
	Amount	Percent	Amount	Percent	%
Total secured loans	\$42,564	100.0	% \$41,261	100.0	%
Customer concentrations					
Customer A	\$5,273	12.4	% \$2,562	6.2	%
Customer B	4,900	11.5	4,200	10.2	
Customer C	4,391	10.3	4,103	9.9	
Total	\$14,564	34.2	% \$10,865	26.3	%

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

Inventories

Inventories principally 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 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.

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. As of December 31, 2014 and June 30, 2014 the premium component included in inventory was \$4.7 million and \$3.3 million, respectively. Our commemorative coin inventory totaled \$0.4 million and \$2.6 million as of December 31, 2014 and June 30, 2014, respectively. (See Note 4). Neither the commemorative coin inventory nor the premium component of our inventory is hedged.

Inventories include amounts borrowed from suppliers under arrangements to purchase precious metals on an unallocated basis. 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 \$5.7 million and \$8.7 million, respectively as of December 31, 2014 and June 30, 2014. The Company mitigates market risk of its physical inventories through commodity hedge transactions. The Company also protects substantially all of its physical inventories from market risk through commodity hedge transactions (see Note 11).

The Company periodically loans metals to customers on a short-term consignment basis, charging interest fees based on the value of the metals loaned. Inventories loaned under consignment arrangements to customers as of December 31, 2014 and June 30, 2014 totaled \$4.0 million and \$11.1 million. Such inventories are removed at the time the customers elect to price and purchase the metals, and the Company records a corresponding sale and receivable. Substantially, all inventories loaned under consignment arrangements are collateralized for the benefit of the Company.

Inventory includes amounts for obligations under product financing agreement. The Company enters into an agreement for the sale of gold and silver at a fixed price to a third party. This inventory is restricted and the Company is allowed to repurchase the inventory at an agreed-upon price based on the spot price on the repurchase date. The third party charges a monthly fee as a percentage of the market value of the outstanding obligation; such monthly charge is classified in interest expense in the condensed consolidated statements of income. These transactions do not qualify as sales and therefore have been accounted for as financing arrangements and reflected in the condensed consolidated balance sheet within product financing arrangement. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing and the underlying inventory (which is entirely restricted) are carried at fair value, with changes in fair value included as component of cost of sales. Such obligation totaled \$80.7 million and \$24.6 million as of December 31, 2014 and June 30, 2014, respectively.

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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 of the product on the repurchase date. The Company or the counterparty may 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, 2014 and June 30, 2014, included within inventory is \$39.6 million and \$24.6 million, respectively, of precious metals products subject to repurchase.

Property and Equipment and Depreciation

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 five years.

Goodwill and Purchased 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 life intangibles are evaluated for impairment annually 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. Other purchased intangible assets continue to be amortized over their useful lives and are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be recoverable. 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. If, based on this qualitative assessment, management determines that goodwill is more likely than not to be impaired, the two-step impairment test is performed. This 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. As of December 31, 2014 and June 30, 2014, the Company had no impairments. If the Company determines it will quantitatively assess impairment, the Company utilizes the discounted cash flow method to determine the fair value of each of its reporting units. In calculating the implied fair value of the reporting unit's goodwill, the present value of the reporting unit's expected future cash flows is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the present value of the reporting unit's expected future cash flows over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. In calculating the implied value of the Company's trade names, the Company uses the present value of the relief from royalty method.

Amortizable intangible assets are being amortized on a straight-line basis which approximates economic use, over periods ranging from four years to fifteen years. The Company considers the useful life of the trademarks to be indefinite. The Company tests the value of the trademarks and trade name annually for impairment.

Long-Lived Assets

Long-lived assets, other than goodwill and purchased intangible assets with indefinite lives are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be recoverable. In evaluating impairment, the carrying value of the asset is compared to the undiscounted estimated future cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss is recognized when estimated future cash flows are less than the carrying amount. Estimates of future cash flows may be internally developed or based on independent appraisals and significant judgment is applied to make the estimates. Changes in the Company's strategy, assumptions and/or market conditions could significantly impact these judgments and require adjustments to recorded amounts of long-lived assets. As of December 31, 2014 and June 30, 2014, management concluded that an impairment write-down was not required.

Investments

Investments into ownership interest in noncontrolled entities that do not have readily determinable fair values (i.e., non-marketable equity securities) under Cost Method Investments Topic 325-20 of the ASC ("ASC 325-20") are initially recorded at cost. Income is recorded for dividends received that are distributed from net accumulated earnings of the noncontrolled entity subsequent to the date of investment. Dividends received in excess of earnings subsequent

to the date of investment are considered a return of investment and are recorded as reductions in the cost of the investment. Investments are written down only when there is clear evidence that a decline in value that is other than temporary has occurred. The Company assesses all cost-method investments for impairment quarterly. Below is a summary of the Company's cost-method investments.

On February 18, 2014, the Company purchased 2.5% of issued and outstanding Class A common stock of a nonpublic company, who is a customer of A-Mark, for \$0.5 million. On September 19, 2014, the Company entered into an agreement with a separate nonpublic company, also a customer of A-Mark, to purchase up to 9% of its issued and outstanding common stock, on a fully diluted basis, in two tranches, for an aggregate purchase price of \$2.0 million. The closing of the first tranche of the second transaction, for 5% of the retailer's issued and outstanding common stock at a purchase price equal to \$1.1 million, took place on

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September 19, 2014. The closing of the second tranche of the second transaction, for 4% of this company's issued and outstanding common stock at a purchase price equal to \$0.9 million, is expected to take place on or prior to February 15, 2015.

In connection with both transactions, the Company (1) entered into exclusive supplier agreements, pursuant to which the customers will purchase all bullion products required for their respective businesses exclusively from A-Mark for a period of 5.0 years and 3.0 years, respectively (subject to renewal and earlier termination under certain circumstances), and (2) has the right to appoint, and has appointed, a board member to each customer's boards of directors. In the case of the second transaction, A-Mark will continue to provide fulfillment services to this customer under the terms of a previously existing fulfillment agreement.

As of December 31, 2014, the aggregate carrying amount of the Company's cost-method investments was \$1.6 million. There were no identifiable events or changes in circumstances that may have had a significant adverse effect on the fair value. As a result, no impairment loss was recorded, nor were any dividends received during the three and six months ended December 31, 2014.

As of December 31, 2014, the aggregate balance of payables due to and the aggregate balance of receivables due from these entities totaled \$26.1 million and \$18.3 million, respectively. Included in the receivable balance at December 31, 2014 was a \$1.0 million secured loan, of which \$0.8 million is presented on the condensed consolidated balance sheet as long-term receivables. As of June 30, 2014, the aggregate balance of payables due to and the aggregate balance of receivables due from these entities totaled \$3.5 million and \$2.6 million, respectively. There was no secured loan balance with these entities at June 30, 2014.

For the three months ended December 31, 2014 the Company had aggregate sales of \$139.4 million and aggregate purchases of \$0.0 million, respectively, with these entities. For the three months ended December 31, 2013 the Company had aggregate sales of \$46.9 million and aggregate purchases of \$1.9 million, respectively, with these entities.

For the six months ended December 31, 2014 the Company had aggregate sales of \$227.4 million and aggregate purchases of \$0.4 million, respectively, with these entities. For the six months ended December 31, 2013 the Company had aggregate sales of \$83.2 million and aggregate purchases of \$1.9 million, respectively, with these entities.

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.

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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, 2014 and June 30, 2014.

in thousands

	December 31, 2014		June 30, 2014	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets:				
Cash	\$5,113	\$5,113	\$13,193	\$13,193
Receivables, advances receivables and secured loans	107,894	107,894	80,640	80,640
Derivative assets - open sale and purchase commitments, net, included in receivable	2,428	2,428	22,170	22,170
Derivative assets - futures contracts included in receivable	6,174	6,174	—	—
Derivative assets - forward contracts included in receivable	9,510	9,510	14	14
Income taxes receivable from Former Parent	3,139	3,139	3,139	3,139
Financial liabilities:				
Lines of credit	\$151,000	\$151,000	\$135,200	\$135,200
Liability for borrowed metals	5,684	5,684	8,709	8,709
Product financing obligation	80,660	80,660	24,610	24,610
Derivative liabilities - open sale and purchase commitments, net, included in payables	30,020	30,020	848	848
Derivative liabilities - futures contracts included in payables	—	—	8,078	8,078
Derivative liabilities - forward contracts included in payables	46	46	14,873	14,873
Accounts payable, margin accounts, advances and other payables	50,701	50,701	53,627	53,627
Accrued liabilities	3,416	3,416	6,070	6,070

The fair values of the financial instruments shown in the above table as of December 31, 2014 and June 30, 2014 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, available observable and unobservable inputs.

The carrying amounts of cash and cash equivalents, receivables and secured loans, accounts receivable and consignor advances, and accounts payable approximated fair value due to their short-term nature. The carrying amounts of lines of credit approximate fair value based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities.

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 determine the carrying fair value and related fair value of the financial instruments are described below:

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Inventory. Inventories principally 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 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. 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 and 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 and open sale and purchase commitments are valued at their intrinsic values, based on the difference between the quoted market price and the contractual price, 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 Obligations. Product financing obligations consist of financing agreements for the transfer and subsequent re-acquisition of the sale of gold and silver at a fixed price to a third party. Such transactions 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 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 obligations are classified in Level 1 of the valuation hierarchy.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and June 30, 2014 aggregated by the level in the fair value hierarchy within which the measurements fall:

	December 31, 2014			Total Balance
	Quoted Price in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
in thousands				
Assets:				
Inventory ⁽¹⁾	\$223,377	\$—	\$—	\$223,377
Derivative assets — open sale and purchase commitments, net	2,428	—	—	2,428
Derivative assets — futures contracts	6,174	—	—	6,174
Derivative assets — forward contracts	9,510	—	—	9,510
Total assets valued at fair value	\$241,489	\$—	\$—	\$241,489
Liabilities:				
Liability on borrowed metals	\$5,684	\$—	\$—	\$5,684
Product financing arrangement	80,660	—	—	80,660
Liability on margin accounts	5,123	—	—	5,123
Derivative liabilities — open sales and purchase commitments, net	30,020	—	—	30,020
Derivative liabilities — forward contracts	46	—	—	46
Total liabilities, valued at fair value	\$121,533	\$—	\$—	\$121,533

(1) Commemorative coin inventory totaling \$0.4 million is held at lower of cost or market and is thus excluded from this table.

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	June 30, 2014			
	Quoted Price in	Significant Other	Significant	
	Active Markets	Observable	Unobservable	
	for Identical	Inputs	Inputs	
	Instruments	(Level 2)	(Level 3)	Total Balance
in thousands	(Level 1)			
Assets:				
Inventory ⁽¹⁾	\$ 172,990	\$—	\$—	\$ 172,990
Derivative assets — open sale and purchase commitments, net	22,170	—	—	22,170
Derivative assets — forward contracts	14	—	—	14
Total assets, valued at fair value	\$ 195,174	\$—	\$—	\$ 195,174
Liabilities:				
Liability on borrowed metals	\$ 8,709	\$—	\$—	\$ 8,709
Product financing arrangement	24,610	—	—	24,610
Liability on margin accounts	8,983	—	—	8,983
Derivative liabilities — open sale and purchase commitments, net	848	—	—	848
Derivative liabilities — futures contracts	8,078	—	—	8,078
Derivative liabilities — forward contracts	14,873	—	—	14,873
Total liabilities valued at fair value	\$ 66,101	\$—	\$—	\$ 66,101

⁽¹⁾ Commemorative coin inventory totaling \$2.6 million 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 during the six months ended December 31, 2014.

Assets Measured at Fair Value on a Non-Recurring Basis

Company's goodwill and other intangible assets are measured at fair value on a non-recurring basis. These assets are measured at cost but are written down to fair value if they are impaired. As of December 31, 2014, there were no indications present that the Company's goodwill or other purchased intangibles were impaired, and therefore were not measured at fair value. There were no gains or losses recognized in earnings associated with the above purchased intangibles during the three months ended December 31, 2014.

The Company's investments in ownership interests in noncontrolled entities do not have readily determinable fair values and were initially recorded at cost, \$1.6 million, in aggregate. Quoted prices of the investments are not available, and the cost of obtaining an independent valuation appears excessive considering the materiality of the instruments to the Company. There were no gains or losses recognized in earnings associated with the Company's ownership interests in noncontrolled entities during the three and six months ended December 31, 2014.

Revenue Recognition

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. The Company records sales of precious metals, which occurs upon receipt by the customer. The Company records revenues from its metal assaying and melting services after the related services are completed and the effects of forward sales contracts are reflected in revenue at the date the related precious metals are delivered or the contracts expire. The Company records revenues from its storage and logistics services after the related services are completed.

The Company accounts for its metals and sales contracts using settlement date accounting. Pursuant to such accounting, the Company recognizes the sale or purchase of the metals at settlement date. During the period between trade and settlement date, the Company has essentially entered into a forward contract that meets the definition of a derivative in accordance with the Derivatives and Hedging Topic 815 of the ASC. The Company records the derivative at the trade date with a corresponding unrealized gain (loss), which is reflected in the cost of sales in the condensed consolidated statements of income. The Company adjusts the derivatives to fair value on a daily basis until

the transaction is physically settled. Sales which are physically settled are recognized at the gross amount in the condensed consolidated statements of income.

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Interest Income

The Company uses the effective interest method to recognize interest expense on its secured loans and secured financing transactions. For these arrangements, the Company maintains a security interest in the precious metals and records interest income over the terms of the 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 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 (see [Note 3](#)).

Interest Expense

The Company incurs interest expense and related fees as a result of usage under its lines of credit, product financing arrangements and liability on borrowed metals.

The Company incurs interest expense based on usage under its Trading Credit Facility recording interest expense using the effective interest method.

The Company incurs financing fees (classified as interest expense) as a result of its product financing arrangements for the transfer and subsequent re-acquisition of gold and silver at a fixed price to a third party finance company. During the term of this type of financing agreement, a third party finance company holds the Company's inventory as collateral, with the intent to return the inventory to the Company at an agreed-upon price based on the spot price on the finance arrangement termination date, pursuant to the guidance in ASC 470-40 Product Financing Arrangements. The third party charges a monthly fee as percentage of the market value of the outstanding obligation. In addition, the Company incurs a financing fee related to custodial storage facility charges related to the transferred collateral inventory; this collateral is classified as restricted inventory on our condensed consolidated balance sheets. Additionally, the Company incurs interest expense when we borrow precious metals from our suppliers under short-term arrangements, which bear interest at a designated rate. Amounts under these arrangements are due at maturity and require repayment either in the form of precious metals or cash. This liability is reflected in the condensed consolidated balance sheet as liability on borrowed metals.

Derivative Instruments

The Company's inventory consists of precious metals products, and for which the Company regularly enters into commitment transactions to purchase and sell its precious metal products. The value of our inventory and these commitments is intimately 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 only major credit worthy financial institutions. 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. 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 (see in [Note 11](#)).

Commodity futures and forward contract transactions are recorded at fair value on the trade date. The difference between the original contract value and the market value of the open futures and forward contracts are reflected in receivables or payables in the condensed consolidated balance sheet at fair value (see [Note 3](#) and [Note 7](#)).

The Company records the change between market value and trade value of the underlying open commodity contracts as a derivative asset or liability, and it correspondingly records the related unrealized gains or losses. The change in unrealized gain (loss) on open commodity contracts from one period to the next is reflected in net gain (loss) on derivative instruments. These unrealized gains and losses are included as a component of cost of sales on the condensed consolidated statements of income. Gains or losses resulting from the termination of commodity contracts are reported as realized gains or losses on commodity contracts, which is recorded as a component of cost of sales on the condensed consolidated statement of income. Below, is a summary of the net gains (losses) on derivative instruments for the three and six months ended December 31, 2014 and 2013.

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in thousands

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Gain (loss) on derivative instruments:				
Unrealized gain (loss) on open future commodity and forward contracts and open sale and purchase commitments, net	\$9,006	\$14,047	\$10,284	\$(1,839)
Realized loss on future commodity contracts, net	(37,172)	(6,480)	(44,806)	(8,183)
Total	\$(28,166)	\$7,567	\$(34,522)	\$(10,022)

The Company enters into these derivative transactions solely for the purpose of hedging our inventory holding risk, 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](#)).

Advertising

Advertising costs are expensed as incurred, and are included in selling, general and administrative expenses in the condensed consolidated statements of income. Advertising expense was \$0.1 million and \$0.2 million, respectively, for the three months ended December 31, 2014 and 2013, and was \$0.3 million and \$0.3 million, respectively, for the six months ended December 31, 2014 and 2013.

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 \$1.8 million and \$1.3 million, respectively, for the three months ended December 31, 2014 and 2013, and totaled \$3.2 million and \$3.0 million, respectively, for the six months ended December 31, 2014 and 2013.

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.

Certain key employees of the Company participated in Stock Incentive Plans of the Former Parent ("Former Plans"). The Former Plans permitted the grant of stock options and other equity awards to employees, officers and non-employee directors. Prior to the Distribution, the equity awards had been settled in shares of SGI stock and A-Mark did not reimburse SGI for the expense, therefore it was treated as a capital contribution to A-Mark. Following the Distribution, the Company settles share-based awards by the delivery of shares of the Company's common stock. The equity awards assumed by A-Mark in connection of the spinoff contained substantially identical terms, conditions and vesting schedules as the previously outstanding. In accordance with the guidance in ASC 718, the assumption shares qualify as a modification of an equity compensation award. As such, the Company calculated the incremental fair value of the awards immediately prior to and after their modification and determined that there was no positive incremental equity compensation cost that was required to be expensed or amortized. Pertaining to the modified awards of A-Mark's employee and non-employees as of the Distribution date, the Company amortizes the unvested awards based on the fair value and vesting schedule based on the original grant date, as determined by SGI. Pertaining to the modified awards of SGI's employee and non-employees for which A-Mark assumed, the Company does not record compensation expense.

Prior to the Distribution, the Company's Board of Directors ("Board") adopted and the Company's shareholders approved the 2014 Stock Award and Incentive Plan ("2014 Plan"). 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. As of December 31, 2014, no equity awards were issued from the 2014 Plan (see [Note 13](#)).

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

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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 sheet principally within accrued liabilities.

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.

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 8 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.

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 rather than a member of the Former Parent's consolidated income tax return group. Following the Distribution, the Company files federal and state income tax filings that are separate from the SGI tax filings. The Company recognizes current and deferred income taxes as a separate taxpayer for periods ending after the date of Distribution.

Income taxes receivable from Former Parent reflects balances due from the Former Parent for the Company's share of the income tax assets of the group and amounts paid to federal and state jurisdictions due to taxable income generated as a separate taxpaying entity outside the consolidated income tax return group of the Former Parent.

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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.

To determine the weighted average number of common shares outstanding for the periods presented prior to the Distribution, the Former Parent's weighted average number of common shares outstanding was multiplied by distribution ratio of one share of the Company's common stock for every four shares of the Former Parent's common stock. Thereafter, the weighted average number of common shares outstanding was based on the Company's basic and fully diluted share figures.

A reconciliation of shares used in calculating basic and diluted earnings per common shares follows. There is no dilutive effect of SARs, as such obligations are not settled and were out of the money for the three and six months ended December 31, 2014 and 2013.

in thousands

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2014	2013	2014	2013
Basic weighted average shares outstanding ⁽¹⁾⁽²⁾	6,963	7,729	6,963	7,729
Effect of common stock equivalents — stock issuable under outstanding equity awards	96	157	99	157
Diluted weighted average shares outstanding ⁽²⁾	7,059	7,886	7,062	7,886

- (1) Basic weighted average shares outstanding include the effect of vested but unissued restricted stock grants. Basic and diluted income per share was based on historical SGI basic and fully diluted share figures through March 14, 2014, the distribution date. Amounts shown were retroactively adjusted to give effect for the share distribution in connection with the spinoff, on the basis of one share of A-Mark stock issued for every four shares of SGI stock held through the distribution date. Thereafter, basic and diluted income per share was based on the Company's basic and fully diluted share figures.
- (2) distribution in connection with the spinoff, on the basis of one share of A-Mark stock issued for every four shares of SGI stock held through the distribution date. Thereafter, basic and diluted income per share was based on the Company's basic and fully diluted share figures.

Recent Accounting Pronouncements

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity. ASU No. 2014-16 clarifies how current guidance should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. In addition, ASU No. 2014-16 clarifies that in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (that is, the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The effects of initially adopting ASU No. 2014-16 should be applied on a modified retrospective basis to existing hybrid financial instruments issued in a form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. ASU No. 2014-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, which will be our fiscal year 2017 (or July 1, 2016). Early adoption is permitted. We are currently in the process of evaluating the impact of adoption of ASU No. 2014-16 on our consolidated financial statements and related disclosures.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchases Financings, and Disclosures, which requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In additions, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. ASU No. 2014-11 is effective beginning annual periods beginning after December 15, 2014

and for interim periods beginning after March 15, 2015. We are currently evaluating the impact of our pending adoption of ASU No. 2014-11 on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), 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.

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The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU No. 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU No. 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

3. RECEIVABLES

Receivables and secured loans consist of the following as of December 31, 2014 and June 30, 2014:
in thousands

	December 31, 2014	June 30, 2014
Customer trade receivables	\$32,129	\$1,744
Wholesale trade advances	11,583	4,586
Due from brokers	21,648	33,079
Subtotal	65,360	39,409
Secured loans	41,764	41,261
Secured loans (long-term portion)	800	—
Subtotal	107,924	80,670
Less: allowance for doubtful accounts	(30	) (30
Subtotal	107,894	80,640
Derivative assets — open sale and purchase commitments, net	2,428	22,170
Derivative assets — futures contracts	6,174	—
Derivative assets — forward contracts	9,510	14
Receivables, net	\$126,006	\$102,824

Customer trade receivables represent short-term, non-interest bearing amounts due from precious metal sales and are secured by the related precious metals stored with the Company, a letter of credit issued on behalf of the customer, or other secured interests in assets of the customer.

Wholesale trade advances represent advances of various bullion products and cash advances to customers. These advances are unsecured, short-term, non-interest bearing advances made to wholesale metals dealers and government mints.

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

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 held in safekeeping by TDS, a wholly owned subsidiary of the Company. As of December 31, 2014 and June 30, 2014, the loans carried weighted-average effective interest rates of 8.3% and 7.9%, respectively, and mature in periods generally ranging from on-demand to two years.

Below is a summary of the significant secured loans that were modified, assumed or acquired and the financial effects of those agreements:

On September 27, 2013, CFC, a subsidiary of the Company, assumed the rights from a borrower/customer to a portfolio of short-term loan receivables totaling \$12.8 million for \$0.4 million and the satisfaction of an existing

outstanding loan, totaling \$12.8 million, which was owed to CFC. This transaction resulted in the assignment of the borrower/customer's portfolio of loan receivables to CFC, which were collateralized by the underlying precious metal product of the customers of the borrower/customer. The loan premium is amortized ratably as the loan is paid off. The loans are due on demand with the option to extend maturities for 180 days. As of December 31, 2014, the aggregate carrying value of this loan portfolio was \$3.0 million and the aggregate loan premium was \$0.2 million, related to this transaction. As of June 30, 2014, the aggregate carrying value of this loan portfolio was \$5.8 million and the aggregate loan premium was \$0.3 million, related to this transaction.

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On June 5, 2014, CFC assumed the rights from the above-referenced customer to a portfolio of short-term loan receivables totaling \$3.8 million for the aggregate principal amount of the loan portfolio. This transaction resulted in the assignment of the customer's portfolio of loan receivables to CFC, which are collateralized by each of the customer's borrowers' underlying precious metals. Additionally, the customer retains the responsibility for the servicing and administration of the loans. As a result of the terms of this arrangement, the Company reflects this as a financing arrangement with this customer, secured by the portfolio of short-term loan receivables, which is collateralized by precious metal products. As of December 31, 2014 and June 30, 2014, the aggregate carrying value of this loan portfolio was \$1.3 million and \$3.8 million, respectively.

On June 18, 2014, CFC assumed the rights to a secured portfolio of short-term loan receivables totaling \$2.6 million from Stack's-Bowers Numismatics, LLC ("Stack's Bower"), a wholly-owned subsidiary of our Former Parent. As a result of the terms of this arrangement, the Company reflects this as a financing arrangement with this related party, secured by the portfolio of short-term loan receivables, which is collateralized by numismatic and semi numismatic products. As of December 31, 2014 and June 30, 2014, the aggregate carrying value of this loan was \$0.0 million and \$2.6 million, respectively, bearing interest at 5.5% per annum. This secured loan was paid off in full, plus accrued interest, on August 19, 2014.

On July 1, 2014, CFC assumed the rights to a portfolio of short-term loan receivables totaling \$3.7 million for the aggregate principal amount of the loan portfolio from the same customer from whom it had entered into similar arrangements on June 5, 2014. This transaction resulted in the assignment of the customer's portfolio of loan receivables to CFC, which are collateralized by each of the customer's borrowers' underlying precious metals. Additionally, the customer retains the responsibility for the servicing and administration of the loans. As a result of the terms of this arrangement, the Company reflects this as a financing arrangement with this customer, secured by the portfolio of short-term loan receivables, which is collateralized by precious metal products. As of December 31, 2014, the aggregate carrying value of this loan portfolio was \$2.0 million.

On October 9, 2014, CFC entered into a loan agreement and related documents with Stack's Bower (a related party), providing for a secured line of credit in the maximum principal amount of up to \$16.0 million, bearing interest at a competitive rate per annum, which is at an interest rate midst the range of rates CFC charges its non-related parties. Advances under the line of credit are secured by numismatic and semi-numismatic products and receivables. As of December 31, 2014, the aggregate carrying value of this loan was \$5.3 million.

On January 23, 2015, CFC assumed the rights to another portfolio of short-term loan receivables totaling \$3.1 million for the aggregate principal amount of the loan portfolio from the same customer from who CFC had entered into similar arrangements on June 5, 2014 and July 1, 2014. This transaction resulted in the assignment of the customer's portfolio of loan receivables to CFC, which are collateralized by each of the customer's borrowers' underlying precious metals. Additionally, the customer retains the responsibility for the servicing and administration of the loans (see Note 15).

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 within receivables. 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. In contrast, for the secured loans that are reflected as an investing activity and do not contain a revolving credit-line feature or have long-term maturities, the borrowed funds are shown at gross as other originated secured loans, segregated from the repayments of the principal, which are shown as principal collections on other originated secured loans on the condensed consolidated statements of cash

flows.

The Company's derivative assets and liabilities represent the net fair value of the difference 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 (see Note 11). The Company's derivative assets 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.

Credit Quality of Financing Receivables and Allowance for Credit Losses

The Company applies a systematic methodology to determine the allowance for credit losses for finance receivables. The finance receivables portfolio is comprised solely of secured commercial loans with similar risk profiles. This similarity allows

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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 finance 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 three classes of finance receivables: those loans secured by: 1) bullion 2) numismatic items and 3) customers' pledged assets, which may include bullion and numismatic items. The Company's secured loans by portfolio class, which align with management reporting, are as follows:

in thousands

	December 31, 2014		June 30, 2014			
Bullion	\$9,960	23.4	%	\$17,361	42.1	%
Numismatic and semi numismatic	26,331	61.9		23,900	57.9	
Subtotal	36,291	85.3		41,261	100.0	
Other pledged assets ⁽¹⁾	6,273	14.7		—	—	
Total secured loans	\$42,564	100.0	%	\$41,261	100.0	%

(1) Includes secured loans that are collateralized by borrower's assets, which are not exclusively precious metal products.

Each of the three 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 loans 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. 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, 2014		June 30, 2014			
Loan-to-value of 75% or more ⁽¹⁾	\$15,647	43.1	%	\$11,950	29.0	%
Loan-to-value of less than 75% ⁽¹⁾	20,644	56.9		29,311	71.0	
Secured loans collateralized by precious metal products ⁽¹⁾	\$36,291	100.0	%	\$41,261	100.0	%

(1) Excludes secured loans that are collateralized by borrower's assets, which are not exclusively precious metal products.

The Company had two loans with a loan-to-value ratio in excess of 100% at December 31, 2014. The aggregate balance of these loans totaled \$193,000 or .5% of the secured loan balance. The Company had no loans with a loan-to-value ratio in excess of 100% at June 30, 2014.

For the Company's secured loans where the loan-to-value ratio is not a valid indicator (because the loans are collateralized by other assets of the borrower in addition to their precious metal inventory) the Company uses other indicators to measure the

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quality of this type of loan. For this type of loan, the Company use the following credit quality indicators: accounts receivable-to-loan ratios and inventory-to loan ratios and delinquency status of the loan.

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 rapidly 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 three and six months ended December 31, 2014 and 2013, the Company incurred no loan impairment costs.

Allowance for Doubtful Accounts

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

Period ended:	Beginning Balance	Provision	Charge-off	Ending Balance
Three Months Ended December 31, 2014	\$ 30	\$—	\$—	\$ 30
Year Ended June 30, 2014	\$ 104	\$—	\$(74	) \$ 30

4. INVENTORIES

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 may be 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". 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 of market value included in the inventories as of December 31, 2014 and June 30, 2014 totaled \$4.7 million and \$3.3 million, respectively. Commemorative coins, which are not hedged, are also included in inventory at the lower of cost or market and totaled \$0.4 million and \$2.6 million as of December 31, 2014 and June 30, 2014, respectively. As of December 31, 2014 and June 30, 2014, the unrealized gains (losses) resulting from the difference between market value and cost of physical inventories were \$(12.3) million and \$3.8 million, respectively.

The Company enters to arrangements with its suppliers and customers regarding its inventory, as summarize below:

Table of Contents**Borrowed Precious Metals from Suppliers**

Inventories include amounts borrowed from suppliers under arrangements to purchase precious metals on an unallocated basis. 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 \$5.7 million and \$8.7 million as of December 31, 2014 and June 30, 2014, respectively. The Company mitigates market risk of its physical inventories through commodity hedge transactions (see Note 11).

Repurchase Arrangements with Finance Company

Inventories include amounts for obligations under product financing agreement. The Company enters into a product financing agreement for the transfer and subsequent re-acquisition of gold and silver at a fixed price to 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 to return the inventory to the Company at an agreed-upon price based on the spot price on the finance arrangement termination date, pursuant to the guidance in ASC 470-40 Product Financing Arrangements. The third party charges a monthly fee as percentage of the market value of the outstanding obligation; such monthly charge is 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 within product financing arrangement. 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 obligation totaled \$80.7 million and \$24.6 million as of December 31, 2014 and June 30, 2014, respectively.

Consignment Arrangements with Customers

The Company periodically loans metals to customers on a short-term consignment basis, charging interest fees based on the value of the metal loaned. Inventories loaned under consignment arrangements to customers as of December 31, 2014 and June 30, 2014 totaled \$4.0 million and \$11.1 million, respectively. Such inventories are removed at the time the customer elects to price and purchase the precious metals, and the Company records a corresponding sale and receivable. Substantially all inventories loaned under consignment arrangements are collateralized for the benefit of the Company.

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 of the product on the repurchase date. The Company or the counterparty may 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, 2014 and June 30, 2014, included within inventory is \$39.6 million and \$24.6 million, respectively, of precious metals products subject to repurchase.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2014 and June 30, 2014:
in thousands

	December 31, 2014	June 30, 2014
Office furniture, fixtures and equipment	\$504	\$490
Computer equipment	342	323
Computer software	2,376	2,333
Leasehold improvements	260	260
Subtotal	3,482	3,406
Less: accumulated depreciation	(1,991	) (1,728)
Property and equipment, net	\$1,491	\$1,678

Depreciation expense for the three months ended December 31, 2014 and 2013 was \$0.1 million and \$0.1 million, respectively, and for the six months ended December 31, 2014 and 2013 was \$0.3 million and \$0.3 million, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

On July 1, 2005, all of the outstanding common stock of A-Mark was acquired by Spectrum PMI, Inc. Spectrum PMI was a holding company whose outstanding common stock was owned 80% by SGI, and 20% by Auctentia, S.L. In September

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2012, SGI purchased from Auctentia its 20% interest in Spectrum PMI. On September 30, 2013, Spectrum PMI was merged with and into SGI, as a result of which all of the outstanding shares of A Mark were then owned directly by SGI.

In connection with the acquisition of A-Mark by Spectrum PMI 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, which resulted in goodwill of \$4.9 million and identifiable purchased intangible assets of \$8.4 million.

Goodwill represents the excess of the purchase price and related costs over the value assigned to intangible assets of businesses acquired and accounted for under the purchase method.

The carrying value of other purchased intangibles as of December 31, 2014 and June 30, 2014 is as described below: dollar amounts in thousands

	Estimated Useful Lives (Years)	December 31, 2014			June 30, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade-name	Indefinite	\$454	\$—	\$454	\$454	\$—	\$454
Existing customer relationships	5 - 15	5,747	(3,640)	2,107	5,747	(3,448)	2,299
Non-compete and other	4	2,000	(2,000)	—	2,000	(2,000)	—
Employment agreement	3	195	(195)	—	195	(195)	—
Purchased intangibles subject to amortization		7,942	(5,835)	2,107	7,942	(5,643)	2,299
		\$8,396	\$(5,835)	\$2,561	\$8,396	\$(5,643)	\$2,753

The Company's other purchased intangible assets are subject to amortization except for trademarks, 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 four to fifteen years. Amortization expense related to the Company's intangible assets for the six months ended December 31, 2014 and 2013 was \$0.2 million and \$0.2 million, respectively.

Estimated amortization expense on an annual basis for the succeeding five years is as follows (in thousands):

Fiscal year ending June 30,	Amount
2015 (6 months remaining)	\$192
2016	385
2017	385
2018	385
2019	385
Thereafter	375
Total	\$2,107

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7. ACCOUNTS PAYABLE

Accounts payable consist of the following:
in thousands

	December 31, 2014	June 30, 2014
Trade payable to customers payables	\$5,723	\$366
Advances from customers	28,783	38,739
Liability on deferred revenue	9,713	4,177
Net liability on margin accounts	5,123	8,983
Other accounts payable	1,359	1,362
Subtotal	50,701	53,627
Derivative liabilities — open sales and purchase commitments, net	30,020	848
Derivative liabilities — futures contracts	—	8,078
Derivative liabilities — forward contracts	46	14,873
	\$80,767	\$77,426

8. INCOME TAXES

The Company files a consolidated federal income tax return based on a June 30th tax year end. The provision for (benefit from) income taxes for the three and six months ended December 31, 2014 and 2013 consists of the following:

in thousands

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
U.S	\$1,131	\$1,621	\$1,909	\$3,141
Foreign	—	—	—	—
Provision for income taxes	\$1,131	\$1,621	\$1,909	\$3,141

The effective tax rate for the three and six months ended December 31, 2014 and 2013 is as follows:
in thousands

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Effective tax rate	40.5	% 41.9	% 40.5	% 40.5

The Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter. The effective tax rate varies significantly from the federal statutory rate due to permanent adjustments for nondeductible items and state taxes.

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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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. During the six months ended December 31, 2014, 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 in the future. 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, 2014, the Company had \$0.3 million of valuation allowance for its realizability of deferred tax assets. The Company will continue to assess the need for a valuation allowance in the future by evaluating both positive and negative evidence that may exist. During the quarter ended December 31, 2014, the Company determined that it was appropriate to adjust the deferred tax assets and income tax payable/receivable for the timing differences that changed materially during the current quarter. Accordingly, the Company recorded a \$6.0 million increase to the deferred tax assets for the estimated change in temporary adjustments that had a material unfavorable impact on income tax expense payable.

The Company's 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 during the period prior to the Distribution rather than a member of the Former Parent company's consolidated income tax return group. The current tax receivable of \$3.1 million reflects balances due from the Former Parent company to A-Mark for its share of the income tax assets of the group. The current tax receivable of \$0.2 million represents amounts paid to federal and state jurisdictions due to taxable income generated as a separate taxpaying entity outside the consolidated income tax return group of the Former Parent.

As of December 31, 2014, the Company had \$0.5 million of unrecognized tax benefits and \$0.4 million relating to interest and penalties. Of the total unrecognized tax benefits, \$0.5 million would reduce the Company's effective tax rate, if recognized. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. During the three months ended December 31, 2014 and 2013, the Company had no additional accruals for interest and penalties.

The Company files income tax returns in the U.S. and various states. Prior to the Distribution, the Company was included in the consolidated federal and state tax filing of the Former Parent. The Former Parent has been under examination by the IRS for the years ended June 30, 2004 through 2013; however, subsequent to the balance sheet date, the Former Parent was notified that it had successfully resolved the June 30, 2004 through June 30, 2007 tax years. The Former Parent remains under examination by the IRS for the years ended June 30, 2008 through 2013 and other taxing jurisdictions on certain tax matters, including challenges to certain positions the Former Parent has taken. The Former Parent is unable to determine the outcome of these audits at this time; however, the Former Parent has been offered a settlement from the state of New York regarding certain tax matters on the combined New York filing. The Former Parent is considering whether to settle tax matters with New York or to further pursue tax positions taken. With few exceptions, either examinations have been completed by the tax authorities or the statute of limitations have expired for U.S. federal, state and local income tax returns filed by the Former Parent for the years through 2003.

In connection with the spinoff, the Company entered into a Tax Separation Agreement with SGI. The Tax Separation Agreement governs the respective rights, responsibilities and obligations of SGI and us with respect to, among other things, liabilities for U.S. federal, state, local and other taxes. In addition to the allocation of tax liabilities, the Tax Separation Agreement addresses the preparation and filing of tax returns for such taxes and disputes with taxing authorities regarding such taxes. Pursuant to the Tax Separation Agreement, A-Mark may be responsible for any tax amount related to A-Mark that is incurred as the result of adjustments made during the Internal Revenue Service examination or other tax jurisdictions' examinations of the Former Parent. Under the terms of the Tax Separation Agreement, SGI will have the responsibility to prepare and file tax returns for tax periods ending prior to the Distribution date and for tax periods which include the Distribution date but end after the Distribution date, which will include A-Mark and its subsidiaries. These tax returns will be prepared on a basis consistent with past practices. The

Company will cooperate in the preparation of these tax returns and have an opportunity to review and comment on these returns prior to filing. A-Mark will pay all taxes attributable to A-Mark and its subsidiaries, and will be entitled to any refund with respect to taxes it has paid.

The amounts receivable under the Company's income tax sharing obligation due from SGI totaled \$3.1 million, and \$3.1 million as of December 31, 2014 and June 30, 2014, respectively, and is shown on the face of the condensed consolidated balance sheets as income taxes receivable from Former Parent. Based on the terms to the Tax Separation Agreement, payment is due to the Company after SGI files its tax return and is in receipt of its tax refund from the IRS. Furthermore, pursuant to the terms of the Tax Separation Agreement, the Company has been allocated approximately \$6.3 million of state net operating losses. These net operating losses resulted in a deferred tax asset of \$0.4 million.

SGI received a written opinion from Kramer Levin Naftalis & Frankel LLP that the spinoff qualifies as a tax-free transaction under Section 355 of the Internal Revenue Code and that for U.S. federal income tax purposes, (i) no gain or loss shall be recognized by SGI upon the distribution of our common stock in the spinoff, and (ii) no gain or loss shall be recognized by, and no amount will be included in the income of, holders of SGI common stock upon the receipt of shares of our common stock in the spinoff.

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If, notwithstanding the conclusions included in the opinion, it is ultimately determined that the distribution does not qualify as tax-free for U.S. federal income tax purposes, each SGI shareholder that is subject to U.S. federal income tax and that received shares of our common stock in the distribution could be treated as receiving a taxable distribution in an amount equal to the fair market value of such shares. In addition, if the distribution were not to qualify as tax-free for U.S. federal income tax purposes, then SGI would recognize gain in an amount equal to the excess of the fair market value of our common stock distributed to SGI shareholders on the date of the distribution over SGI's tax basis in such shares. Also, we could have an indemnification obligation to SGI related to its tax liability. The Company considers this possible outcome as remote, and as a result, no liability has been recorded.

9. RELATED PARTY TRANSACTIONS

During the three and six months ended December 31, 2014 and 2013, the Company made sales and purchases to various companies under common control with A-Mark (through common ownership and management) through the date of Distribution. The companies are as follows: Calzona Ventures, LLC ("Calzona"), Stack's-Bowers Numismatics, LLC ("Stack's Bowers"), Spectrum Numismatics International, Inc. (now doing business as Stack's Bowers) ("SNI"), and Teletrade Inc. (now doing business as Stack's Bowers) ("Teletrade"). All of such entities were consolidated by our Former Parent, SGI.

in thousands

Related Party Company	Three Months Ended		December 31, 2013		Six Months Ended		December 31, 2013	
	December 31, 2014	December 31, 2013	Sales	Purchases	December 31, 2014	December 31, 2013	Sales	Purchases
Calzona	\$—	\$—	\$1,481	\$354	\$157	\$—	\$2,349	\$354
SNI (now doing business as Stack's Bower)	386	2,145	1,616	1,794	610	3,793	3,787	2,260
Stack's Bower	722	569	856	1,529	1,300	1,467	1,202	2,650
Teletrade (now doing business as Stack's Bowers)	422	903	618	621	1,015	1,278	1,099	1,485
Related party, total	\$1,530	\$3,617	\$4,571	\$4,298	\$3,082	\$6,538	\$8,437	\$6,749

As of December 31, 2014 and June 30, 2014, the Company's had related party receivables and payables balance as set forth below:

in thousands

Related Party Company	December 31, 2014		June 30, 2014	
	Receivables	Payable	Receivables	Payable
Calzona				