

A-Mark Precious Metals, Inc.
Form 10-Q
February 08, 2017
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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, 2016

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

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

Title of each class Name of each exchange on which registered

Common Stock, \$0.01 par value NASDAQ Global Select Market

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes. 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:

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of February 4, 2017, the registrant had 7,031,450 shares of common stock outstanding, par value \$0.01 per share.

A-MARK PRECIOUS METALS, INC.

QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended December 31, 2016

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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 for share data)
 (unaudited)

	December 31, 2016	June 30, 2016
ASSETS		
Current assets:		
Cash	\$ 13,270	\$17,142
Receivables, net	81,945	43,302
Derivative assets	39,577	33,732
Secured loans receivable	80,939	70,004
Inventories:		
Inventories	169,457	185,699
Restricted inventories	121,466	59,358
	290,923	245,057
Income taxes receivable	1,429	7,318
Income taxes receivable from Former Parent	—	203
Prepaid expenses and other assets	1,272	1,503
Total current assets	509,355	418,261
Plant, property and equipment, net	6,063	3,482
Goodwill	8,881	4,620
Intangibles, net	4,280	1,987
Long-term secured loans receivable	—	500
Long-term investments	7,952	7,873
Deferred tax assets - non-current	453	424
Total assets	\$ 536,984	\$437,147
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Lines of credit	\$ 185,000	\$212,000
Liability on borrowed metals	3,471	4,352
Product financing arrangements	121,466	59,358
Accounts payable	65,845	46,769
Derivative liabilities	74,358	36,454
Note payable - related party	500	—
Accrued liabilities	4,499	7,660
Income taxes payable	5,745	—
Total current liabilities	460,884	366,593
Deferred tax liabilities - non-current	3,933	7,245
Other long-term liabilities	1,117	—
Total liabilities	465,934	373,838
Commitments and contingencies		

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Stockholders' equity:

Preferred stock, \$0.01 par value, authorized 10,000,000 shares; issued and outstanding: none as of December 31, 2016 and June 30, 2016	—	—
Common Stock, par value \$0.01; 40,000,000 shares authorized; 7,031,450 and 7,021,450 shares issued and outstanding as of December 31, 2016 and June 30, 2016, respectively	71	71
Additional paid-in capital	22,812	22,220
Retained earnings	44,734	41,018
Total A-Mark Precious Metals, Inc. stockholders' equity	67,617	63,309
Non-controlling interest	3,433	—
Total stockholders' equity	71,050	63,309
Total liabilities, non-controlling interest and stockholders' equity	\$ 536,984	\$437,147

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,	December 31,	December	December
	2016	2015	31, 2016	31, 2015
Revenues	\$2,126,361	\$1,529,143	\$3,932,014	\$3,536,079
Cost of sales	2,116,502	1,523,467	3,914,091	3,515,979
Gross profit	9,859	5,676	17,923	20,100
Selling, general and administrative expenses	(6,131)	(4,528)	(11,795)	(10,936)
Interest income	2,959	2,182	5,818	4,115
Interest expense	(2,447)	(1,322)	(4,688)	(2,556)
Other income	93	94	79	506
Unrealized (loss) gain on foreign exchange	(3)	150	(9)	111
Net income before provision for income taxes	4,330	2,252	7,328	11,340
Provision for income taxes	(1,590)	(863)	(2,649)	(4,332)
Net income	2,740	1,389	4,679	7,008
Add: Net loss attributable to non-controlling interest	(10)	—	(21)	—
Net income attributable to the Company	\$2,750	\$1,389	\$4,700	\$7,008
Basic and diluted income per share attributable to A-Mark Precious Metals, Inc.:				
Basic	\$0.39	\$0.20	\$0.67	\$1.00
Diluted	\$0.39	\$0.20	\$0.66	\$0.99
Weighted average shares outstanding:				
Basic	7,023,300	6,973,500	7,027,400	6,973,500
Diluted	7,108,900	7,119,000	7,112,800	7,089,700

See accompanying Notes to Condensed Consolidated Financial Statements

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A-MARK PRECIOUS METALS, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands, except for share data)

(unaudited)

	Common Stock (Shares)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total A-Mark Precious Metals, Inc. Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity
Balance, June 30, 2016	7,021,450	\$ 71	\$ 22,220	\$41,018	\$ 63,309	\$ —	\$ 63,309
Net income (loss)	—	—	—	4,700	4,700	(21)	4,679
Share-based compensation	—	—	420	—	420	—	420
Minority interest contribution	—	—	—	—	—	3,454	3,454
Stock award grant	10,000	—	172	—	172	—	172
Dividends declared	—	—	—	(984)	(984)	—	(984)
Balance, December 31, 2016	7,031,450	\$ 71	\$ 22,812	\$44,734	\$ 67,617	\$ 3,433	\$ 71,050

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, 2016	December 31, 2015
Cash flows from operating activities:		
Net income	\$ 4,679	\$ 7,008
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	707	606
Amortization of loan cost	378	—
Deferred income taxes	(3,341)	) 1,748
Interest added to principal of secured loans	(34)	) (46)
Share-based compensation	420	107
Earnings from equity method investment	(79)	) (506)
Changes in assets and liabilities:		
Receivables	(38,643)	) 7,468
Secured loans	8,442	2,361
Secured loans to Former Parent	(1,453)	) (881)
Derivative assets	(5,845)	) (5,759)
Income tax receivable	5,889	864
Inventories	(45,866)	) (48,278)
Prepaid expenses and other current assets	(147)	) 554
Accounts payable	19,076	5,420
Derivative liabilities	37,904	2,033
Liabilities on borrowed metals	(881)	) (5,266)
Accrued liabilities	(3,567)	) 263
Receivable from/payables to Former Parent	203	1,605
Income taxes payable	5,745	—
Net cash used in operating activities	(16,413)	) (30,699)
Cash flows from investing activities:		
Capital expenditures for property and equipment	(944)	) (574)
Purchase of long-term investments	—	) (2,336)
Secured loans, net	(17,390)	) (9,826)
Acquisition of majority-owned subsidiary, net of cash	(3,421)) —
Net cash used in investing activities	(21,755)	) (12,736)
Cash flows from financing activities:		
Product financing arrangements, net	62,108	11,079
Dividends	(984)	) (696)
(Repayments) borrowings under lines of credit, net	(27,000)	) 15,500
Stock award grant	172	—
Net cash provided by financing activities	34,296	25,883
Net decrease in cash and cash equivalents	(3,872)	) (17,552)
Cash and cash equivalents, beginning of period	17,142	20,927
Cash and cash equivalents, end of period	\$ 13,270	\$ 3,375

Supplemental disclosures of cash flow information:

Cash paid during the period for:

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Interest expense	\$ 3,968	\$ 2,393
Income taxes	\$ 365	\$ 113
Non-cash investing and financing activities:		
Interest added to principal of secured loans	\$ 34	\$ 46
Contribution of assets from minority interest	\$ 3,454	\$ —
Payable to minority interest partner for acquired business	\$ 500	\$ —
Earn out obligation payable to minority interest partner	\$ 1,523	\$ —
See accompanying <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. Through its wholly owned subsidiary, A-Mark Trading AG (“AMTAG”), the Company promotes A-Mark bullion products throughout the European continent. Transcontinental Depository Services (“TDS”), also a wholly owned subsidiary of the Company, offers worldwide storage solutions to institutions, dealers and consumers.

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

The Company's majority-owned affiliate, AM&ST Associates, LLC (“AMST”), operates the Company's minting operations in Winchester, Indiana (see Silvertowne Mint Transaction below).

Silvertowne Mint Transaction

On August 31, 2016, the Company formed a joint venture AMST with Silvertowne, L.P. (“Silvertowne”), an Indiana-based producer of minted silver products. The purpose of the joint venture was to acquire the entire minting operations of Silvertowne and continue to manage and grow that business using the expanded resources of the joint venture.

In exchange for their respective membership interests in AMST, (i) Silvertowne contributed a 48.47% interest in Silvertowne's assets to AMST, valued at \$3,453,750, and (ii) A-Mark contributed \$3,721,250 in cash to AMST and agreed to contribute an additional \$500,000 in cash in August 2017, resulting in Silvertowne and the Company owning 45% and 55% of AMST, respectively. Of the cash contributions made at closing, \$3,171,250 was used to purchase the interest in the remaining interest in Silvertowne' contributed assets (see following paragraph), \$250,000 was used to purchase the land and building where AMST's minting operations is located, and \$300,000 was provided for working capital.

Simultaneously with the formation of AMST, under the Asset Purchase Agreement dated August 31, 2016, AMST purchased the remaining 51.53% interest in Silvertowne's assets for an aggregate purchase price of \$3,671,250, of which \$3,171,250 was paid at closing and the balance of \$500,000 was represented by a promissory note, which is due and payable one year following the closing. The real estate was acquired separately from the Asset Purchase agreement. As additional consideration for the acquired assets (the tangible plant assets and identifiable intangible assets), AMST agreed to pay Silvertowne earn-out payments over three years up to \$1.0 million each year based on the achievement of specified performance and production thresholds. The total fair value of the assets contributed (by Silvertowne and A-Mark) and acquired by AMST was \$7,675,000 before contingent future earn-out payments. The Company has measured the fair value of the contingent future earn-out payments based on the weighted average probability of anticipated outcomes, and estimates the potential consideration to be \$1,523,000 as of December 31, 2016.

At the closing, AMST entered into (a) an exclusive distribution agreement with the A-Mark with respect to the silver products produced by the AMST that sets weekly minimum order quantities by A-Mark (see [Note 15](#)), and (b) a supply agreement with Asahi Refining USA, Inc. (“Asahi”) to provide all refined silver products needed by AMST in the conduct of its business (see [Note 15](#)), and grant Asahi the option to purchase a 10% membership interest in AMST through 2019.

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The purchase price (consisting of: \$3,453,750 of assets contributed by Silvertowne, \$3,721,250 of cash and agreement to contribute an additional \$500,000 in cash on August 2017 by the Company, and \$1,523,000 contingent earn-out obligation of AMST) has been allocated to the total assets purchased based on their fair value on the date of acquisition as follows:

Cash	\$300
Plant, property and equipment (tangible assets):	
Plant equipment	1,802
Building	299
Land	36
Intangibles assets (identifiable):	
Trade name	1,800
Existing customer relationships	700
Goodwill:	
Excess of cost over fair value of assets acquired	2,738
	7,675
Goodwill:	
Contingent earn-out consideration	1,523
	\$9,198

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

Spinoff from Spectrum Group International, Inc.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reportable segment for all periods presented.

These condensed consolidated financial statements include the accounts of A-Mark, and its wholly owned subsidiaries, CFC, AMTAG, TDS, Logistics and its majority owned affiliate AMST (collectively the "Company"). All inter-company accounts and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the condensed consolidated balance sheets, condensed consolidated statements of income, condensed consolidated statement of stockholders' equity, and condensed consolidated statements of cash flows for the periods presented in accordance with U.S. GAAP. Operating results for the six months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2017 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, 2016 (the "2016 Annual Report"), as filed with the SEC. Amounts related to disclosure of June 30, 2016 balances

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within these interim condensed consolidated financial statements were derived from the aforementioned audited consolidated financial statements and notes thereto included in the 2016 Annual Report.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the current fiscal year's condensed consolidated financial statement presentation. In the previous reported periods, deferred tax assets and liabilities were classified as current and non-current on the consolidated balance sheets; these items are shown as non-current tax assets and liabilities. As a result of required change in accounting treatment from the cost method to the equity method related to the Company's increased ownership interest in our investment, the earnings from our equity method investment was retrospectively applied to the previous period, as shown in other income and provision for income taxes in the condensed consolidated statements of income.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. These estimates include, among others, determination of fair value, allowances for doubtful accounts, impairment assessments of long-lived assets and intangible assets, valuation allowance 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 inventory. Actual results could materially differ from these estimates.

Concentration of Credit Risk

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

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

Foreign Currency

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

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

Business Combinations

The Company evaluates each purchase transaction to determine whether the acquired assets meet the definition of a business. The Company accounts for business combinations by applying the acquisition method in accordance with Accounting Standards Codification ("ASC") 805, Business Combinations. Transaction costs related to the acquisition of a business are expensed as incurred and excluded from the fair value of consideration transferred. The identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity are recognized and measured at their estimated fair values. The excess of the fair value of consideration transferred over the fair values of

identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity, net of fair value of any previously held interest in the acquired entity, is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets and liabilities. Contingent consideration is classified as a liability or equity, as applicable. Contingent consideration in connection with the acquisition of a business is measured at fair value on acquisition date, and unless classified as equity, is remeasured at fair value each reporting period thereafter until the consideration is settled, with changes in fair value included in net income.

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

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. The Company does not have any cash equivalents as of December 31, 2016 and June 30, 2016.

Inventories

Inventories principally include bullion and bullion coins that are acquired and initially recorded at fair market value. The fair market value of the bullion and bullion coins is comprised of two components: (1) published market values attributable to the costs of the raw precious metal, and (2) a published premium paid at acquisition of the metal. The premium is attributable to the additional value of the product in its finished goods form and the market value attributable solely to the premium may be readily determined, as it is published by multiple reputable sources. The Company's inventories, except for certain lower of cost or market basis products (as discussed below), are subsequently recorded at their fair market values, that is, "marked-to-market". The daily changes in the fair market value of our inventory are offset by daily changes in the fair market value of hedging derivatives that are taken with respect to our inventory positions; both the change in the fair market value of the inventory and the change in the fair market value of these derivative instruments are recorded in cost of sales in the condensed consolidated statements of income.

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

Plant, Property and Equipment and Depreciation

Plant, property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using a straight line method based on the estimated useful lives of the related assets, ranging from three years to twenty-five years. Property and equipment not placed in service, which includes capitalized software and leasehold improvement costs, are not depreciated until the related assets are placed in service. Land is recorded at historical cost, and is not depreciated.

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, 2016 and June 30, 2016, the Company has not identified any 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.

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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, 2016 and June 30, 2016, management concluded that no impairment adjustments were required.

Amortizable intangible assets are being amortized on a straight-line basis which approximates economic use, over periods ranging from three 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-Term Investments

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

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

We evaluate our long-term investments for impairment quarterly or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. As of December 31, 2016 and June 30, 2016, the Company did not identify any impairments.

Fair Value Measurement

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

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 generally 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 income on its secured loans transactions. For these arrangements, the Company maintains a security interest in the precious metals and records interest income over the terms of the secured loan receivable. Recognition of interest income is suspended and the loan is placed on non-accrual status when management determines that collection of future interest income is not probable. The interest income accrual is 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 principal and then to any unrecognized interest income (see [Note 5](#).)

Also, the Company enters into financing agreements, whereby the Company agrees to deliver products at the prevailing spot price plus a premium, and then acquires the products back from the customer at the prevailing spot price, thereby earning a fee (recorded as interest income) based on a calculated premium over the spot price, resulting in an open sales commitment to deliver products at the agreed upon date and price.

Interest Expense

The Company incurs interest expense based on usage under its lines of credit 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 with a third party finance company. During the term of this type of financing agreement, a third party company finances the designated inventory, 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. The third party charges a monthly fee as a percentage of the market value of the outstanding obligation. In addition, the Company incurs a financing fee for custodial storage facility charges related to the transferred collateral inventory; this collateral is classified as restricted inventory on our condensed consolidated balance sheets.

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 a liability on borrowed metals.

Derivative Instruments

The Company's inventory, and purchase and sale commitment transactions consist of precious metals products. The value of our inventory and these commitments are linked to the prevailing price of the underlying precious metal commodity. The Company seeks to minimize the effect of price changes of the underlying commodity and enters into inventory hedging transactions, principally utilizing metals commodity futures contracts traded on national futures exchanges or forward contracts with only 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.

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 derivative assets or derivative liabilities in the condensed consolidated balance sheets at fair value.

The Company records the change between fair value and trade value of the underlying open commodity contracts as a derivative asset or liability, and the Company 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 statements of income.

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The Company enters into 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 expense was \$199,000 and \$153,000, respectively, for the three months ended December 31, 2016 and 2015. Advertising expense was \$366,000 and \$326,000, respectively, for the six months ended December 31, 2016 and 2015.

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 \$1.2 million and \$1.8 million, respectively, for the three months ended December 31, 2016 and 2015. Shipping and handling costs incurred totaled \$2.3 million and \$4.1 million, respectively, for the six months ended December 31, 2016 and 2015.

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.

Income Taxes

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

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

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements.

Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in

income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the net deferred tax assets will not be realized. The factors used to assess the likelihood of realization include the Company's forecast of the reversal of temporary differences, future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

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

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to income. Changes in recognized tax benefits and changes in valuation allowances could be material to the Company's results of operations for any period, but is not expected to be material to the Company's condensed consolidated financial position.

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

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

Income taxes receivable from Former Parent reflects the balance due from the Former Parent pursuant to a tax sharing agreement between the parties.

Earnings per Share ("EPS")

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

A reconciliation of shares used in calculating basic and diluted earnings per common shares for the three and six months ended December 31, 2016 and 2015.

in
thousands

	Three Months Ended		Six Months Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Basic weighted average shares outstanding	7,023	6,974	7,027	6,974
Effect of common stock equivalents — stock issuable under outstanding equity awards	86	145	86	116
Diluted weighted average	7,109	7,119	7,113	7,090

shares
outstanding

Recent Accounting Pronouncements Not Yet Adopted

In August 2016 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This new standard will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. This update is effective for the Company, on July 1, 2018 (for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years). The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case we would be required to apply the amendments prospectively as of the earliest date practicable. We are currently evaluating the impact of our pending adoption of ASU 2016-15 on our consolidated financial position, results of operations or cash flows and related disclosures.

In March 2016, FASB issued ASU No. 2016-09, ("ASU 2016-09"), Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update simplify several aspects of the accounting for share-based payment award transactions including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This update is effective for the Company, on July 1, 2017. We are evaluating the new guidelines to see if they will have a significant impact on our consolidated financial position, results of operations or cash flows and related disclosures.

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

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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. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”). The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”). The amendments in ASU 2016-10 clarify aspects relating to the identification of performance obligations and improve the operability and understandability of the licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in ASU 2016-12 address certain issues identified on assessing collectability, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications at transition. For all of the ASUs noted above, the effective date for Company is July 1, 2018 (for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years) for annual and interim reporting periods. Either the retrospective or cumulative effect transition method is permitted. We have begun categorizing our various contract revenue streams in order to isolate those that will be significantly impacted. Once we have identified the impacted revenue streams, we can begin estimating the potential impact of the new standard as well as identify necessary control and process changes.

3. ASSETS AND LIABILITIES, AT FAIR VALUE

Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company’s financial instruments as of December 31, 2016 and June 30, 2016.

in thousands

	December 31, 2016		June 30, 2016	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets:				
Cash	\$ 13,270	\$ 13,270	\$ 17,142	\$ 17,142
Receivables, net	81,945	81,945	43,302	43,302
Secured loans receivable	80,939	80,939	70,504	70,504
Derivative assets - open sale and purchase commitments, net	3,184	3,184	32,347	32,347
Derivative assets - futures contracts	19,531	19,531	—	—
Derivative assets - forward contracts	16,862	16,862	1,385	1,385
Income taxes receivables	1,429	1,429	7,318	7,318
Income taxes receivable from Former Parent	—	—	203	203
Financial liabilities:				
Lines of credit	\$ 185,000	\$ 185,000	\$ 212,000	\$ 212,000
Liability on borrowed metals	3,471	3,471	4,352	4,352
Product financing arrangements	121,466	121,466	59,358	59,358
Derivative liabilities - liability on margin accounts	5,415	5,415	8,182	8,182
Derivative liabilities - open sale and purchase commitments, net	68,434	68,434	1,919	1,919
Derivative liabilities - futures contracts	470	470	13,914	13,914
Derivative liabilities - forward contracts	39	39	12,439	12,439
Accounts payable	65,845	65,845	46,769	46,769
Accrued liabilities	4,499	4,499	7,660	7,660

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Income taxes payable	5,745	5,745	—	—
Note payable - related party	500	500	—	—

The fair values of the financial instruments shown in the above table as of December 31, 2016 and June 30, 2016 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.

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Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk adjusted discount rates, and available observable and unobservable inputs.

The carrying amounts of cash, secured loans receivable, accounts receivable, income taxes receivable, accounts payable, income tax payable, note payable, and accrued liabilities approximated fair value due to their short-term nature. The carrying amounts of derivative assets and derivative liabilities are marked-to-market on a daily basis to fair value. 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 to determine the carrying value and the related fair value of the financial instruments are described below:

Inventory. Inventories principally include bullion and bullion coins 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 is readily determined, as it is published by multiple reputable sources. Except for commemorative coin inventory, which are included in inventory at the lower of cost or market, the Company's inventories are subsequently recorded at their fair market values on a daily basis. The fair value for commodities inventory (i.e., inventory excluding commemorative coins) is determined using pricing data derived from the markets on which the underlying commodities are traded. Precious metals commodities inventory are classified in Level 1 of the valuation hierarchy.

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

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

Product Financing Arrangements. Product financing arrangements consist of financing agreements for the transfer and subsequent re-acquisition of the sale of gold and silver at a fixed price with 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 arrangements 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, 2016 and June 30, 2016 aggregated by the level in the fair value hierarchy within which the measurements fall:

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	December 31, 2016			
	Quoted Price in			
	Active Markets	Significant Other	Significant	
	for Identical Instrument			
	Inputs (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Total
in thousands				
Assets:				
Inventory ⁽¹⁾	\$290,889	\$	—\$	—\$290,889
Derivative assets — open sale and purchase commitments, net	3,184	—	—	3,184
Derivative assets — futures contracts	19,531	—	—	19,531
Derivative assets — forward contracts	16,862	—	—	16,862
Total assets, valued at fair value	\$330,466	\$	—\$	—\$330,466
Liabilities:				
Liability on borrowed metals	\$3,471	\$	—\$	—\$3,471
Product financing arrangements	121,466	—	—	121,466
Derivative liabilities — liability on margin accounts	5,415	—	—	5,415
Derivative liabilities — open sale and purchase commitments, net	68,434	—	—	68,434
Derivative liabilities — future contracts	470	—	—	470
Derivative liabilities — forward contracts	39	—	—	39
Total liabilities, valued at fair value	\$199,295	\$	—\$	—\$199,295

⁽¹⁾ Commemorative coin inventory totaling \$34,000 is held at lower of cost or market and is thus excluded from this table.

	June 30, 2016			
	Quoted Price in			
	Active Markets	Significant Other	Significant	
	for Identical Instrument			
	Inputs (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Total
in thousands				
Assets:				
Inventory ⁽¹⁾	\$245,041	\$	—\$	—\$245,041
Derivative assets — open sale and purchase commitments, net	32,347	—	—	32,347
Derivative assets — forward contracts	1,385	—	—	1,385
Total assets, valued at fair value	\$278,773	\$	—\$	—\$278,773
Liabilities:				
Liability on borrowed metals	\$4,352	\$	—\$	—\$4,352
Product financing arrangements	59,358	—	—	59,358
Derivative liabilities — liability on margin accounts	8,182	—	—	8,182
Derivative liabilities — open sale and purchase commitments, net	1,919	—	—	1,919
Derivative liabilities — futures contracts	13,914	—	—	13,914
Derivative liabilities — forward contracts	12,439	—	—	12,439
Total liabilities, valued at fair value	\$100,164	\$	—\$	—\$100,164

⁽¹⁾ Commemorative coin inventory totaling \$16,000 is held at lower of cost or market and is thus excluded from this table.

There were no transfers in or out of Level 2 or 3 during the reported periods.

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

The Company uses level-three inputs to measure the fair value of its investments on a non-recurring basis. The Company's two investments in noncontrolled entities do not have readily determinable fair values. Quoted prices of the investments are not available, and the cost of obtaining an independent valuation appears excessive considering the carrying value of the instruments to the Company. As of December 31, 2016 and June 30, 2016, the carrying value of the Company's investments totaled \$8.0 million and \$7.9 million, respectively. During the three and six months ended December 31, 2016, the Company did not record any impairments related to these investments.

The Company uses level-three inputs to measure the fair value of goodwill and other intangibles on a non-recurring basis. These assets are measured at cost and are written down to fair value on the annual measurement dates or on the date of a triggering event, if impaired. As of December 31, 2016, 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 and six months ended December 31, 2016.

4. RECEIVABLES

Receivables consist of the following as of December 31, 2016 and June 30, 2016:

in thousands

	December 31, 2016	June 30, 2016
Customer trade receivables	\$ 3,475	\$4,001
Wholesale trade advances	74,044	11,860
Due from brokers	4,456	27,471
Subtotal	81,975	43,332
Less: allowance for doubtful accounts	(30)	(30)
Receivables, net	\$ 81,945	\$43,302

Customer Trade Receivables. 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, or other secured interests in assets of the customer.

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

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

Allowance for Doubtful Accounts

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

Period ended:	Beginning Balance	Provision	Charge-off	Ending Balance
Six Months Ended December 31, 2016	\$ 30	\$ —	—	\$ 30
Year Ended June 30, 2015	\$ 30	\$ —	—	\$ 30

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5. SECURED LOANS RECEIVABLE

Below is a summary of the carrying-value of our secured loans as of December 31, 2016 and June 30, 2016: in thousands

	December 31, 2016	June 30, 2016
Secured loans originated	\$ 28,933	\$36,280
Secured loans originated - with a related party	2,823	1,370
	31,756	37,650
Secured loans acquired	49,183	(1) 32,854 (2)
Secured loans (current and long-term)	\$ 80,939	\$70,504

(1) Includes \$72,000 of amortized loan premium as of December 31, 2016.

(2) Includes \$86,000 of amortized loan premium as of June 30, 2016.

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

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

As of December 31, 2016 and June 30, 2016, our secured loans carried weighted-average effective interest rates of 9.0% and 8.7%, respectively, and mature in periods generally ranging from on-demand to two years.

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

Credit Quality of Secured Loans Receivables and Allowance for Credit Losses

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

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The Company evaluates its loan portfolio in one of three classes of secured loan 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, 2016		June 30, 2016	
Bullion	\$51,850	64.1 %	\$35,168	49.9 %
Numismatic and semi numismatic	29,089	35.9	34,636	49.1
Subtotal	80,939	100.0	69,804	99.0
Other pledged assets ⁽¹⁾	—	—	700	1.0
Total secured loans	\$80,939	100.0%	\$70,504	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 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, 2016		June 30, 2016	
Loan-to-value of 75% or more ⁽¹⁾	\$43,638	53.9 %	\$10,231	14.7 %
Loan-to-value of less than 75% ⁽¹⁾	37,301	46.1	59,573	85.3
Secured loans collateralized by precious metal products ⁽¹⁾	\$80,939	100.0%	\$69,804	100.0%

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

The Company had no loans with a loan-to-value ratio in excess of 100% at December 31, 2016. At June 30, 2016, the Company had no loans with a loan-to-value ratio in excess of 100%.

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 quality of this type of loan. For this type of loan, the Company uses 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

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previously suspended interest income is recognized, when the loan becomes contractually current and/or collection doubts are removed. Cash receipts on impaired loans are recorded first against the receivable and then to any unrecognized interest income.

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

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

6. INVENTORIES

Our inventory consists of the precious metals that the Company has physically received, and inventory held by third-parties, which, at the Company's option, it may or may not receive. Below, our inventory is summarized by classification at December 31, 2016 and June 30, 2016:

in thousands

	December 31, June 30,	
	2016	2016
Inventory held for sale	\$ 69,054	\$81,006
Repurchase arrangements with customers	91,034	92,283
Consignment arrangements with customers	5,864	8,042
Commemorative coins, held at lower of cost or market	34	16
Borrowed precious metals from suppliers	3,471	4,352
Product financing arrangement, restricted	121,466	59,358
	\$ 290,923	\$245,057

Inventory Held for Sale. Inventory held for sale represents precious metals, excluding commemorative coin inventory, that have been received by the Company that is not subject to repurchase or consignment arrangements with third parties. As of December 31, 2016 and June 30, 2016, the inventory held for sale totaled \$69.1 million and \$81.0 million, respectively.

Repurchase Arrangements with Customers. The Company enters into arrangements with certain customers under which A-Mark purchases precious metals products that are subject to repurchase by the customer at the fair value of the product on the repurchase date, whereby the Company retains legal title to the metals. The Company or the counterparty may typically terminate any such arrangement with 14 days' notice. Upon termination the customer's rights to repurchase any remaining inventory is forfeited. As of December 31, 2016 and June 30, 2016, included within inventory is \$91.0 million and \$92.3 million, respectively, of precious metals products subject to repurchase.

Consignment Arrangements with Customers. The Company periodically loans metals to customers on a short-term consignment basis, charging interest fees based on the value of the metal loaned. Inventories loaned under consignment arrangements to customers as of December 31, 2016 and June 30, 2016 totaled \$5.9 million and \$8.0 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.

Commemorative Coins. Our commemorative coin inventory, including its premium component, is held at the lower of cost or market, because the value of commemorative coins is influenced more by supply and demand determinants than on the underlying spot price of the precious metal content of the commemorative coins. Unlike our bullion coins, the value of commemorative coins is not subject to the same level of volatility as bullion coins because our commemorative coins typically carry a substantially higher premium over the spot metal price than bullion coins. Our commemorative coins are not hedged, are included in inventory at the lower of cost or market and totaled \$34,000 and \$16,000 as of December 31, 2016 and June 30, 2016, respectively.

Borrowed Precious Metals from Suppliers. Inventories include amounts borrowed from suppliers under arrangements to purchase precious metals on an unallocated basis that are held by the supplier, whereby the supplier retains legal title to the metals. 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 \$3.5 million and \$4.4 million as of December 31, 2016 and June 30, 2016, respectively.

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Product Financing Arrangements. Inventories include amounts for obligations under product financing arrangements. The Company enters into a product financing agreement for the transfer and subsequent re-acquisition of gold and silver at a fixed price with a third party finance company. This inventory is restricted and is held at a custodial storage facility in exchange for a financing fee, by the third party finance company. During the term of the financing, the third party finance company finances the inventory as collateral, and both parties intend for the inventory to be returned the Company at an agreed-upon price based on the spot price on the finance arrangement termination date. 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. Pursuant to the guidance in ASC 470-40 Product Financing Arrangements, these transactions do not qualify as sales and therefore have been accounted for as financing arrangements and reflected in the condensed consolidated balance sheets within product financing arrangements. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing and the underlying inventory are carried at fair value, with changes in fair value included in cost of sales in the condensed consolidated statements of income. Such obligation totaled \$121.5 million and \$59.4 million as of December 31, 2016 and June 30, 2016, respectively.

The Company mitigates market risk of its physical inventories and open commitments through commodity hedge transactions (see Note 11.) As of December 31, 2016 and June 30, 2016, the unrealized gains (losses) resulting from the difference between market value and cost of physical inventories were \$(8.4) million and \$12.7 million, respectively.

Premium component of inventory

The Company's inventories primarily include bullion and bullion coins and are acquired and initially recorded at fair market value. The fair market value of the bullion and bullion coins is comprised of two components: (1) published market values attributable to the cost of the raw precious metal, and (2) a published premium paid at acquisition of the metal. The premium is attributable to the additional value of the product in its finished goods form and the market value attributable solely to the premium is readily determined, as it is published by multiple reputable sources. The premium is included in the cost of the inventory, paid at acquisition, and is a component of the total fair market value of the inventory. The precious metal component of the inventory may be hedged through the use of precious metal commodity positions, while the premium component of our inventory is not a commodity that may be hedged.

The Company's inventories are subsequently recorded at their fair market values, that is, "marked-to-market", except for our commemorative coin inventory. The daily changes in the fair market value of our inventory are offset by daily changes in fair market value of hedging derivatives that are taken with respects to our inventory positions; both the change in the fair market value of the inventory and the change in the fair market value of these derivative instruments are recorded in cost of sales in the condensed consolidated statements of income.

The premium component, at market value, included in the inventories as of December 31, 2016 and June 30, 2016 totaled \$5.7 million and \$4.6 million, respectively.

7. PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consists of the following at December 31, 2016 and June 30, 2016:

in

thousands

	December 31,	June 30,
	2016	2016

Office

furniture, and	\$ 1,378	\$ 1,107
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fixtures

Computer equipment	415	407
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Computer software	2,386	2,386
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	1,919	—
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Plant equipment	
Buildings	—
Leasehold improvements	1,661
Total depreciable assets	5,561
Less: accumulated depreciation	(3,043)
Property and equipment not placed in service	964
Land	—
Plant, property and equipment, net	\$3,482

Depreciation expense for the three months ended December 31, 2016 and 2015 was \$275,000 and \$209,000, respectively. Depreciation expense for the six months ended December 31, 2016 and 2015 was \$500,000 and \$415,000, respectively.

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8. 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 2012, SGI purchased from Auctentia its 20% interest in Spectrum PMI. In September 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.

Due to the Company's business combination with AMST that closed on August 31, 2016 (see Note 1) the Company recorded an additional \$2.5 million and \$4.3 million of identifiable intangible assets and goodwill, respectively. The Company's investment in AMST is expected to create synergies between the acquired minting operation and the Company's established distribution network by providing a more steady and reliable fabricated source of silver during times of market volatility. The Company considers that much of the acquired goodwill relates to the "ready state" of AMST's established minting operation with existing quality processes, procedures and ability to scale production to meet market needs.

The carrying value of goodwill and other purchased intangibles as of December 31, 2016 and June 30, 2016 is as described below:

dollar amounts in thousands

	Estimated Useful Lives (Years)	December 31, 2016			June 30, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Identifiable intangible Assets:							
Existing customer relationships	5 - 15	6,447	(4,421)	2,026	5,747	(4,214)	1,533
Non-compete and other Employment agreement	4 3	2,000 195	(2,000) (195)	— —	2,000 195	(2,000) (195)	— —
Intangibles subject to amortization		8,642	(6,616)	2,026	7,942	(6,409)	1,533
Trade Name	Indefinite	\$2,254	\$ —	\$2,254	\$454	\$ —	\$454
		\$10,896	\$ (6,616)	\$4,280	\$8,396	\$ (6,409)	\$1,987
Goodwill	Indefinite	\$8,881	\$ —	\$8,881	\$4,620	\$ —	\$4,620

The Company's intangible assets are subject to amortization except for trade-names, which have an indefinite life. Intangible assets subject to amortization are amortized using the straight-line method over their useful lives, which are estimated to be three to fifteen years. Amortization expense related to the Company's intangible assets for the three months ended December 31, 2016 and 2015 was \$111,000 and \$95,000, respectively. Amortization expense related to the Company's intangible assets for the six months ended December 31, 2016 and 2015 was \$207,000 and \$191,000, respectively.

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

Fiscal year ending June 30,	Amount
2017 (six months remaining)	\$ 236
2018	455
2019	455
2020	448

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2021	70
Thereafter	362
Total	\$ 2,026

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

in thousands

	December 31, June 30,	
	2016	2016
Equity method investment	\$ 7,452	\$ 7,373
Cost method investment	500	500
	\$ 7,952	\$ 7,873

Equity Method Investment

The Company applies the equity method of accounting for its investment in which it has aggregate ownership interest of 20.0%. Under the equity method of accounting, the Company is required to record its proportional interest in the investee's reported net income or loss for each reporting period, and is required to present its prior period financial results to reflect the equity method of accounting from the date of its initial investment in the investee.

The Company's proportionate share of the investee's net income totaled \$93,000 and \$94,000 for the three months ended December 31, 2016 and 2015, respectively. The Company proportionate share of the investee's net income totaled \$79,000 and \$506,000 for the six months ended December 31, 2016 and 2015, respectively. The Company's share of these earnings is shown as "other income" on the condensed consolidated statements of income.

Cost Method Investment

As of December 31, 2016 and June 30, 2016, the Company's ownership percentage, based on the number of fully dilutive common shares outstanding, was 2.5%, and the aggregate carrying balance of this investment was \$0.5 million.

10. ACCOUNTS PAYABLE

Accounts payable consists of the following:

in thousands

	December 31, June 30,	
	2016	2016
Trade payable to customers	\$ 5,471	\$ 603
Advances from customers	45,850	36,369
Liability on deferred revenue	4,086	6,546
Due to brokers	7,866	1,250
Other accounts payable	2,572	2,001
	\$ 65,845	\$ 46,769

11. DERIVATIVE INSTRUMENTS AND HEDGING TRANSACTIONS

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

Commodity Price Management

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

The Company enters into derivative transactions solely for the purpose of hedging its inventory subject to price risk, and not for speculative market purposes. Due to the nature of the Company's global hedging strategy, the Company is not using hedge accounting as defined under Topic 815 of the ASC, whereby the gains or losses would be deferred and included as a component of other

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comprehensive income. Instead, gains or losses resulting from the Company's futures and forward contracts and open sale and purchase commitments are reported as unrealized gains or losses on commodity contracts (a component of cost of sales) with the related unrealized amounts due from or to counterparties reflected as a derivative asset or liability on the condensed consolidated balance sheets.

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

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

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

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

Derivative Assets and Liabilities

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

All of our commodity derivative contracts are under master netting arrangements and include both asset and liability positions (i.e., offsetting derivative instruments). Substantially all of these transactions are secured by the underlying metals positions. As such, the Company's derivative contracts with the same counterparty, the receivables and payables have been netted on the condensed consolidated balance sheets. Such derivative contracts include open sale and purchase commitments, futures, forwards and margin accounts. In the table below, the aggregate gross and net derivative receivables and payables balances are presented by contract type and type of hedge, as of December 31, 2016 and June 30, 2016.

	December 31, 2016				June 30, 2016			
in thousands	Gross Derivative	Amounts Netted	Cash Collateral Pledge	Net Derivative	Gross Derivative	Amounts Netted	Cash Collateral Pledge	Net Derivative
Nettable derivative assets:								
Open sale and purchase commitments	\$4,787	\$(1,603)	\$ —	\$ 3,184	\$37,378	\$(5,031)	\$ —	\$ 32,347
Future contracts	11,665	—	7,866	19,531	—	—	—	—
Forward contracts	17,307	(445)	—	16,862	1,385	—	—	1,385

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	\$33,759	\$(2,048)	\$7,866	\$39,577	\$38,763	\$(5,031)	\$—	\$33,732
Nettable derivative liabilities:								
Open sale and purchase commitments	\$69,692	\$(1,258)	\$—	\$68,434	\$2,938	\$(1,019)	\$—	\$1,919
Margin accounts	9,971	—	(4,556)	5,415	12,439	—	(4,257)	8,182
Future contracts	(3,986)	) —	4,456	470	13,914	—	—	13,914
Forward contracts	39	—	—	39	14,579	(2,140)) —	12,439
	\$75,716	\$(1,258)	\$(100)	\$74,358	\$43,870	\$(3,159)	\$(4,257)	\$36,454

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Gains or Losses on Derivative Instruments

The Company records the derivative at the trade date with a corresponding unrealized gain (loss), 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 consolidated statements of income. Below, is a summary of the net gains (losses) on derivative instruments for the three and six months ended December 31, 2016 and 2015.

in thousands

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2016	2015	2016	2015
Gains (losses) on derivative instruments:				
Unrealized (losses) gains on open future commodity and forward contracts and open sale and purchase commitments, net	\$(52,983)	\$ (596)	\$(34,833)	\$ 3,220
Realized gains (losses) on future commodity contracts, net	30,083	3,197	15,824	13,788
	\$(22,900)	\$ 2,601	\$(19,009)	\$ 17,008

Summary of Hedging Activity

In a hedging relationship, the change in the value of the derivative financial instrument is offset to a great extent by the change in the value of the underlying hedged item. The following table summarizes the results of our hedging activities, which shows the precious metal commodity inventory position, net of open sale and purchase commitments, that is subject to price risk as of December 31, 2016 and at June 30, 2016.

in thousands

	December 31, June 30,	
	2016	2016
Inventory	\$ 290,923	\$ 245,057
Less unhedgable inventory:		
Commemorative coin inventory, held at lower of cost or market	(34)	(16)
Premium on metals position	(5,718)	(4,627)
Inventory value not hedged	(5,752)	(4,643)
Subtotal	285,171	240,414
Commitments at market:		
Open inventory purchase commitments	654,274	550,810
Open inventory sales commitments	(254,251)	(237,325)
Margin sale commitments	(9,971)	(12,439)
In-transit inventory no longer subject to market risk	(5,079)	(7,363)
Unhedgable premiums on open commitment positions	2,972	400
Inventory borrowed from suppliers	(3,471)	(4,352)
Product financing arrangements	(121,466)	(59,358)
Advances on industrial metals	2,680	4,521
Inventory subject to price risk	550,859	475,308
Inventory subject to derivative financial instruments:		
Precious metals forward contracts at market values	371,612	188,530
Precious metals futures contracts at market values	178,463	286,449
Total market value of derivative financial instruments	550,075	474,979
Net inventory subject to commodity price risk	\$ 784	\$ 329

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Notional Balances of Derivatives

The notional balances of the Company's derivative instruments, consisting of contractual metal quantities, are expressed at current spot prices of the underlying precious metal commodity. As of December 31, 2016 and June 30, 2016, the Company had the following outstanding commitments and open forward and future contracts:

in thousands

	December 31, June 30,	
	2016	2016
Purchase commitments	\$ 654,274	\$ 550,810
Sales commitments	(254,251)	(237,325)
Margin sales commitments	(9,971)	(12,439)
Open forward contracts	371,612	188,530
Open futures contracts	178,463	286,449

The contract amounts (i.e., notional balances) of the Company's forward and futures contracts and the open sales and purchase orders are properly not reflected in the accompanying condensed consolidated balance sheet, the Company records the difference between the market price of the underlying metal or contract and the trade amount at fair value. The Company is exposed to the risk of failure of the counterparties to its derivative contracts. Significant judgment is applied by the Company when evaluating the fair value implications. The Company regularly reviews the creditworthiness of its major counterparties and monitors its exposure to concentrations. At December 31, 2016, the Company believes its risk of counterparty default is mitigated as a result of such evaluation and the short-term duration of these arrangements.

Foreign Currency Exchange Rate Management

The Company utilizes foreign currency forward contracts to manage the effect of foreign currency exchange fluctuations of its sale and purchase transactions. These contracts generally have maturities of less than one week. The accounting treatment of our foreign currency exchange derivative instruments is similar to the accounting treatment of our commodity derivative instruments, that is, the change in the value in the financial instrument is immediately recognized as a component of cost of sales. Unrealized (losses) gains on foreign exchange derivative instruments shown on the face of the condensed consolidated statements of income totaled \$(3,000) and \$150,000 for the three months ended December 31, 2016 and 2015, respectively. Unrealized (losses) gains on foreign exchange derivative instruments shown on the face of the condensed consolidated statements of income totaled \$(9,000) and \$111,000 for the six months ended December 31, 2016 and 2015, respectively. The market values (fair values) of the Company's foreign exchange forward contracts and the net open sale and purchase commitment transactions, denominated in foreign currencies, outstanding at December 31, 2016 was \$2.1 million and \$5.2 million, respectively. The market values (fair values) of the Company's foreign exchange forward contracts and the net open sale and purchase commitment transactions, denominated in foreign currencies, outstanding at June 30, 2016 was \$2.0 million and \$4.4 million, respectively.

12. INCOME TAXES

The Company files a consolidated federal income tax return based on a June 30th tax year end. The provision for income taxes for the three and six months ended December 31, 2016 and 2015 consists of the following:

in thousands

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Provision for income taxes	\$ 1,590	\$ 863	\$ 2,649	\$ 4,332

The effective tax rate for the three and six months ended December 31, 2016 and 2015 is as follows:

in thousands

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015

Effective tax rate 36.7% 38.3 % 36.1% 38.2 %

Transition of Tax Filing Obligation Due to the Spinoff

The Company files income tax returns in the U.S., various states and Austria. Prior to the Distribution, the Company was included in the consolidated federal and state tax filings of the Former Parent. In connection with the spinoff, the Company entered

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into a tax separation agreement with the Former Parent (the "Tax Separation Agreement"). The Tax Separation Agreement governs the respective rights, responsibilities and obligations of the Former Parent and the Company 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, the Former Parent 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 includes A-Mark and its subsidiaries.

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 during the period prior to the Distribution rather than a member of the Former Parent's consolidated income tax return group. Current income tax receivable due from the Former Parent reflects balances due to A-Mark for its share of the income tax assets of the group.

As of December 31, 2016 and June 30, 2016, the amount receivable under the Company's income tax sharing obligation due from Former Parent totaled \$0.0 million, and \$0.2 million, respectively, and is shown on the face of the condensed consolidated balance sheets as income taxes receivable from Former Parent.

Tax Balances and Activity

The tax returns filed by the Company since the spinoff have been prepared on a basis consistent with past practices.

As of December 31, 2016 and June 30, 2016, the income tax receivable totaled \$1.4 million and \$7.3 million, respectively. As of December 31, 2016 and June 30, 2016, the income tax payable total of \$5.7 million and \$0.0 million, respectively; the change was primarily due to the movement of the Company's taxable temporary differences. As of December 31, 2016 and June 30, 2016, the deferred tax assets (non-current) totaled \$0.5 million and \$0.4 million, respectively, and the deferred tax liabilities (non-current) totaled \$3.9 million and \$7.2 million, respectively.

Net Operating Loss Carryforwards and Valuation Allowances

As of December 31, 2016 and June 30, 2016, the Company's state net operating loss carryforwards totaled approximately \$13.5 million and \$16.6 million, respectively. The Company's tax-effected state and city net operating loss carryforwards totaled, as of December 31, 2016 and June 30, 2016, \$1.2 million and \$0.9 million, respectively. These net operating loss carryforwards start to expire in the year ending June 30, 2030. As of December 31, 2016 and June 30, 2016, the Company had \$44,000 and \$44,000, respectively, of valuation allowance for certain state and city net operating loss carryforwards, based on the Company's annual assessment of the realizability of its deferred tax assets.

Unrecognized Tax Benefits

For six months ended December 31, 2016 there was no material movement in the Company's unrecognized tax benefits, including interest and penalties. Additionally, the Company does not expect a material change to its unrecognized tax benefits in the next 12 months.

Tax Examinations

On August 22, 2016, the Internal Revenue Service notified the Company that it has commenced an examination of the Company's tax return for the year ended June 30, 2015. The Company is unable to determine the outcome of the exam at this time.

13. RELATED PARTY TRANSACTIONS**Sales and Purchases Made to Affiliated Companies**

During the three and six months ended December 31, 2016 and 2015, the Company made sales and purchases to various companies, which have been deemed to be related parties.

in thousands

Three Months Ended		Six Months Ended	
December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Sales	Purchases	Sales	Purchases
		Sales	Purchases

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Former Parent	\$ 14,999	\$ 12,137	\$ 8,418	\$ 3,564	\$ 21,667	\$ 23,336	\$ 18,900	\$ 30,568
Equity method investee	137,460	408	157,087	1,114	266,536	497	403,956	4,425
Silvertowne	12,030	130	582	13,589	18,819	2,742	3,691	24,572
	\$ 164,489	\$ 12,675	\$ 166,087	\$ 18,				