

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 September 30, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36347



A-MARK PRECIOUS METALS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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

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

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|--------------------------------|--|
| 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, smaller reporting company, or an emerging growth company in Rule 12b-2 of the Exchange Act.

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

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

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

As of November 4, 2019, the registrant had 7,031,450 shares of common stock outstanding, par value \$0.01 per share.

A-MARK PRECIOUS METALS, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q
For the Three Months Ended September 30, 2019

TABLE OF CONTENTS

| | Page |
|---|--------------------|
| PART I | |
| Item 1. Condensed Consolidated Financial Statements | 3 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 46 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 69 |
| Item 4. Controls and Procedures | 70 |
| PART II | |
| Item 1. Legal Proceedings | 70 |
| Item 1A. Risk Factors | 70 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 79 |
| Item 3. Defaults upon Senior Securities | 79 |
| Item 4. Mine Safety Disclosures | 79 |
| Item 5. Other Information | 80 |
| Item 6. Exhibits | 80 |
| Signatures | 81 |

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Index to the Condensed Consolidated Financial Statements and Notes thereof

| | <u>Page</u> |
|--|--------------------|
| Condensed Consolidated Balance Sheets as of September 30, 2019 and June 30, 2019 | 4 |
| Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2019 and 2018 | 6 |
| Condensed Consolidated Statement of Stockholders' Equity for the Three Months Ended September 30, 2019 | 7 |
| Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2019 and 2018 | 8 |
| Notes to Consolidated Financial Statements | 9 |
| Note 1. Description of Business | 9 |
| Note 2. Summary of Significant Accounting Policies | 10 |
| Note 3. Assets and Liabilities, at Fair Value | 20 |
| Note 4. Receivables | 24 |
| Note 5. Secured Loans Receivable | 24 |
| Note 6. Inventories | 26 |
| Note 7. Plant, Property and Equipment | 28 |
| Note 8. Goodwill and Intangible Assets | 28 |
| Note 9. Long-Term Investments | 29 |
| Note 10. Accounts Payable | 30 |
| Note 11. Derivative Instruments and Hedging Transactions | 30 |
| Note 12. Income Taxes | 33 |
| Note 13. Related Party Transactions | 35 |
| Note 14. Financing Agreements | 36 |
| Note 15. Commitments and Contingencies | 39 |
| Note 16. Stockholders' Equity | 39 |
| Note 17. Customer and Supplier Concentrations | 41 |
| Note 18. Segments and Geographic Information | 42 |
| Note 19. Subsequent Events | 45 |

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

| | September 30, 2019 | June 30, 2019 |
|--|-----------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash ⁽¹⁾ | \$ 12,461 | \$ 8,320 |
| Receivables, net ⁽¹⁾ | 23,643 | 26,895 |
| Derivative assets | 19,546 | 2,428 |
| Secured loans receivable ⁽¹⁾ | 150,473 | 125,298 |
| Precious metals held under financing arrangements | 200,809 | 208,792 |
| Inventories: | | |
| Inventories ⁽¹⁾ | 213,068 | 198,356 |
| Restricted inventories | 159,130 | 94,505 |
| | 372,198 | 292,861 |
| Income taxes receivable | 1,500 | 1,473 |
| Prepaid expenses and other assets ⁽¹⁾ | 2,605 | 2,783 |
| Total current assets | 783,235 | 668,850 |
| Operating lease right of use assets, net | 5,066 | — |
| Plant, property and equipment, net | 6,448 | 6,731 |
| Goodwill | 8,881 | 8,881 |
| Intangibles, net | 5,599 | 5,852 |
| Long-term investments | 11,897 | 11,885 |
| Deferred tax assets - non-current | 3,071 | 3,163 |
| Other long-term assets | 3,000 | — |
| Total assets | \$ 827,197 | \$ 705,362 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Lines of credit | \$ 204,000 | \$ 167,000 |
| Liabilities on borrowed metals | 196,738 | 201,144 |
| Product financing arrangements | 159,130 | 94,505 |
| Accounts payable | 85,405 | 62,180 |
| Derivative liabilities ⁽¹⁾ | 6,690 | 9,971 |
| Accrued liabilities ⁽¹⁾ | 5,391 | 6,137 |
| Total current liabilities | 657,354 | 540,937 |
| Notes payable ⁽¹⁾ | 92,017 | 91,859 |
| Other liabilities | 4,791 | — |
| Total liabilities | 754,162 | 632,796 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, authorized 10,000,000 shares; issued and outstanding: none as of September 30, 2019 and June 30, 2019 | — | — |
| Common stock, par value \$0.01; 40,000,000 shares authorized; 7,031,450 shares issued and outstanding as of September 30, 2019 and June 30, 2019 | 71 | 71 |
| Additional paid-in capital | 26,618 | 26,452 |
| Retained earnings | 43,263 | 43,135 |
| Total A-Mark Precious Metals, Inc. stockholders' equity | 69,952 | 69,658 |
| Non-controlling interests | 3,083 | 2,908 |
| Total stockholders' equity | 73,035 | 72,566 |
| Total liabilities, non-controlling interests and stockholders' equity | \$ 827,197 | \$ 705,362 |

(1) Includes amounts of the consolidated variable interest entity, which is presented separately in the table below.

See accompanying [Notes to Condensed Consolidated Financial Statements](#)

A-MARK PRECIOUS METALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands) (unaudited)

In September 2018, AM Capital Funding, LLC. ("AMCF"), a wholly owned subsidiary of CFC, completed an issuance of Secured Senior Term Notes, Series 2018-1, Class A in the aggregate principal amount of \$72.0 million and Secured Subordinated Term Notes, Series 2018-1, Class B in the aggregate principal amount of \$28.0 million (collectively, the "Notes"). The Class A Notes bear interest at a rate of 4.98% and the Class B Notes bear interest at a rate of 5.98%. The Notes have a maturity date of December 15, 2023.

The Company consolidates a variable interest entity ("VIE") if it is considered to be the primary beneficiary. AMCF is a VIE because its equity may be insufficient to maintain its ongoing collateral requirements without additional financial support from the Company. The securitization is primarily secured by bullion loans and precious metals, and the Company is required to continuously hedge the value of certain collateral and make future contributions as necessary. The Company is the primary beneficiary of this VIE because the Company has the right to determine the type of collateral (i.e., secured loans or precious metals) placed into the entity, has the right to receive (and has received) the proceeds from the securitization transaction, earns on-going interest income from the secured loans (subject to collateral requirements), and has the obligation to absorb losses should AMCF's interest expense and other costs exceed its interest income.

The following table presents the assets and liabilities of this VIE, which is included in the condensed consolidated balance sheets above. The holders of the Notes have a first priority security interest in the assets as shown in the table below, which are in excess of the Notes' aggregate principal amount. Additionally, the liabilities of the VIE include intercompany balances, which are eliminated in consolidation. See [Note 14](#) for additional information.

| | September 30, 2019 | June 30, 2019 |
|--|-----------------------|------------------|
| ASSETS OF THE CONSOLIDATED VIE | | |
| Cash | \$ 2,338 | \$ 2,390 |
| Receivables, net | 1 | 1,664 |
| Secured loans receivable | 99,452 | 82,544 |
| Inventories | — | 16,867 |
| Prepaid expenses and other assets | 60 | 31 |
| Total assets of the consolidated variable interest entity | \$ 101,851 | \$ 103,496 |
| LIABILITIES OF THE CONSOLIDATED VIE | | |
| Deferred payment obligations ⁽¹⁾ | \$ 4,566 | \$ 5,213 |
| Derivative liabilities | — | 1,241 |
| Accrued liabilities | 991 | 811 |
| Notes payable ⁽²⁾ | 97,017 | 96,859 |
| Total liabilities of the consolidated variable interest entity | \$ 102,574 | \$ 104,124 |

(1) This is an intercompany balance, which is eliminated in consolidation and hence not shown on the consolidated balance sheets.

(2) \$5.0 million of the Notes are held by A-Mark, which is eliminated in consolidation and hence not shown on the consolidated balance sheets.

See accompanying [Notes to Condensed Consolidated Financial Statements](#)

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

| | Three Months Ended September 30, | 2019 | 2018 |
|---|----------------------------------|--------------|--------------|
| Revenues | | \$ 1,481,014 | \$ 1,565,090 |
| Cost of sales | | 1,472,674 | 1,556,615 |
| Gross profit | | 8,340 | 8,475 |
| Selling, general and administrative expenses | | (8,270) | (7,719) |
| Interest income | | 5,768 | 4,551 |
| Interest expense | | (5,142) | (3,552) |
| Other (expense) income, net | | (166) | 248 |
| Unrealized loss on foreign exchange | | (122) | (70) |
| Net income before provision for income taxes | | 408 | 1,933 |
| Income tax expense | | (105) | (499) |
| Net income | | 303 | 1,434 |
| Net income (loss) attributable to non-controlling interests | | 175 | (47) |
| Net income attributable to the Company | | \$ 128 | \$ 1,481 |
| Basic and diluted net income per share attributable to A-Mark Precious Metals, Inc.: | | | |
| Basic | | \$ 0.02 | \$ 0.21 |
| Diluted | | \$ 0.02 | \$ 0.21 |
| Weighted average shares outstanding: | | | |
| Basic | | 7,031,400 | 7,031,400 |
| Diluted | | 7,091,000 | 7,091,900 |

See accompanying [Notes to Condensed Consolidated Financial Statements](#)

A-MARK PRECIOUS METALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS 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 Interests | Total Stockholders' Equity |
|------------------------------------|-----------------------------|--------------|----------------------------------|----------------------|--|----------------------------------|----------------------------------|
| Balance, June 30, 2019 | 7,031,450 | \$ 71 | \$ 26,452 | \$ 43,135 | \$ 69,658 | \$ 2,908 | \$ 72,566 |
| Net income | — | — | — | 128 | 128 | 175 | 303 |
| Share-based compensation | — | — | 166 | — | 166 | — | 166 |
| Balance, September 30, 2019 | 7,031,450 | \$ 71 | \$ 26,618 | \$ 43,263 | \$ 69,952 | \$ 3,083 | \$ 73,035 |

See accompanying [Notes to Condensed Consolidated Financial Statements](#)

[Table of Contents](#)
A-MARK PRECIOUS METALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands) (unaudited)

| | Three Months Ended September 30, | 2019 | 2018 |
|--|----------------------------------|-----------------|------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ | 303 | \$ 1,434 |
| <i>Adjustments to reconcile net income to net cash used in operating activities:</i> | | | |
| Depreciation and amortization | | 668 | 697 |
| Amortization of loan cost | | 353 | 211 |
| Deferred income taxes | | 92 | 453 |
| Interest added to principal of secured loans | | (5) | (5) |
| Share-based compensation | | 166 | 272 |
| Earnings from equity method investments | | (11) | (248) |
| <i>Changes in assets and liabilities:</i> | | | |
| Receivables | | 3,252 | (21,476) |
| Secured loans receivable | | 1,543 | 93 |
| Secured loans made to affiliates | | 5,154 | 6,824 |
| Derivative assets | | (17,118) | 4,689 |
| Income taxes receivable | | (27) | (8) |
| Precious metals held under financing arrangements | | 7,983 | 30,090 |
| Inventories | | (79,337) | (9,689) |
| Prepaid expenses and other assets | | (17) | (208) |
| Accounts payable | | 23,225 | 14,996 |
| Derivative liabilities | | (3,281) | 15,517 |
| Liabilities on borrowed metals | | (4,406) | (53,148) |
| Accrued liabilities | | (1,016) | (792) |
| Net cash used in operating activities | | (62,479) | (10,298) |
| Cash flows from investing activities: | | | |
| Capital expenditures for plant, property, and equipment | | (137) | (122) |
| Secured loans receivable, net | | (31,868) | 21,621 |
| Other loans originated | | (3,000) | — |
| Net cash (used in) provided by investing activities | | (35,005) | 21,499 |
| Cash flows from financing activities: | | | |
| Product financing arrangements, net | | 64,625 | (60,814) |
| Borrowings and repayments under lines of credit, net | | 37,000 | (21,000) |
| Proceeds from issuance of notes payable | | — | 90,000 |
| Debt funding issuance costs | | — | (2,964) |
| Net cash provided by financing activities | | 101,625 | 5,222 |
| Net increase in cash, cash equivalents, and restricted cash | | 4,141 | 16,423 |
| Cash, cash equivalents, and restricted cash, beginning of period | | 8,320 | 6,291 |
| Cash, cash equivalents, and restricted cash, end of period | \$ | 12,461 | \$ 22,714 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Interest | \$ | 5,173 | \$ 2,963 |
| Income taxes paid | \$ | 33 | \$ 47 |

Non-cash investing and financing activities:

| | | | | |
|---|----|---|----|-----|
| Interest added to principal of secured loans | \$ | 5 | \$ | 5 |
| Investment transactions with non-controlling interest | \$ | — | \$ | 639 |

See accompanying [Notes to Condensed Consolidated Financial Statements](#)

A-MARK PRECIOUS METALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. DESCRIPTION OF BUSINESS

Basis of Presentation

The condensed consolidated financial statements comprise those of A-Mark Precious Metals, Inc. ("A-Mark" or the "Company") and its consolidated subsidiaries.

Business Segments

The Company conducts its operations in three reportable segments: (1) Wholesale Trading & Ancillary Services, (2) Secured Lending, and (3) Direct Sales. Each of these reportable segments represents an aggregation of operating segments that meets the aggregation criteria set forth in the Segment Reporting Topic 280 of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"). (See [Note 18.](#))

Wholesale Trading & Ancillary Services

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

Through its wholly owned subsidiary, A-Mark Trading AG ("AMTAG"), the Company promotes A-Mark's products and services 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. Logistics provides customers an array of complementary services, including packaging, shipping, handling, receiving, processing, and inventorying of precious metals and custom coins on a secure basis.

Through our partially-owned subsidiary, AM&ST Associates, LLC. ("AMST" or "SilverTowne" or the "Mint"), the Company designs and produces minted silver products. The Company operates the Mint pursuant to a joint venture agreement with SilverTowne, L.P. The Company and SilverTowne L.P. own 69% and 31%, respectively, of AMST. The Company acquired its interest in AMST from SilverTowne L.P. to provide greater product selection to our customers and greater pricing stability within the supply chain, as well as to gain increased access to silver products during volatile market environments.

Secured Lending

The Company operates its Secured Lending segment through its wholly-owned subsidiary, Collateral Finance Corporation LLC. ("CFC".) CFC is a California licensed finance lender that originates and acquires commercial loans secured by bullion and numismatic coins. CFC's customers include coin and precious metal dealers, investors, and collectors.

AM Capital Funding, LLC. ("AMCF"), a wholly owned subsidiary of CFC, was formed for the purpose of securitizing eligible secured loans of CFC. AMCF issued and administers Secured Senior Term Notes: Series 2018-1, Class A, with an aggregate principal amount of \$72.0 million and Secured Subordinated Term Notes: Series 2018-1, Class B with an aggregate principal amount of \$28.0 million (collectively, the "Notes".) The Class A Notes bear interest at a rate of 4.98% and the Class B Notes bear interest at a rate of 5.98%. The Notes have a maturity date of December 15, 2023. For additional information regarding this securitization, see [Note 14.](#)

Direct Sales

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

AM IP LLC. ("AMIP"), a wholly owned subsidiary of Goldline, manages intellectual property ("IP") that includes lists of customers and sales lead information that is licensed to third parties in the industry who can utilize such assets and provide the Company with ancillary income.

In the fourth quarter of 2019, Goldline entered into a joint venture agreement with one of the Company's related parties to form Precious Metals Purchasing Partners, LLC, ("PMPP"), a 50% owned subsidiary, primarily for the purpose of purchasing precious metals from the partners' retail customers for resale back into the marketplace. PMPP was capitalized in fiscal 2019, and commenced operations in fiscal 2020. Metals purchased by the joint venture are sold to the partners or their affiliates per terms of the joint venture agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements reflect the financial condition, results of operations, statement of stockholder equity, and cash flows of the Company, and were prepared using accounting principles generally accepted in the United States ("U.S. GAAP"). The Company consolidates its subsidiaries that are wholly-owned, majority owned, and entities that are variable interest entities where the Company is determined to be the primary beneficiary. Our condensed consolidated financial statements include the accounts of: A-Mark, CFC, AMTAG, TDS, Logistics, Goldline, AMIP, AMST, AMCF, and PMPP (collectively the "Company"). Intercompany accounts and transactions are eliminated.

Comprehensive Income

For the three months ended September 30, 2019 and 2018, there were no items that gave rise to other comprehensive income or loss, and, as a result net income equaled comprehensive 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 plant, property and equipment and intangible assets, valuation allowance determination on deferred tax assets, contingent earn-out liabilities, and revenue recognition judgments. Significant estimates also include the Company's fair value determination with respect to its financial instruments and precious metals inventory. Actual results could materially differ from these estimates.

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 operations, 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 three months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2020 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 2019 (the "2019 Annual Report"), as filed with the SEC. Amounts related to disclosure of June 30, 2019 balances within these interim condensed consolidated financial statements were derived from the aforementioned audited consolidated financial statements and notes thereto included in the 2019 Annual Report.

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.](#))

Concentration of Credit Risk

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

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

netting arrangements and include both asset and liability positions. Substantially all of these transactions are secured by the underlying metals positions.

Foreign Currency

The functional currency of the Company is the United States dollar ("USD"). Also, the functional currency of the Company's wholly-owned foreign subsidiary, AMTAG, is USD, but it maintains its books of record in the European Union Euro. 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 operations.

To manage the effect of foreign currency exchange fluctuations, the Company utilizes foreign currency forward contracts. These derivatives generate gains and losses when settled and/or marked-to-market.

Business Combinations

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

Variable Interest Entity

A variable interest entity ("VIE") is a legal entity that has either i) a total equity investment that is insufficient to finance its activities without additional subordinated financial support or ii) whose equity investors as a group lack the ability to control the entity's activities or lack the ability to receive expected benefits or absorb obligations in a manner that is consistent with their investment in the entity.

A VIE is consolidated for accounting purposes by its primary beneficiary, which is the party that has both the power to direct the activities that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The Company consolidates VIE's when it is deemed to be the primary beneficiary. Management regularly reviews and reconsiders its previous conclusions regarding whether it holds a variable interest in potential VIEs, the status of an entity as a VIE, and whether the Company is required to consolidate such VIE's in the consolidated financial statements.

AMCF, a wholly owned subsidiary of CFC, is a special purpose entity ("SPE") formed as part of a securitization transaction in order to isolate certain assets and distribute the cash flows from those assets to investors. AMCF was structured to insulate investors from claims on AMCF's assets by creditors of other entities. The Company has various forms of ongoing involvement with AMCF, which may include (i) holding senior or subordinated interests in AMCF; (ii) acting as loan servicer for a portfolio of loans held by AMCF; and (iii) providing administrative services to AMCF.

AMCF is a VIE because the Company's initial equity investment may be insufficient to maintain its ongoing collateral requirements without additional financial support from the Company. The securitization is primarily secured by bullion loans and precious metals, and the Company is required to continuously hedge the value of certain collateral and make future contributions as necessary. The Company is the primary beneficiary of this VIE because the Company has the right to determine the type of collateral (i.e., secured loans or precious metals), has the right to receive (and has received) the proceeds from the securitization transaction, earns on-going interest income from the secured loans (subject to collateral requirements), and has the obligation to absorb losses should AMCF's interest expense and other costs exceed its interest income. (See [Note 14.](#))

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. The Company does not have any cash equivalents as of September 30, 2019 and June 30, 2019.

As of September 30, 2019 and June 30, 2019, the Company has \$0.3 million and \$0.3 million, respectively, in a bank account that is restricted and serves as collateral against a standby letter of credit issued by the bank in favor of the landlord for our office space in Los Angeles, California.

Precious Metals held under Financing Arrangements

The Company enters into arrangements with certain customers under which A-Mark purchases precious metals from the customers which are subject to repurchase by the customer at the spot value of the product on the repurchase date. The precious metals purchased under these arrangements consist of rare and unique items, and therefore the Company accounts for these transactions as precious metals held under financing arrangements, which generate financing income rather than revenue earned from precious metals inventory sales. In these repurchase arrangements, the Company holds legal title to the metals and earns financing income for the duration of the agreement.

These arrangements are typically terminable by either party upon 14 days' notice. Upon termination, the customer's right to repurchase any remaining precious metal is forfeited, and the related precious metals are reclassified as inventory held for sale. As of September 30, 2019 and June 30, 2019, precious metals held under financing arrangements totaled \$200.8 million and \$208.8 million respectively.

The Company's precious metals held under financing arrangements are marked-to-market.

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 net realizable value 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 operations.

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 net realizable value, 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](#).)

Leased Right of Use Assets

We lease warehouse space, office facilities, and equipment. Our operating leases with terms longer than twelve months are recorded on the condensed consolidated balance sheets at the sum of the present value of the lease's fixed minimum payments as operating lease right of use assets ("ROU assets"). Our capital or finance leases, which are a type of ROU assets, are recorded in the condensed consolidated balance sheets as a component of plant, property and equipment at the present value of the lease payments.

For leases that contain termination options, where the rights to terminate are held by either us, the lessor, or both parties and it is reasonably certain that we will exercise that option, we factor these extended or shortened lease terms into the minimum lease payments. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by lease incentives. We use our incremental borrowing rate as the discount rate to determine the present value of the lease payments for leases, as our leases do not have readily determinable implicit discount rates. Our incremental borrowing rate is the rate of interest that we would incur to borrow on a collateralized basis over a similar term and amount in a similar economic environment.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities using the discount rate discussed above. The depreciable life of ROU assets are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Our lease agreements do not contain any significant residual value guarantees or material restrictive covenants. Income from subleases was not significant for any period presented.

During the three months ended September 30, 2019, we incurred lease costs of \$0.4 million, which is primarily comprised of operating lease cost of \$0.3 million. The other costs are insignificant and relate to our finance leases, short-term leases, and variable lease payments.

For the three months ended September 30, 2019, we made cash payments of \$0.4 million for operating lease obligations. These payments are included in operating cash flows. At September 30, 2019, the weighted-average remaining lease term under

our capitalized operating leases was 5.1 years, while the weighted-average discount rate for our operating leases was approximately 4.9%.

The following represents our future undiscounted cash flows for each of the next five years and thereafter and reconciliation to the lease liabilities, as of September 30, 2019:

| Years ending June 30, | Operating Leases | |
|--|------------------|----------------------|
| 2020 (excluding the three months ended September 30, 2019) | \$ | 1,118 |
| 2021 | | 1,526 |
| 2022 | | 1,313 |
| 2023 | | 834 |
| 2024 | | 860 |
| Thereafter | | 1,184 |
| Total lease payments | | 6,835 |
| Less imputed interest | | (812) |
| | \$ | 6,023 ⁽¹⁾ |
| Operating lease liability - current | \$ | 1,232 ⁽²⁾ |
| Operating lease liability - long-term | | 4,791 ⁽³⁾ |
| | \$ | 6,023 ⁽¹⁾ |

(1) Represents the present value of the capitalized operating lease liabilities as of September 30, 2019.

(2) Current operating lease liabilities are presented within accrued liabilities on our condensed consolidated balance sheets.

(3) Long-term operating lease liabilities are presented within other liabilities on our condensed consolidated balance sheets.

Following is a summary of our future minimum operating lease commitments, as determined under ASC 840, for all non-cancelable lease agreements, for each of the next five years and in the aggregate, as of June 30, 2019:

| Years ending June 30, | Operating Leases | |
|-----------------------|------------------|-------|
| 2020 | \$ | 1,488 |
| 2021 | | 1,526 |
| 2022 | | 1,313 |
| 2023 | | 834 |
| 2024 | | 860 |
| Thereafter | | 1,184 |
| | \$ | 7,205 |

The Company has no related party leases. We do not have leases that have not yet commenced, which would create significant rights and obligations for us, including any involvement with the construction or design of the underlying asset. (Refer to the section below captioned "Recently Adopted Accounting Pronouncements" for the elections adopted pursuant to ASU 2016-02, *Leases (Topic 842)*.)

Plant, Property and Equipment

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

The Company reviews the carrying value of these assets for impairment whenever events and circumstances indicate that the carrying value of the asset may not be recoverable. In evaluating for impairment, the carrying value of each asset or group of assets is compared to the undiscounted estimated future cash flows expected to result from its use and eventual disposition. An impairment loss is recognized for the difference when the carrying value exceeds the discounted estimated future cash flows. The factors considered by the Company in performing this assessment include current and projected operating results, trends and

prospects, the manner in which these assets are used, and the effects of obsolescence, demand and competition, as well as other economic factors.

Finite-lived Intangible Assets

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

Goodwill and Indefinite-lived Intangible Assets

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

The Company evaluates its goodwill and other indefinite-lived intangibles for impairment in the fourth quarter of the fiscal year (or more frequently if indicators of potential impairment exist) in accordance with the *Intangibles - Goodwill and Other Topic 350* of the ASC. Goodwill is reviewed for impairment at a reporting unit level, which in our case, corresponds to the Company's reportable operating segments.

Evaluation of goodwill for impairment

The Company has the option to first qualitatively assess whether relevant events and circumstances make it more likely than not that the fair value of the reporting unit's goodwill is less than its carrying value. A qualitative assessment includes analyzing current economic indicators associated with a particular reporting unit such as changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there would be a significant decline to the fair value of a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

If, based on this qualitative assessment, management concludes that goodwill is more likely than not to be impaired, or elects not to perform the qualitative assessment, then it is required to perform a quantitative analysis to determine the fair value of the business, and compare the calculated fair value of the reporting unit with its carrying amount, including goodwill. If through this quantitative analysis the Company determines the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is considered not to be impaired. If the Company concludes that the fair value of the reporting unit is less than its carrying value, a goodwill impairment loss will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. (See [Note 8](#).)

Evaluation of indefinite-lived intangible assets for impairment

The Company evaluates its indefinite-lived intangible assets (i.e., trademarks and trade-names) for impairment. In assessing its indefinite-lived intangible assets for impairment, the Company has the option to first perform a qualitative assessment to determine whether events or circumstances exist that lead to a determination that it is unlikely that the fair value of the indefinite-lived intangible asset is less than its carrying amount. If the Company determines that it is unlikely that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the Company is not required to perform any additional tests in assessing the asset for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, then it is required to perform a quantitative analysis to determine if the fair value of an indefinite-lived intangible asset is less than its carrying value. If through this quantitative analysis the Company determines the fair value of an indefinite-lived intangible asset exceeds its carrying amount, the indefinite-lived intangible asset is considered not to be impaired. If the Company concludes that the fair value of an indefinite-lived intangible asset is less than its carrying value, an impairment loss will be recognized for the amount by which the carrying amount exceeds the indefinite-lived intangible asset's fair value.

The methods used to estimate the fair value measurements of the Company's reporting units and indefinite-lived intangible assets include those based on the income approach (including the discounted cash flow and relief-from-royalty methods) and those based on the market approach (primarily the guideline transaction and guideline public company methods). (See [Note 8](#).)

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), net. 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.

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. Additionally, the Company performs an on-going evaluation of its equity method investments with which the Company has variable interests to determine if any of these entities are VIEs that are required to be consolidated.

Other Long-Term Assets

Notes and other receivables, with terms greater than one year, are carried at amortized cost, net of any unamortized origination fees, which are recognized over the life of the note. The determination of an allowance is based on historical experience and, as a result, can differ from actual losses incurred in the future. We charge off receivables at such time as it is determined collection will not occur.

On September 19, 2019, the Company, as lender, entered into a convertible revolving credit facility with one of its privately-held customers (the borrower) that provides the borrower an aggregate principal amount of up to \$4.0 million, bearing interest at 12.0% per annum. The facility expires on September 18, 2022. The borrower has the right to prepay the credit facility at any time without premium or penalty. Outstanding principal amounts under the credit facility may, at the lender's discretion, be converted into up to 22.0% of the borrower's issued and outstanding common stock. The credit facility also grants the lender the right to repay the borrower's outstanding unrelated third-party debt, at any time, in exchange for up to 27.5% of the borrower's issued and outstanding common stock. In the event the borrower sells all or substantially all of its assets or has a change of control during the term of the facility, the lender is entitled to additional interest equal to 10% of the gross sales price in excess of \$9.9 million. The credit facility collateral includes all: (i) account receivables; (ii) inventory; (iii) fixed assets; (iv) intellectual property; (v) contract rights; and (vi) deposit accounts, in each case subordinated to an unrelated third-party lender's security interest.

Revenue Recognition

Settlement Date Accounting

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

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

Types of Trades Orders that are Physically Delivered

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

- **Traditional physical trade orders** — The quantity, specific product, and price are determined on the trade date. Payment or sufficient credit is verified prior to delivery of the metals on the settlement date.
- **Consignment trade orders** — The Company delivers the items requested by the customer prior to establishing a firm trade order with a price. Settlement occurs and revenue is recognized once the customer confirms its order (quantity, specific product, and price) and remits full payment for the sale.
- **Provisional trade orders** — The quantity and type of metal is established at the trade date, but the price is not set. The customer commits to purchasing the metals within a specified time period, usually within one year, at the then-current market price. The Company delivers the metal to the customer after receiving the customer's deposit, which is typically based on 110% of the prevailing current spot price. The unpriced metal is subject to a margin call if the deposit falls

below 105% of the value of the unpriced metal. The purchase price is established and revenue is recognized at the time the customer notifies the Company that it desires to purchase the metal.

- **Margin trade orders**— The quantity, specific product, and price are determined at trade date; however, the customer is allowed to finance the transaction through the Company and to defer delivery by committing to remit a partial payment (approximately 20%) of the total order price. With the remittance of the partial payment, the customer locks in the purchase price for a specified time period (usually up to two years from the trade date). Revenue on margin trade orders is recognized when the order is paid in full and delivered to the customer.
- **Borrowed precious metals trade orders for unallocated positions**— Customers may purchase unallocated metal positions in the Company's inventory. The quantity and type of metal is established at the trade date, but the specific product is not yet determined. Revenue is not recognized until the customer selects the specific precious metal product it wishes to purchase, full payment is received, and the product is delivered to the customer.

Hedging Activities

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

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

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

Other Sources of Revenue

The Company recognizes its storage, logistics, licensing, and other services revenues in accordance with the FASB's release ASU 2014-09 *Revenue From Contracts With Customers* Topic 606 ("ASC 606"), which follows five basic steps to determine whether revenue can be recognized: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company recognizes revenue when it satisfies its obligation by transferring control of the good or service to the customer. This is either satisfied over time or at a point in time. A performance obligation is satisfied over time if one of the following criteria are met: (1) the customer simultaneously receives and consumes the benefits as the Company performs, (2) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (3) the Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right for payment of performance completed-to-date. When none of those are met, a performance obligation is satisfied at a point-in-time.

The Company recognizes storage revenue over time, as the customer simultaneously receives and consumes the storage services (e.g., fixed storage fees based on the passage of time). The Company recognizes logistics (i.e., fulfillment) revenue at a point-in-time, when the customer receives the benefit of the services (e.g., stated number of packages are shipped on behalf of the customer during a month). The Company recognizes revenue from the licensing of its functional intellectual property ("IP"), which include customer lists and sales lead information, at the point in time when the right to use the IP is transferred to the licensee. Any revenue generated from usage-based royalties associated with the licensing of the IP is recognized at the point in time when the licensee converts and actualizes customers from the IP. In aggregate, these types of service revenues account for less than 1% of the Company's combined revenue from all revenue streams.

Interest Income

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

- **Secured Loans** — The Company uses the effective interest method to recognize interest income on its secured loans transactions. The Company maintains a security interest in the precious metals and records interest income over the terms of the secured loan receivable. Recognition of interest income is suspended and the loan is placed on non-accrual status when management determines that collection of future interest income is not probable. The interest income accrual is resumed, and previously suspended interest income is recognized, when the loan becomes contractually current and/or collection doubts are resolved. Cash receipts on impaired loans are recorded first against the principal and then to any unrecognized interest income. (See [Note 5](#).)
- **Margin accounts** — The Company earns a fee (interest income) under financing arrangements related to margin trade orders over the period during which customers have opted to defer making full payment on the purchase of metals.
- **Repurchase agreements** — Repurchase agreements represent a form of secured financing whereby the Company sets aside specific metals for a customer and charges a fee on the outstanding value of these metals. The customer is granted the option (but not the obligation) to repurchase these metals at any time during the open reacquisition period. This fee is earned over the duration of the open reacquisition period and is classified as interest income.
- **Spot deferred trade orders** — Spot deferred trade orders are a special type of forward delivery trade that enable customers to purchase or sell certain precious metals from/to the Company at an agreed upon price but, are allowed to delay remitting or taking delivery up to a maximum of two years from the date of trade. Even though the contract allows for physical delivery, it rarely occurs for this type of trade. As a result, revenue is not recorded from these transactions, because no product is delivered to the customer. Spot deferred trades are considered a type of financing transaction, where the Company earns a fee (interest income) under spot deferred arrangements over the period in which the trade is open.

Interest Expense

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

- **Borrowings** — The Company incurs interest expense from its lines of credit, its debt obligations, and notes payable using the effective interest method. (See [Note 14](#).) Additionally, the Company amortizes capitalized loan costs to interest expense over the period of the loan agreement.
- **Loan servicing fees** — When the Company purchases loan portfolios, the Company may have the seller service the loans that were purchased. The Company incurs a fee based on total interest charged to borrowers over the period the loans are outstanding. The servicing fee incurred by the Company is charged to interest expense.
- **Product financing arrangements** — The Company incurs financing fees (classified as interest expense) from its product financing arrangements (also referred to as reverse-repurchase arrangements) with third party finance companies for the transfer and subsequent option to reacquire its precious metal inventory at a later date. These arrangements are accounted for as secured borrowings. During the term of this type of agreement, the third party charges a monthly fee as a percentage of the market value of the designated inventory, which the Company intends to reacquire in the future. No revenue is generated from these trades. The Company enters this type of transaction for additional liquidity.
- **Borrowed and leased metals fees** — The Company may incur financing costs from its borrowed metal arrangements. The Company borrows precious metals (usually in the form of pool metals) from its suppliers and customers under short-term arrangements using other precious metals as collateral. Typically, during the term of these arrangements, the third party charges a monthly fee as a percentage of the market value of the metals borrowed (determined at the spot price) plus certain processing and other fees.

Leased metal transactions are a similar type of transaction, except the Company is not required to pledge other precious metal as collateral for the precious metal received. The fees charged by the third party are based on the spot value of the pool metal received.

Both borrowed and leased metal transactions provide an additional source of liquidity, as the Company usually monetizes the metals received under such arrangements. Repayment is usually in the same form as the metals advanced, but may be settled in cash.

Other Income and Expense

The Company's other income and expense is derived from the Company's proportional interest in the reported net income or loss of our investees that are accounted for under the equity method of accounting (see [Note 9](#)), and costs associated with the settlement of our purchase of Goldline (see [Note 15](#)).

Advertising

Advertising expense was \$463,000 and \$590,000, respectively, for the three months ended September 30, 2019 and 2018.

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 operations. Shipping and handling costs incurred totaled \$1,371,000 and \$1,740,000, respectively, for the three months ended September 30, 2019 and 2018.

Share-Based Compensation

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

Income Taxes

As part of the process of preparing its condensed consolidated financial statements, the Company is required to estimate its provision for income taxes in each of the tax jurisdictions in which it conducts business, in accordance with the *Income Taxes* Topic 740 of the ASC ("ASC 740"). The Company computes its annual tax rate based on the statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it earns income. Significant judgment is required in determining the Company's annual tax rate and in evaluating uncertainty in its tax positions. The Company recognizes a benefit for tax positions that it believes will more likely than not be sustained upon examination. The amount of benefit recognized is the largest amount of benefit that the Company believes has more than a 50% probability of being realized upon settlement. The Company regularly monitors its tax positions and adjusts the amount of recognized tax benefit based on its evaluation of information that has become available since the end of its last financial reporting period. The annual tax rate includes the impact of these changes in recognized tax benefits. When adjusting the amount of recognized tax benefits, the Company does not consider new 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 operations. 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. Based on our assessment, it appears more likely than not that all of the net deferred tax assets will be realized through future taxable income.

The Company's condensed consolidated financial statements recognized the current and deferred income taxes 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 spinoff of the Company when it was a member of the consolidated income tax return group of Spectrum Group International, Inc. ("SGI"). Following its spin-off, the Company separately files its federal and state income tax filings. The Company recognizes current and deferred income taxes as a separate taxpayer for periods ending after the date of the spinoff.

Earnings per Share ("EPS")

The Company computes and reports both basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings (losses) by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings (losses) 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 months ended September 30, 2019 and 2018, is presented below.

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|---|----------------------------------|--------------|--------------|
| Basic weighted average shares outstanding | | 7,031 | 7,031 |
| Effect of common stock equivalents — stock issuable under outstanding equity awards | | 60 | 61 |
| Diluted weighted average shares outstanding | | <u>7,091</u> | <u>7,092</u> |

Dividends

Dividends are recorded if and when they are declared by the Board of Directors.

Recently Adopted Accounting Pronouncements

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

We adopted ASU 2016-02, *Leases (Topic 842)* and relevant amendments, effective for the Company on July 1, 2019. The standard represents a change to lease accounting and requires all leases, other than short-term leases, to be reported on the balance sheet through recognition of a right-of-use asset and a corresponding liability for future lease obligations. The standard also requires incremental disclosures for assets, expenses, and cash flows associated with leases, as well as a maturity analysis of lease liabilities. We adopted Topic 842 by applying the transition method whereby comparative periods have not been restated, and no adjustment to retained earnings was required. Upon adoption of the standard, we recognized right-of-use assets of approximately \$5.3 million and lease liabilities of approximately \$6.3 million. This increase largely relates to the present value of future minimum lease payments due under existing operating leases of office facilities and warehouse space. No material changes are expected to the recognition of lease expenses in the condensed consolidated statement of operations as a result of the adoption of Topic 842. For adoption, we elected Topic 842's package of three practical expedients, and 1) did not reassess whether any expired or existing contracts are or contain leases, 2) did not reassess the lease classification for any expired or existing leases, and 3) did not reassess initial direct costs for any existing leases. In addition, we made an accounting policy election not to apply the recognition requirements to short-term leases.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, ("ASU 2016-13"), *Financial Instruments - Credit Loss (Topic 326)*, which updates the guidance on recognition and measurement of credit losses for financial assets. The new requirements, known as the current expected credit loss model ("CECL") will require entities to adopt an impairment model based on expected losses rather than incurred losses. This update is effective for the Company on July 1, 2020 (for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years). The Company is currently evaluating the potential impact of the adoption of the new standard on its consolidated statements of financial condition and results of operations.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other: Internal-Use Software (Subtopic 350-40)*, to provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement. This update is effective for the Company on July 1, 2020 (for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years). The adoption of this guidance is not expected to have a material impact on our financial statements.

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 September 30, 2019 and June 30, 2019.

in thousands

| | September 30, 2019 | | June 30, 2019 | |
|---|--------------------|------------|-----------------|------------|
| | Carrying Amount | Fair value | Carrying Amount | Fair value |
| Financial assets: | | | | |
| Cash | \$ 12,461 | \$ 12,461 | \$ 8,320 | \$ 8,320 |
| Receivables, net | 23,643 | 23,643 | 26,895 | 26,895 |
| Secured loans receivable | 150,473 | 150,473 | 125,298 | 125,298 |
| Derivative assets on open sale and purchase commitments, net | 4,960 | 4,960 | 2,322 | 2,322 |
| Derivative assets on option contracts | 11 | 11 | 61 | 61 |
| Derivative assets on futures contracts | 3,871 | 3,871 | 2 | 2 |
| Derivative assets on forward contracts | 10,704 | 10,704 | 43 | 43 |
| Income taxes receivable | 1,500 | 1,500 | 1,473 | 1,473 |
| Other long-term assets | 3,000 | 3,000 | — | — |
| Financial liabilities: | | | | |
| Lines of credit | \$ 204,000 | \$ 204,000 | \$ 167,000 | \$ 167,000 |
| Liabilities on borrowed metals | 196,738 | 196,738 | 201,144 | 201,144 |
| Product financing arrangements | 159,130 | 159,130 | 94,505 | 94,505 |
| Derivative liabilities on margin accounts | 3,455 | 3,455 | 2,981 | 2,981 |
| Derivative liabilities on price protection programs | 13 | 13 | 22 | 22 |
| Derivative liabilities on open sale and purchase commitments, net | 3,115 | 3,115 | 3,822 | 3,822 |
| Derivative liabilities on futures contracts | — | — | 1,241 | 1,241 |
| Derivative liabilities on forward contracts | 107 | 107 | 1,905 | 1,905 |
| Accounts payable | 85,405 | 85,405 | 62,180 | 62,180 |
| Accrued liabilities | 5,391 | 5,391 | 6,137 | 6,137 |
| Notes payable | 92,017 | 99,172 | 91,859 | 98,609 |

The fair values of the financial instruments shown in the above table as of September 30, 2019 and June 30, 2019 represent the amounts that would be received upon the sale of those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk adjusted discount rates, and available observable and unobservable inputs.

The carrying amounts of cash, secured loans receivable, receivables, income taxes receivable, accounts payable, and accrued liabilities approximate fair value due to their short-term nature. The carrying amounts of derivative assets and derivative liabilities, liabilities on borrowed metals and product financing arrangements are marked-to-market on a daily basis to fair value. The carrying amounts of lines of credit approximate fair value based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities. The Company's notes payable are reported at their aggregate principal amount less unamortized original issue discount and deferred financing costs on the accompanying consolidated balance sheets. The fair value of the notes payable is based on the present value of the expected coupon and principal payments using an estimated discount rate based on current market rates for debt with similar credit risk.

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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The significant assumptions used to determine the carrying value and the related fair value of the assets and liabilities measured at fair value on a recurring basis are described below:

Inventories. Inventories, which principally include bullion and bullion coins, are acquired and initially recorded at fair market value. The fair market value of the bullion and bullion coins are comprised of two components: 1) published market values attributable to the costs of the raw precious metal, and 2) a published premium paid at acquisition of the metal. The premium is attributable to the additional value of the product in its finished goods form and the market value attributable solely to the premium is readily determined, as it is published by multiple reputable sources. Except for commemorative coin inventory, which are included in inventory at the lower of cost or net realizable value, 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.

Precious Metals held under Financing Arrangements The Company enters into arrangements with certain customers under which A-Mark purchases precious metals from the customers which are subject to repurchase by the customer at the spot value of the product on the repurchase date. The precious metals purchased under these arrangements consist of rare and unique items, and therefore the Company accounts for these transactions as precious metals held under financing arrangements, which generate financing income rather than revenue earned from precious metals inventory sales. In these repurchase arrangements, the Company holds legal title to the metals and earns financing income for the duration of the agreement. The fair value for precious metals held under financing arrangements, (a commodity, like inventory above) is determined using pricing data derived from the markets on which the underlying commodities are traded. Precious metals commodities inventory are classified in Level 1 of the valuation hierarchy.

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

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

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

Liability on Price Protection Programs. The Company records an estimate of the fair value of the liability on the price protection programs based on the difference between the contractual price at trade date and the retail price at the remeasurement date (i.e., quarter-end) based on the expected redemption rate. As of September 30, 2019, the Company used the quoted market price based on the current spot rate and used an expected redemption rate of 100%. The use of a throughput rate ignores the future price volatility that would affect the timing and rate of redemption under the program, and, as a result, the liability on the price protection programs is classified in Level 3 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 September 30, 2019 and June 30, 2019, aggregated by the level in the fair value hierarchy within which the measurements fall:

| | September 30, 2019 | | | |
|--|--|--|--|-------------------|
| <i>in thousands</i> | Quoted Price in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets: | | | | |
| Inventory ⁽¹⁾ | \$ 369,862 | \$ — | \$ — | \$ 369,862 |
| Precious metals held under financing arrangements | 200,809 | — | — | 200,809 |
| Derivative assets — open sale and purchase commitments, net | 4,960 | — | — | 4,960 |
| Derivative assets — option contracts | 11 | — | — | 11 |
| Derivative assets — futures contracts | 3,871 | — | — | 3,871 |
| Derivative assets — forward contracts | 10,704 | — | — | 10,704 |
| Total assets, valued at fair value | <u>\$ 590,217</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 590,217</u> |
| Liabilities: | | | | |
| Liabilities on borrowed metals | \$ 196,738 | \$ — | \$ — | \$ 196,738 |
| Product financing arrangements | 159,130 | — | — | 159,130 |
| Derivative liabilities — price protection programs | — | — | 13 | 13 |
| Derivative liabilities — margin accounts | 3,455 | — | — | 3,455 |
| Derivative liabilities — open sale and purchase commitments, net | 3,115 | — | — | 3,115 |
| Derivative liabilities — forward contracts | 107 | — | — | 107 |
| Total liabilities, valued at fair value | <u>\$ 362,545</u> | <u>\$ —</u> | <u>\$ 13</u> | <u>\$ 362,558</u> |

⁽¹⁾ Commemorative coin inventory totaling \$2.3 million is held at lower of cost or net realizable value and is thus excluded from this table.

June 30, 2019

| <i>in thousands</i> | Quoted Price in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|--|--|--|-------------------|
| Assets: | | | | |
| Inventory ⁽¹⁾ | \$ 292,844 | \$ — | \$ — | \$ 292,844 |
| Precious metals held under financing arrangements | 208,792 | — | — | 208,792 |
| Derivative assets — open sale and purchase commitments, net | 2,322 | — | — | 2,322 |
| Derivative assets — option contracts | 61 | — | — | 61 |
| Derivative assets — futures contracts | 2 | — | — | 2 |
| Derivative assets — forward contracts | 43 | — | — | 43 |
| Total assets, valued at fair value | <u>\$ 504,064</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 504,064</u> |
| Liabilities: | | | | |
| Liabilities on borrowed metals | \$ 201,144 | \$ — | \$ — | \$ 201,144 |
| Product financing arrangements | 94,505 | — | — | 94,505 |
| Derivative liabilities — price protection programs | — | — | 22 | 22 |
| Derivative liabilities — margin accounts | 2,981 | — | — | 2,981 |
| Derivative liabilities — open sale and purchase commitments, net | 3,822 | — | — | 3,822 |
| Derivative liabilities — futures contracts | 1,241 | — | — | 1,241 |
| Derivative liabilities — forward contracts | 1,905 | — | — | 1,905 |
| Total liabilities, valued at fair value | <u>\$ 305,598</u> | <u>\$ —</u> | <u>\$ 22</u> | <u>\$ 305,620</u> |

⁽¹⁾ Commemorative coin inventory totaling \$17 thousand is held at lower of cost or net realizable value and is thus excluded from this table.

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

Assets Measured at Fair Value on a Non-Recurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only under certain circumstances. These include: i) equity method investments that are written down to fair value when a decline in the fair value is determined to be other-than-temporary, ii) plant, property and equipment and definite-lived intangibles, or iii) goodwill and indefinite-lived intangibles, all of which are written down to fair value when they are held for sale or determined to be impaired. The resulting fair value measurements of the assets are considered to be Level 3 measurements. Determining fair value requires the exercise of significant judgments, including judgments about appropriate discount rates, long-term growth rates, relevant comparable company earnings multiples, and the amount and timing of expected future cash flows. The cash flows employed in the analyses are based on the Company's estimated outlook and various growth rates. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective equity method investment, asset group, or reporting unit. In assessing the reasonableness of its determined fair values, the Company evaluates its results against other value indicators, such as comparable transactions and comparable public company trading values.

4. RECEIVABLES

Receivables consist of the following as of September 30, 2019 and June 30, 2019:

in thousands

| | September 30, 2019 | June 30, 2019 |
|----------------------------|--------------------|---------------|
| Customer trade receivables | \$ 5,876 | \$ 13,050 |
| Wholesale trade advances | 12,600 | 9,704 |
| Due from brokers | 5,167 | 4,141 |
| Receivables, net | \$ 23,643 | \$ 26,895 |

Customer Trade Receivables. Customer trade receivables represent short-term, non-interest bearing amounts due from precious metal sales, advances related to financing products, and other secured interests in assets of the customer.

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

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

5. SECURED LOANS RECEIVABLE

Below is a summary of the carrying value of our secured loans as of September 30, 2019 and June 30, 2019:

in thousands

| | September 30, 2019 | June 30, 2019 |
|---|------------------------|-----------------------|
| Secured loans originated | \$ 37,197 | \$ 36,714 |
| Secured loans originated - with a related party | 8,904 | 14,058 |
| | 46,101 | 50,772 |
| Secured loans acquired | 104,372 ⁽¹⁾ | 74,526 ⁽²⁾ |
| Secured loans | \$ 150,473 | \$ 125,298 |

(1) Includes \$29 thousand of loan premium as of September 30, 2019.

(2) Includes \$29 thousand of loan premium as of June 30, 2019.

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 customers. 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 September 30, 2019 and June 30, 2019, our secured loans carried weighted-average effective interest rates of 10.6% and 10.2%, respectively, and mature in periods ranging typically from on-demand to one year.

The secured loans that the Company generates with active customers of A-Mark are reflected as an operating activity on the condensed consolidated statements of cash flows. The secured loans that the Company generates with borrowers who are not active customers of A-Mark are reflected as an investing activity on the condensed consolidated statements of cash flows as secured loans receivables, net. For the secured loans that (i) are reflected as an investing activity and have terms that allow the borrowers 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 (ii) are repayable on demand or in the short-term, the borrowings and repayments are netted on the condensed consolidated statements of cash flows.

Credit Quality of Secured Loans Receivables and Allowance for Credit Losses

The Company's secured loan receivables portfolio is comprised of secured loans with similar credit risk profiles and methods for assessing and monitoring credit risk. This similarity allows the Company to apply a standard methodology to determine the credit quality for each loan and the allowance, if any, for credit losses. The credit quality of each loan is generally determined by the type (or class) of secured material, the initial and ongoing collateral value determination, and the assessment of loan-to-value ratio. Historically, the Company has not established an allowance for any credit losses because each of its loans is fully secured by the underlying collateral.

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

in thousands

| | September 30, 2019 | | June 30, 2019 | |
|--------------------------------|--------------------|---------------|-------------------|---------------|
| Bullion | \$ 115,459 | 76.7% | \$ 92,899 | 74.1% |
| Numismatic and semi-numismatic | 35,014 | 23.3 | 32,399 | 25.9 |
| | <u>\$ 150,473</u> | <u>100.0%</u> | <u>\$ 125,298</u> | <u>100.0%</u> |

Each of the two classes of secured loans receivables has 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, for which 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 desegregates its secured loans that are collateralized by precious metal products, as follows:

in thousands

| | September 30, 2019 | | June 30, 2019 | |
|---|--------------------|---------------|-------------------|---------------|
| Loan-to-value of 75% or more | \$ 83,789 | 55.7% | \$ 59,258 | 47.3% |
| Loan-to-value of less than 75% | 66,684 | 44.3 | 66,040 | 52.7 |
| Secured loans collateralized by precious metal products | <u>\$ 150,473</u> | <u>100.0%</u> | <u>\$ 125,298</u> | <u>100.0%</u> |

The Company had no loans with a loan-to-value ratio in excess of 100% at September 30, 2019 or June 30, 2019.

Impaired Loans

A loan is considered impaired if it is probable, based on current information and events, that the Company will be unable to collect all amounts due according to the contractual terms of the loan. Customer loans are reviewed for impairment and include loans that are past due, non-performing, or in bankruptcy. Recognition of interest income is suspended and the loan is placed on non-accrual status when management determines that collection of future interest income is not probable. Accrual is resumed, and previously suspended interest income is recognized, when the loan becomes contractually current and/or collection doubts are removed. Cash receipts on impaired loans are recorded first against the receivable and then to any unrecognized interest income.

All loans are contractually subject to margin calls. 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 collateral material is highly liquid and can easily be sold by the Company to pay off the loan. In such circumstances, this 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 months ended September 30, 2019 and 2018, 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 September 30, 2019 and June 30, 2019:

in thousands

| | September 30, 2019 | June 30, 2019 |
|--|--------------------|-------------------|
| Inventory held for sale | \$ 112,604 | \$ 106,165 |
| Repurchase arrangements with customers | 68,854 | 65,516 |
| Consignment arrangements with customers | 5,004 | 4,896 |
| Commemorative coins, held at lower of cost or net realizable value | 2,336 | 17 |
| Borrowed precious metals | 24,270 | 21,762 |
| Product financing arrangements, restricted | 159,130 | 94,505 |
| | <u>\$ 372,198</u> | <u>\$ 292,861</u> |

Inventory Held for Sale. Inventory held for sale represents precious metals, excluding commemorative coin inventory, that have been received by the Company and are not subject to repurchase by or consignment arrangements with third parties. As of September 30, 2019 and June 30, 2019, the inventory held for sale totaled \$112.6 million and \$106.2 million, respectively.

Repurchase Arrangements with Customers. The Company enters into arrangements with certain customers under which A-Mark purchases precious metals from the customers which are subject to repurchase by the customer at the fair value of the product on the repurchase date. Under these arrangements, the Company, which holds legal title to the metals, earns financing income until the time the arrangement is terminated or the material is repurchased by the customer. In the event of a repurchase by the customer, the Company records a sale.

These arrangements are typically terminable by either party upon 14 days' notice. Upon termination, the customer's rights to repurchase any remaining inventory is forfeited. As of September 30, 2019 and June 30, 2019, included within inventory is \$68.9 million and \$65.5 million, respectively, of precious metals products subject to repurchase arrangements with customers.

Consignment Arrangements with Customers. The Company periodically loans metals to customers on a short-term consignment basis. Inventories loaned under consignment arrangements to customers as of September 30, 2019 and June 30, 2019 totaled \$5.0 million and \$4.9 million, respectively. Such transactions are recorded as sales and are removed from the Company's inventory at the time the customer elects to price and purchase the precious metals.

Commemorative Coins. Our commemorative coin inventory, including its premium component, is held at the lower of cost or net realizable value, because the value of commemorative coins is influenced more by supply and demand determinants than on the underlying spot price of the precious metal content of the commemorative coins. Unlike our bullion coins, the value of commemorative coins is not subject to the same level of volatility as bullion coins because our commemorative coins typically carry a substantially higher premium over the spot metal price than bullion coins. Our commemorative coins are not hedged, and are included in inventory at the lower of cost or net realizable value and totaled \$2,336,000 and \$17,000 as of September 30, 2019 and June 30, 2019, respectively.

Borrowed Precious Metals. Borrowed precious metals inventories include: 1) metals held by suppliers as collateral on advanced pool metals, 2) amounts due to suppliers for the use of consigned inventory, 3) unallocated metal positions held by customers in the Company's inventory, and 4) shortages in unallocated metal positions held by the Company in the supplier's inventory. Unallocated or pool metal represents an unsegregated inventory position that is due on demand, in a specified physical form, based on the total ounces of metal held in the position. Amounts due under these arrangements require delivery either in the form of precious metals or cash. The Company's inventories included borrowed precious metals with market values totaling \$24.3 million and \$21.8 million as of September 30, 2019 and June 30, 2019, respectively, with a corresponding offsetting obligation reflected as liabilities on borrowed metals on the condensed consolidated balance sheets.

Product Financing Arrangements. In substance, these inventories represent amounts held as security by lenders for obligations under product financing arrangements. The Company enters into a product financing agreement for the transfer and subsequent re-acquisition of gold and silver at an agreed-upon price based on the spot price with a third party finance company. This inventory is restricted and is held at a custodial storage facility in exchange for a financing fee, paid to the third party finance company. During the term of the financing, the third party finance company holds the inventory as collateral, and both parties intend for the inventory to be returned to the Company at an agreed-upon price based on the spot price on the finance arrangement termination date. These transactions do not qualify as sales and have been accounted for as financing arrangements in accordance with ASC 470-40 *Product Financing Arrangements*. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing and the underlying inventory are carried at fair value, with changes in fair value included in cost of sales in the condensed consolidated statements of operations. Such obligations totaled \$159.1 million and \$94.5 million as of September 30, 2019 and June 30, 2019, respectively.

The Company mitigates market risk of its physical inventories and open commitments through commodity hedge transactions. (See [Note 11](#).) As of September 30, 2019 and June 30, 2019, the unrealized (losses) gains resulting from the difference between market value and cost of physical inventories were \$(1.5) million and \$8.8 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 operations.

The premium component, at market value, included in the inventories as of September 30, 2019 and June 30, 2019 totaled \$5.3 million and \$4.4 million, respectively.

7. PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consists of the following at September 30, 2019 and June 30, 2019:

in thousands

| | September 30, 2019 | June 30, 2019 |
|--|--------------------|---------------|
| Office furniture, and fixtures | \$ 2,080 | \$ 2,080 |
| Computer equipment | 802 | 798 |
| Computer software | 4,215 | 4,111 |
| Plant equipment | 2,896 | 2,872 |
| Building | 319 | 319 |
| Leasehold improvements | 2,804 | 2,804 |
| Total depreciable assets | 13,116 | 12,984 |
| Less: accumulated depreciation | (7,810) | (7,395) |
| Property and equipment not placed in service | 1,106 | 1,106 |
| Land | 36 | 36 |
| Plant, property and equipment, net | \$ 6,448 | \$ 6,731 |

Depreciation expense for the three months ended September 30, 2019 and 2018 was \$415,000 and \$445,000, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill is an intangible asset that arises when a company acquires an existing business or assets (net of assumed liabilities) which comprise a business. In general, the amount of goodwill recorded in an acquisition is calculated as the purchase price of the business minus the fair market value of the tangible assets and the identifiable intangible assets, net of the assumed liabilities. Goodwill and intangibles can also be established by push-down accounting. Below is a summary of the significant transactions that generated goodwill and intangible assets of the Company:

- In connection with the acquisition of A-Mark by SGI in July 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.
- In connection with the Company's business combination with AMST in August 2016, the Company recorded an additional \$2.5 million and \$4.3 million of identifiable intangible assets and goodwill, respectively; these values were based upon an independent appraisal and represent their fair values at the acquisition date. The Company's investment in AMST has resulted in synergies between the acquired minting operation and the Company's established distribution network by providing a more steady and reliable fabricated source of silver during times of market volatility. The Company considers that much of the acquired goodwill relates to the "ready state" of AMST's established minting operation with existing quality processes, procedures, and ability to scale production to meet market needs.
- In connection with the Company's acquisition of Goldline in August 2017, the Company recorded \$5.0 million and \$1.4 million of additional identifiable intangible assets and goodwill, respectively; these values were based upon an independent appraisal and represent their fair values at the acquisition date. The Company's investment in Goldline created synergies between Goldline's direct marketing operation and the Company's established distribution network, secured storage and lending operations that has led to increased product margin spreads, lower distribution and storage costs for Goldline.

Carrying Value

The carrying value of goodwill and other purchased intangibles as of September 30, 2019 and June 30, 2019 is as described below:

dollar amounts in thousands

| | Estimated Useful Lives (Years) | September 30, 2019 | | | | June 30, 2019 | | | |
|-------------------------------------|--------------------------------|-----------------------|--------------------------|------------------------|----------------|-----------------------|--------------------------|------------------------|----------------|
| | | Gross Carrying Amount | Accumulated Amortization | Accumulated Impairment | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Accumulated Impairment | Net Book Value |
| Identifiable intangible assets: | | | | | | | | | |
| Existing customer relationships | 5 - 15 | \$ 8,848 | \$ (6,605) | \$ — | \$ 2,243 | \$ 8,848 | \$ (6,376) | \$ — | \$ 2,472 |
| Non-compete and other | 3 - 5 | 2,300 | (2,138) | — | 162 | 2,300 | (2,122) | — | 178 |
| Employment agreement | 3 | 295 | (264) | — | 31 | 295 | (256) | — | 39 |
| Intangibles subject to amortization | | 11,443 | (9,007) | — | 2,436 | 11,443 | (8,754) | — | 2,689 |
| Trade name | Indefinite | \$ 4,454 | \$ — | \$ (1,291) | \$ 3,163 | \$ 4,454 | \$ — | \$ (1,291) | \$ 3,163 |
| Identifiable intangible assets | | \$ 15,897 | \$ (9,007) | \$ (1,291) | \$ 5,599 | \$ 15,897 | \$ (8,754) | \$ (1,291) | \$ 5,852 |
| Goodwill | Indefinite | \$ 10,245 | \$ — | \$ (1,364) | \$ 8,881 | \$ 10,245 | \$ — | \$ (1,364) | \$ 8,881 |

The Company's intangible assets are subject to amortization except for trade-names, which have an indefinite life. Intangible assets subject to amortization are amortized using the straight-line method over their useful lives, which are estimated to be three to fifteen years. Amortization expense related to the Company's intangible assets for the three months ended September 30, 2019 and 2018 was \$253,000 and \$252,000, respectively.

Impairment

The accumulated impairment charge of \$2.7 million (goodwill and indefinite-lived intangible assets) was a non-recurring charge for fiscal 2018 related to the Direct Sales segment. No further impairment of goodwill or indefinite-lived intangible assets has occurred for the three months ended September 30, 2019.

Estimated Amortization

Estimated annual amortization expense related to definite-lived intangible assets for the succeeding five years is as follows (in thousands):

| Fiscal Year Ending June 30, | Amount |
|-----------------------------|----------|
| 2020 (9 months remaining) | \$ 758 |
| 2021 | 599 |
| 2022 | 571 |
| 2023 | 128 |
| 2024 | 47 |
| Thereafter | 333 |
| Total | \$ 2,436 |

9. LONG-TERM INVESTMENTS

The Company has three investments in privately-held entities, each of which is a precious metals retailer and customer of the Company. For each of these entities, the Company has: 1) an exclusive supplier agreement, for which these entities have agreed to purchase all bullion products required for their businesses exclusively from A-Mark, subject to certain limitations; 2) a product fulfillment services and storage agreement; and 3) the right to appoint a director to the entity's board of directors (which has been exercised in each case). The Company has determined that it is appropriate to account for each of these investments under

the equity method of accounting. The following table shows the carrying value and ownership percentage of the Company's investment in each entity:

| Entity | September 30, 2019 | | June 30, 2019 | |
|-----------|--------------------|----------------------|------------------|----------------------|
| | Carrying Value | Ownership Percentage | Carrying Value | Ownership Percentage |
| | (in thousands) | | (in thousands) | |
| Company A | \$ 2,006 | 7.4% | \$ 2,000 | 7.4% |
| Company B | 9,046 | 20.6% | 9,059 | 20.6% |
| Company C | 845 | 10.0% | 826 | 10.0% |
| | <u>\$ 11,897</u> | | <u>\$ 11,885</u> | |

The Company considers these equity method investees to be related parties. See [Note 13](#) for a summary of the Company's aggregate balances and activity with these related party entities.

10. ACCOUNTS PAYABLE

Accounts payable consists of the following:

in thousands

| | September 30, 2019 | June 30, 2019 |
|-----------------------------|--------------------|------------------|
| Trade payables to customers | \$ 12,644 | \$ 1,246 |
| Advances from customers | 66,366 | 57,643 |
| Deferred revenue | 4,734 | 1,592 |
| Other accounts payable | 1,661 | 1,699 |
| | <u>\$ 85,405</u> | <u>\$ 62,180</u> |

11. DERIVATIVE INSTRUMENTS AND HEDGING TRANSACTIONS

The Company is exposed to market risk, such as changes in commodity prices and foreign exchange rates. To manage the volatility related 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. 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, both of which are recorded in cost of sales in the consolidated statements of operations.

Commodity Price Management

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

The Company enters into derivative transactions solely for the purpose of hedging its inventory subject to price risk, and not for speculative market purposes. Due to the nature of the Company's global hedging strategy, the Company is not using hedge accounting as defined under Topic 815 of the ASC, whereby the gains or losses would be deferred and included as a component of other comprehensive income. Instead, gains or losses resulting from the Company's futures and forward contracts and open sale and purchase commitments are reported in the condensed consolidated statement of operations 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 derivative assets or liabilities 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). As such, for the Company's derivative contracts with the same counterparty, the receivables and payables have been netted on the condensed consolidated balance sheets. Such derivative contracts include open sale and purchase commitments, futures, forwards and margin accounts. In the table below, the aggregate gross and net derivative receivables and payables balances are presented by contract type and type of hedge, as of September 30, 2019 and June 30, 2019.

| <i>in thousands</i> | September 30, 2019 | | | | June 30, 2019 | | | |
|---|--------------------|-------------------|------------------------|------------------|------------------|-----------------|------------------------|-----------------|
| | 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 | \$ 8,497 | \$ (3,537) | \$ — | \$ 4,960 | \$ 2,874 | \$ (552) | \$ — | \$ 2,322 |
| Option contracts | 11 | — | — | 11 | 61 | — | — | 61 |
| Future contracts | 3,871 | — | — | 3,871 | 2 | — | — | 2 |
| Forward contracts | 10,704 | — | — | 10,704 | 43 | — | — | 43 |
| | <u>\$ 23,083</u> | <u>\$ (3,537)</u> | <u>\$ —</u> | <u>\$ 19,546</u> | <u>\$ 2,980</u> | <u>\$ (552)</u> | <u>\$ —</u> | <u>\$ 2,428</u> |
| Nettable derivative liabilities: | | | | | | | | |
| Open sale and purchase commitments | \$ 5,237 | \$ (2,122) | \$ — | \$ 3,115 | \$ 4,093 | \$ (271) | \$ — | \$ 3,822 |
| Margin accounts | 10,048 | — | (6,593) | 3,455 | 11,652 | — | (8,671) | 2,981 |
| Liability on price protection programs | 13 | — | — | 13 | 22 | — | — | 22 |
| Future contracts | — | — | — | — | 1,241 | — | — | 1,241 |
| Forward contracts | 107 | — | — | 107 | 2,044 | (139) | — | 1,905 |
| | <u>\$ 15,405</u> | <u>\$ (2,122)</u> | <u>\$ (6,593)</u> | <u>\$ 6,690</u> | <u>\$ 19,052</u> | <u>\$ (410)</u> | <u>\$ (8,671)</u> | <u>\$ 9,971</u> |

Gains or Losses on Derivative Instruments

The Company records the derivative at the trade date with a corresponding unrealized gain (loss), shown as a component of cost of sales in the condensed consolidated statements of operations. The Company adjusts the derivatives to fair value on a daily basis until the transactions are settled. When these contracts are net settled, the unrealized gains and losses are reversed and the realized gains and losses for forward contracts are recorded in revenue and cost of sales, and the net realized gains and losses for futures and option contracts are recorded in cost of sales.

Below is a summary of the net gains (losses) on derivative instruments for the three months ended September 30, 2019 and 2018.

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|--|----------------------------------|----------|-------------|
| Gains (losses) on derivative instruments: | | | |
| Unrealized gains (losses) on open future commodity and forward contracts and open sale and purchase commitments, net | \$ | 25,111 | \$ (19,898) |
| Realized (losses) gains on future commodity contracts, net | | (16,445) | 4,765 |
| | \$ | 8,666 | \$ (15,133) |

The Company's net gains (losses) on derivative instruments, as shown in the table above, were substantially offset by the changes in fair market value of the underlying precious metals inventory and open sale and purchase commitments, which were also recorded in cost of sales in the condensed consolidated statements of operations.

Summary of Hedging Positions

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 September 30, 2019 and at June 30, 2019.

in thousands

| | September 30, 2019 | June 30, 2019 |
|---|--------------------|---------------|
| Inventory | \$ 372,198 | \$ 292,861 |
| Precious metals held under financing arrangements | 200,809 | 208,792 |
| | 573,007 | 501,653 |
| Less unhedgeable inventory: | | |
| Commemorative coin inventory, held at lower of cost or net realizable value | (2,336) | (17) |
| Premium on metals position | (5,276) | (4,424) |
| Precious metal value not hedged | (7,612) | (4,441) |
| | 565,395 | 497,212 |
| Commitments at market: | | |
| Open inventory purchase commitments | 285,267 | 166,600 |
| Open inventory sales commitments | (236,353) | (158,870) |
| Margin sale commitments | (10,048) | (11,652) |
| In-transit inventory no longer subject to market risk | (3,802) | (809) |
| Unhedgeable premiums on open commitment positions | 2,014 | 838 |
| Borrowed precious metals | (196,738) | (201,144) |
| Product financing arrangements | (159,130) | (94,505) |
| Advances on industrial metals | 9,512 | 8,644 |
| | (309,278) | (290,898) |
| Precious metal subject to price risk | 256,117 | 206,314 |
| Precious metal subject to derivative financial instruments: | | |
| Precious metals forward contracts at market values | 118,988 | 133,612 |
| Precious metals futures contracts at market values | 138,361 | 72,218 |
| Total market value of derivative financial instruments | 257,349 | 205,830 |
| Net precious metals subject to commodity price risk | \$ (1,232) | \$ 484 |

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 September 30, 2019 and June 30, 2019, the Company had the following outstanding commitments and open forward and future contracts:

in thousands

| | September 30, 2019 | June 30, 2019 |
|--------------------------|--------------------|---------------|
| Purchase commitments | \$ 285,267 | \$ 166,600 |
| Sales commitments | \$ (236,353) | \$ (158,870) |
| Margin sales commitments | \$ (10,048) | \$ (11,652) |
| Open forward contracts | \$ 118,988 | \$ 133,612 |
| Open futures contracts | \$ 138,361 | \$ 72,218 |

The contract amounts (i.e., notional balances) of the Company's forward and futures contracts and the open sales and purchase commitments are 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 September 30, 2019, the Company believes its risk of counterparty default is mitigated as a result of such evaluation and the short-term duration of these arrangements.

Foreign Currency Exchange Rate Management

The Company utilizes foreign currency forward contracts to manage the effect of foreign currency exchange fluctuations on its sale and purchase transactions. These contracts generally have maturities of less than one week. The accounting treatment of our foreign currency exchange derivative instruments is similar to the accounting treatment of our commodity derivative instruments, that is, the change in the value in the financial instrument is immediately recognized as a component of cost of sales. Unrealized losses on foreign exchange derivative instruments shown on the face of the condensed consolidated statements of operations totaled \$122,000 and \$70,000 for the three months ended September 30, 2019 and 2018, 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 are as follows:

| <i>in thousands</i> | September 30, 2019 | June 30, 2019 |
|---|--------------------|---------------|
| Foreign exchange forward contracts | \$ 7,566 | \$ 5,934 |
| Open sale and purchase commitment transactions, net | \$ 10,092 | \$ 4,667 |

12. INCOME TAXES

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

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|--|----------------------------------|------|----------|
| U.S. | \$ | 401 | \$ 1,925 |
| Foreign | | 7 | 8 |
| Net income before provision for income taxes | \$ | 408 | \$ 1,933 |

The Company files a consolidated federal income tax return based on a June 30 tax year end. The provision for income tax expense by jurisdiction and the effective tax rate for the three months ended September 30, 2019 and 2018 are shown below:

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|--------------------|----------------------------------|-------|--------|
| Federal | \$ | 85 | \$ 419 |
| State and local | | 19 | 78 |
| Foreign | | 1 | 2 |
| Income tax expense | \$ | 105 | \$ 499 |
| Effective tax rate | | 25.7% | 25.8% |

Tax Balances and Activity

Income Taxes Receivable and Payable

As of September 30, 2019 and June 30, 2019, income taxes receivable totaled \$1.5 million and \$1.5 million, respectively.

Deferred Tax Assets and Liabilities

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized by evaluating both positive and negative evidence. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. As of September 30, 2019 and June 30, 2019, management concluded that it was more likely than not that the Company would be able to realize the benefit of the U.S. federal and state deferred tax assets. We based this conclusion on historical and projected operating performance, as well as our expectation that our operations will generate sufficient taxable income in future periods to realize the tax benefits associated with the deferred tax assets. A tax valuation allowance was considered unnecessary as of September 30, 2019 and June 30, 2019.

As of September 30, 2019, the consolidated balance sheet reflects the deferred tax items for each tax-paying component (i.e., federal and state), resulting in a state deferred tax asset of \$1.6 million and a federal deferred tax asset of \$1.5 million, primarily comprised of net operating loss carryforwards. As of June 30, 2019, the consolidated balance sheet reflects the deferred tax items for each tax-paying component (i.e., federal and state), resulting in a state deferred tax asset of \$1.6 million and a federal deferred tax asset of \$1.6 million primarily comprised of net operating loss carryforwards.

Net Operating Loss Carryforwards and Tax Credits

As of September 30, 2019 and June 30, 2019, the Company has approximately \$8.7 million and \$9.1 million of federal net operating loss carryforwards and approximately \$16.7 million and \$17.1 million, state and city net operating loss carryforwards, respectively. The Company's combined federal, state and city tax-effected net operating loss carryforwards totaled, as of September 30, 2019 and June 30, 2019, \$3.0 million and 3.1 million, respectively. These net operating loss carryforwards start to expire in the year ending June 30, 2022.

As of September 30, 2019 and June 30, 2019, the Company has approximately \$53,000 and \$53,000, respectively, of a California state tax credit that can be carried-over indefinitely to future tax years.

Unrecognized Tax Benefits

The Company has taken or expects to take certain tax benefits on its income tax return filings that it has not recognized a tax benefit (i.e., an unrecognized tax benefit) on its consolidated statements of operations. The Company's measurement of its uncertain tax positions is based on management's assessment of all relevant information, including, but not limited to prior audit experience, audit settlement, or lapse of the applicable statute of limitations. For the three months ended September 30, 2019, there were no material movement in unrecognized tax benefits including interest and penalties.

Tax Examinations

There has been no material change to our open tax examinations. Information related to open tax examinations is included in our 2019 Annual Report on Form 10-K for fiscal year ended June 30, 2019.

13. RELATED PARTY TRANSACTIONS

Related parties are entities that the Company controls or has the ability to significantly influence. Related parties also include persons who are affiliated with related entities or the Company that are in a position to influence corporate decisions (such as owners, executives, board members and their families). In the normal course of business, we enter into transactions with our related parties. Below is a list of related parties with whom we have had significant transactions during the comparable periods:

- 1) *Stack's Bowers Numismatics LLC. ("Stack's Bowers Galleries")*. Stack's Bowers Galleries is a wholly-owned subsidiary of Spectrum Group International, Inc. ("SGI"). In March 2014, SGI distributed all of the shares of common stock of A-Mark to its stockholders, effecting a spinoff of A-Mark from SGI. As a result of this distribution the Company became a publicly traded company independent from SGI. Also, SGI and the Company have a common chief executive officer.
- 2) *SilverTowne, L.P.* SilverTowne L.P. is a non-controlling owner of AMST (i.e., the Company's minting operations).
- 3) *Equity method investees*. The Company has three investments in privately-held entities, each of which is a precious metals retailer and customer of the Company. For each of these entities, the Company has: 1) an exclusive supplier agreement, for which these entities have agreed to purchase all bullion products required for their businesses exclusively from A-Mark, subject to certain limitations; 2) a product fulfillment services and storage agreement; and 3) the right to appoint a director to the entity's board of directors (which has been exercised in each case).
- 4) *Goldline Lenders*. In connection with the acquisition of Goldline, the Company entered into a privately placed credit facility with various lenders, which included some members of the Company's board of directors.

Our related party transactions include (i) sales and purchases of precious metals (ii) financing activity (iii) repurchase arrangements, and (iv) hedging transactions.

Below is a summary of our related party transactions. Reported transactions from the comparable prior period have been updated, as needed, to include the balances and activity according to our current list of related parties.

Balances with Related Parties

As of September 30, 2019 and June 30, 2019, the Company had related party receivables and payables balances as set forth below:

in thousands

| | September 30, 2019 | | June 30, 2019 | |
|--------------------------|-------------------------|---------------|------------------|---------------|
| | Receivables | Payables | Receivables | Payables |
| Stack's Bowers Galleries | \$ 8,508 ⁽¹⁾ | \$ — | \$ 17,630 | \$ — |
| Equity method investees | 1,904 ⁽²⁾ | 591 | 4,978 | 163 |
| SilverTowne | 290 ⁽³⁾ | — | 241 | — |
| | <u>\$ 10,702</u> | <u>\$ 591</u> | <u>\$ 22,849</u> | <u>\$ 163</u> |

(1) Balance principally includes two secured lines of credit with a balance of \$4.8 million and \$4.1 million (shown as a component of secured loans receivables) partially offset by a trade payable balance of \$0.3 million. See "Secured Lines of Credit with Stack's Bowers Galleries", below.

(2) Balance primarily represents trade receivables, net (shown as a component of receivables).

(3) Balance primarily represents trade receivables, net (shown as a component of receivables).

Secured Lines of Credit

On September 19, 2017, CFC entered into a loan agreement with Stack's Bowers Galleries providing a secured line of credit, bearing interest at a competitive rate per annum, with a maximum borrowing line (subject to temporary increases) of \$5.3 million. The loan is secured by precious metals and numismatic products. As of September 30, 2019 and June 30, 2019, the outstanding principal balance of this loan was \$4.1 million and \$6.4 million, respectively.

On March 1, 2018, CFC entered into a loan agreement with Stack's Bowers Galleries providing a secured line of credit on the wholesale value (i.e., the excess over the spot value of the metal), of numismatic products bearing interest at a competitive rate per annum, with a maximum borrowing line (subject to temporary increases) of \$10.0 million. In addition to the annual rate of interest, the Company is entitled to receive a participation interest equal to 10% of the net profits realized by Stack's Bowers Galleries on the ultimate sale of the products. As of September 30, 2019 and June 30, 2019, the outstanding principal balance this loan was \$4.8 million and \$7.5 million, respectively.

Long Term Debt Obligation

On December 7, 2018, the Company repaid the \$7.5 million principal amount outstanding under the Goldline Credit Facility to the Goldline Lenders in full. Under the terms of the principal repayment, the applicable credit and related agreements have been terminated and none of the parties thereto has any further rights or obligations thereunder. (See [Note 14](#).)

Activity with Related Parties**Sales and Purchases**

During the three months ended September 30, 2019 and 2018, the Company made sales and purchases to various companies, which have been deemed to be related parties, as follows:

in thousands

| | Three Months Ended September 30, | | 2019 | | 2018 | |
|--------------------------|----------------------------------|------------------|-------------------|------------------|-------|-----------|
| | Sales | Purchases | Sales | Purchases | Sales | Purchases |
| Stack's Bowers Galleries | \$ 11,001 | \$ 16,759 | \$ 17,475 | \$ 16,772 | | |
| Equity method investees | 101,023 | 14,839 | 132,598 | 3,474 | | |
| SilverTowne | 1,527 | 581 | 4,138 | 461 | | |
| | <u>\$ 113,551</u> | <u>\$ 32,179</u> | <u>\$ 154,211</u> | <u>\$ 20,707</u> | | |

Interest Income

During the three months ended September 30, 2019 and 2018, the Company earned interest income related to loans made to Stack's Bowers Galleries and to financing arrangements (including repurchase agreements) with affiliated companies, as set forth below:

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|---|----------------------------------|--------------|-----------------|
| Interest income from secured loans receivables | \$ | 298 | \$ 214 |
| Interest income from finance products and repurchase arrangements | | 1,627 | 1,808 |
| | <u>\$</u> | <u>1,925</u> | <u>\$ 2,022</u> |

Interest Expense

During the three months ended September 30, 2019 and 2018, the Company incurred interest expense (including debt amortization costs) related to the debt payable to the Goldline Lenders that totaled \$0.0 million and \$0.2 million, respectively.

Other Income

During the three months ended September 30, 2019 and 2018, the Company recorded its proportional share of its equity method investee's net income as other income that totaled \$11,000 and \$248,000, respectively. As of September 30, 2019 and June 30, 2019, the aggregate carrying balance of the equity method investments was \$11.9 million and \$11.9 million, respectively.

During the three months ended September 30, 2019 and 2018, the Company earned profit sharing income related to one of CFC's secured lending agreements with Stack's Bowers Galleries that totaled \$42,000 and \$0, respectively.

14. FINANCING AGREEMENTS**Lines of Credit**

Effective March 29, 2019, through an amendment and restatement of the applicable credit documents, A-Mark renewed its uncommitted demand borrowing facility ("Trading Credit Facility") with a syndicate of banks. Under the agreements, Coöperatieve Rabobank U.A. acts as joint lead lender and administrative agent and Natixis acts as joint lead arranger and syndication agent for the syndicate. The Trading Credit Facility is secured by substantially all of the Company's assets on a first priority basis.

As of September 30, 2019, the Trading Credit Facility provided the Company with access up to \$260.0 million, featuring a \$210.0 million base, with a \$50.0 million accordion option. The Trading Credit Facility is scheduled to mature on March 27, 2020. From commencement of the Trading Credit Facility (i.e., March 31, 2016), the Company has incurred \$3.4 million of accumulated loan costs. These loan costs have been capitalized when incurred and are amortized over the term of the Trading Credit Facility. As of September 30, 2019 and June 30, 2019, the remaining unamortized balance was approximately \$0.4 million and \$0.6 million, respectively.

The Company routinely uses the Trading Credit Facility to purchase and finance precious metals and for operating cash flow purposes. Amounts under the Trading Credit Facility bear interest based on London Interbank Offered Rate ("LIBOR") plus a 2.50% margin for revolving credit line loans and a 4.50% margin for bridge loans (that is, for loans that exceed the available revolving credit line). The one-month LIBOR rate was approximately 1.82% and 2.40% as of September 30, 2019 and June 30, 2019, respectively. Borrowings are due on demand and totaled \$204.0 million and \$167.0 million at September 30, 2019 and at June 30, 2019, respectively. The amounts available under the respective borrowing facilities are determined at the end of each week following a specified borrowing base formula. The Company is able to access additional credit as needed to finance operations,

subject to the overall limits of the borrowing facilities and lender approval of the revised borrowing base calculation. Based on the latest approved borrowing bases in effect, the amounts available under the Trading Credit Facility, after taking into account current borrowings, totaled \$6.0 million and \$11.6 million as determined on September 30, 2019 and on June 30, 2019, respectively.

The Trading Credit Facility has certain restrictive financial covenants, including one requiring the Company to maintain a minimum tangible net worth. As of September 30, 2019 the minimum tangible net worth financial covenant under the Trading Credit Facility was \$47.5 million. The Company is in compliance with all restrictive financial covenants as of September 30, 2019.

Interest expense related to the Company's lines of credit totaled \$2.1 million and \$2.0 million, which represents 41.6% and 57.2% of the total interest expense recognized, for the three months ended September 30, 2019 and 2018, respectively. Our lines of credit carried a daily weighted average effective interest rate of 4.75% and 4.54%, respectively, for the three months ended September 30, 2019 and 2018.

Debt Obligation with Goldline Lenders

On August 28, 2017, in connection with the closing of the Goldline acquisition, Goldline, then known as Goldline Acquisition Corp., entered into a privately placed credit facility in the amount of \$7.5 million (the "Goldline Credit Facility") with various lenders (the "Goldline Lenders"). Borrowings under the Goldline Credit Facility were used to finance a portion of the consideration payable pursuant to the Goldline acquisition.

The Goldline Credit Facility was secured by a first priority lien on substantially all of the assets of Goldline, and was guaranteed by the Company. Interest on the Goldline Credit Facility was payable quarterly in arrears at the rate of 8.5% per annum, and the Goldline Lenders under the Goldline Credit Facility were entitled to an additional funding fee payment at maturity equal to the greater of 3.0% of the principal amount of the Goldline Credit Facility and 10.0% of cumulative EBITDA (for the periods ending June 30, 2018, 2019 and 2020) of Goldline in excess of \$10.0 million, on a pro rata basis. The Goldline Credit Facility had a three-year maturity.

On December 7, 2018, the Company prepaid the \$7.5 million principal amount outstanding under the Goldline Credit Facility. As a result there was no interest expense incurred for the three months ended September 30, 2019 related to this facility.

Interest expense related to the Goldline Credit Facility (including debt loan amortization costs) totaled \$195,000 which represents 5.5% of the total interest expense recognized, for the three months ended September 30, 2018. The Goldline Credit Facility's weighted average effective interest rate was 8.84% for the three months ended September 30, 2018.

Notes Payable

Securitization

In September 2018, AM Capital Funding, LLC. ("AMCF"), a wholly owned subsidiary of CFC, completed an issuance of Secured Senior Term Notes (collectively, the "Notes"): Series 2018-1, Class A (the "Class A Notes") in the aggregate principal amount of \$72.0 million and Secured Subordinated Term Notes, Series 2018-1, Class B (the "Class B Notes" and together with the Class A Notes, the "Notes") in the aggregate principal amount of \$28.0 million. The Class A Notes bear interest at a rate of 4.98% and the Class B Notes bear interest at a rate of 5.98%. The Notes have a maturity date of December 15, 2023. The Notes were issued under a Master Indenture and the Series 2018-1 Supplement thereto between AMCF and Citibank, N.A., as trustee. The Company holds \$5.0 million of the Class B Notes in order to comply with the Credit Risk Retention Rules of Section 15G of the Exchange Act. The \$5.0 million portion of the Class B Notes retained by the Company is eliminated in consolidation.

AMCF applied the net proceeds from the sale of the Notes to purchase loans and precious metals inventory, and to pay certain costs and expenses. CFC and A-Mark may from time to time also contribute cash or sell precious metals to AMCF in exchange for cash or subordinated, deferred payment obligations from AMCF. In addition, AMCF may from time to time sell precious metals to A-Mark for cash.

As of September 30, 2019, the consolidated carrying balance of the Notes was \$92.0 million (which excludes the \$5.0 million note that the Company retained), and the remaining unamortized loan cost balance was approximately \$3.0 million, which is amortized using the effective interest method through the maturity date. As of September 30, 2019, the balance of the interest payable was \$234,000.

Interest on the Notes is payable monthly in arrears at the aggregate rate of 5.26% per annum. For the three months ended September 30, 2019, the interest expense related to the Notes (including loan amortization costs) totaled \$1.5 million which represents 28.6% of the total interest expense recognized by the Company. For the three months ended September 30, 2019, the Notes' weighted average effective interest rate was 5.88%.

Variable Interest Entity

AMCF is a special purpose entity whose sole activity consists of operating, owning, and financing indenture assets. The Notes are primarily payable from, and secured by, (i) precious metals obtained by AMCF from third-parties or A-Mark, and (ii) a portfolio of loans collateralized by precious metals, which were originated by either CFC or acquired by CFC from third parties and conveyed by CFC to AMCF. The indenture requires AMCF to maintain a specified level of collateral. The indenture also provides that AMCF's assets are not to be commingled with those of CFC or A-Mark (or any affiliate), and that AMCF is to maintain separate books and records.

AMCF is a VIE because the Company's initial equity investment may be insufficient to maintain its ongoing collateral requirements without additional financial support from the Company. The securitization is primarily secured by bullion loans and precious metals, and the Company is required to continuously hedge the value of the collateral and make future contributions as necessary. The Company is the primary beneficiary of this VIE because the Company has the right to determine the type of collateral (i.e., secured loans or precious metals), has the right to receive (and has received) the proceeds from the securitization transaction, and earns on-going interest income from the secured loans (subject to collateral requirements) held by AMCF.

The assets and liabilities of the VIE, as of September 30, 2019 and June 30, 2019, are indicated on table that follows the [condensed consolidated balance sheets](#).

Liabilities on Borrowed Metals

The Company recorded liabilities on borrowed precious metals with market values totaling \$196.7 million and \$201.1 million as of September 30, 2019 and June 30, 2019, respectively, with the corresponding metals reflected on the condensed consolidated balance sheets.

Advanced pool metals

The Company borrows precious metals from its suppliers and customers under short-term agreements using other precious metals from its inventory as collateral. The Company has the ability to sell the metals advanced. These arrangements can be settled by repayment in similar metals or in cash. Once the obligation is settled, the metals held as collateral are released back to the Company.

Liabilities on borrowed metals — Other

Liabilities may also arise from: (1) unallocated metal positions held by customers in the Company's inventory, (2) amounts due to suppliers for the use of consigned inventory, and (3) shortages in unallocated metal positions held by the Company in the supplier's inventory. Unallocated or pool metal represent 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 due under these arrangements require delivery either in the form of precious metals, or in cash.

Product Financing Arrangements

The Company has agreements with financial institutions (third parties) that allow the Company to transfer its gold and silver inventory at an agreed-upon price based on the spot price with these third parties. Such agreements allow the Company to repurchase this inventory at an agreed-upon price based on the spot price on the repurchase date. The third party charges a monthly fee as a percentage of the market value of the outstanding obligation; such monthly charges are classified in interest expense. These transactions do not qualify as sales, and therefore have been accounted for as financing arrangements and are reflected in the condensed consolidated balance sheet as product financing arrangements. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing obligation and the underlying inventory (which is entirely restricted) are carried at fair value, with changes in fair value recorded as a component of cost of sales in the condensed consolidated statements of operations. Such obligation totaled \$159.1 million and \$94.5 million as of September 30, 2019 and June 30, 2019, respectively.

15. COMMITMENTS AND CONTINGENCIES

Refer to Note 15 of the Notes to Consolidated Financial Statements in the 2019 Annual Report for information relating to minimum rental payments under operating and capital leases, consulting and employment contracts, and other commitments. The Company is not aware of any material changes to commitments as summarized the 2019 Annual Report, other than as summarized below.

Contingencies related to Purchase of Goldline

In connection with the acquisition of assets of Goldline LLC, the Company held back and deposited a portion of the original purchase price into escrow to serve as security for the seller's indemnification obligations. At June 30, 2019, \$750,000 remained in escrow. In October 2019, the Company entered into a settlement agreement and mutual release with Goldline LLC, pursuant to which the Company received \$460,000 from the escrow account and released Goldline from any further obligations relating to the acquisition. The costs associated with the settlement of our purchase of Goldline were recorded as other income (loss), net in the condensed consolidated statements of operations.

16. STOCKHOLDERS' EQUITY

Share Repurchase Program

In April 2018, the Company's Board of Directors approved a share repurchase program which authorized the Company to purchase up to 500,000 shares of its common stock from time to time, either in the open market or in block purchase transactions. The amount and timing of specific repurchases are subject to market conditions, applicable legal requirements and other factors. As of September 30, 2019, no shares had been repurchased under the program.

2014 Stock Award and Incentive Plan

Prior to the spinoff, the Company's Board of Directors ("Board") adopted and the Company's then sole stockholder approved the 2014 Stock Award and Incentive Plan, which was approved by the Company's stockholders in February 2015. On November 2, 2017, the Company's stockholders approved the amended and restated 2014 Stock Award and Incentive Plan (the "2014 Plan"), to (i) increase the available shares authorized for issuance under the plan by 525,000 shares, (ii) extend the term of the 2014 Plan until 2027, an additional five years, and (iii) eliminate provisions that add back to the share reserve shares surrendered or withheld to pay the exercise price of an option or withheld to cover tax withholding obligations for any type of award, and shares as to which a stock appreciation right is exercised that exceed the number of shares actually delivered. On October 30, 2019, the Company's stockholders approved the amended and restated 2014 Plan to increase the available shares authorized for issuance under the plan by an additional 200,000 shares (see [Note 19](#).)

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

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

As of September 30, 2019, 358,395 shares were available for grant under the 2014 Plan.

Stock Options

During the three months ended September 30, 2019 and 2018, the Company incurred \$166,304 and \$272,681 of compensation expense related to stock options, respectively. As of September 30, 2019, there was total remaining compensation expense of \$1.0 million related to employee stock options, which will be recorded over a weighted average period of approximately 2.0 years.

The following table summarizes the stock option activity for the three months ended September 30, 2019.

| | Options | Weighted Average Exercise Price Per Share | Aggregate Intrinsic Value (in thousands) | Weighted Average Grant Date Fair Value Per Award |
|--|----------|---|---|--|
| Outstanding at June 30, 2019 | 956,998 | \$ 17.08 | \$ 787 | \$ 5.88 |
| Granted | 50,000 | \$ 14.34 | | |
| Cancellations, expirations and forfeitures | (11,733) | \$ 16.72 | | |
| Outstanding at September 30, 2019 | 995,265 | \$ 16.95 | \$ 575 | \$ 5.83 |
| Exercisable at September 30, 2019 | 749,861 | \$ 17.11 | \$ 575 | \$ 6.04 |

Following is a summary of the status of stock options outstanding at September 30, 2019.

| Exercise Price Ranges | | Options Outstanding | | | Options Exercisable | | |
|-----------------------|----------|------------------------------|---|---------------------------------|------------------------------|---|---------------------------------|
| | | Number of Shares Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number of Shares Exercisable | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price |
| From | To | | | | | | |
| \$ — | \$ 10.00 | 134,239 | 3.10 | \$ 8.39 | 134,239 | 3.10 | \$ 8.39 |
| \$ 10.01 | \$ 15.00 | 275,671 | 6.85 | \$ 12.80 | 143,835 | 4.83 | \$ 12.40 |
| \$ 15.01 | \$ 25.00 | 485,355 | 7.03 | \$ 19.91 | 396,787 | 6.81 | \$ 20.17 |
| \$ 25.01 | \$ 60.00 | 100,000 | 6.39 | \$ 25.50 | 75,000 | 6.39 | \$ 25.50 |
| | | 995,265 | 6.39 | \$ 16.95 | 749,861 | 5.73 | \$ 17.10 |

Certain Anti-Takeover Provisions

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

17. CUSTOMER AND SUPPLIER CONCENTRATIONS

Customer Concentration

Customers providing 10 percent or more of the Company's revenues for the three months ended September 30, 2019 are presented on a comparative basis, with their corresponding balances for the three months ended September 30, 2018 in the table below:

in thousands

| | Three Months Ended September 30, | | 2019 | | 2018 | |
|--------------------------------|----------------------------------|---------|--------------|---------|--------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Total revenue | \$ 1,481,014 | 100.0% | \$ 1,565,090 | 100.0% | | |
| <i>Customer concentrations</i> | | | | | | |
| HSBC Bank USA ⁽¹⁾ | \$ 272,199 | 18.4% | \$ 380,122 | 24.3% | | |
| TD Securities ⁽¹⁾ | 300,035 | 20.2% | 1,806 | 0.1% | | |
| | 572,234 | 38.6% | 381,928 | 24.4% | | |

(1) Sales with these trading partners are primarily comprised of sales on forward contracts that are entered into for hedging purposes rather than sales characterized with the physical delivery of precious metal product.

Customers providing 10 percent or more of the Company's accounts receivable as of September 30, 2019 are presented on a comparative basis, with their corresponding balances as of June 30, 2019, in the table below:

in thousands

| | September 30, 2019 | | June 30, 2019 | |
|---------------------------------------|--------------------|---------|---------------|---------|
| | Amount | Percent | Amount | Percent |
| Total accounts receivable, net | \$ 23,643 | 100.0% | \$ 26,895 | 100.0% |
| <i>Customer concentrations</i> | | | | |
| Customer A | \$ 3,714 | 15.7% | \$ 6,506 | 24.2% |
| Customer B | 4,645 | 19.7% | — | —% |
| | \$ 8,359 | 35.4% | \$ 6,506 | 24.2% |

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

Supplier Concentration

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

18. SEGMENTS AND GEOGRAPHIC INFORMATION

The Company evaluates segment reporting in accordance with FASB ASC 280, *Segment Reporting*, each reporting period, including evaluating the organizational structure and the reporting package that is reviewed by the chief operating decision makers. The Company's operations are organized under three business segments — Wholesale Trading & Ancillary Services, Secured Lending, and Direct Sales. (See [Note 1](#) for a description of the types of products and services from which each reportable segment derives its revenues.)

Revenue

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|---|----------------------------------|-----------------------|-----------------------|
| Revenue by segment ⁽¹⁾⁽²⁾ | | | |
| Wholesale Trading & Ancillary Services ⁽³⁾ | | \$ 1,460,933 | \$ 1,554,313 |
| Direct Sales | | 20,081 ^(a) | 10,777 ^(b) |
| Total revenue | | <u>\$ 1,481,014</u> | <u>\$ 1,565,090</u> |

(1) Inter-segment purchases from and sales to the Direct Sales segment are transacted at Wholesale Trading & Ancillary Services segment's prices, which is consistent with arms-length transactions with third-parties.

(2) The Secured Lending segment earns interest income from its lending activity and earns no revenue from the sales of precious metals. Therefore, no amounts are shown for the Secured Lending segment in the above table.

(3) The elimination of inter-segment sales are reflected in the Wholesale Trading & Ancillary Services segment.

(a) Includes \$8.6 million of inter-segment sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment.

(b) Includes \$0.8 million of inter-segment sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment.

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|---|----------------------------------|---------------------|---------------------|
| Revenue by geographic region <i>(as determined by the shipping address or where the services were performed):</i> | | | |
| United States | | \$ 1,105,621 | \$ 1,375,636 |
| Europe | | 62,102 | 90,152 |
| North America, excluding United States | | 300,397 | 96,384 |
| Asia Pacific | | 6,113 | 2,343 |
| Africa | | 31 | 1 |
| Australia | | 6,750 | 574 |
| Total revenue | | <u>\$ 1,481,014</u> | <u>\$ 1,565,090</u> |

Gross Profit and Gross Margin Percentage

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|--|----------------------------------|-----------------|-----------------|
| Gross profit by segment ⁽¹⁾ | | | |
| Wholesale Trading & Ancillary Services | | \$ 6,760 | \$ 7,412 |
| Direct Sales | | 1,580 | 1,063 |
| Total gross profit | | <u>\$ 8,340</u> | <u>\$ 8,475</u> |
| Gross margin percentage by segment ⁽¹⁾ | | | |
| Wholesale Trading & Ancillary Services | | 0.463 % | 0.477 % |
| Direct Sales | | 7.868 % | 9.864 % |
| Weighted average gross margin percentage | | 0.563 % | 0.542 % |

(1) The Secured Lending segment earns interest income from its lending activity and earns no gross profit from the sales of precious metals. Therefore, no amounts are shown for the Secured Lending segment in the above table.

Operating income and (expenses)*in thousands*

| | Three Months Ended September 30, | 2019 | 2018 |
|--|----------------------------------|---------|------------|
| Operating income and (expenses) by segment | | | |
| Wholesale Trading & Ancillary Services | | | |
| Selling, general and administrative expenses | \$ | (5,802) | \$ (5,258) |
| Interest income | \$ | 2,262 | \$ 2,052 |
| Interest expense | \$ | (2,826) | \$ (1,880) |
| Other income, net | \$ | 12 | \$ 248 |
| Unrealized loss on foreign exchange | \$ | (122) | \$ (70) |
| Secured Lending | | | |
| Selling, general and administrative expenses | \$ | (348) | \$ (345) |
| Interest income | \$ | 3,506 | \$ 2,499 |
| Interest expense | \$ | (2,316) | \$ (1,477) |
| Other income, net | \$ | 42 | \$ — |
| Direct Sales | | | |
| Selling, general and administrative expenses | \$ | (2,120) | \$ (2,116) |
| Interest expense | \$ | — | \$ (195) |
| Other expense, net | \$ | (220) | \$ — |
| Net (loss) income before provision for income taxes | | | |

in thousands

| | Three Months Ended September 30, | 2019 | 2018 |
|---|----------------------------------|------------|-----------------|
| Net (loss) income before provision for income taxes by segment | | | |
| Wholesale Trading & Ancillary Services | \$ | 284 | \$ 2,504 |
| Secured Lending | | 884 | 677 |
| Direct Sales | | (760) | (1,248) |
| Total net income before provision for income taxes | \$ | 408 | \$ 1,933 |

Depreciation and Amortization*in thousands*

| | Three Months Ended September 30, | 2019 | 2018 |
|---|----------------------------------|--------------|-----------------|
| Depreciation and amortization by segment | | | |
| Wholesale Trading & Ancillary Services | \$ | (397) | \$ (396) |
| Secured Lending | | (16) | — |
| Direct Sales | | (255) | (301) |
| Total depreciation and amortization | \$ | (668) | \$ (697) |

Advertising expense*in thousands*

| | Three Months Ended September 30, | 2019 | 2018 |
|--|----------------------------------|--------------|-----------------|
| Advertising expense by segment | | | |
| Wholesale Trading & Ancillary Services | \$ | (56) | \$ (107) |
| Secured Lending | | (3) | (3) |
| Direct Sales | | (404) | (480) |
| Total advertising expense | \$ | (463) | \$ (590) |

Precious metals held under financing arrangements*in thousands*

| | September 30, 2019 | June 30, 2019 |
|---|--------------------|-------------------|
| Precious metals held under financing arrangements by segment | | |
| Wholesale Trading & Ancillary Services | \$ 200,809 | \$ 208,792 |
| Total precious metals held under financing arrangements | \$ 200,809 | \$ 208,792 |

Inventory*in thousands*

| | September 30, 2019 | June 30, 2019 |
|--|--------------------|-------------------|
| Inventories by segment | | |
| Wholesale Trading & Ancillary Services | \$ 364,206 | \$ 285,250 |
| Direct Sales | 7,992 | 7,611 |
| Total inventories | \$ 372,198 | \$ 292,861 |

in thousands

| | September 30, 2019 | June 30, 2019 |
|---|--------------------|-------------------|
| Inventories by geographic region | | |
| United States | \$ 358,806 | \$ 280,924 |
| Europe | 6,470 | 3,944 |
| North America, excluding United States | 6,913 | 7,452 |
| Asia | 9 | 541 |
| Total inventories | \$ 372,198 | \$ 292,861 |

Assets*in thousands*

| | September 30, 2019 | June 30, 2019 |
|--|--------------------|-------------------|
| Assets by segment | | |
| Wholesale Trading & Ancillary Services | \$ 657,621 | \$ 561,902 |
| Secured Lending | 153,715 | 130,143 |
| Direct Sales | 15,861 | 13,317 |
| Total assets | \$ 827,197 | \$ 705,362 |

in thousands

| | September 30, 2019 | June 30, 2019 |
|--|--------------------|-------------------|
| Assets by geographic region | | |
| United States | \$ 809,457 | \$ 689,287 |
| Europe | 10,818 | 8,082 |
| North America, excluding United States | 6,913 | 7,452 |
| Asia | 9 | 541 |
| Total assets | \$ 827,197 | \$ 705,362 |

Long-term Assets*in thousands*

| | September 30, 2019 | June 30, 2019 |
|--|--------------------|------------------|
| Long-term assets by segment | | |
| Wholesale Trading & Ancillary Services | \$ 38,889 | \$ 32,816 |
| Secured Lending | 301 | 280 |
| Direct Sales | 4,772 | 3,416 |
| Total long-term assets | \$ 43,962 | \$ 36,512 |

in thousands

| | September 30, 2019 | June 30, 2019 |
|--|--------------------|------------------|
| Long-term assets by geographic region | | |
| United States | \$ 43,909 | \$ 36,459 |
| Europe | 53 | 53 |
| Total long-term assets | \$ 43,962 | \$ 36,512 |

Capital Expenditures for Property and Equipment*in thousands*

| | Three Months Ended September 30, | 2019 | 2018 |
|---|----------------------------------|------------|---------------|
| Capital expenditures on plant, property and equipment by segment | | | |
| Wholesale Trading & Ancillary Services | \$ | 97 | \$ 122 |
| Secured Lending | | 37 | — |
| Direct Sales | | 3 | — |
| Total capital expenditures on property and equipment | \$ | 137 | \$ 122 |

Goodwill and Intangible Assets*in thousands*

| | September 30, 2019 | June 30, 2019 |
|---|--------------------|------------------|
| Goodwill and Intangibles by segment | | |
| Wholesale Trading & Ancillary Services | \$ 11,978 | \$ 12,087 |
| Direct Sales | 2,502 | 2,646 |
| Total goodwill and intangible assets | \$ 14,480 | \$ 14,733 |

**19. SUBSEQUENT
EVENTS****Increase in Shares Authorized for Issuance under 2014 Plan**

On October 30, 2019, the Company's stockholders approved an amendment to the 2014 Plan to increase the number of shares authorized for issuance thereunder by 200,000 shares. As a result of this amendment, there are currently 543,395 shares available for future issuance under the 2014 Plan.

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

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

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

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

INTRODUCTION

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

- [Executive overview](#). This section provides a general description of our business, as well as significant transactions and events that we believe are important in understanding the results of operations.
- [Results of operations](#). This section provides an analysis of our results of operations presented in the accompanying condensed consolidated statements of operations by comparing the results for the respective years. Included in our analysis is a discussion of five performance metrics: (i) ounces of gold and silver sold, (ii) Wholesale trading ticket volume, (iii) Direct Sales ticket volume, (iv) inventory turnover ratio and (v) number of secured loans at period-end.
- [Segment results of operations](#). This section provides an analysis of our results of operations presented for our three segments:
 - [Wholesale Trading & Ancillary Services](#),
 - [Secured Lending](#),
and
 - [Direct Sales](#)
 for the comparable periods.
- [Liquidity and financial condition](#). This section provides an analysis of our cash flows, as well as a discussion of our outstanding debt as of September 30, 2019. Included in this section is a discussion of our: outstanding debt, the amount of financial capacity available to fund our future commitments and other financing arrangements.
- [Critical accounting policies](#). This section discusses critical accounting policies that are considered both important to our financial condition and results of operations, and requires management to make significant judgment and estimates. All of our significant accounting policies, including the critical accounting policies are also summarized in [Note 2](#) of the notes to the consolidated financial statements.
- [Recent accounting pronouncements](#). This section discusses new accounting pronouncements, dates of implementation and their expected impact on our accompanying condensed consolidated financial statements.

EXECUTIVE OVERVIEW

Our Business

We conduct our operations in three reportable segments: (1) Wholesale Trading & Ancillary Services, (2) Secured Lending and (3) Direct Sales.

Wholesale Trading & Ancillary Services Segment

The Company operates its Wholesale Trading & Ancillary Services segment through A-Mark Precious Metals, Inc., and its wholly-owned subsidiaries, A-Mark Trading AG ("AMTAG"), Transcontinental Depository Services ("TDS"), and A-M Global Logistics, LLC. ("Logistics"), and its partially-owned subsidiary, AM&ST Associates, LLC. ("AMST" or "SilverTowne" or the "Mint").

The Wholesale Trading & Ancillary Services segment operates as a full-service precious metals trading company. We offer gold, silver, platinum, and palladium in the form of bars, plates, powder, wafers, grain, ingots, and coins. Our Industrial unit services manufacturers and fabricators of products utilizing or incorporating precious metals. Our Coin and Bar unit deals in over 200 coin and bar products in a variety of weights, shapes, and sizes for distribution to dealers and other qualified purchasers. We have a marketing support office in Vienna, Austria, and a trading center in El Segundo, California. The trading center, for buying and selling precious metals, is available to receive orders from approved customers 24 hours every day, even when many major world commodity markets are closed. In addition to wholesale trading activity, A-Mark offers its customers a variety of services, including financing, storage, consignment, logistics, and various customized financial programs. As a U.S. Mint-authorized purchaser of gold, silver, platinum, and palladium coins, A-Mark purchases product directly from the U.S. Mint and other sovereign mints for sale to its customers.

Through its wholly owned subsidiary, AMTAG, the Company promotes A-Mark's products and services throughout the European continent. Through our wholly-owned subsidiary TDS, we offer a variety of managed storage options for precious metals products to financial institutions, dealers, investors, and collectors around the world. Our storage business generated less than 1% of total revenues for each of the periods presented.

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

Through our partially-owned subsidiary, AMST, the Company designs and produces minted silver products. The Company operates the Mint pursuant to a joint venture agreement with SilverTowne, L.P. The Company and SilverTowne L.P. own 69% and 31%, respectively, of AMST. AMST acquired the entire minting operations (referred to as SilverTowne Mint) of SilverTowne, L.P., with the goal of providing greater product selection to our customers and greater pricing stability within the supply chain, as well as to gain increased access to silver during volatile market environments, which have historically resulted in higher demand for precious metals products.

Secured Lending Segment

The Company operates its Secured Lending segment through its wholly-owned subsidiaries, Collateral Finance Corporation LLC. ("CFC") and AM Capital Funding, LLC. ("AMCF").

CFC is a California licensed finance lender that originates and acquires commercial loans secured by bullion and numismatic coins. CFC's customers include coin and precious metal dealers, investors, and collectors. As of September 30, 2019, CFC and AMCF had, in aggregate, approximately \$150.5 million in secured loans outstanding, of which approximately 69.4% were acquired from third-parties (some of which may be customers of A-Mark) and approximately 30.6% were originated by CFC.

AMCF, a wholly-owned subsidiary of CFC, was formed for the purpose of securitizing eligible secured loans of CFC. AMCF issued, administers, and owns Secured Senior Term Notes: Series 2018-1, Class A, with an aggregate principal amount of \$72.0 million and Secured Subordinated Term Notes, Series 2018-1, Class B in the aggregate principal amount of \$28.0 million. The Class A Notes bear interest at a rate of 4.98%, and the Class B Notes bear interest at a rate of 5.98% (collectively referred to as the "Notes"). The Notes have a maturity date of December 15, 2023. For additional information regarding this securitization. (See [Note 14](#) of the notes to condensed consolidated financial statements.)

Direct Sales Segment

The Company operates its Direct Sales segment through its wholly-owned subsidiaries Goldline Inc. ("Goldline") and AM IP LLC. ("AMIP"), and through its 50%-owned subsidiary Precious Metals Purchasing Partners, LLC, ("PMPP").

The Company acquired Goldline in August 2017 through an asset purchase transaction with Goldline LLC. Goldline

LLC. had been in operation since 1960. Goldline is a direct retailer of precious metals to the investor community. Goldline markets its precious metal products primarily on radio and the internet, as well as through telephonic sales efforts, particularly to Goldline's repeat customers. Goldline's business has enhanced the Company's distribution capabilities by adding a direct-to-client distribution channel that has diversified the product and services offered to Goldline's customers, through access to the Company's wider assortment of precious metal coins and bars, including TDS's storage and asset protection services.

AMIP, a wholly owned subsidiary of Goldline, manages intellectual property ("IP") that includes lists of customers and sales lead information that is licensed to third parties in the industry who can further exploit such assets and provide the Company with ancillary income.

In fiscal 2019, the Company formed and capitalized PMPP, a 50%-owned subsidiary of Goldline, pursuant to terms of a joint venture agreement, for the purpose of purchasing precious metals from the partners' retail customers, and then reselling the acquired products back to affiliates of the partners. In fiscal 2020, PMPP commenced its operations.

Our Strategy

The Company was formed in 1965 and has grown into a significant participant in the bullion and coin markets, with approximately \$4.8 billion in revenues for fiscal year 2019. Our strategy continues to focus on growth, including the volume of our business, our geographic presence, and the scope of complementary products, services, and technological tools that we offer to our customers. We intend to promote our growth by leveraging off the strengths of our existing integrated operations:

- the depth of our customer relationships;
- our access to market makers, suppliers and government mints and other mints;
- our trading systems in the U.S. and Europe;
- our expansive precious metals dealer network;
- our depository relationships around the world;
- our knowledge of secured lending;
- our logistics capabilities;
- our trading expertise; and
- the quality and experience of our management team.

Our Customers

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

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

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

The Company also sells precious metals on forward contracts at a fixed price based on current prevailing precious metal spot prices with a certain delivery date in the future (up to six months from inception date of the forward contract). The Company also uses other derivative products (primarily futures contracts) or a combinations thereof to hedge commodity risks. We enter into these forward contracts as part of our hedging strategy to mitigate our price risk of holding inventory; they are not entered into for speculative purposes.

However, unlike futures contracts which do not impact the Company's revenue, forward sales contracts by their nature are required to be included in revenues. The decision to use a forward contract versus another derivative type product (e.g., a futures contract) for hedging purposes is based on the economics of the transaction. Since the volume of hedging can be significant, the movement in and out of forwards can substantially impact revenues, both positively or negatively, from period to period. For this reason, the Company believes ounces sold (excluding ounces sold on forward sales contracts) is a meaningful metric to assess our top line performance.

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

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

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

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

Interest Income. The Company enters into secured loans and secured financing structures with its customers under which it charges interest. CFC acquires loan portfolios and originates loans that are secured by precious metal bullion and numismatic material owned by the borrowers and held by the Company for the term of the loan. Additionally, AMCF acquires certain loans from CFC that are secured by precious metal bullion to meet the collateral requirements of the Notes. Also, the Company offers a number of secured financing options to its customers to finance their precious metals purchases including consignments and other structured inventory finance products whereby the Company earns a fee based on the underlying value of the precious metal ("repurchase arrangements with customers").

Interest Expense. The Company incurs interest expense associated with its: lines of credit, notes, related-party debt, product financing agreements for the transfer and subsequent re-acquisition of gold and silver at a fixed price with a third-party finance company ("product financing arrangements"), and short-term precious metal borrowing arrangements with our suppliers ("liabilities on borrowed metals").

Performance Metrics

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

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

The primary purpose of entering into forward sales transactions is to hedge commodity price risk. Although the revenues realized from these forward sales transactions are often significant, they generally have negligible impact to gross margins. As a result, the Company excludes the ounces recorded on forward contracts from its performance metrics, as the Company does not enter into forward sales transactions for speculative purposes.

Wholesale Trading Ticket Volume and Direct Sales Ticket Volume. Another measure of our business that is unaffected by changes in commodity pricing, is ticket volume. Ticket volume for the Wholesale Trading & Ancillary Services and Direct Sales segments measures the total number of orders processed by our trading desks. In periods of higher volatility, there is generally increased trading in the commodity markets, causing increased demand for our products, resulting in higher business volume. Generally, the ounces sold on a per-trading-ticket basis is substantially higher for orders placed telephonically compared to those placed on our online portal platform.

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

The period of time that inventory is held by the Company varies depending upon the nature of our inventory commitments with customers and suppliers. (See [Note 6](#) of the notes to condensed consolidated financial statements, for a description of our classifications of inventory by type.) When management analyzes inventory turnover on a period over period basis, consideration is given to each inventory type and its corresponding impact on the inventory turnover calculation. Management's analysis includes the following:

- The Company enters into various structured borrowing arrangements that commit the Company's inventory (such as; product financing arrangements or liabilities on borrowed metals) for an unspecified period of time. While the Company is able to obtain access to this inventory on demand, there is a tendency that this type of inventory does not turn over as quickly as other types of inventory.
- The Company enters into repurchase arrangements with customers under which A-Mark holds precious metals which are subject to repurchase for an unspecified period of time. While the Company retains legal title to this inventory, the Company is required to hold this inventory (or like-kind inventory) for the customer until the arrangement is terminated or the material is repurchased by the customer. As a result, there is a tendency that this type of inventory does not turn over as quickly as other types of inventory.

Additionally, our inventory turnover ratio can be affected by hedging activity, as the period over period change of the inventory turnover ratio may be significantly impacted by a period over period change in hedging volume. For example, if trading activity were to remain constant over two periods, but there were significantly higher forward sales in the current period compared to a prior period, the calculated inventory turnover ratio would indicate an increase in the ratio rather than remaining constant.

Number of Secured Loans. Finally, as a measure of the size of our secured lending segment, we look at the number of outstanding secured loans to customers that are primarily collateralized by precious metals at the end of the fiscal quarter. Typically, the number of loans increase during periods of increasing precious metal pricing and decrease during periods of declining precious metal prices.

The Company calculates its loan-to-value ("LTV") ratio as the principal amount of the loan divided by the liquidation value of the collateral, which is based on daily spot market prices of precious metal bullion. When the market price of the pledged collateral decreases and thereby increases the LTV ratio of a loan above a prescribed maximum ratio, usually 85%, the Company has the option to make a margin call on the loan. As a result, a decline of precious metal market prices may cause a decrease in the number of loans outstanding in a period.

Fiscal Year

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

RESULTS OF OPERATIONS**Overview of Results of Operations for the Three Months Ended September 30, 2019 and 2018****Condensed Consolidated Results of Operations**

The operating results of our business for the three months ended September 30, 2019 and 2018 are as follows:

in thousands, except per share data and performance metrics

| Three Months Ended September 30, | 2019 | | 2018 | | \$ | % |
|--|--------------|--------------|--------------|--------------|-------------|---------|
| | \$ | % of revenue | \$ | % of revenue | | |
| Revenues | \$ 1,481,014 | 100.000 % | \$ 1,565,090 | 100.000 % | \$ (84,076) | (5.4)% |
| Gross profit | 8,340 | 0.563 % | 8,475 | 0.542 % | \$ (135) | (1.6)% |
| Selling, general and administrative expenses | (8,270) | (0.558)% | (7,719) | (0.493)% | \$ 551 | 7.1 % |
| Interest income | 5,768 | 0.389 % | 4,551 | 0.291 % | \$ 1,217 | 26.7 % |
| Interest expense | (5,142) | (0.347)% | (3,552) | (0.227)% | \$ 1,590 | 44.8 % |
| Other (expense) income, net | (166) | (0.011)% | 248 | 0.016 % | \$ 414 | 166.9 % |
| Unrealized loss on foreign exchange | (122) | (0.008)% | (70) | (0.004)% | \$ 52 | NM |
| Net income before provision for income taxes | 408 | 0.028 % | 1,933 | 0.124 % | \$ (1,525) | (78.9)% |
| Income tax expense | (105) | (0.007)% | (499) | (0.032)% | \$ (394) | (79.0)% |
| Net income | 303 | 0.020 % | 1,434 | 0.092 % | \$ (1,131) | (78.9)% |
| Net income (loss) attributable to non-controlling interest | 175 | 0.012 % | (47) | (0.003)% | \$ 222 | 472.3 % |
| Net income attributable to the Company | \$ 128 | 0.009 % | \$ 1,481 | 0.095 % | \$ (1,353) | (91.4)% |

Basic and diluted net income per share attributable to A-Mark Precious Metals, Inc.:**Per Share Data:**

| | | | | |
|---------|---------|---------|-----------|---------|
| Basic | \$ 0.02 | \$ 0.21 | \$ (0.19) | (90.5)% |
| Diluted | \$ 0.02 | \$ 0.21 | \$ (0.19) | (90.5)% |

Performance Metrics:⁽¹⁾

| | | | | |
|--|------------|------------|-----------|---------|
| Gold ounces sold ⁽²⁾ | 576,000 | 535,000 | 41,000 | 7.7 % |
| Silver ounces sold ⁽³⁾ | 20,911,000 | 18,279,000 | 2,632,000 | 14.4 % |
| Inventory turnover ratio ⁽⁴⁾ | 4.4 | 5.5 | (1.1) | (20.0)% |
| Number of secured loans at period end ⁽⁵⁾ | 3,571 | 1,705 | 1,866 | 109.4 % |

NM Not meaningful.

- (1) See "Results of Segments" for ticket count volume by segment.
- (2) Gold ounces sold represents the ounces of gold product sold and delivered to the customer during the period, excluding ounces of gold recorded on forward contracts.
- (3) Silver ounces sold represents the ounces of silver product sold and delivered to the customer during the period, excluding ounces of silver recorded on forward contracts.
- (4) Inventory turnover ratio is the cost of sales divided by average inventory. This calculation excludes precious metals held under financing arrangements, which are not classified as inventory on the consolidated balance sheets.
- (5) Number of outstanding secured loans to customers that are primarily collateralized by precious metals at the end of the period.

Revenues*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| <i>in thousands, except performance metrics</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | % |
|---|---------------------------------------|--------------|--------------|--------------|-------------|--------|
| | \$ | % of revenue | \$ | % of revenue | | |
| Revenues | \$ 1,481,014 | 100.000% | \$ 1,565,090 | 100.000% | \$ (84,076) | (5.4)% |
| Performance Metrics | | | | | | |
| Gold ounces sold | 576,000 | | 535,000 | | 41,000 | 7.7 % |
| Silver ounces sold | 20,911,000 | | 18,279,000 | | 2,632,000 | 14.4 % |

Revenues for the three months ended September 30, 2019 decreased \$0.084 billion, or 5.4%, to \$1.481 billion from \$1.565 billion in 2018. Our revenues decreased primarily due to lower forward sales (representing approximately \$0.4 billion of the aggregate change), offset by higher gold and silver prices and higher gold and silver ounces sold.

Gold ounces sold for the three months ended September 30, 2019 increased 41,000 ounces, or 7.7%, to 576,000 ounces from 535,000 ounces in 2018. Silver ounces sold for the three months ended September 30, 2019 increased 2,632,000 ounces, or 14.4%, to 20,911,000 ounces from 18,279,000 ounces in 2018. On average, the selling prices for gold increased by 21.2% and selling prices for silver increased by 13.2% during the three months ended September 30, 2019 as compared to 2018.

Gross Profit*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| <i>in thousands, except performance metric</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | % |
|--|---------------------------------------|--------------|----------|--------------|----------|---------|
| | \$ | % of revenue | \$ | % of revenue | | |
| Gross profit | \$ 8,340 | 0.563% | \$ 8,475 | 0.542% | \$ (135) | (1.6)% |
| Performance Metric | | | | | | |
| Inventory turnover ratio | 4.4 | | 5.5 | | (1.1) | (20.0)% |

Gross profit for the three months ended September 30, 2019 decreased by \$0.1 million, or 1.6%, to \$8.3 million from \$8.5 million in 2018. Overall gross profit decreased due to lower gross profits earned by the Wholesale Trading & Ancillary segment, offset by higher gross profits earned by the Direct Sales segment.

The Company's gross margin percentage increased by 4.0% to 0.563% from 0.542% in 2018. The increase in gross margin percentage was primarily due to lower forward sales (\$0.4 billion). While forward sales generally have negligible impact to gross margins, they can significantly affect the gross margin percentage. The Company enters into forward contracts to hedge its precious metals price risk exposure and not for speculative purposes. Additionally, gross margin percentage increased due to higher trading profits, offset by compressed trading spreads.

Our inventory turnover rate for the three months ended September 30, 2019 decreased by 20.0%, to 4.4 from 5.5 in 2018. The decrease in our inventory turnover rate was primarily due to the lower volume of ounces sold on forward contracts and by higher average product financing arrangements, higher inventory held for sale balances, partially offset by lower average repurchase arrangements with customers during the three months ended September 30, 2019 as compared to 2018.

Selling, General and Administrative Expense*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| <i>in thousands</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | % |
|--|---------------------------------------|--------------|------------|--------------|--------|------|
| | \$ | % of revenue | \$ | % of revenue | | |
| Selling, general and administrative expenses | \$ (8,270) | (0.558)% | \$ (7,719) | (0.493)% | \$ 551 | 7.1% |

Selling, general and administrative expenses for the three months ended September 30, 2019 increased \$0.6 million, or 7.1%, to \$8.3 million from \$7.7 million in 2018. The change was primarily due to an increase in overall compensation costs of \$0.2 million, and deductibles on insurance claims of \$0.3 million, which were partially offset by a decrease in overall consulting costs of \$0.1 million.

Interest Income**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

| Three Months Ended September 30, <i>in thousands, except performance metric</i> | 2019 | | 2018 | | \$ | % |
|--|----------|--------------|----------|--------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) |
| Interest income | \$ 5,768 | 0.389% | \$ 4,551 | 0.291% | \$ 1,217 | 26.7% |
| Performance Metric | | | | | | |
| Number of secured loans at period-end | 3,571 | | 1,705 | | 1,866 | 109.4% |

Interest income for the three months ended September 30, 2019 increased \$1.2 million, or 26.7%, to \$5.8 million from \$4.6 million in 2018. The aggregate increase in interest income was primarily due to interest income earned by our Secured Lending Segment and other finance product income by our Wholesale Trading & Ancillary Services segment.

Interest income from our Secured Lending segment increased by \$1.0 million or by 40.3% in comparison to the same year-ago period, which represents approximately 82.7% of the aggregate increase. This increase was primarily due to a higher aggregate average secured loans receivable balance for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, and to a lesser extent the impact of a 1.0% increase in the weighted average annual interest rate to 10.6% as of September 30, 2019, from 9.6% as of September 30, 2018. The number of secured loans outstanding increased by 109.4% to 3,571 from 1,705 in 2018.

Interest income from our Wholesale Trading & Ancillary Services segment increased by \$0.2 million or 10.2% in comparison to the same year-ago period, which represents approximately 17.3% of the aggregate increase. The Company's finance fees earned related to repurchase arrangements with customers increased by 7.1% or by \$0.1 million in comparison to the same year-ago period, which represent approximately 10.8% of the aggregate increase.

Interest Expense**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

| Three Months Ended September 30, <i>in thousands</i> | 2019 | | 2018 | | \$ | % |
|---|------------|--------------|------------|--------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) |
| Interest expense | \$ (5,142) | (0.347)% | \$ (3,552) | (0.227)% | \$ 1,590 | 44.8% |

Interest expense for the three months ended September 30, 2019 increased \$1.6 million, or 44.8% to \$5.1 million from \$3.6 million in 2018. The increase was primarily due to higher overall average debt levels and interest rates associated with AMCF's Notes, which were issued on September 14, 2018.

As compared to the same year-ago period, the following interest expense components increased: (i) \$1.1 million related to our Notes (including debt amortization costs), (ii) \$0.2 million related to our liabilities on borrowed metals, (iii) \$0.2 million related to product financing arrangements and (iv) \$0.1 million associated with our Trading Credit Facility (including debt amortization costs), partially offset by a reduction of (v) \$(0.2) million related to the Goldline Credit Facility (including debt amortization costs). The Goldline Credit Facility was paid off in full during the second quarter of fiscal year 2019.

Other (expense) income, net**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

| Three Months Ended September 30, <i>in thousands</i> | 2019 | | 2018 | | \$ | % |
|---|----------|--------------|--------|--------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) |
| Other (expense) income, net | \$ (166) | (0.011)% | \$ 248 | 0.016% | \$ 414 | 166.9% |

Other (expense) income, net was \$(0.2) million and \$0.2 million for the three months ended September 30, 2019 and 2018, respectively. For the three months ended September 30, 2019, the Company incurred a one-time charge of \$0.2 million related to the settlement of the purchase price in connection with the acquisition of Goldline. Additionally, as compared to the same year-ago period, the Company's proportionate share of our equity-method investee's earnings decreased by \$0.3 million.

Provision for Income Taxes*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| | 2019 | | 2018 | | | |
|---------------------|----------|--------------|----------|--------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | \$ | % |
| <i>in thousands</i> | | | | | Increase/(decrease) | Increase/(decrease) |
| Income tax expense | \$ (105) | (0.007)% | \$ (499) | (0.032)% | \$ (394) | (79.0)% |

Our income tax expense was \$0.1 million and \$0.5 million for the three months ended September 30, 2019 and 2018, respectively. Our effective tax rate was approximately 25.7% and 25.8% for the three months ended September 30, 2019 and 2018, respectively. For the three months ended September 30, 2019, our effective tax rate differed from the federal statutory rate primarily due to state taxes (net of federal tax benefit) and exclusion of profits related to the Company's minority interests. The remainder of the difference was due to normal course activity.

SEGMENT RESULTS OF OPERATIONS

The Company conducts its operations in three reportable segments: (1) Wholesale Trading & Ancillary Services, (2) Secured Lending and (3) Direct Sales. Each of these reportable segments represents an aggregation of operating segments that meets the aggregation criteria set forth in the Segment Reporting Topic 280 of the FASB Accounting Standards Codification ("ASC").

Results of Operations — Wholesale Trading & Ancillary Services Segment

The Company operates its Wholesale Trading & Ancillary Services segment through A-Mark Precious Metals, Inc., and its wholly-owned subsidiaries, A-Mark Trading AG ("AMTAG"), Transcontinental Depository Services ("TDS"), and A-M Global Logistics, LLC. ("Logistics"), and its partially-owned subsidiary, AM&ST Associates, LLC. ("AMST" or "SilverTowne" or the "Mint"). Also, the Wholesale Trading & Ancillary Services segment includes the consolidating eliminations of inter-segment transactions.

Overview of Results of Operations for the Three Months Ended September 30, 2019 and 2018

The operating results of our Wholesale Trading & Ancillary Services segment for the three months ended September 30, 2019 and 2018 are as follows:

in thousands, except performance metrics

| Three Months Ended September 30, | 2019 | | 2018 | | \$ | | % | |
|--|--------------|--------------|--------------|--------------|---------------------|---------------------|---|---------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | | |
| Revenues | \$ 1,460,933 | 100.000 % | \$ 1,554,313 | 100.000 % | \$ (93,380) | | | (6.0)% |
| Gross profit | 6,760 | 0.463 % | 7,412 | 0.477 % | \$ (652) | | | (8.8)% |
| Selling, general and administrative expenses | (5,802) | (0.397)% | (5,258) | (0.338)% | \$ 544 | | | 10.3 % |
| Interest income | 2,262 | 0.155 % | 2,052 | 0.132 % | \$ 210 | | | 10.2 % |
| Interest expense | (2,826) | (0.193)% | (1,880) | (0.121)% | \$ 946 | | | 50.3 % |
| Other income, net | 12 | 0.001 % | 248 | 0.016 % | \$ (236) | | | (95.2)% |
| Unrealized loss on foreign exchange | (122) | (0.008)% | (70) | (0.005)% | \$ 52 | | | NM |
| Net income before provision for income taxes | \$ 284 | 0.019 % | \$ 2,504 | 0.161 % | \$ (2,220) | | | (88.7)% |
| Performance Metrics: | | | | | | | | |
| Gold ounces sold ⁽¹⁾ | 566,000 | | 532,000 | | 34,000 | | | 6.4 % |
| Silver ounces sold ⁽²⁾ | 20,720,000 | | 18,015,000 | | 2,705,000 | | | 15.0 % |
| Wholesale Trading ticket volume ⁽³⁾ | 36,248 | | 32,013 | | 4,235 | | | 13.2 % |

NM Not meaningful.

- (1) Gold ounces sold represents the ounces of gold product sold and delivered to the customer during the period, excluding ounces of gold recorded on forward contracts.
- (2) Silver ounces sold represents the ounces of silver product sold and delivered to the customer during the period, excluding ounces of silver recorded on forward contracts.
- (3) Trading ticket volume represents the total number of product orders processed by A-Mark.

Revenues — Wholesale Trading & Ancillary Services***Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018***

| <i>in thousands, except performance metrics</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | % |
|---|---------------------------------------|--------------|--------------|--------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) |
| Revenues | \$ 1,460,933 | 100.000% | \$ 1,554,313 | 100.000% | \$ (93,380) | (6.0)% |
| Performance Metrics | | | | | | |
| Gold ounces sold | 566,000 | | 532,000 | | 34,000 | 6.4 % |
| Silver ounces sold | 20,720,000 | | 18,015,000 | | 2,705,000 | 15.0 % |

Revenues for the three months ended September 30, 2019 decreased \$0.093 billion, or 6.0%, to \$1.461 billion from \$1.554 billion in 2018. Our revenues decreased primarily due to lower forward sales (about \$0.4 billion of the aggregate change), offset by higher gold and silver prices and higher gold and silver ounces sold.

Gold ounces sold for the three months ended September 30, 2019 increased 34,000 ounces, or 6.4%, to 566,000 ounces from 532,000 ounces in 2018. Silver ounces sold for the three months ended September 30, 2019 increased 2,705,000 ounces, or 15.0%, to 20,720,000 ounces from 18,015,000 ounces in 2018. On average, the wholesale selling prices for gold increased by 21.1% and wholesale selling prices for silver increased by 13.7% during the three months ended September 30, 2019 as compared to 2018.

Gross Profit — Wholesale Trading & Ancillary Services***Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018***

| <i>in thousands, except performance metric</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | % |
|--|---------------------------------------|--------------|----------|--------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) |
| Gross profit | \$ 6,760 | 0.463% | \$ 7,412 | 0.477% | \$ (652) | (8.8)% |
| Performance Metric | | | | | | |
| Wholesale trading ticket volume | 36,248 | | 32,013 | | 4,235 | 13.2 % |

Gross profit for the three months ended September 30, 2019 decreased by \$0.7 million, or 8.8%, to \$6.8 million from \$7.4 million in 2018. Overall gross profit decreased primarily due to lower overall product margins, offset by higher trading profits.

The Wholesale Trading & Ancillary Services segment's gross profit margin percentage decreased by 3.0% to 0.463% from 0.477% in 2018. The decrease in gross margin percentage was driven by compressed trading spreads, offset by lower forward sales (\$0.4 billion), and higher trading profits. While forward sales generally have negligible impact to gross margins, they can significantly affect the gross margin percentage. The Company enters into forward contracts to hedge its precious metals price risk exposure and not for speculative purposes.

The wholesale trading ticket volume for the three months ended September 30, 2019 increased by 4,235 tickets, or 13.2%, to 36,248 tickets from 32,013 tickets in 2018. The increase in our trading ticket volume is indicative of higher trading activity as compared to 2018.

Selling, General and Administrative Expenses — Wholesale Trading & Ancillary Services***Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018***

| <i>in thousands</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | % |
|--|---------------------------------------|--------------|------------|--------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) |
| Selling, general and administrative expenses | \$ (5,802) | (0.397)% | \$ (5,258) | (0.338)% | \$ 544 | 10.3% |

Selling, general and administrative expenses for the three months ended September 30, 2019 increased \$0.5 million, or 10.3%, to \$5.8 million from \$5.3 million in 2018. The increase is mainly driven by higher overall compensation costs of \$0.2 million and deductibles on insurance claims of \$0.3 million, partially offset by a decrease in overall consulting costs of \$0.1 million.

Interest Income — Wholesale Trading & Ancillary Services*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| <i>in thousands</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | | % | |
|---------------------|---------------------------------------|--------------|----------|--------------|---------------------|---------------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| Interest income | \$ 2,262 | 0.155% | \$ 2,052 | 0.132% | \$ 210 | | | 10.2% |

Interest income for the three months ended September 30, 2019 increased \$0.2 million, or 10.2%, to \$2.3 million from \$2.1 million in 2018. The aggregate increase in interest income increased primarily due to other finance product income. Our finance fees earned from repurchase arrangements with customers increased by 7.1% or by \$0.1 million in comparison to the same year-ago period.

Interest Expense — Wholesale Trading & Ancillary Services*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| <i>in thousands</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | | % | |
|---------------------|---------------------------------------|--------------|------------|--------------|---------------------|---------------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| Interest expense | \$ (2,826) | (0.193)% | \$ (1,880) | (0.121)% | \$ 946 | | | 50.3% |

Interest expense for the three months ended September 30, 2019 increased \$0.9 million, or 50.3% to \$2.8 million from \$1.9 million in 2018. The increase was related primarily to interest expense on this segment's source of financing provided by the Trading Credit Facility (including loan amortization costs), liabilities on borrowed metals, and product financing arrangements. As compared to the same year-ago period, the following interest expense components increased: (i) \$0.7 million, related to our Trading Credit Facility, (ii) \$0.2 million, related to our liabilities on borrowed metals, and (iii) \$0.2 million related to product financing arrangements.

Other income, net*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| <i>in thousands</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | | % | |
|---------------------|---------------------------------------|--------------|--------|--------------|---------------------|---------------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| Other income, net | \$ 12 | 0.001% | \$ 248 | 0.016% | \$ (236) | | | (95.2)% |

The other income, net was \$0.0 million and \$0.2 million for the three months ended September 30, 2019 and 2018, respectively. For the three months ended September 30, 2019, as compared to the same year-ago period, the Company's proportionate share of our equity-method investee's earnings decreased by \$0.3 million.

Results of Operations — Secured Lending Segment

The Company operates its Secured Lending segment through its wholly-owned subsidiaries, Collateral Finance Corporation LLC. ("CFC") and AM Capital Funding, LLC. ("AMCF").

Overview of Results of Operations for the Three Months Ended September 30, 2019 and 2018

The operating results of our Secured Lending segment for the three months ended September 30, 2019 and 2018 are as follows:

in thousands, except performance metrics

| Three Months Ended September 30, | 2019 | | 2018 | | \$ | % |
|--|----------|----------------------|----------|----------------------|----------|-------|
| | \$ | % of interest income | \$ | % of interest income | | |
| Interest income | \$ 3,506 | 100.000 % | \$ 2,499 | 100.000 % | \$ 1,007 | 40.3% |
| Interest expense | (2,316) | (66.058)% | (1,477) | (59.104)% | \$ 839 | 56.8% |
| Selling, general and administrative expenses | (348) | (9.926)% | (345) | (13.806)% | \$ 3 | 0.9% |
| Other income, net | 42 | 1.198 % | — | — % | \$ 42 | NM |
| Net income before provision for income taxes | \$ 884 | 25.214 % | \$ 677 | 27.091 % | \$ 207 | 30.6% |

Performance Metrics:

| | | | | |
|--|-------|-------|-------|--------|
| Number of secured loans at period end ⁽¹⁾ | 3,571 | 1,705 | 1,866 | 109.4% |
|--|-------|-------|-------|--------|

NM Not meaningful.

(1) Number of outstanding secured loans to customers that are primarily collateralized by precious metals at the end of the period.

Interest Income — Secured Lending*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| Three Months Ended September 30, | 2019 | | 2018 | | \$ | % |
|--|----------|----------------------|----------|----------------------|---------------------|---------------------|
| | \$ | % of interest income | \$ | % of interest income | | |
| <i>in thousands, except performance metric</i> | | | | | Increase/(decrease) | Increase/(decrease) |
| Interest income | \$ 3,506 | 100.000% | \$ 2,499 | 100.000% | \$ 1,007 | 40.3% |
| Performance Metric | | | | | | |
| Number of secured loans at period-end | 3,571 | | 1,705 | | 1,866 | 109.4% |

Interest income for the three months ended September 30, 2019 increased \$1.0 million, or 40.3%, to \$3.5 million from \$2.5 million in 2018. This increase was primarily due to a higher aggregate average secured loans receivable balance for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, and to a lesser extent the impact of a 1.0% increase in the weighted average annual interest rate to 10.6% as of September 30, 2019, from 9.6% as of September 30, 2018. The number of secured loans outstanding increased by 109.4% to 3,571 from 1,705 in 2018.

Interest Expense — Secured Lending*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| Three Months Ended September 30, | 2019 | | 2018 | | \$ | % |
|----------------------------------|------------|----------------------|------------|----------------------|---------------------|---------------------|
| | \$ | % of interest income | \$ | % of interest income | | |
| <i>in thousands</i> | | | | | Increase/(decrease) | Increase/(decrease) |
| Interest expense | \$ (2,316) | (66.058)% | \$ (1,477) | (59.104)% | \$ 839 | 56.8% |

Interest expense for the three months ended September 30, 2019 increased \$0.8 million, or 56.8% to \$2.3 million from \$1.5 million in 2018. The increase was related primarily to the issuance of higher interest rate 5-year Notes (with an aggregate principal value of \$100.0 million and a stated fixed interest rate of 5.3%) at the end of the first quarter of fiscal 2019. Prior to issuance of the Notes, the Secured Lending segment accessed capital primarily from the Company's variable interest rate Trading Credit Facility. As compared to the same year-ago period, interest expense increased by \$1.2 million as a result of our issued Notes partially offset by a decrease of \$0.6 million associated with our Trading Credit Facility.

Selling, General and Administrative Expenses — Secured Lending*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| Three Months Ended September 30, | 2019 | | 2018 | | \$ | % |
|--|----------|----------------------|----------|----------------------|---------------------|---------------------|
| | \$ | % of interest income | \$ | % of interest income | | |
| <i>in thousands</i> | | | | | Increase/(decrease) | Increase/(decrease) |
| Selling, general and administrative expenses | \$ (348) | (9.926)% | \$ (345) | (13.806)% | \$ 3 | 0.9% |

Selling, general and administrative expenses for the three months ended September 30, 2019 compared with the three months ended September 30, 2018 were relatively unchanged.

Results of Operations — Direct Sales Segment

The Company operates its Direct Sales segment through its wholly-owned subsidiaries Goldline Inc. ("Goldline") and AM IP LLC. ("AMIP"), and through its 50%-owned subsidiary Precious Metals Purchasing Partners, LLC, ("PMPP"). PMPP commenced its operations in fiscal 2020.

Overview of Results of Operations for the Three Months Ended September 30, 2019 and 2018

The operating results of our Direct Sales segment for the three months ended September 30, 2019 and 2018 are as follows:

in thousands, except performance metrics

| Three Months Ended September 30, | 2019 | | 2018 | | \$ | % |
|--|--------------------------|------------------------|--------------------------|------------------------|----------|----------|
| | \$ | % of revenue | \$ | % of revenue | | |
| Revenues | \$ 20,081 ^(a) | 100.000 % | \$ 10,777 ^(c) | 100.000 % | \$ 9,304 | 86.3 % |
| Gross profit | 1,580 | 7.868 % ^(b) | 1,063 | 9.864 % ^(d) | \$ 517 | 48.6 % |
| Selling, general and administrative expenses | (2,120) | (10.557)% | (2,116) | (19.634)% | \$ 4 | 0.2 % |
| Interest expense | — | — % | (195) | (1.809)% | \$ (195) | (100.0)% |
| Other expense, net | (220) | (1.096)% | — | — % | \$ 220 | NM |
| Net loss before provision for income taxes | \$ (760) | (3.785)% | \$ (1,248) | (11.580)% | \$ (488) | (39.1)% |

Performance Metrics:

| | | | | |
|---|---------|---------|----------|---------|
| Gold ounces sold ⁽¹⁾ | 10,000 | 3,000 | 7,000 | 233.3 % |
| Silver ounces sold ⁽²⁾ | 191,000 | 264,000 | (73,000) | (27.7)% |
| Direct Sales ticket volume ⁽³⁾ | 3,476 | 4,461 | (985) | (22.1)% |

NM Not meaningful.

(a) Includes \$8.6 million of inter-segment sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment.

(b) Gross profit percentage, excluding inter-segment sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment, is 11.460% for the period.

(c) Includes \$0.8 million of inter-segment sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment.

(d) Gross profit percentage, excluding inter-segment company sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment, is 10.06% for the period.

(1) Gold ounces sold represents the ounces of gold product sold during the period.

(2) Silver ounces sold represents the ounces of silver product sold to during the period.

(3) Direct Sales segment trading ticket volume represents the total number of product orders processed by Goldline and PMPP.

Segment Results — Direct Sales**Revenues**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

| <i>in thousands, except performance metrics</i> | 2019 | | 2018 | | \$ | | % | |
|---|-----------|--------------|-----------|--------------|---------------------|---------------------|---------|--|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | | |
| Revenues | \$ 20,081 | 100.000% | \$ 10,777 | 100.000% | \$ 9,304 | | 86.3 % | |
| Performance Metrics: | | | | | | | | |
| Gold ounces sold | 10,000 | | 3,000 | | 7,000 | | 233.3 % | |
| Silver ounces sold | 191,000 | | 264,000 | | (73,000) | | (27.7)% | |

Revenues for the three months ended September 30, 2019 increased \$9.3 million, or 86.3%, to \$20.1 million from \$10.8 million in 2018. Excluding inter-segment sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment, revenues for the three months ended September 30, 2019 increased \$1.5 million or 15.4% to \$11.5 million from \$10.0 million in 2018.

Gold ounces sold for the three months ended September 30, 2019 increased 7,000 ounces, or 233.3%, to 10,000 ounces from 3,000 ounces in 2018. Silver ounces sold for the three months ended September 30, 2019 decreased 73,000 ounces, or (27.7)%, to 191,000 ounces from 264,000 ounces in 2018. On average, the retail selling prices for gold increased by 16.3% and retail selling prices for silver decreased by 7.1% during the three months ended September 30, 2019 as compared to 2018.

Gross ProfitThree Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

| <i>in thousands, except performance metric</i> | 2019 | | 2018 | | \$ | | % | |
|--|----------|--------------|----------|--------------|---------------------|---------------------|---------|--|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | | |
| Gross profit | \$ 1,580 | 7.868% | \$ 1,063 | 9.864% | \$ 517 | | 48.6 % | |
| Performance Metric: | | | | | | | | |
| Direct Sales ticket volume | 3,476 | | 4,461 | | (985) | | (22.1)% | |

Gross profit for the three months ended September 30, 2019 increased by \$0.5 million, or 48.6%, to \$1.6 million from \$1.1 million in 2018. For the three months ended September 30, 2019, the Direct Sales segment's profit margin percentage decreased by 20.2% to 7.9% from 9.9% in 2018. The decrease in the profit margin percentage was primarily due to inter-segment transactions. Excluding the impact of inter-segment sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment, the Direct Sales segment's gross profit margin percentage increased by 13.9% to 11.460% from 10.060% in 2018.

The Direct Sales ticket volume for the three months ended September 30, 2019 decreased by 985 tickets, or 22.1%, to 3,476 tickets from 4,461 tickets in 2018. The decrease in our trading ticket volume is indicative of lower trading activity as compared to 2018.

Selling, General and Administrative ExpenseThree Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

| <i>in thousands</i> | 2019 | | 2018 | | \$ | | % | |
|--|------------|--------------|------------|--------------|---------------------|---------------------|------|--|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | | |
| Selling, general and administrative expenses | \$ (2,120) | (10.557)% | \$ (2,116) | (19.634)% | \$ 4 | | 0.2% | |

Selling, general and administrative expenses for the three months ended September 30, 2019 compared with the three months ended September 30, 2018 were relatively unchanged. The new cost of operating PPMP were offset by cost savings instituted at Goldline that were primarily due to personnel reductions.

Interest expense*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| <i>in thousands</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | | % | |
|---------------------|---------------------------------------|--------------|----------|--------------|---------------------|---------------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| Interest expense | \$ — | —% | \$ (195) | (1.809)% | \$ (195) | (100.0)% | | |

Interest expense for the three months ended September 30, 2019 decreased \$195,000, or 100.0% to \$0 from \$195,000 in 2018. The decrease relates to the extinguishment of the Goldline Credit Facility in the second quarter of fiscal 2019.

Other expense, net*Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018*

| <i>in thousands</i> | Three Months Ended September 30, 2019 | | 2018 | | \$ | | % | |
|---------------------|---------------------------------------|--------------|------|--------------|---------------------|---------------------|---------------------|---------------------|
| | \$ | % of revenue | \$ | % of revenue | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| Other expense, net | \$ (220) | (1.096)% | \$ — | —% | \$ 220 | NM | | |

Other expense, net was \$(0.2) million and \$0.0 million for the three months ended September 30, 2019 and 2018, respectively. For the three months ended September 30, 2019, the Company incurred a one-time charge of \$0.2 million related to the settlement of the purchase price in connection with the acquisition of Goldline.

LIQUIDITY AND FINANCIAL CONDITION**Primary Sources and Uses of Cash****Overview**

Liquidity is defined as our ability to generate sufficient amounts of cash to meet all of our cash needs. Liquidity is of critical importance to us and imperative to maintain our operations on a daily basis.

A substantial portion of our assets are liquid. As of September 30, 2019, approximately 94% of our assets consisted of cash, receivables, derivative assets, secured loans receivables, precious metals held under financing arrangements and inventory, measured at fair value. Cash generated from the sales of our precious metals products is our primary source of operating liquidity.

Typically, the Company acquires its inventory by: (1) purchasing inventory from our suppliers by utilizing our own capital and lines of credit; (2) borrowing precious metals from our suppliers under short-term arrangements which may bear interest at a designated rate, and (3) repurchasing inventory at an agreed-upon price based on the spot price on the specified repurchase date.

In addition to selling inventory, the Company generates cash from earning interest income. Through CFC, the Company enters into secured loans and secured financing structures with its customers under which it charges interest. The Company offers a number of secured financing options to its customers to finance their precious metals purchases including consignments and other structured inventory finance products. The loans are secured by precious metals and numismatic material owned by the borrowers and held by the Company as security for the term of the loan. Furthermore, our customers may enter into agreements whereby the customer agrees to repurchase our precious metals at the prevailing spot price for delivery of the product at a specific point in time in the future; interest income is earned from the contract date until the material is delivered and paid for in full.

We continually review our overall credit and capital needs to ensure that our capital base, both stockholders' equity and available credit facilities, can appropriately support our anticipated financing needs. The Company also continually monitors its current and forecasted cash requirements, and draws upon and pays down its lines of credit so as to minimize interest expense.

The Company believes that the Trading Credit Facility (as defined below) the notes payable, liabilities on borrowed metals, and product financing arrangements provides adequate means to capital for its operations. (See [Note 14](#) of the notes to condensed consolidated financial statements.)

Lines of Credit*in thousands*

| | September 30, 2019 | June 30, 2019 | September 30, 2019 Compared to June 30, 2019 |
|-----------------|--------------------|---------------|---|
| Lines of credit | \$ 204,000 | \$ 167,000 | \$ 37,000 |

Effective March 29, 2019, through an amendment and restatement of the applicable credit documents, A-Mark renewed its uncommitted demand borrowing facility ("Trading Credit Facility") with a syndicate of banks. Under the agreements, Coöperatieve Rabobank U.A. acts as joint lead lender and administrative agent and Natixis acts as joint lead arranger and syndication agent for the syndicate. As of September 30, 2019, the Trading Credit Facility provided the Company with access up to \$260.0 million, featuring a \$210.0 million base, with a \$50.0 million accordion option. The maturity date of the credit facility is March 27, 2020.

Notes Payable*in thousands*

| | September 30, 2019 | June 30, 2019 | September 30, 2019 Compared to June 30, 2019 |
|---------------|--------------------|---------------|---|
| Notes payable | \$ 92,017 | \$ 91,859 | \$ 158 |

On September 14, 2018, AM Capital Funding, LLC. ("AMCF"), a wholly owned subsidiary of CFC, completed an issuance of Secured Senior Term Notes, Series 2018-1, Class A in the aggregate principal amount of \$72.0 million and Secured Subordinated Term Notes, Series 2018-1, Class B in the aggregate principal amount of \$28.0 million. The Class A Notes bear interest at a rate of 4.98% and the Class B Notes bear interest at a rate of 5.98%. The Notes have a maturity date of December 15, 2023.

As of September 30, 2019, the consolidated aggregate carrying balance of the Notes were \$92.0 million (which excludes the \$5.0 million Note that the Company retained), and the remaining unamortized loan cost balance was approximately \$3.0 million, which is amortized ratably through the maturity date. (See [Note 14](#) of the notes to condensed consolidated financial statements.)

Liabilities on Borrowed Metals*in thousands*

| | September 30, 2019 | June 30, 2019 | September 30, 2019 Compared to June 30, 2019 |
|--------------------------------|--------------------|---------------|---|
| Liabilities on borrowed metals | \$ 196,738 | \$ 201,144 | \$ (4,406) |

We borrow precious metals from our suppliers and customers under short-term arrangements using other precious metal from our inventory or precious metals held under financing arrangements as collateral. Amounts under these arrangements require repayment either in the form of precious metals or cash. Liabilities also arise from unallocated metal positions held by customers in our inventory. Typically, these positions are due on demand, in a specified physical form, based on the total ounces of metal held in the position.

Product Financing Arrangements*in thousands*

| | September 30, 2019 | June 30, 2019 | September 30, 2019 Compared to June 30, 2019 |
|--------------------------------|--------------------|---------------|---|
| Product financing arrangements | \$ 159,130 | \$ 94,505 | \$ 64,625 |

The Company has agreements with financial institutions and other third parties that allow the Company to transfer its gold and silver inventory to the third party at an agreed-upon price based on the spot price, which provides alternative sources of liquidity. During the term of the agreement both parties intend for inventory to be returned at an agreed-upon price based on the spot price on the termination (repurchase) date. The third parties charge monthly interest as a percentage of the market value of the outstanding obligation; such monthly charges are classified in interest expense. These transactions do not qualify as sales and therefore have been accounted for as financing arrangements and reflected in the condensed consolidated balance sheet as product financing arrangements. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product

financing arrangements and the underlying inventory (which is entirely restricted) are carried at fair value, with changes in fair value included as a component of cost of sales.

Secured Loans Receivable

in thousands

| | September 30, 2019 | June 30, 2019 | September 30, 2019 Compared to June 30, 2019 |
|--------------------------|--------------------|---------------|--|
| Secured loans receivable | \$ 150,473 | \$ 125,298 | \$ 25,175 |

CFC is a California licensed finance lender that makes and acquires commercial loans secured by bullion and numismatic coins that affords our customers a convenient means of financing their inventory or collections. (See [Note 5](#) of the notes to condensed consolidated financial statements.) AMCF also purchases and holds secured loans from CFC to meet its collateral requirements related to the Notes. (See [Note 14](#) of the notes to condensed consolidated financial statements.) Most of the Company's secured loans are short-term in nature. The renewal of these instruments is at the discretion of the Company and, as such, provides us with some flexibility in regards to our capital deployment strategies.

Cash Flows

The majority of the Company's trading activities involve two day value trades under which payment is received in advance of delivery or product is received in advance of payment. The high volume, rapid rate of inventory turnover, and high average value per trade can cause material changes in the sources of cash used in or provided by operating activities on a daily basis. The Company manages these variances through its liquidity forecasts and counterparty limits by maintaining a liquidity reserve to meet the Company's cash needs. The Company uses various short-term financial instruments to manage the rapid cycle of our trading activities from customer purchase order to cash collections and product delivery, which can cause material changes in the amount of cash used in or provided by financing activities on a daily basis.

The following summarizes components of our condensed consolidated statements of cash flows for the three months ended September 30, 2019 and 2018:

in thousands

| Three Months Ended | September 30, 2019 | September 30, 2018 | September 30, 2019 Compared to September 30, 2018 |
|---|--------------------|--------------------|---|
| Net cash used in operating activities | \$ (62,479) | \$ (10,298) | \$ (52,181) |
| Net cash (used in) provided by investing activities | \$ (35,005) | \$ 21,499 | \$ (56,504) |
| Net cash provided by financing activities | \$ 101,625 | \$ 5,222 | \$ 96,403 |

Our principal capital requirements have been to fund (i) working capital and (ii) investing activity. Our working capital requirements fluctuate with market conditions, the availability of precious metals and the volatility of precious metals commodity pricing.

Net cash used in operating activities

Operating activities used \$62.5 million and used \$10.3 million in cash for the three months ended September 30, 2019 and 2018, respectively, representing a \$52.2 million increase in the use of cash compared to the three months ended September 30, 2018. This period over period increase in the use of cash was primarily due to changes in the balances of: inventory, derivative assets, derivative liabilities, precious metals held under financing arrangements; offset by changes in the balances of: receivables, accounts payable, and liabilities on borrowed metals.

Net cash (used in) provided by investing activities

Investing activities used \$35.0 million and provided \$21.5 million in cash for the three months ended September 30, 2019 and 2018, respectively, representing a \$56.5 million increase in the use of cash compared to the three months ended September 30, 2018. This period over period increase was due to the change in balance of secured loans of \$53.5 million compared to the comparable prior period that is primarily due to acquisition of loan portfolios, and providing a loan of \$3.0 million to a customer.

Net cash provided by financing activities

Financing activities provided \$101.6 million and provided \$5.2 million in cash for the three months ended September 30, 2019 and 2018, respectively, representing an increase of \$96.4 million in the source of cash compared to the three months ended September 30, 2018. This period over period increase was primarily due to the change in the balance in the Trading Credit Facility of \$58.0 million, and changes in the balance of product financing arrangements of \$125.4 million; offset by the change the proceeds from issuance of notes payable of \$90.0 million received in the prior fiscal year.

CAPITAL RESOURCES

We believe that our current cash availability under the Trading Credit Facility, product financing arrangements, financing derived from borrowed metals and the cash we anticipate to generate from operating activities will provide us with sufficient liquidity to satisfy our working capital needs, capital expenditures, investment requirements and commitments through at least the next twelve months.

CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND COMMITMENTS

Counterparty Risk

We manage our counterparty risk by setting credit and position risk limits with our trading counterparties. These limits include gross position limits for counterparties engaged in sales and purchase transactions and inventory consignment transactions with us. They also include collateral limits for different types of sale and purchase transactions that counterparties may engage in from time to time.

Commodities Risk and Derivatives

We use a variety of strategies to manage our risk including fluctuations in commodity prices for precious metals. Our inventories consist of, and our trading activities involve, precious metals and precious metal products, whose prices are linked to the corresponding precious metal commodity prices. Inventories purchased or borrowed by us 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 or deliver metals to the customer.

Open sale and purchase commitments in our trading activities 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). We seek to minimize the effect of price changes of the underlying commodity through the use of forward and futures contracts. Our open sale and purchase commitments generally settle within 2 business days, and for those commitments that do not have stated settlement dates, we have the right to settle the positions upon demand.

Our policy is to substantially hedge our underlying precious metal commodity inventory position. We regularly enter into metals commodity forward and futures contracts with financial institutions to hedge price changes that would cause changes in the value of our physical metals positions and purchase commitments and sale commitments. We have access to all of the precious metals markets, allowing us to place hedges. However, we also maintain relationships with major market makers in every major precious metals dealing center, which allows us to enter into contracts with market makers. Our forwards contracts open at September 30, 2019 are scheduled to settle within 60 days. Futures positions do not have settlement dates, although the Company typically closes its future positions within a week.

The Company enters into these derivative transactions solely for the purpose of hedging our inventory holding risk, and not for speculative market purposes. Due to the nature of our hedging strategy, we are not using hedge accounting as defined under, *Derivatives and Hedging* Topic 815 of the Accounting Standards Codification ("ASC".) Unrealized gains or losses resulting from our futures and forward contracts are reported as cost of sales with the related amounts due from or to counterparties reflected as derivative assets or liabilities. The Company adjusts the derivatives to fair value on a daily basis until the transactions are settled. When these contracts are net settled, the unrealized gains and losses are reversed and the realized gains and losses for forward contracts are recorded in revenue and cost of sales and the net realized gains and losses for futures and option contracts are recorded in cost of sales. The Company's net (losses) gains on derivative instruments for the three months ended September 30, 2019 and 2018, totaled \$8.7 million and \$(15.1) million, respectively. These net (losses) gains on derivative instruments were substantially offset by the changes in fair market value of the underlying precious metals inventory and open sale and purchase commitments, which is also recorded in cost of sales in the condensed consolidated statements of operations.

The purpose of the Company's hedging policy is to substantially match the change in the value of the derivative financial instrument to the change in the value of the underlying hedged item. The following table summarizes the results of our hedging activities, showing the precious metal commodity inventory position, net of open sale and purchase commitments, which is subject to price risk, compared to change in the value of the derivative instruments as of September 30, 2019 and at June 30, 2019:

| <i>in thousands</i> | September 30, 2019 | June 30, 2019 |
|---|--------------------|---------------|
| Inventory | \$ 372,198 | \$ 292,861 |
| Precious metals held under financing arrangements | 200,809 | 208,792 |
| | 573,007 | 501,653 |
| Less unhedgeable inventory: | | |
| Commemorative coin inventory, held at lower of cost or net realizable value | (2,336) | (17) |
| Premium on metals position | (5,276) | (4,424) |
| Precious metal value not hedged | (7,612) | (4,441) |
| | 565,395 | 497,212 |
| Commitments at market: | | |
| Open inventory purchase commitments | 285,267 | 166,600 |
| Open inventory sales commitments | (236,353) | (158,870) |
| Margin sale commitments | (10,048) | (11,652) |
| In-transit inventory no longer subject to market risk | (3,802) | (809) |
| Unhedgeable premiums on open commitment positions | 2,014 | 838 |
| Borrowed precious metals | (196,738) | (201,144) |
| Product financing arrangements | (159,130) | (94,505) |
| Advances on industrial metals | 9,512 | 8,644 |
| | (309,278) | (290,898) |
| Precious metal subject to price risk | 256,117 | 206,314 |
| Precious metal subject to derivative financial instruments: | | |
| Precious metals forward contracts at market values | 118,988 | 133,612 |
| Precious metals futures contracts at market values | 138,361 | 72,218 |
| Total market value of derivative financial instruments | 257,349 | 205,830 |
| Net precious metals subject to commodity price risk | \$ (1,232) | \$ 484 |

We are exposed to the risk of default of the counterparties to our derivative contracts. Significant judgment is applied by us when evaluating the fair value implications. We regularly review the creditworthiness of our major counterparties and monitor our exposure to concentrations. At September 30, 2019, we believe our risk of counterparty default is mitigated based on our evaluation of the creditworthiness of our major counterparties, the strong financial condition of our counterparties, and the short-term duration of these arrangements.

Commitments and Contingencies

Refer to [Note 15](#) for information relating Company's commitments and contingencies.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2019 and June 30, 2019, we had the following outstanding sale and purchase commitments and open forward and future contracts, which are normal and recurring, in nature:

| <i>in thousands</i> | September 30, 2019 | | June 30, 2019 | |
|------------------------------------|---------------------------|-----------|----------------------|-----------|
| Purchase commitments | \$ | 285,267 | \$ | 166,600 |
| Sales commitments | \$ | (236,353) | \$ | (158,870) |
| Margin sale commitments | \$ | (10,048) | \$ | (11,652) |
| Open forward contracts | \$ | 118,988 | \$ | 133,612 |
| Open futures contracts | \$ | 138,361 | \$ | 72,218 |
| Foreign exchange forward contracts | \$ | 7,566 | \$ | 5,934 |

The notional amounts of the commodity forward and futures contracts and the open sales and purchase orders, as shown in the table above, are not reflected at the notional amounts in the condensed consolidated balance sheets. The Company records commodity forward and futures contracts at the fair value, which is the difference between the market price of the underlying metal or contract measured on the reporting date and the trade amount measured on the date the contract was transacted. The fair value of the open derivative contracts are shown as a component of derivative assets or derivative liabilities in the accompanying condensed consolidated balance sheets.

The Company enters into the derivative forward and future transactions solely for the purpose of hedging its inventory holding risk, and not for speculative market purposes. The Company's gains (losses) on derivative instruments are substantially offset by the changes in fair market value of the underlying precious metals inventory position, including our open sale and purchase commitments. The Company records the derivatives at the trade date, and any corresponding unrealized gains or losses are shown as a component of cost of sales in the condensed consolidated statements of operations. We adjust the carrying value of the derivatives to fair value on a daily basis until the transactions are physically settled. (See [Note 11](#) of the notes to condensed consolidated financial statements.)

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). In connection with the preparation of our financial statements, we are required to make estimates and assumptions about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time our condensed consolidated financial statements are prepared. On a regular basis, we review our accounting policies, assumptions, estimates and judgments to ensure that our condensed consolidated financial statements are presented fairly and in accordance with U.S. GAAP. However, because future events and their effects cannot be determined with certainty, actual results could materially differ from our estimates.

Our significant accounting policies are discussed in [Note 2](#) of the Notes to condensed consolidated financial statements. We believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

Revenue Recognition

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 the trade and settlement dates, the Company has 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 any corresponding unrealized gain (loss), shown as component of cost of sales in the condensed consolidated statements of operations. The Company adjusts the derivatives to fair value on a daily basis until the transactions are settled. When these contracts are settled, the unrealized gains and losses are reversed, and revenue is recognized for contracts that are physically settled. For contracts that are net settled, the realized gains and losses are recorded in cost of sales, with the exception of forward contracts, where their associated realized gain and losses are recorded in revenue and cost of sales, respectively.

Also, the Company recognizes its storage, logistics, licensing, and other services revenues in accordance with the FASB's release ASU 2014-09 *Revenue From Contracts With Customers* Topic 606 ("ASC 606"), which follows five basic steps to determine whether revenue can be recognized: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract,

and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Inventories

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

The Company's inventories, except for certain lower of cost or net realizable value basis products (as described below), are subsequently recorded at their fair market values. 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 operations.

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 net realizable value, 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. Additionally, neither the commemorative coin inventory nor the premium component of our inventory is hedged.

Inventories include amounts borrowed from suppliers and customers arising from various arrangements including unallocated metal positions held by customers in the Company's inventory, amounts due to suppliers for the use of consigned inventory, metals held by suppliers as collateral on advanced pool metals, as well as shortages in unallocated metal positions held by the Company in the supplier's inventory. Unallocated or pool metal represents an unsegregated inventory position that is due on demand, in a specified physical form, based on the total ounces of metal held in the position. Amounts under these arrangements require delivery either in the form of precious metals or cash. The Company mitigates market risk of its physical inventories and open commitments through commodity hedge transactions. (See [Note 11](#) of the notes to condensed consolidated financial statements.)

The Company enters into product financing agreements for the transfer and subsequent option to reacquire its gold and silver inventory at an agreed-upon price based on the spot price with a third party finance company. This inventory is restricted and is held at a custodial storage facility in exchange for a financing fee, charged by the third party finance company. During the term of the financing agreement, the third party company holds the inventory as collateral, and both parties intend for the inventory to be returned to the Company at an agreed-upon price based on the spot price on the termination (repurchase) date. The third party charges a monthly fee as percentage of the market value of the outstanding obligation; such monthly charge is classified as interest expense. These transactions do not qualify as sales and have been accounted for as financing arrangements in accordance with ASC 470-40 *Product Financing Arrangements*, and are reflected in the condensed consolidated balance sheets as product financing arrangements. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing and the underlying inventory (which is restricted) are carried at fair value, with changes in fair value included in cost of sales in the condensed consolidated statements of operations.

The Company periodically loans metals to customers on a short-term consignment basis. Such inventories are removed at the time the customer elects to price and purchase the metals, and the Company records a corresponding sale and receivable.

The Company enters into financing 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. 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.

Goodwill and Other Purchased Intangible Assets

We evaluate goodwill and other indefinite-lived intangibles 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 finite-lived intangible assets are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be recoverable. We 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, we determine that goodwill is more likely than not to be impaired, a quantitative impairment test is performed. This step requires us to determine the fair value of the business, and compare the calculated fair value of a reporting unit with its carrying amount, including goodwill. If through this quantitative analysis the Company determines the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is considered not to be impaired. If the Company concludes that the fair value of the reporting unit is less than its carrying value, a goodwill impairment will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value.

The Company also performs impairment reviews on its indefinite-lived intangible assets (i.e., trademarks and trade-names). In assessing its indefinite-lived intangible assets for impairment, the Company has the option to first perform a qualitative assessment to determine whether events or circumstances exist that lead to a determination that it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the Company is not required to perform any additional tests in assessing the asset for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, then it is required to perform a quantitative analysis to determine if the fair value of an indefinite-lived intangible asset is less than its carrying value. If through a quantitative analysis the Company determines the fair value of an indefinite-lived intangible asset exceeds its carrying amount, the indefinite-lived intangible asset is considered not to be impaired. If the Company concludes that the fair value of an indefinite-lived intangible asset is less than its carrying value, an impairment will be recognized for the amount by which the carrying amount exceeds the indefinite-lived intangible asset's fair value.

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 operations. 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. Based on our assessment it is more likely than not that all of the net deferred tax assets will be realized through future taxable income.

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 spinoff of the Company when it was a member of the consolidated income tax return group of Spectrum Group International, Inc. ("SGI") Following its spin-off, the Company separately files its federal and state income tax filings. The Company recognizes current and deferred income taxes as a separate taxpayer for periods ending after the date of the spinoff.

RECENT ACCOUNTING PRONOUNCEMENTS

For a description of accounting changes and recent accounting standards, including the expected dates of adoption and estimated effects, if any, on our financial position or results of operations, see [Note 2](#) of the notes to condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on the foregoing, our Certifying Officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Although our newly formed joint venture PMPP began its operations during the quarter ended September 30, 2019, its total assets only comprised 0.09% of the Company's total assets as of September 30, 2019, and 0.71% of the Company's total revenues for the three months ended September 30, 2019.

PART II — OTHER INFORMATION

ITEM 3. LEGAL PROCEEDINGS

We are from time to time involved in legal proceedings, claims, or investigations that are incidental to the conduct of our business.

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations, or cash flows.

ITEM 1A. RISK FACTORS

Risks Relating to Our Business Generally

Our business is heavily dependent on our credit facility.

Our business depends substantially on our ability to obtain financing for our operations. The Trading Credit Facility (as further described and defined below) provides the Company with the liquidity to buy and sell billions of dollars of precious metals annually. The Trading Credit Facility is an uncommitted demand facility provided by a syndicate of financial institutions (the "Trading Credit Lenders"), and is currently scheduled to mature on March 27, 2020. A-Mark routinely uses funds drawn under the Trading Credit Facility to purchase metals from its suppliers and for operating cash flow purposes. Our CFC subsidiary also uses the funds drawn under the Trading Credit Facility to finance its lending activities.

Pursuant to the terms of the Trading Credit Facility, each Trading Credit Lender may, at any time in its sole discretion (subject to certain notice requirements), decline to make loans to us. If we are unable to access funds under the Trading Credit Facility, we may be limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs.

The Trading Credit Facility requires us to maintain certain financial ratios and to comply with various operational and other covenants. Upon the occurrence of an event of default under the Trading Credit Facility that was not cured or waived pursuant to the terms of the Trading Credit Facility, the Trading Credit Lenders could elect to declare all amounts outstanding under the Trading Credit Facility to be due and payable immediately. Further, Trading Credit Lenders holding 50% or more of the indebtedness under the Trading Credit Facility may require us to repay all outstanding indebtedness under the Trading Credit Facility at any time, even if we are in compliance with the financial and other covenants under the Trading Credit Facility.

We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments, including the Trading Credit Facility, upon demand or acceleration, or at maturity, or that we would be able to refinance or restructure the payments under the Trading Credit Facility. The failure of A-Mark to renew or replace the Trading Credit Facility under such circumstances would reduce the financing available to us and could limit our ability to conduct our business, including the lending activity of our CFC subsidiary. There can be no assurance that we could procure replacement financing on commercially acceptable terms on a timely basis, or at all. We have pledged a significant portion of our assets as

collateral under the Trading Credit Facility, and if we were unable to repay the amounts outstanding thereunder, the administrative agent under the Trading Credit Facility could proceed against the collateral granted to secure such indebtedness.

We are subject to fluctuations in interest rates based on the variable interest terms of the Trading Credit Facility and we may not be able to pass along to our customers and borrowers some or any part of an increase in the interest that we are required to pay under the Trading Credit Facility. Amounts under the Trading Credit Facility bear interest based on one month LIBOR plus (i) 2.50% for revolving credit line loans and (ii) 4.50% for loans extended in excess of the then-available revolving credit line. The LIBOR was approximately 1.82% as of September 30, 2019.

Uncertainty about the future of LIBOR may adversely affect our business.

Borrowings under our revolving credit agreement bear interest at rates that are calculated based on LIBOR. On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calibration of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR in its current form cannot be assured after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. Although alternative reference rates have been proposed, it is unknown whether these alternative reference rates will attain market acceptance as replacements of LIBOR.

If LIBOR ceases to exist, the method and rate used to calculate our variable-rate debt in the future may result in interest rates and/or payments that are higher than, lower than, or that do not otherwise correlate over time with the interest rates and/or payments that would have been made on our obligations if LIBOR was available in its current form. There is currently no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, the potential effect of any such event on our cost of capital, financial results, and cash flows cannot yet be determined.

We could suffer losses with our financing operations.

We engage in a variety of financing activities with our customers:

- Receivables from our customers with whom we trade in precious metal products are effectively short-term, non-interest bearing extensions of credit that are, in certain cases, secured by the related products maintained in the Company's possession or by a letter of credit issued on behalf of the customer. On average, these receivables are outstanding for periods of between 8 and 9 days.
- The Company operates a financing business through CFC that makes secured loans at loan-to-value ratios—principal loan amount divided by the liquidation value, as conservatively estimated by management, of the collateral—of, in most cases, 50% to 85%. These loans are both variable and fixed interest rate loans, with some maturities on-demand and others from three to twelve months.
- We make advances to our customers on unrefined metals secured by materials received from the customer. These advances are limited to a portion of the materials received.
- The Company makes unsecured, short-term, non-interest bearing advances to wholesale metals dealers and government mints.
- The Company periodically extends short-term credit through the issuance of notes receivable to approved customers at interest rates determined on a customer-by-customer basis.

Our ability to minimize losses on the credit that we extend to our customers depends on a variety of factors, including:

- our loan underwriting and other credit policies and controls designed to assure repayment, which may prove inadequate to prevent losses;
- our ability to sell collateral upon customer defaults for amounts sufficient to offset credit losses, which can be affected by a number of factors outside of our control, including (i) changes in economic conditions, (ii) increases in market rates of interest and (iii) changes in the condition or value of the collateral; and
- the reserves we establish for loan losses, which may prove inadequate.

CFC may in certain circumstances be required to repurchase loans that it has securitized.

CFC has entered into a securitization financing whereby it has transferred, and may continue from time to time to transfer, to its subsidiary AMCF loans secured by precious metal coins or bullion. AMCF has issued 4.98% Class A Notes due 2023 and 5.98% Class B Notes due 2023 which are secured by these loans and related assets. While the notes are not recourse to the Company or CFC, CFC is required to provide certain warranties concerning the loans and the security interest in the metals collateral securing the loans. In the event the warranties made with respect to any loan are breached and the breach materially and adversely affects the interests of the noteholders, CFC is required to either cure the breach or repurchase the loan within specified a timeframe. If

CFC were to default on its repurchase obligations, this could materially adversely affect the business of CFC, and could adversely affect the Company's future ability to access the credit markets.

CFC and the Company have exposure to the performance of AM Capital Funding.

Regulation RR of the SEC requires the sponsor of an asset-backed securitization transaction, or certain of its affiliates, to retain an economic interest in the transaction. In compliance with this rule, CFC retained the equity interest in AMCF and the Company currently holds \$5.0 million of Class B Notes, which are subordinated to the Class A Notes. In addition, CFC and the Company may, from time to time, also contribute cash or sell precious metals to AMCF in exchange for subordinated, deferred payment obligations from AMCF. If the performance of AMCF were to suffer such that AMCF were unable to service its notes, CFC and the Company could lose part or all of their investments in AMCF.

Under the terms of the servicing arrangements for the precious metals loan securitization, CFC may be required to liquidate the collateral securing securitized loans, even if this would impair relationships with its customers.

CFC is the servicer for the loans transferred to AMCF in the securitization transaction. If, under certain circumstances, the equity levels of the obligors on particular loans falls below a specified level and those obligors fail to pay in additional equity, CFC is required to liquidate the metals collateral securing those loans within a specified time period. CFC does not have the flexibility to defer or refrain from the liquidation, even if CFC were to determine that it would be in its best interests to do so. This requirement could impair valuable relationships that the Company may otherwise have with its customers whose loans have been securitized.

Our business is dependent on a concentrated customer base.

One of A-Mark's key assets is its customer base. This customer base provides deep distribution of product and makes A-Mark a desirable trading partner for precious metals product manufacturers, including sovereign mints seeking to distribute precious metals coinage or large refiners seeking to sell large volumes of physical precious metals. Two customers represented 38.6% of A-Mark's revenues for the three months ended September 30, 2019. The same two customers represented 24.4% of A-Mark's revenues for the three months ended September 30, 2018. If our relationships with these customers deteriorated, or if we were to lose these customers, our business would be materially adversely affected.

The loss of a government purchaser/distributorship arrangement could materially adversely affect our business.

A-Mark's business is heavily dependent on its purchaser/distributorship arrangements with various governmental mints. Our ability to offer numismatic coins and bars to our customers on a competitive basis is based on the ability to purchase products directly from a government source. The arrangements with the governmental mints may be discontinued by them at any time. The loss of an authorized purchaser/distributor relationship, including with the U.S. Mint could have a material adverse effect on our business.

The materials held by A-Mark are subject to loss, damage, theft or restriction on access.

A-Mark has significant quantities of high-value precious metals on site, at third-party depositories and in transit. There is a risk that part or all of the gold and other precious metals held by A-Mark, whether on its own behalf or on behalf of its customers, could be lost, damaged or stolen. In addition, access to A-Mark's precious metals could be restricted by natural events (such as an earthquake) or human actions (such as a terrorist attack). Although we maintain insurance on terms and conditions that we consider appropriate, we may not have adequate sources of recovery if our precious metals inventory is lost, damaged, stolen or destroyed, and recovery may be limited. Among other things, our insurance policies exclude coverage in the event of loss as a result of terrorist attacks or civil unrest.

In addition, with the establishment of our Logistics facility and the transfer of our wholesale storage operations from third party depositories to that facility, we are assuming greater potential liability for any loss suffered in connection with the stored inventory. Among other things, our insurance, rather than the third-party depository's, is now the primary risk policy. While we believe we have adequate insurance coverage covering these operations, in the event of any loss in excess of our coverage, we may be held liable for that excess.

Our business is subject to the risk of fraud and counterfeiting.

The precious metals (particularly bullion) business is exposed to the risk of loss as a result of “materials fraud” in its various forms. We seek to minimize our exposure to this type of fraud through a number of means, including third-party authentication and verification, reliance on our internal experts and the establishment of procedures designed to detect fraud. However, there can be no assurance that we will be successful in preventing or identifying this type of fraud, or in obtaining redress in the event such fraud is detected.

Our business is influenced by political conditions and world events.

The precious metals business is especially subject to global political conditions and world events. Precious metals are viewed by some as a secure financial investment in times of political upheaval or unrest, particularly in developing economies, which may drive up pricing. The volatility of the commodity prices for precious metals is also likely to increase in politically uncertain times. Conversely, during periods of relative international calm precious metal volatility is likely to decrease, along with demand, and the prices of precious metals may retreat. Because our business is dependent on the volatility and pricing of precious metals, we are likely to be influenced by world events more than businesses in other economic sectors.

We have significant operations outside the United States.

We derive about 5% to 25% of our revenues from business outside the United States, including from customers in developing countries. Business operations outside the U.S. are subject to political, economic and other risks inherent in operating in foreign countries. These include risks of general applicability, such as the need to comply with multiple regulatory regimes; trade protection measures and import or export licensing requirements; and fluctuations in equity, revenues and profits due to changes in foreign currency exchange rates. Currently, we do not conduct substantial business with customers in developing countries. However, if our business in these areas of the world were to increase, we would also face risks that are particular to developing countries, including the difficulty of enforcing agreements, collecting receivables, protecting inventory and other assets through foreign legal systems, limitations on the repatriation of earnings, currency devaluation and manipulation of exchange rates, and high levels of inflation.

We try to manage these risks by monitoring current and anticipated political, economic, legal and regulatory developments in the countries outside the United States in which we operate or have customers and adjusting operations as appropriate, but there can be no assurance that the measures we adopt will be successful in protecting the Company’s business interests.

We are dependent on our key management personnel and our trading experts.

Our performance is dependent on our senior management and certain other key employees. We have employment agreements with Greg Roberts, our CEO, and Thor Gjerdrum, our President, which expire on June 30, 2020 and June 30, 2022, respectively. These and other employees have expertise in the trading markets, have industry-wide reputations, and perform critical functions for our business. We cannot offer assurance that we will be able to negotiate acceptable terms for the renewal of the employment agreements or otherwise retain our key employees. Also, there is significant competition for skilled precious metals traders and other industry professionals. The loss of our current key officers and employees, without the ability to replace them, would have a materially adverse effect on our business.

We are focused on growing our business, but there is no assurance that we will be successful.

We expect to grow both organically and through opportunistic acquisitions. We have devoted considerable time, resources and efforts over the past few years to our growth strategy. We may not be successful in implementing our growth initiatives, which could adversely affect our business.

Liquidity constraints may limit our ability to grow our business.

To accomplish our growth strategy, we will require adequate sources of liquidity to fund both our existing business and our expansion activity. Currently, our main sources of liquidity are the cash that we generate from operations, our borrowing availability under the Trading Credit Facility and the proceeds from our securitization transaction through AMCF. There can be no assurance that these sources will be adequate to support the growth that we are hoping to achieve or that additional sources of financing for this purpose, in the form of additional debt or equity financing, will be available to us, on satisfactory terms or at all. Also, the Trading Credit Facility contains, and any future debt financing is likely to contain, various financial and other restrictive covenants. The need to comply with these covenants may limit our ability to implement our growth initiatives.

We expect to grow in part through acquisitions, but an acquisition strategy entails risks.

We expect to grow in part through acquisitions. We will consider potential acquisitions of varying sizes and may, on a selective basis, pursue acquisitions or consolidation opportunities involving other public companies or privately held companies. However, it is possible that we will not realize the expected benefits from our acquisitions or that our existing operations will be adversely affected as a result of acquisitions. Acquisitions entail certain risks, including: unrecorded liabilities of acquired companies that we fail to discover during our due diligence investigations; difficulty in assimilating the operations and personnel of the acquired company within our existing operations or in maintaining uniform standards; loss of key employees of the acquired company; and strains on management and other personnel time and resources both to research and integrate acquisitions.

We expect to pay for future acquisitions using cash, capital stock, notes and/or assumption of indebtedness. To the extent that our existing sources of cash are not sufficient to fund future acquisitions, we will require additional debt or equity financing and, consequently, our indebtedness may increase or shareholders may be diluted as we implement our growth strategy.

Our Logistics depository is subject to authorization.

Our Trading Credit Lenders have approved our Logistics facility as an authorized depository. If that approval were to be withdrawn for any reason, we would no longer be able to keep inventory at that location, which would substantially limit our ability to conduct business from that facility.

We are subject to laws and regulations.

We are subject to various laws, litigation, regulatory matters and ethical standards, and our failure to comply with or adequately address developments as they arise could adversely affect our reputation and operations. Our policies, procedures and practices and the technology we implement are designed to comply with federal, state, local and foreign laws, rules and regulations, including those imposed by the SEC and other regulatory agencies, the marketplace, the banking industry and foreign countries, as well as responsible business, social and environmental practices, all of which may change from time to time. Significant legislative changes, including those that relate to employment matters and health care reform, could impact our relationship with our workforce, which could increase our expenses and adversely affect our operations. In addition, if we fail to comply with applicable laws and regulations or implement responsible business, social and environmental practices, we could be subject to damage to our reputation, class action lawsuits, legal and settlement costs, civil and criminal liability, increased cost of regulatory compliance, restatements of our financial statements, disruption of our business and loss of customers. Any required changes to our employment practices could result in the loss of employees, reduced sales, increased employment costs, low employee morale and harm to our business and results of operations. In addition, political and economic factors could lead to unfavorable changes in federal and state tax laws, which may increase our tax liabilities. An increase in our tax liabilities could adversely affect our results of operations. We are also regularly involved in various litigation matters that arise in the ordinary course of business. Litigation or regulatory developments could adversely affect our business and financial condition.

There are various federal, state, local and foreign laws, ordinances and regulations that affect our trading business. For example, we are required to comply with the Foreign Corrupt Practices Act and a variety of anti-money laundering and know-your-customer rules in response to the USA Patriot Act.

The SEC has promulgated rules mandated by the Dodd-Frank Act regarding disclosure, on an annual basis, of the use of tin, tantalum, tungsten and gold, known as conflict minerals, in products manufactured by public companies. These rules require due diligence to determine whether such minerals originated from the Democratic Republic of Congo (the "DRC") or an adjoining country and whether such minerals helped finance the armed conflict in the DRC.

The Company has concluded that it is not currently subject to the conflict minerals rules because it is not a manufacturer of conflict minerals under the definitions set forth in the rules. Depending on developments in the Company's business, it could become subject to the rules at some point in the future. In that event, there will be costs associated with complying with these disclosure requirements, including costs to determine the origin of gold used in our products. In addition, the implementation of these rules could adversely affect the sourcing, supply and pricing of gold used in our products. Also, we may face disqualification as a supplier for customers and reputational challenges if the due diligence procedures we implement do not enable us to verify the origins for the gold used in our products or to determine that the gold is conflict free.

CFC operates under a California Finance Lenders License issued by the California Department of Corporations. CFC is required to submit a finance lender law annual report to the state which summarizes certain loan portfolio and financial information regarding CFC. The Department of Corporations may audit the books and records of CFC to determine whether CFC is in compliance with the terms of its lending license. In addition, the Commodity Futures Trading Commission and other federal and state agencies may assert oversight over aspects of CFC's operations.

There can be no assurance that the regulation of our trading and lending businesses will not increase or that compliance with the applicable regulations will not become more costly or require us to modify our business practices.

The Company faces uncertainty associated with the Tax Cuts and Jobs Act.

The Company has adopted the applicable provisions of the Tax Cuts and Jobs Act which have had a significant impact to date. In particular, the Company is now experiencing a substantially lower federal corporate tax rate and has predominately incurred all required adjustments related to its deferred tax assets. The U.S. Department of the Treasury, the Internal Revenue Service and other standard-setting bodies will continue to issue proposed regulations and interpretive guidance on how the provisions of the Tax Cuts and Jobs Act will be applied or otherwise administered, and final regulations or interpretive guidance may be issued in the future that are different from our current interpretation and application thereof.

One or more states could assert that the Company is liable for sales and use or similar taxes, which could adversely affect our business.

In *South Dakota v. Wayfair, Inc. et al* ("Wayfair"), the U.S. Supreme Court recently ruled that states may charge tax on purchases made from out-of-state sellers, even if the seller does not have a physical presence in the taxing state. The effect of Wayfair was to uphold economic nexus principles in determining sales and use tax nexus. As a result of the decision, an increasing number of states have adopted (or are expected to adopt) laws that require an out-of-state retailer to register and collect sales and use taxes upon meeting certain economic nexus standards regardless of whether the company has physical presence in the state.

The Company has gradually expanded (and continues to expand) its sales and use tax registration and compliance process (including software and related programming accommodations) in applicable states to conform with these new requirements, though many uncertainties and ambiguities remain. Although the Company believes it is complying with these new requirements as they evolve, our interpretation and application of the newly enacted legislation may differ from the states, which could result in the states' attempt to impose additional tax liabilities, including potential penalties and interest. Such amounts could be significant. Furthermore, the requirements by state or local governments on out-of-state sellers to collect sales and use taxes could deter futures sales, which could have an impact on our business, financial condition, and results of operations.

We operate in a highly competitive industry.

The business of buying and selling precious metals is global and highly competitive. The Company competes with precious metals trading firms and banks throughout North America, Europe and elsewhere in the world, some of whom have greater financial and other resources, and greater name recognition, than the Company. We believe that, as a full service firm devoted exclusively to precious metals trading, we offer pricing, product availability, execution, financing alternatives and storage options that are attractive to our customers and allow us to compete effectively. We also believe that our purchaser/distributorship arrangements with various governmental mints give us a competitive advantage in our coin distribution business. However, given the global reach of the precious metals trading business, the absence of intellectual property protections and the availability of numerous, evolving platforms for trading in precious metals, we cannot assure you that A-Mark will be able to continue to compete successfully or that future developments in the industry will not create additional competitive challenges.

We rely extensively on computer systems to execute trades and process transactions, and we could suffer substantial damages if the operation of these systems were interrupted.

We rely on our computer and communications hardware and software systems to execute a large volume of trading transactions each year. It is therefore critical that we maintain uninterrupted operation of these systems, and we have invested considerable resources to protect our systems from physical compromise and security breaches and to maintain backup and redundancy. Nevertheless, our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, including breaches of our transaction processing or other systems, catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our employees. If our systems are breached, damaged or cease to function properly, we may have to make a significant investment to fix or replace them, we may suffer interruptions in our ability to provide quotations or trading services in the interim, and we may face costly litigation.

If our customer data were breached, we could suffer damages and loss of reputation.

By the nature of our business, we maintain significant amounts of customer data on our systems. Moreover, certain third party providers have access to confidential data concerning the Company in the ordinary course of their business relationships with the Company. In recent years, various companies, including companies that are significantly larger than us, have reported breaches of their computer systems that have resulted in the compromise of customer data. Any compromise or breach of customer or company data held or maintained by either the Company or our third party providers could significantly damage our reputation and result in costs, lost trades, fines and lawsuits. The regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches.

Compliance with new data protection/privacy statutes could increase our costs and expose the Company to possible sanctions for violation.

In 2016, the European Union ("EU") adopted a comprehensive overhaul of its data protection regime from the current national legislative approach to a single European Economic Area Privacy Regulation, the General Data Protection Regulation ("GDPR"), which went into effect in May 2018. The EU data protection regime expands the scope of the EU data protection law to all foreign companies processing personal data of EU residents, imposes a strict data protection compliance regime with severe penalties of up to the greater of 4% of worldwide turnover or €20 million, and includes new rights such as the "portability" of personal data. Although the GDPR will apply across the EU without a need for local implementing legislation, EU member states have the ability to interpret the GDPR opening clauses, which permit region-specific data protection legislation and have the potential to create inconsistencies on a country-by-country basis.

The Company has an office in Vienna, Austria that markets to international (including EU) customers. Although our international operations are currently modest compared to our business in the United States, our international business could grow over time. We have evaluated the new regulation and its requirements, and believe we are currently in compliance with the GDPR in all material respects. Going forward, however, the expansion of our international operations could require us to change our business practices and may increase the costs and complexity of compliance. Also, a violation by the Company of the new regulation could expose us to penalties and sanctions under the regulation.

On June 28, 2018, California passed the California Consumer Privacy Act of 2018 ("CCPA"), to be effective on January 1, 2020. The new law provides California consumers with a greater level of transparency and broader rights and choices with respect to their personal information than those contained in any existing state and federal laws in the U.S. The "personal information" regulated by CCPA is broadly defined to include identification or association with a California consumer or household, including demographics, usage, transactions and inquiries, preferences, inferences drawn to create a profile about a consumer, and education information. Compliance with CCPA requires the implementation of a series of operational measures such as preparing data maps, inventories, or other records of all personal information pertaining to California residents, households and devices, as well as information sources, usage, storage, and sharing, maintaining and updating detailed disclosures in privacy policies, establishing mechanisms (including, at a minimum, a toll-free telephone number and an online channel) to respond to consumers' data access, deletion, portability, and opt-out requests, providing a clear and conspicuous "Do Not Sell My Personal Information" link on the home page of the business' website, etc. CCPA prohibits businesses from discriminating against consumers who have opted out of the sale of their personal information, subject to a narrow exception. It allows companies to provide financial incentives to California consumers in order to obtain their consent to the collection and use of their personal information. Violations of CCPA will result in civil penalties up to \$7,500 per violation. CCPA further allows consumers to file lawsuits against a business if a data breach has occurred and the California Attorney General does not prosecute the business.

In addition, on May 29, 2019, Nevada's governor approved a bill (the "Amendment Bill"), to be effective on October 1, 2019. The Amendment Bill provides amendments to an existing law that requires operators of websites and online services to post a notice on their websites regarding their privacy practices. The Amendment Bill requires operators of internet websites or online services to establish a designated request address through which a consumer may submit a verified request directing such operators not to make any sale of covered information collected about the consumer. The "covered information" regulated by the Amendment Bill is defined to include an enumerated list of items of personally identifiable information (including names, addresses, email addresses, phone numbers, social security numbers and identifiers that allow a specific person to be contacted).

The changes introduced by the CCPA and the Amendment Bill, and any similar regulations enacted by other jurisdictions, will subject the Company to additional costs and complexity of compliance, by requiring, among other things, changes to the Company's security systems, policies, procedures and practices. In addition, a violation by the Company of the new regulations could expose us to penalties and sanctions.

Our implementation of a new enterprise resource planning ("ERP") system may adversely affect our business and results of operations or the effectiveness of internal controls over financial reporting.

One of our longer-term goals is to implement a new ERP system across our segments. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities over a significant period of time. If we do not effectively implement the ERP system or if the system does not operate as intended, it could adversely affect our financial reporting systems and our ability to produce financial reports, the effectiveness of internal controls over financial reporting, and our business, financial condition, results of operations and cash flows.

We have in the past engaged, and continue to engage, in transactions with Stack's Bowers, an affiliate of the Company, which could be perceived as not being made at arms-length.

Stack's-Bowers Numismatics LLC. ("Stack's Bowers Galleries"), which is primarily engaged in the business of auctions of high-value and rare coins and in coin retailing, is a wholly-owned subsidiary of SGI, our former parent and a related party. We have engaged in the past, and continue to engage, in transactions with Stack's Bowers, some of which are presently on-going.

These transactions include secured lending transactions in which Stack's Bowers is the borrower, and other transactions involving the purchase and sale of rare coins. The Company and SGI have two officers and a director in common. In addition, a majority of the board of directors of the Company has retained an ownership interest in SGI that in the aggregate represents a controlling interest in SGI. All transactions between the Company and Stack's Bowers are approved by our Audit Committee, and we believe that all such transactions are on terms no less favorable to the Company than would be obtained from an unaffiliated third party. Nonetheless, these transactions could be perceived as being conflicted.

Risks Relating to Commodities

A-Mark's business is heavily influenced by volatility in commodities prices.

A primary driver of A-Mark's profitability is volatility in commodities prices, which leads to wider bid and ask spreads. Among the factors that can impact the price of precious metals are supply and demand of precious metals; political, economic, and global financial events; movement of the U.S. dollar versus other currencies; and the activity of large speculators such as hedge funds. If commodity prices were to stagnate, there would likely be a reduction in trading activity, resulting in less demand for the services A-Mark provides, which could materially adversely affect our business, liquidity and results of operations.

This volatility may drive fluctuation of our revenues, as a consequence of which our results for any one period may not be indicative of the results to be expected for any other period. See "[Management's Discussion and Analysis of Financial Condition and Results of Operations](#)"

Our business is exposed to commodity price risks, and our hedging activity to protect our inventory is subject to risks of default by our counterparties.

A-Mark's precious metals inventories are subject to market value changes created by change in the underlying commodity price, as well as supply and demand of the individual products the Company trades. In addition, open sale and purchase commitments are subject to changes in value between the date the purchase or sale is fixed (the trade date) and the date metal is delivered or received (the settlement date). A-Mark seeks to minimize the effect of price changes of the underlying commodity through the use of financial derivative instruments, such as forward and futures contracts. A-Mark's policy is to remain substantially hedged as to its inventory position and its individual sale and purchase commitments. A-Mark's management monitors its hedged exposure daily. However, there can be no assurance that these hedging activities will be adequate to protect the Company against commodity price risks associated with A-Mark's business activities.

Furthermore, even if we are fully hedged as to any given position, there is the risk of default by our counterparties to the hedge. Any such default could have a material adverse effect on our financial position and results of operations.

Increased commodity pricing could limit the inventory that we are able to carry.

We maintain a large and varied inventory of precious metal products, including bullion and coins, in order to support our trading activities and provide our customers with superior service. The amount of inventory that we are able to carry is constrained by the borrowing limitations and working capital covenants under the Trading Credit Facility. If commodity prices were to rise substantially, and we were unable to modify the terms of the Trading Credit Facility to compensate for the increase, the quantity of product that we could finance, and hence maintain in our inventory, would fall. This would likely have a material adverse effect on our operations.

We rely on the efficient functioning of commodity exchanges around the world, and disruptions on these exchanges could adversely affect our business.

The Company buys and sells precious metals contracts on commodity exchanges around the world, both in support of its customer operations and to hedge its inventory and transactional exposure against fluctuations in commodity prices. The Company's ability to engage in these activities would be compromised if the exchanges on which the Company trades or any of their clearinghouses were to discontinue operations or to experience disruptions in trading, due to computer problems, unsettled markets or other factors. The Company may also experience risk of loss if futures commission merchants or commodity brokers with whom the Company deals were to become insolvent or bankrupt.

Risks Relating to Our Common Stock

Failure to achieve and maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley could have a material adverse effect on our business.

As a public company, we are required to document and test our internal control over financial reporting in order to satisfy the requirements of Section 404 of Sarbanes-Oxley, which requires annual management assessments of the effectiveness of our internal control over financial reporting.

We are required to implement standalone policies and procedures to comply with the requirements of Section 404. During the course of our testing of our internal controls and procedures, we may identify deficiencies which we may not be able to remediate in time to comply with Section 404. Testing and maintaining internal controls can divert our management's attention from other matters that are also important to the operation of our business. We may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. If we are unable to conclude that we have effective internal controls over financial reporting, then investors could lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our common stock. In addition, if we do not maintain effective internal controls, we may not be able to accurately report our financial information on a timely basis, which could harm the trading price of our common stock, impair our ability to raise additional capital, or jeopardize our continued listing on the NASDAQ Global Select Market or any other stock exchange on which common stock may be listed.

We are not currently paying dividends and may not pay dividends in the future.

The Company has not made a dividend payment since January 2018. The declaration of cash dividends is subject to the determination each quarter by the Board of Directors, based on its assessment of a number of factors, including the Company's financial performance, available cash resources, cash requirements, bank covenants, and alternative uses of cash that the Board of Directors may conclude would represent an opportunity to generate a greater return on investment for the Company.

There can be no assurance that the Company will resume paying dividends on a regular basis. If the Board of Directors were to determine not to pay dividends in the future, shareholders would not receive any further return on an investment in our capital stock in the form of dividends, and may obtain an economic benefit from the common stock only after an increase in its trading price and only by selling the common stock.

Provisions in our Certificate of Incorporation and Bylaws and of Delaware law may prevent or delay an acquisition of the Company, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws and Delaware law contain certain anti-takeover provisions that could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company without negotiating with our board of directors. Such provisions could limit the price that certain investors might be willing to pay in the future for the Company's securities. Certain of such provisions allow the Company to issue preferred stock with rights senior to those of the common stock, impose various procedural and other requirements which could make it more difficult for Shareholders to effect certain corporate actions and set forth rules regarding how shareholders may present proposals or nominate directors for election at shareholder meetings.

We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our Board of Directors and by providing our Board of Directors with more time to assess any acquisition proposal. However, these provisions apply even if an acquisition offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our Board of Directors determines is not in the best interests of our Company and our Shareholders. Accordingly, in the event that our board determines that a potential business combination transaction is not in the best interests of our Company and our Shareholders, but certain shareholders believe that such a transaction would be beneficial to the Company and its Shareholders, such Shareholders may elect to sell their shares in the Company and the trading price of our common stock could decrease.

Your percentage ownership in the Company could be diluted in the future.

Your percentage ownership in A-Mark potentially could be diluted in the future because of additional equity awards that we expect will be granted to our directors, officers and employees. We have established an equity incentive plan that provides for the grant of common stock-based equity awards to our directors, officers and other employees. In addition, we may issue equity in order to raise capital or in connection with future acquisitions and strategic investments, which could dilute your percentage ownership.

Our board and management beneficially own a sizeable percentage of our common stock and therefore have the ability to exert substantial influence as shareholders.

Members of our board and management beneficially own approximately 40% of our outstanding common stock. Acting together in their capacity as shareholders, the board members and management could exert substantial influence over matters on which a shareholder vote is required, such as the approval of business combination transactions. Also because of the size of their beneficial ownership, the board members and management may be in a position effectively to determine the outcome of the election of directors and the vote on shareholder proposals. The concentration of beneficial ownership in the hands of our board and management may therefore limit the ability of our public shareholders to influence the affairs of the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchase Program

In April 2018, the Company's Board of Directors approved a share repurchase program which authorized the Company to purchase up to 500,000 shares of its common stock from time to time, either in the open market or in block purchase transactions. The amount and timing of specific repurchases are subject to market conditions, applicable legal requirements and other factors. As of September 30, 2019, no shares had been repurchased under the program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

Item 6. EXHIBIT INDEX

| Regulation S-K Exhibit Table Item No. | Description of Exhibit |
|--|--|
| 31 .1 * | Certification Under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31 .2 * | Certification Under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 .1 * | Certification Under Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32 .2 * | Certification Under Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 .INS * | XBRL Instance Document. |
| 101 .SCH * | XBRL Taxonomy Extension Calculation Schema Document. |
| 101 .CAL * | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101 .DEF * | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101 .LAB * | XBRL Taxonomy Extension Label Linkbase Document. |
| 101 .PRE * | XBRL Taxonomy Extension Presentation Linkbase Document. |

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2019
A-MARK PRECIOUS METALS, INC.
By: /s/ Gregory N. Roberts

Name: Gregory N. Roberts
Title: Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2019
A-MARK PRECIOUS METALS, INC.
By: /s/ Kathleen Simpson-Taylor

Name: Kathleen Simpson-Taylor
Title: Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signatures | Title(s) | Date |
|---|--|------------------|
| <u>/s/ Gregory N. Roberts</u> Gregory N. Roberts | Chief Executive Officer and Director <i>(Principal Executive Officer)</i> | November 8, 2019 |
| <u>/s/ Kathleen Simpson-Taylor</u> Kathleen Simpson-Taylor | Chief Financial Officer <i>(Principal Financial Officer)</i> | November 8, 2019 |

Exhibit 31.1

CERTIFICATION

I, Gregory N. Roberts, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of A-Mark Precious Metals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

/s/ Gregory N. Roberts

Name: Gregory N. Roberts

Title: Chief Executive Officer

Exhibit 31.2
CERTIFICATION

I, Kathleen Simpson-Taylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of A-Mark Precious Metals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

/s/ Kathleen Simpson-Taylor

Name: Kathleen Simpson-Taylor
Title: Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with A-Mark Precious Metals, Inc.'s (the "Company") Quarterly Report on Form 10-Q for the three months ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 8, 2019

/s/ Gregory N. Roberts

Name: Gregory N. Roberts

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with A-Mark Precious Metals, Inc.'s (the "Company") Quarterly Report on Form 10-Q for the three months ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Accounting Officer of the Company, hereby certifies pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 8, 2019

/s/ Kathleen Simpson-Taylor

Name: Kathleen Simpson-Taylor

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.