A-Mark Precious Metals, Inc.
Form 10-Q
February 12, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission File Number: 001-36347

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

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

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

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

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

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

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

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

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

Non-accelerated filer ¨

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

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

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

As of February 1, 2019, the registrant had 7,031,450 shares of common stock outstanding, par value $0.01 per share.

A-MARK PRECIOUS METALS, INC.

QUARTERLY REPORT ON FORM 10-Q
For the Six Months Ended December 31, 2018

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

	December 31, 2018	June 30, 2018
ASSETS		
Current assets:		
Cash [1]	$ 11,830	$6,291
Receivables, net [1]	23,275	35,856
Derivative assets	1,601	7,395
Secured loans receivable [1]	104,757	110,424
Precious metals held under financing arrangements	226,905	262,566
Inventories:		
Inventories [1]	193,872	166,176
Restricted inventories	82,413	113,940
	276,285	280,116
Income taxes receivable	1,527	1,553
Prepaid expenses and other assets [1]	1,754	2,782
Total current assets	647,934	706,983
Plant, property and equipment, net	7,261	8,018
Goodwill	8,881	8,881
Intangibles, net	6,357	6,861
Long-term investments	10,447	8,388
Deferred tax assets - non-current	3,211	3,870
Total assets	$ 684,091	$743,001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Lines of credit	$ 139,000	$200,000
Liability on borrowed metals	227,317	280,346
Product financing arrangements	82,413	113,940
Accounts payable	46,740	45,997
Derivative liabilities [1]	25,304	20,457
Accrued liabilities [1]	4,951	5,129
Total current liabilities	525,725	665,869
Debt obligation (related party)	—	7,226
Notes payable [1]	86,569	—
Other long-term liabilities (related party)	—	798
Total liabilities	612,294	673,893
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, authorized 10,000,000 shares; issued and outstanding: none as of December 31, 2018 and June 30, 2018	—	—
Common stock, par value $0.01; 40,000,000 shares authorized; 7,031,450 shares issued and outstanding as of December 31, 2018 and June 30, 2018	71	71

Additional paid-in capital	25,909	24,717
Retained earnings	42,968	40,910
Total A-Mark Precious Metals, Inc. stockholders’ equity	68,948	65,698
Non-controlling interest	2,849	3,410
Total stockholders’ equity	71,797	69,108
Total liabilities, non-controlling interest and stockholders’ equity	$ 684,091	$743,001

(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

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

The following table presents the assets and liabilities of the Company's consolidated variable interest entity ("VIE"), which is included in the condensed consolidated balance sheets above. The noteholders have first priority to 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.

	December 31, 2018	June 30, 2018
ASSETS OF THE CONSOLIDATED VIE		
Cash	$ 5,264	$ —
Receivables, net	4	—
Secured loans receivable	55,715	—
Inventories	44,610	—
Prepaid expenses and other assets	39	—
Total assets of consolidated variable interest entities	$ 105,632	$ —
LIABILITIES OF THE CONSOLIDATED VIE		
Deferred payment obligations (1)	$ 6,754	$ —
Accrued liabilities	238	—
Derivative liabilities	2,111	—
Notes payable (2)	96,569	—
Total liabilities of consolidated variable interest entities	$ 105,672	$ —

(1) This is an intercompany balance, which is eliminated in consolidation and hence not shown on the condensed consolidated balance sheets.
(2) $10.0 million of the Notes are held by A-Mark, which is eliminated in consolidation and hence not shown on the condensed consolidated balance sheets.

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Revenues	$1,100,912	$1,680,738	$2,666,002	$3,844,528
Cost of sales	1,092,595	1,671,822	2,649,210	3,828,306
Gross profit	8,317	8,916	16,792	16,222
Selling, general and administrative expenses	(8,103)	(9,349)	(15,822)	(16,325)
Interest income	4,652	3,268	9,203	6,429
Interest expense	(4,656)	(3,359)	(8,208)	(6,092)
Other income	682	651	930	712
Unrealized gain (loss) on foreign exchange	52	139	(18)	38
Net income before provision for income taxes	944	266	2,877	984
Income tax expense	(242)	(324)	(741)	(598)
Net income (loss)	702	(58)	2,136	386
Net gain attributable to non-controlling interest	125	147	78	113
Net income (loss) attributable to the Company	$577	$(205)	$2,058	$273
Basic and diluted net income (loss) per share attributable to A-Mark Precious Metals, Inc.:				
Basic	$0.08	$(0.03)	$0.29	$0.04
Diluted	$0.08	$(0.03)	$0.29	$0.04
Dividends per share	$—	$0.08	$—	$0.16
Weighted average shares outstanding:				
Basic	7,031,400	7,031,400	7,031,400	7,031,400
Diluted	7,085,600	7,031,400	7,088,700	7,113,000

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Common Stock (Shares)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total A-Mark Precious Metals, Inc. Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity
Balance, June 30, 2018	7,031,450	$ 71	$ 24,717	$ 40,910	$ 65,698	$ 3,410	$ 69,108
Net income	—	—	—	2,058	2,058	78	2,136
Share-based compensation	—	—	553	—	553	—	553
Transactions with non-controlling interest	—	—	639	—	639	(639)	—
Balance, December 31, 2018	7,031,450	$ 71	$ 25,909	$ 42,968	$ 68,948	$ 2,849	$ 71,797

See accompanying Notes to Condensed Consolidated Financial Statements

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

Six Months Ended December 31,	2018	2017
Cash flows from operating activities:		
Net income	$2,136	$386
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	(30)	—
Depreciation and amortization	1,398	1,312
Amortization of loan cost	542	595
Deferred income taxes	659	(211)
Interest added to principal of secured loans	(10)	(29)
Change in accrued earn-out (non-cash)	(504)	(529)
Loss on debt extinguishment	7	—
Share-based compensation	553	738
Earnings from equity method investment	(559)	(179)
Changes in assets and liabilities:		
Receivables	12,611	923
Secured loans	(737)	(289)
Secured loans to Former Parent	(4,458)	(1,502)
Derivative assets	5,794	17,013
Income tax receivable	26	(663)
Precious metals held under financing arrangements	35,661	—
Inventories	3,831	(38,035)
Prepaid expenses and other assets	708	(714)
Accounts payable	743	15,511
Derivative liabilities	4,847	(7,162)
Liabilities on borrowed metals	(53,029)	4,952
Accrued liabilities	(109)	(2,376)
Income taxes payable	—	(1,418)
Net cash provided by (used in) operating activities	10,080	(11,677)
Cash flows from investing activities:		
Capital expenditures for property and equipment	(138)	(417)
Purchase of long-term investments	(1,500)	—
Secured loans, net	10,872	(3,913)
Acquisition of subsidiary, net of cash	—	(9,548)
Net cash provided by (used in) investing activities	9,234	(13,878)
Cash flows from financing activities:		
Product financing arrangements, net	(31,527)	(15,182)
Dividends	—	(1,124)
Borrowings and repayments under lines of credit, net	(61,000)	34,000
Repayments on notes payable to related party	(7,500)	(500)
Proceeds from issuance of notes payable	90,000	7,500
Debt funding issuance costs	(3,748)	(187)
Net cash (used in) provided by financing activities	(13,775)	24,507

Net increase (decrease) in cash, cash equivalents, and restricted cash	5,539	(1,048)
Cash, cash equivalents, and restricted cash, beginning of period	6,291	13,059
Cash, cash equivalents, and restricted cash, end of period	$11,830	$12,011

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

Six Months Ended December 31,	2018	2017
(- Continued from preceding page -)		
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$5,622	$4,775
Income taxes	$47	$2,908
Non-cash investing and financing activities:		
Interest added to principal of secured loans	$10	$29
Debt funding issuance costs	$—	$534
Investment transactions with non-controlling interest	$639	$—

See accompanying Notes to Condensed Consolidated Financial Statements

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

1. DESCRIPTION OF BUSINESS
Basis of Presentation
The condensed consolidated financial statements comprise those of A-Mark Precious Metals, Inc. ("A-Mark" or the "Company") and its consolidated subsidiaries, which includes a variable interest entity ("VIE"). Intercompany accounts and transactions have been eliminated.
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 for storage and delivery primarily in the form of coins, bars, wafers and grain. Also, this segment's trading-related services include financing, consignment, logistics, hedging and various customized financial programs.
Through its wholly owned subsidiary, A-Mark Trading AG ("AMTAG"), the Company promotes A-Mark bullion products throughout the European continent. Transcontinental Depository Services ("TDS"), also a wholly owned subsidiary of the Company, offers worldwide storage solutions to institutions, dealers and consumers.
The Company's wholly-owned subsidiary, A-M Global Logistics, LLC ("Logistics"), operates the Company's logistics fulfillment center based in Las Vegas, Nevada. Logistics provides customers an array of complementary services, including packaging, shipping, handling, receiving, processing, and inventorying of precious metals and custom coins on a secure basis.
In August 2016, the Company formed AM&ST Associates, LLC ("AMST"), a joint venture with SilverTowne, L.P., referred to as SilverTowne, an Indiana-based producer of minted silver that resulted in the Company and SilverTowne, L.P. owning 55% and 45%, respectively, of AMST. During the first quarter of fiscal 2019, the Company increased its ownership interest of AMST to 69% and SilverTowne, L.P. currently owns 31% of AMST. The Company acquired its interest in AMST 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 during volatile market environments.
Secured Lending
The Company operates its Secured Lending segment through its wholly-owned subsidiary, Collateral Finance Corporation LLC ("CFC"). CFC has been in operation since 2005. 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.
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 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, each dated as of the Closing Date, between AMCF and Citibank, N.A., as trustee. The Company holds $10.0 million of the Notes. The Notes are not insured or guaranteed by A-Mark or CFC. CFC acts as servicer with respect to the Notes.
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. For additional information regarding this securitization, see Note 14, "Notes Payable".
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, the internet and television. Goldline sells gold and silver bullion in the form of coins, and bars, as well as numismatic coins.

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The Company entered into the Direct Sales segment through its acquisition of substantially all of the assets of Goldline, LLC ("Goldline, LLC" or the "Seller"), pursuant to the terms of an Asset Purchase Agreement (the “Purchase Agreement”), dated August 14, 2017, between Goldline (then known as Goldline Acquisition Corp.) and the Seller. The transaction closed on August 28, 2017 (the "Closing Date"). On the Closing Date, the estimated purchase price for the net assets was approximately $10.0 million (the “Initial Provisional Purchase Price”), which was based on the Seller’s preliminary balance sheet dated as of July 31, 2017. The net assets acquired consisted of both intangible assets, which the parties agreed had an aggregate fair value of $6.4 million, and specified net tangible assets of the Seller, which the parties initially agreed had an estimated aggregate fair value of $3.6 million, subject to post-closing adjustment. In connection with the closing, Goldline paid to the Seller an amount equal to the Initial Provisional Purchase Price less $1.5 million (the "Holdback Amount"), which amount was held back and deposited into escrow to serve as security for the Seller’s indemnification obligations under the Purchase Agreement.

Pro-Forma Information

The following table compares the unaudited consolidated financial information for the three and six months ended December 31, 2018 to unaudited pro-forma consolidated financial information for the three and six months ended December 31, 2017 , whereby the Company assumed that the acquisition of the net assets of Goldline, LLC occurred on July 1, 2017, that is, on the first day of fiscal year 2018, rather than on the actual acquisition date of August 28, 2017.

in thousands, except for EPS	(Unaudited)			
	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Pro-forma revenue	$1,100,912	$1,680,738	$2,666,002	$3,845,686
Pro-forma net income (loss)	$577	$(205)	$2,058	$325
Pro-forma basic earnings (loss) per share	$0.08	$(0.03)	$0.29	$0.05
Pro-forma dilutive earnings (loss) per share	$0.08	$(0.03)	$0.29	$0.05

The above pro-forma supplemental information does not purport to be indicative of what the Company's operations would have been had these transactions occurred on July 1, 2017 and should not be considered indicative of future operating results. The Company believes the assumptions used provide a reasonable basis for reflecting the significant pro-forma effects directly attributable to the acquisition of Goldline. The unaudited pro-forma information accounts for amortization of acquired intangible assets (based on the preliminary purchase price allocation and an estimate of their useful lives), incremental financing costs resulting from the acquisition, elimination of prior sales and purchases between the entities, elimination of acquisition costs and an application of the Company's tax rate. For the three and six months ended December 31, 2018 the Company used the tax rate of 25.6% and 25.8%, respectively. For the three and six months ended December 31, 2017 the Company used the tax rate of 37.5% and 37.5%, respectively. The unaudited pro-forma results do not include any anticipated cost savings or other effects of the integration of Goldline.

Related Agreements

In connection with the closing of the acquisition, Goldline entered into a privately placed credit facility in the amount of $7.5 million (the “Goldline Credit Facility”) with various lenders (the "Goldline Lenders"), which include some directors from the Company's Board, effective August 28, 2017. Borrowings under the Goldline Credit Facility were used to finance a portion of the consideration payable under the Purchase Agreement. The principal balance of the Goldline Credit Facility, together with a 2% prepayment premium of $150,000, was repaid in full on December 7, 2018. (See Note 14).

On the Closing Date, the Seller and Goldline entered into a transition services agreement, pursuant to which Goldline will provide reasonable assistance to the Seller at no cost to the Seller (including access to records and services of transferring employees) for a period of two years following the closing date in connection with assisting the Seller with its continuing obligations for its retained liabilities that were not assumed by Goldline.

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

Spinoff from Spectrum Group International, Inc.

On March 14, 2014, the Company's former parent, Spectrum Group International, Inc. (including its subsidiaries, "SGI" or the "Former Parent"), effected a spinoff (the "spinoff" or the "Distribution") of the Company from SGI. As a result of the

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Distribution, the Company became a publicly traded company independent from SGI. On March 17, 2014, A-Mark's shares of common stock commenced trading on the NASDAQ Global Select Market under the symbol "AMRK."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements reflect the financial condition, results of operations, statement of stockholder equity and cash flows of the Company, and were prepared using accounting principles generally accepted in the United States ("U.S. GAAP"). These condensed consolidated financial statements include the accounts of A-Mark, and its wholly owned subsidiaries, CFC, AMTAG, TDS, Logistics, Goldline, its majority owned affiliate AMST, and its variable interest entity ("VIE") AMCF (collectively the "Company"). For the three and six months ended December 31, 2018 and 2017, net income equaled comprehensive income as there were no items of 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, contingent interest 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 six months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2019 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 2018 (the "2018 Annual Report"), as filed with the SEC. Amounts related to disclosure of June 30, 2018 balances within these interim condensed consolidated financial statements were derived from the aforementioned audited consolidated financial statements and notes thereto included in the 2018 Annual Report.

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.

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Foreign Currency

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

Contingent consideration is classified as a liability or equity, as applicable. Contingent consideration in connection with the acquisition of a business is measured at fair value on the acquisition date, and unless classified as equity, is remeasured at fair value each reporting period thereafter until the consideration is settled, with changes in fair value included in net income.

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

Variable Interest Entities

A variable interest entity ("VIE") is a legal entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors 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.

The most common type of VIE is a special purpose entity ("SPE"). SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. SPEs are generally structured to insulate investors from claims on the SPE’s assets by creditors of other entities, including the creditors of the seller of the assets.

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 VIEs 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 VIEs in the consolidated financial statements.

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 (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 December 31, 2018 and June 30, 2018.

As of December 31, 2018 and June 30, 2018, the Company has $0.4 million and $0.4 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.

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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 substance of these transactions are precious metals owned by the Company that generate financing income from customers and are not metals held as inventory for sale. As such, the Company has classified this material as "precious metals held under financing arrangements", rather than as "inventory - repurchase arrangements with customers". 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 December 31, 2018 and June 30, 2018, precious metals held under financing arrangements totaled $226.9 million and $262.6 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 market basis products (as discussed below), are subsequently recorded at their fair market values, that is, "marked-to-market." The daily changes in the fair market value of our inventory are offset by daily changes in the fair market value of hedging derivatives that are taken with respect to our inventory positions; both the change in the fair market value of the inventory and the change in the fair market value of these derivative instruments are recorded in cost of sales in the condensed consolidated statements of 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 market, because the value of commemorative coins is influenced more by supply and demand determinants than on the underlying spot price of the precious metal content of the commemorative coins. Unlike our bullion coins, the value of commemorative coins is not subject to the same level of volatility as bullion coins because our commemorative coins typically carry a substantially higher premium over the spot metal price than bullion coins. Neither the commemorative coin inventory nor the premium component of our inventory is hedged (see Note 6.)

Plant, Property and Equipment

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

The Company reviews the carrying value of these assets for impairment whenever events and circumstances indicate that the carrying value of the asset may not be recoverable. In evaluating for impairment, the carrying value of each asset 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 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 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). The carrying value of the investment is reduced by the amount of the dividends received from the equity-method investee, as they are considered a return of capital.

Investments in privately-held entities that are less than 20% owned by the Company are accounted for using the cost method, unless the Company can exercise significant influence or the investee is economically dependent upon the Company, in

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which case the equity method is used. Under the cost method, investments are carried at cost and other income is recorded when dividends are received from the cost-method investee.

We evaluate our long-term investments for impairment quarterly or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. As of December 31, 2018 and June 30, 2018, the Company did not identify any impairments.

Fair Value Measurement

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

Revenue Recognition

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.

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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 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: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) 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). 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.

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- 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 metals fees -- The Company may incur financing costs from its liabilities on 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 collateral (determined at the spot price) plus certain processing and other fees. The Company enters this type of transaction as an additional source of liquidity, and usually monetizes the metals received under such arrangements. Repayment is usually required in the same form as the metals advanced, or in cash.

Other Income

The Company's other income is derived from the Company's proportional interest in the reported net income or net loss in an investee accounted for under the equity method of accounting (see Note 9) and the gains or losses associated with revaluation adjustments to the contingent earn-out liability associated with our joint venture (AMST).

Contingent Earn-out Liability

We record an estimate of the fair value of contingent consideration related to the earn-out obligation to SilverTowne LP related to the SilverTowne Mint acquisition. On a quarterly basis, we revalue the liability and record increases or decreases in the fair value as an adjustment to earnings. Changes to the contingent consideration liability can result from adjustments to the discount rate, or from changes to the estimates of future throughput activity of AMST, which are considered Level 3 inputs (see Note 3). Consequentially, the assumptions used in estimating fair value require significant judgment. The use of different assumptions and judgments could result in a materially different estimate of fair value. As of December 31, 2018 and June 30, 2018 the balance of the contingent liability was $84,000 and $588,000 respectively. The current portion of this liability is recorded as a component in accrued liabilities and the non-current portion of this liability is shown as a component in other long-term liabilities. The remaining annual contingent payout obligations, if achieved, would become due on October 30, 2019. Below is a reconciliation of the contingent earn out liability for the six months ended December 31, 2018.

in thousands

Liabilities at fair value, based on Level 3 inputs:	Contingent Consideration

Balance at June 30, 2018	$ 588
Revaluation adjustment	(504)
Amount paid to SilverTowne, since the fiscal year end	—
Balance at December 31, 2018	$ 84

Advertising

Advertising expense was $648,000 and $1,059,000, respectively, for the three months ended December 31, 2018 and 2017. Advertising expense was $1,238,000 and $1,576,000, respectively, for the six months ended December 31, 2018 and 2017.

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 $1,099,000, respectively, for the three months ended December 31, 2018 and 2017. Shipping and handling costs incurred totaled $3,111,000 and $2,183,000, respectively, for the six months ended December 31, 2018 and 2017.

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

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Earnings per Share ("EPS")

The Company computes and reports both basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings (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 and six months ended December 31, 2018 and 2017, is presented below.

in thousands	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Basic weighted average shares outstanding	7,031	7,031	7,031	7,031
Effect of common stock equivalents — stock issuable under outstanding equity awards	55	— [(1)]	58	82
Diluted weighted average shares outstanding	7,086	7,031	7,089	7,113

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

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").

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU No. 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”). The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”). The amendments in ASU 2016-10 clarify aspects relating to the identification of performance obligations and improve the operability and understandability of the licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12("ASU 2016-12"), Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in ASU 2016-12 address certain issues identified on assessing collectability, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications at transition. The Company implemented these pronouncements in the first quarter of fiscal 2019, which did not have a significant effect on the financial results of the Company since a substantially all of the Company's revenue in fiscal years 2018 and 2017, fell under the authoritative guidance of ASC 815, which is outside the scope of ASC 606.

Recent Accounting Pronouncements Not Yet Adopted

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

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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.

3. ASSETS AND LIABILITIES, AT FAIR VALUE

Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company’s financial instruments as of December 31, 2018 and June 30, 2018.

in thousands

	December 31, 2018		June 30, 2018	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets:				
Cash	$11,830	$11,830	$6,291	$6,291
Receivables, net	23,275	23,275	35,856	35,856
Secured loans receivable	104,757	104,757	110,424	110,424
Derivative asset on open sale and purchase commitments, net	1,401	1,401	2,274	2,274
Derivative asset on option contracts	174	174	390	390
Derivative asset on futures contracts	—	—	238	238
Derivative asset on forward contracts	26	26	4,493	4,493
Income taxes receivable	1,527	1,527	1,553	1,553
Financial liabilities:				
Lines of credit	$139,000	$139,000	$200,000	$200,000
Debt obligation (related party)	—	—	7,226	7,226
Liability on borrowed metals	227,317	227,317	280,346	280,346
Product financing arrangements	82,413	82,413	113,940	113,940
Derivative liability on margin accounts	2,718	2,718	3,804	3,804
Derivative liability on price protection programs	—	—	168	168
Derivative liability on open sale and purchase commitments, net	6,112	6,112	16,485	16,485
Derivative liability on futures contracts	3,230	3,230	—	—
Derivative liability on forward contracts	13,244	13,244	—	—
Accounts payable	46,740	46,740	45,997	45,997
Accrued liabilities	4,951	4,951	5,129	5,129
Other long-term liabilities (related party) (1)	—	—	798	798
Notes payable	86,569	86,569	—	—

(1) Includes estimated contingent amounts due to SilverTowne.

The fair values of the financial instruments shown in the above table as of December 31, 2018 and June 30, 2018 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, note payable, and accrued liabilities approximate fair value due to their short-term nature. The carrying amounts of derivative assets and derivative liabilities, liability on borrowed metals and product financing arrangements are marked-to-market on a daily basis

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to fair value. The carrying amounts of lines of credit and debt obligation approximate fair value based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities. The carrying value of other long-term liabilities represents the long-term portion of contingent earn-out liabilities that are remeasured on a quarterly basis.

Valuation Hierarchy

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

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

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

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

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 substance of these transactions are precious metals owned by the Company that generate financing income from customers and are not metals held as inventory for sale. As such, the Company has classified this material as "precious metals held under financing arrangements", rather than as "inventory - repurchase arrangements with customers". 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 December 31, 2018, 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.

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

The Company values the contingent obligation by determining the likelihood that the company has achieved the following targeted amount of performance thresholds for each annual earn-out period. Such thresholds include (1) Producing a targeted amount of silver ounces, (2) Earning a targeted amount of operating income, and (3) Generating an operating cost per ounce that is less than a targeted level. Each category triggers a different annual payout obligation if achieved over a 3 year period, and as of December 31, 2018, the remaining annual contingent payout obligations, if achieved, would become due on October 30, 2019. The company re-assesses this contingent obligation each quarter based on the most current facts and market conditions. The obligation continues to remain as a liability at its original recorded value unless, based on each quarterly evaluation, it becomes evident the Company will not achieve all or part of the threshold performance targets. In such case, the obligation is adjusted to its more current estimated value.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and June 30, 2018, aggregated by the level in the fair value hierarchy within which the measurements fall:

	December 31, 2018			
in thousands	Quoted Price in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Inventory [1]	$276,238	$ —	$ —	$276,238
Precious metals held under financing arrangements	226,905	—	—	226,905
Derivative assets — open sale and purchase commitments, net	1,401	—	—	1,401
Derivative assets — option contracts	174	—	—	174
Derivative assets — forward contracts	26	—	—	26
Total assets, valued at fair value	$504,744	$ —	$ —	$504,744
Liabilities:				
Liability on borrowed metals	$227,317	$ —	$ —	$227,317
Product financing arrangements	82,413	—	—	82,413
Derivative liabilities — liability on margin accounts	2,718	—	—	2,718
Derivative liabilities — open sale and purchase commitments, net	6,112	—	—	6,112
Derivative liabilities — future contracts	3,230	—	—	3,230
Derivative liabilities — forward contracts	13,244	—	—	13,244
Contingent earn-out liability	$—	$ —	$ 84	$84
Total liabilities, valued at fair value	$335,034	$ —	$ 84	$335,118

[1] Commemorative coin inventory totaling $47,000 is held at lower of cost or market and is thus excluded from this table.

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	June 30, 2018			
in thousands	Quoted Price in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Inventory [1]	$280,017	$ —	$ —	$280,017
Precious metals held under financing arrangements	262,566	—	—	262,566
Derivative assets — open sale and purchase commitments, net	2,274	—	—	2,274
Derivative assets — option contracts	390	—	—	390
Derivative assets — futures contracts	238	—	—	238
Derivative assets — forward contracts	4,493	—	—	4,493
Total assets, valued at fair value	$549,978	$ —	$ —	$549,978
Liabilities:				
Liability on borrowed metals	$280,346	$ —	$ —	$280,346
Product financing arrangements	113,940	—	—	113,940
Derivative liabilities — price protection programs	—	—	168	168
Derivative liabilities — liability on margin accounts	3,804	—	—	3,804
Derivative liabilities — open sale and purchase commitments, net	16,485	—	—	16,485
Contingent earn-out liability	—	—	588	588
Total liabilities, valued at fair value	$414,575	$ —	$ 756	$415,331

[1] Commemorative coin inventory totaling $99,000 is held at lower of cost or market and is thus excluded from this table.

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

Assets Measured at Fair Value on a Non-Recurring Basis

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

The Company evaluates its goodwill and other indefinite-lived intangibles for impairment on non-recurring basis in the fourth quarter of the fiscal year, or more frequently if indicators of potential impairment exist. As of June 30, 2018, the carrying value of the Company's indefinite-lived intangible and goodwill assets totaled $3.2 million and $8.9 million, respectively. As of December 31, 2018 , the carrying value of the Company's indefinite-lived intangible and goodwill assets totaled $3.2 million and $8.9 million, respectively (see Note 8).

The Company's two investments in noncontrolled entities do not have readily determinable fair values. Quoted prices of the investments are not available, and the Company identified no impairment indicators that may affect the carrying value of these investments. Based on the Company's assessment of the carrying value of these assets, during the three and six months ended December 31, 2018 and 2017 the Company did not record any impairments related to these investments. As of December 31, 2018 and June 30, 2018, the carrying value of the Company's investments totaled $10.4 million and $8.4 million, respectively.

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4. RECEIVABLES

Receivables consist of the following as of December 31, 2018 and June 30, 2018:
in thousands

	December 31, 2018	June 30, 2018
Customer trade receivables	$ 7,131	$22,813
Wholesale trade advances	13,101	10,722
Due from brokers	3,043	2,351
Subtotal	23,275	35,886
Less: allowance for doubtful accounts	—	(30)
Receivables, net	$ 23,275	$35,856

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).

Allowance for Doubtful Accounts

An allowance for doubtful accounts is a reduction of the total amount of receivables appearing on the Company's condensed consolidated balance sheets. The allowance for doubtful accounts represents our estimate of the amount of accounts receivable that may not be paid by customers. A summary of the activity in the allowance for doubtful accounts is as follows:
in thousands

Period ended:	Beginning Balance	Provision	Charge-off	Ending Balance
Six Months Ended December 31, 2018	$ 30	$ (30)	$ —	$ —
Year Ended June 30, 2018	$ 30	$ —	$ —	$ 30

5. SECURED LOANS RECEIVABLE

Below is a summary of the carrying value of our secured loans as of December 31, 2018 and June 30, 2018:
in thousands

	December 31, 2018	June 30, 2018
Secured loans originated	$ 33,854	$23,300
Secured loans originated - with a related party	16,981	12,523
	50,835	35,823
Secured loans acquired	53,922 (1)	74,601 (2)
Secured loans	$ 104,757	$110,424

(1) Includes $29 thousand of loan premium as of December 31, 2018.

(2) Includes $54 thousand of loan premium as of June 30, 2018.

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 December 31, 2018 and June 30, 2018, our secured loans carried weighted-average effective interest rates of 9.6% and 9.6%, respectively, and mature in periods generally ranging typically from on-demand to one year.

The secured loans that the Company generates with active customers of A-Mark are reflected as an operating activity on the condensed consolidated statements of cash flows. The secured loans that the Company generates with borrowers who are not active customers of A-Mark are reflected as an investing activity on the condensed consolidated statements of cash flows as secured loans, net. For the secured loans that (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 applies a systematic methodology to determine the allowance for credit losses for secured loan receivables. The secured loan receivables portfolio is comprised solely of secured loans with similar risk profiles. This similarity allows the Company to apply a standard methodology to determine the credit quality for each loan. The credit quality of each loan is generally determined by the secured material, the initial and ongoing collateral value determination and the assessment of loan-to-value determination. Typically, the Company's secured loan receivables within its portfolio have similar credit risk profiles and methods for assessing and monitoring credit risk.

The Company evaluates its loan portfolio in one of two classes of secured loan receivables: those loans secured by: 1) bullion 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

	December 31, 2018		June 30, 2018	
Bullion	$69,313	66.2 %	$72,128	65.3 %
Numismatic and semi-numismatic	35,444	33.8	38,296	34.7
	$104,757	100.0%	$110,424	100.0%

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

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

in thousands

	December 31, 2018		June 30, 2018	
Loan-to-value of 75% or more	$55,446	52.9 %	$69,629	63.1 %
Loan-to-value of less than 75%	49,311	47.1	40,795	36.9
Secured loans collateralized by precious metal products	$104,757	100.0%	$110,424	100.0%

The Company had no loans with a loan-to-value ratio in excess of 100% at December 31, 2018 or June 30, 2018.

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 December 31, 2018 and 2017, the Company incurred no loan impairment costs. For the six months ended December 31, 2018 and 2017, the Company incurred no loan impairment costs.

6. INVENTORIES

Our inventory consists of the precious metals that the Company has physically received, and inventory held by third-parties, which, at the Company's option, it may or may not receive. Below, our inventory is summarized by classification at December 31, 2018 and June 30, 2018:

in thousands

	December 31, 2018	June 30, 2018
Inventory held for sale	$ 65,844	$32,605
Repurchase arrangements with customers	98,187	104,907
Consignment arrangements with customers	6,196	10,785
Commemorative coins, held at lower of cost or market	47	99
Borrowed precious metals	23,598	17,780
Product financing arrangements, restricted	82,413	113,940
	$ 276,285	$280,116

Inventory Held for Sale. Inventory held for sale represents precious metals, excluding commemorative coin inventory, that have been received by the Company that is not subject to repurchase or consignment arrangements with third parties. As of December 31, 2018 and June 30, 2018, the inventory held for sale totaled $65.8 million and $32.6 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 December 31, 2018 and June 30, 2018, included within inventory is $98.2 million and $104.9 million, respectively, of precious metals products subject to repurchase arrangements with customers.

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Consignment Arrangements with Customers. The Company periodically loans metals to customers on a short-term consignment basis. Inventories loaned under consignment arrangements to customers as of December 31, 2018 and June 30, 2018 totaled $6.2 million and $10.8 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 market, because the value of commemorative coins is influenced more by supply and demand determinants than on the underlying spot price of the precious metal content of the commemorative coins. Unlike our bullion coins, the value of commemorative coins is not subject to the same level of volatility as bullion coins because our commemorative coins typically carry a substantially higher premium over the spot metal price than bullion coins. Our commemorative coins are not hedged, and are included in inventory at the lower of cost or market and totaled $47,000 and $99,000 as of December 31, 2018 and June 30, 2018, 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 $23.6 million and $17.8 million as of December 31, 2018 and June 30, 2018, 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 $82.4 million and $113.9 million as of December 31, 2018 and June 30, 2018, respectively.
The Company mitigates market risk of its physical inventories and open commitments through commodity hedge transactions (see Note 11.) As of December 31, 2018 and June 30, 2018, the unrealized gains (losses) resulting from the difference between market value and cost of physical inventories were $5.5 million and $(5.4) 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 December 31, 2018 and June 30, 2018 totaled $4.0 million and $3.5 million, respectively.

7. PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment consists of the following at December 31, 2018 and June 30, 2018:

in thousands	December 31, 2018	June 30, 2018
Office furniture, and fixtures	$ 2,056	$ 2,056
Computer equipment	757	757
Computer software	3,475	3,471
Plant equipment	2,821	2,701
Building	319	315
Leasehold improvements	2,804	2,796
Total depreciable assets	12,232	12,096
Less: accumulated depreciation	(6,490)	(5,597)
Property and equipment not placed in service	1,483	1,483
Land	36	36
Plant, property and equipment, net	$ 7,261	$ 8,018

Depreciation expense for the three months ended December 31, 2018 and 2017 was $448,000 and $530,000, respectively. Depreciation expense for the six months ended December 31, 2018 and 2017 was $893,000 and $902,000, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

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

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

Due to the Company's acquisition of Goldline, 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 represents 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 is expected to lead to increased product margin spreads, lower distribution and storage costs for Goldline, and a larger customer base for the Company's secured lending operations.

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The carrying value of goodwill and other purchased intangibles as of December 31, 2018 and June 30, 2018 is as described below:

dollar amounts in thousands

		December 31, 2018				June 30, 2018			
	Estimated Useful Lives (Years)	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	(5,921)	—	2,927	8,848	(5,467)	—	3,381
Non-compete and other	3 - 5	2,300	(2,089)	—	211	2,300	(2,056)	—	244
Employment agreement	3	295	(239)	—	56	295	(222)	—	73
Intangibles subject to amortization		11,443	(8,249)	—	3,194	11,443	(7,745)	—	3,698
Trade name	Indefinite	$4,454	$ —	$ (1,291)	$3,163	$4,454	$ —	$ (1,291)	$3,163
Identifiable intangible assets		$15,897	$ (8,249)	$ (1,291)	$6,357	$15,897	$ (7,745)	$ (1,291)	$6,861
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 December 31, 2018 and 2017 was $252,000 and $253,000, respectively. Amortization expense related to the Company's intangible assets for the six months ended December 31, 2018 and 2017 was $504,000 and $410,000, respectively.

Impairment

The accumulated impairment charge of $2.7 million (goodwill and indefinite-lived intangible assets) was a non-recurring charge for fiscal 2018. No further impairment of goodwill or intangible assets has occurred for the six months ended December 31, 2018.

Estimated Amortization

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

Fiscal Year Ending June 30,	Amount
2019 (6 months remaining)	$ 507
2020	1,011
2021	599
2022	571
2023	128
Thereafter	378
Total	$ 3,194

9. LONG-TERM INVESTMENTS

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

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in thousands

	December 31, 2018	June 30, 2018
Equity method investment	$ 8,447	$ 7,888
Cost method investment	2,000	500
	$ 10,447	$ 8,388

Equity Method Investment

The Company applies the equity method of accounting for its investment in which it has aggregate ownership interest of 20.6%. Under the equity method of accounting, the carrying value of the investment is adjusted for the Company's proportional share of the investee's reported earnings or losses with the corresponding share of earnings or losses reported in other income (expense) on the condensed consolidated statements of operations. The Company's proportionate share of the investee’s net income totaled $311,000 and $122,000 for the three months ended December 31, 2018 and 2017, respectively. The Company's proportionate share of the investee’s net income totaled $559,000 and $179,000 for the six months ended December 31, 2018 and 2017, respectively.

Cost Method Investment

The Company applies the cost method to its investment in which its ownership percentage, based on the number of fully dilutive common shares outstanding, was 7.4% and 2.5% as of December 31, 2018 and June 30, 2018, respectively. As of December 31, 2018 and June 30, 2018, the aggregate carrying balance of this investment was $2.0 million and $0.5 million, respectively.

10. ACCOUNTS PAYABLE

Accounts payable consists of the following:

in thousands

	December 31, 2018	June 30, 2018
Trade payables to customers	$ 498	$ 175
Advances from customers	41,051	42,615
Deferred revenue	2,863	2,107
Other accounts payable	2,328	1,100
	$ 46,740	$ 45,997

11. DERIVATIVE INSTRUMENTS AND HEDGING TRANSACTIONS

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

The Company's trading inventories and purchase and sale transactions consist primarily of precious metal products. The value of these assets and liabilities are marked-to-market daily to the prevailing closing price of the underlying precious metals.

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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 December 31, 2018 and June 30, 2018.

	December 31, 2018				June 30, 2018			
in thousands	Gross Derivative	Amounts Netted	Cash Collateral Pledge	Net Derivative	Gross Derivative	Amounts Netted	Cash Collateral Pledge	Net Derivative
Nettable derivative assets:								
Open sale and purchase commitments	$4,522	$(3,121)	$—	$ 1,401	$2,602	$ (328)	$—	$ 2,274
Option contracts	174	—	—	174	390	—	—	390
Future contracts	—	—	—	—	238	—	—	238
Forward contracts	26	—	—	26	4,577	(84)	—	4,493
	$4,722	$(3,121)	$—	$ 1,601	$7,807	$ (412)	$—	$ 7,395
Nettable derivative liabilities:								
Open sale and purchase commitments	$10,261	$(4,149)	$—	$ 6,112	$17,132	$ (647)	$—	$ 16,485
Margin accounts	6,932	—	(4,214)	2,718	5,988	—	(2,184)	3,804
	—	—	—	—	168	—	—	168

Liability of price protection programs								
Future contracts	3,230	—	—	3,230	—	—	—	—
Forward contracts	13,298	(54)	—	13,244	—	—	—	—
	$33,721	$(4,203)	$(4,214)	$ 25,304	$23,288	$(647)	$(2,184)	$ 20,457

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 contacts are recorded in cost of sales.
Below is a summary of the net gains (losses) on derivative instruments for the three and six months ended December 31, 2018 and 2017.