

COLLECTORS UNIVERSE INC

FORM 10-Q (Quarterly Report)

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Address	1921 E. ALTON AVENUE SANTA ANA, CA, 92705
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission file number 1-34240

COLLECTORS UNIVERSE, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

33-0846191
(I.E. Employer Identification No.)

1921 E. Alton Avenue, Santa Ana, California 92705
(address of principal executive offices and zip code)

Registrant's telephone number, including area code: (949) 567-1234

Not Applicable

(Former name, former address and former fiscal year, if changed, since last year)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 Securities Exchange Act Rule 12b-2).
Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of October 31, 2017
Common Stock \$.001 Par Value	8,920,998

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30 , 201 7
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PART 1 – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)
(Unaudited)

ASSETS	September 30 , 2017	June 30 , 2017
Current assets:		
Cash and cash equivalents	\$ 10,207	\$ 9,826
Accounts receivable, net of allowance of \$78 and \$77 at September 30, 2017 and June 30, 2017 , respectively	3,682	3,615
Inventories, net	2,845	2,722
Prepaid expenses and other current assets	1,460	1,661
Total current assets	18,194	17,824
Non-current assets:		
Property and equipment, net	6,401	3,163
Goodwill	2,083	2,083
Intangible assets, net	2,287	2,183
Deferred income tax assets	2,864	2,864
Other assets	393	413
Non-current assets of discontinued operations	79	79
Total assets	<u>\$ 32,301</u>	<u>\$ 28,609</u>
LIABILITIES AND STOCKHOLDERS ' E QUITY		
Current liabilities:		
Accounts payable	\$ 3,048	\$ 2,660
Accrued liabilities	2,264	1,652
Accrued compensation and benefits	2,903	4,373
Income taxes payable	951	664
Deferred revenue	2,719	2,676
Current liabilities of discontinued operations	267	391
Total current liabilities	12,152	12,416
Deferred rent	2,349	276
Long Term Debt	1,000	-
Non-current liabilities of discontinued operations	-	-
Commitments and contingencies (Note 10)		
Stockholders ' equity:		
Preferred stock, \$.001 par value; 3,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$.001 par value ; 20,000 shares authorized; 8,921 issued and outstanding at September 30, 2017 and June 30, 2017, respectively.	9	9
Additional paid-in capital	85,172	84,948
Accumulated deficit	(68,381)	(69,040)
Total stockholders ' equity	16,800	15,917
Total liabilities and stockholders ' equity	<u>\$ 32,301</u>	<u>\$ 28,609</u>

See accompanying notes to condensed consolidated financial statements.

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, except per share data)
(Unaudited)

	Three Months Ended	
	September 30,	
	2017	2016
Net revenues	\$ 19,753	\$ 15,748
Cost of revenues	7,450	6,138
Gross profit	12,303	9,610
Operating expenses:		
Selling and marketing expenses	2,754	2,422
General and administrative expenses	5,027	4,414
Total operating expenses	7,781	6,836
Operating income	4,522	2,774
Interest income and other expense, net	31	24
Income before provision for income taxes	4,553	2,798
Provision for income taxes	919	1,210
Income from continuing operations	3,634	1,588
Loss from discontinued operations, net of income taxes	(1)	(7)
Net income	<u>\$ 3,633</u>	<u>\$ 1,581</u>
Net income per basic share:		
Income from continuing operations	\$ 0.42	\$ 0.19
Loss from discontinued operations	-	-
Net income per basic share	<u>\$ 0.42</u>	<u>\$ 0.19</u>
Net income per diluted share:		
Income from continuing operations	\$ 0.41	\$ 0.19
Loss from discontinued operations	-	(0.01)
Net income per diluted share	<u>\$ 0.41</u>	<u>\$ 0.18</u>
Weighted average shares outstanding:		
Basic	8,573	8,474
Diluted	8,765	8,561
Dividends declared per common share	\$ 0.35	\$ 0.35

See accompanying notes to condensed consolidated financial statements.

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)
(Unaudited)

	Three Months Ended September 30 ,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,633	\$ 1,581
Discontinued operations	1	7
Income from continuing operations	3,634	1,588
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization expense	442	420
Stock-based compensation expense	224	102
Provision for bad debts	(1)	11
Provision for inventory write-down	-	22
Provision for warranty	113	174
Gain on sale of property and equipment	-	5
Change in operating assets and liabilities:		
Accounts receivable	(69)	408
Inventories	(123)	(257)
Prepaid expenses and other	201	55
Other assets	22	(57)
Accounts payable and accrued liabilities	885	(199)
Accrued compensation and benefits	(1,470)	(1,039)
Income taxes payable	287	840
Deferred revenue	43	(3)
Deferred rent	(33)	(20)
Net cash provided by operating activities of continuing operations	4,155	2,050
Net cash used in operating activities of discontinued businesses	(126)	(122)
Net cash provided by operating activities	4,029	1,928
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of business	4	5
Capital expenditures	(1,401)	(439)
Capitalized software	(274)	(172)
Patents and other intangibles	(4)	39
Net cash used in investing activities	(1,675)	(567)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under Term Loan	1,000	-
Dividends paid to common stockholders	(2,973)	(2,984)
Net cash used in financing activities	(1,973)	(2,984)
Net decrease in cash and cash equivalents	381	(1,623)
Cash and cash equivalents at beginning of period	9,826	11,967
Cash and cash equivalents at end of period	\$ 10,207	\$ 10,344

See accompanying notes to condensed consolidated financial statements.

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Thousands)
(Unaudited)

	Three Months Ended	
	September 30 ,	
	201 7	201 6
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid during the period	\$ 6	\$ -
Income taxes paid during the period	\$ 632	\$ 369
Leasehold Improvements contributed by landlord <i>(See note 3)</i>	\$ 2,106	\$ -

See accompanying notes to condensed consolidated financial statements.

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying unaudited interim condensed consolidated financial statements include the accounts of Collectors Universe, Inc. and its operating subsidiaries (the “Company”, “we”, “us”, or “our”). At September 30, 2017, our operating subsidiaries were Certified Asset Exchange, Inc. (“CAE”), Collectors Universe (Hong Kong) Limited, Collectors Universe (Shanghai) Limited, and Expos, LLC. (“Expos”), all of which are ultimately 100% owned by Collectors Universe, Inc. All significant intercompany transactions and accounts have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, and Condensed Consolidated Statements of Cash Flows for the periods presented in accordance with generally accepted accounting principles as in effect in the United States of America (“GAAP”). Operating results for the three months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending June 30, 2018 or for any other interim period during such year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with 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 Company’s audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017, as filed with the SEC (our “Fiscal 2017 10-K”). Amounts related to disclosure of June 30, 2017 balances within these interim condensed consolidated financial statements were derived from the aforementioned audited consolidated financial statements and the notes thereto.

Reclassification s

Certain prior period amounts have been reclassified to conform to the current period presentation.

Revenue Recognition Policies

We record revenue at the time of shipment of the authenticated and graded collectible to the customer, net of any taxes collected. Due to the insignificant delay between the completion of our authentication and grading services and the shipment of the collectible back to the customer, the time of shipment corresponds to the completion of our authentication and grading services. We recognize revenue from the sale of special coin inserts at the time the customer takes legal title to the insert. Many of our authentication and grading customers prepay our authentication and grading fees when they submit their collectibles to us for authentication and grading. We record those prepayments as deferred revenue until the collectibles have been authenticated and graded and shipped back to them. At that time, we record the revenues from the authentication and grading services we have performed for the customer and deduct this amount from deferred revenue. For certain dealers to whom we extend open account privileges, we record revenue at the time of shipment of the authenticated and graded collectible to the dealer. With respect to our Expos trade show business, we recognize revenue from each show in the period in which the show takes place.

A portion of our net revenues are comprised of subscription fees paid by customers for one year memberships in our Collectors Club. Those membership subscription fees entitle members to access our on-line and printed publications and, in some cases, to receive limited life vouchers for free grading services. We recognize revenue attributable to free grading vouchers on a specific basis and classify those revenues as part of authentication and grading fees. The balance of the membership fee is recognized over the life of the one year membership on a time-apportioned basis.

We recognize product sales when items are shipped to customers. Product revenues consist primarily of sales of collectible coins that we purchase pursuant to our coin authentication and grading warranty program. However, those sales are not considered an integral part of the Company's ongoing revenue generating activities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results from continuing and discontinued operations could differ from results expected on the basis of those estimates, and such differences could be material to our future results of operations and financial condition. Examples of such estimates that could be material include determinations made with respect to the capitalization and recovery of software development costs, the valuation of stock-based compensation awards and the timing of the recognition of related stock-based compensation expense, the valuation of coin inventory, the amount and assessment of goodwill for impairment, the sufficiency of warranty reserves and the provision or benefit for income taxes and related valuation allowances.

Goodwill and Other Long-Lived Assets

We evaluate the carrying value of goodwill and indefinite-lived intangible assets at least annually, or more frequently if facts and circumstances indicate that impairment may have occurred. Qualitative factors are considered in performing our goodwill impairment assessment, including the significant excess of fair value over carrying value in prior years, and any material changes in the estimated cash flows of the reporting unit. We also evaluate the carrying values of all other tangible and intangible assets for impairment if circumstances arise in which the carrying values of these assets may not be recoverable on the basis of future undiscounted cash flows. We determined that no impairment of goodwill or other long-lived assets existed as of September 30, 2017.

Foreign Currency

The Company has determined that the U.S. Dollar is the functional currency for its French branch office and its Hong Kong and China subsidiaries. Based on this determination, the Company's foreign operations are re-measured by reflecting the financial results of such operations as if they had taken place within a U.S. dollar-based economic environment. Fixed assets and other non-monetary assets and liabilities are re-measured from foreign currencies to U.S. dollars at historical exchange rates; whereas cash, accounts receivable and other monetary assets and liabilities are re-measured at current exchange rates. Gains and losses resulting from those re-measurements, which are included in income for the current period, were not material.

Stock-Based Compensation

We recognize stock-based compensation attributable to service-based equity grants over the service period based on the grant date fair values of the awards. For performance-based equity grants with financial performance goals, we begin recognizing compensation expense based on their respective grant date fair values when it becomes probable that we will achieve the financial performance goals.

Restricted Stock Awards

As previously disclosed, in fiscal 2013, the Compensation Committee of the Board of Directors adopted a Long-Term Incentive Plan ("LTIP") for the Company's Chief Executive Officer and Chief Financial Officer, as well as for other selected key management employees (collectively, "Participants"). At the time of the adoption of the LTIP, the Compensation Committee established a threshold annual financial performance goal, and four increasingly higher annual financial performance goals and made the vesting of the LTIP shares conditioned on the Company's achievement of one or more of those financial performance goals during any fiscal year within a six-year period ending on June 30, 2018 (the "Performance Period").

As previously reported in our 2017 Form 10K, based on the financial results achieved in fiscal 2017, a determination was made that the Company had achieved the maximum performance goal under the LTIP in fiscal 2017. Therefore in accordance with the terms of the LTIP, 50% of the then remaining shares available under the LTIP vested at the determination date and assuming continuous service by the participants the remaining 50% of the shares will vest on June 30, 2018.

Stock-based compensation in the three months ended September 30, 2017 was \$224,000 as compared to \$102,000 in the three months ended September 30, 2016.

Concentrations

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

Financial Instruments and Cash Balances. At September 30, 2017, we had cash and cash equivalents totaling approximately \$10,207,000, of which approximately \$3,823,000 was invested in money market accounts, and the balance of \$6,384,000 (including cash in overseas bank accounts) was in non-interest bearing bank accounts for general day-to-day operations. Cash in overseas bank accounts was approximately \$4,282,000 at September 30, 2017 of which \$3,899,000 was in China. We plan to remit excess cash from China in accordance with Chinese exchange control regulations. Due to the evolving exchange control rules in China, delays can be experienced in transferring funds from China.

Substantially all of our cash in the United States is deposited at one FDIC insured financial institution. We maintained cash due from banks, inclusive of cash in overseas accounts, in excess of the bank's FDIC insured deposit limits of approximately \$5,239,000 at September 30, 2017.

Revolving Credit Line. As previously reported, in January 2017 we obtained a three-year, \$10,000,000 unsecured revolving credit line from a commercial bank to enhance the Company's liquidity and to support the growth of the Company's business. We are entitled to obtain borrowings under the credit line at such times and in such amounts as we may request, provided that the maximum principal amount of credit line borrowings that may be outstanding at any one time may not exceed \$10,000,000. We also may repay outstanding borrowings in whole or in part at any time or from time to time and reborrow amounts based upon availability under the line of credit, except that no borrowings may be outstanding under the credit line during a 30 consecutive day "out of loan" period each year. Borrowings bear interest, at the Company's option, at LIBOR plus 2.25% or at 0.25% below the highest prime lending rate published from time to time by the Wall Street Journal. The Company is required to pay a quarterly unused commitment fee of 0.0625% of the amount by which (if any) that the average of the borrowings outstanding under the credit line in any calendar quarter is less than \$4,000,000. During the quarter ended September 30, 2017 we borrowed \$3,000,000 under the credit line. Those borrowings were subsequently repaid and no borrowings were outstanding under the credit line at September 30, 2017. We were in compliance with all of our financial and other covenants under our credit line agreement at September 30, 2017.

Term Loan. As previously reported, on September 15, 2017 the Company obtained a five-year, \$3,500,000 unsecured term loan from the same commercial bank from which we obtained the above-described credit line. During its first year, the term loan will take the form of a non-revolving credit line during which period the Company is entitled to draw down borrowings at such times and in such amounts as it may request, up to a maximum of \$3,500,000. During that first year the Company is required to make monthly payments of accrued but unpaid interest, only, at whichever of the following two interest rates it may select: (i) LIBOR plus 2.25% per annum (the "LIBOR Rate"), or (ii) the highest prime lending rate published from time to time by the Wall Street Journal less 0.25% per annum (the "Prime Rate"), in either case subject to an interest rate floor of 2.250% per annum.

At the end of that first year, the loan will automatically convert into a four-year term loan in the principal amount of the borrowings then outstanding. The Company will be required to repay those borrowings in 48 equal monthly principal payments, together with interest at whichever of the following three rates as is selected by the Company: (i) the LIBOR Rate, (ii) the Prime Rate, or (iii) a fixed rate (the Fixed Rate"), in any case subject to an interest rate floor of 2.250% per annum. If the Company chooses the Fixed Rate of interest, it will be required to pay the bank a prepayment penalty if the Company prepays more than 20% of the principal amount after the end of the first year and prior to the last year of the term loan. No penalty will be payable on a prepayment of the loan if the Company selects the LIBOR Rate or the Prime Rate.

The agreement governing the term loan contains two financial covenants, which require the Company to maintain (a) a funded debt coverage ratio and (b) a debt service coverage ratio, respectively. The loan agreement also contains certain other covenants typical for this type of loan, including a covenant which provides that, without the bank's consent, the Company may not incur additional indebtedness for borrowed money, except for (i) borrowings under the above-described revolving credit line, (ii) purchase money indebtedness and (iii) capitalized lease obligations.

The Company plans to use borrowings under the term loan primarily to fund the Company's share of the construction and related facility costs for its new corporate headquarters, as well as its moving costs, and lease exit costs for its existing corporate headquarters. The Company also may use the loan proceeds for other general corporate purposes. At September 30, 2017, the Company had \$1,000,000 of outstanding borrowings under the term loan and was in compliance with its loan covenants.

Accounts Receivable. A substantial portion of accounts receivable are due from collectibles dealers. One individual customer's accounts receivable balance exceeded 10% of the Company's total gross accounts receivable balances at September 30, 2017 and at June 30, 2017. We perform analyses of the expected collectability of accounts receivable based on several factors, including the age and extent of significant past due accounts and economic conditions or trends that may adversely affect the ability of debtors to pay their account receivable balances. Based on that review, we establish an allowance for doubtful accounts, when deemed necessary. The allowance for doubtful accounts receivable was \$78,000 and \$77,000 at September 30, 2017 and June 30, 2017, respectively. Ultimately, we will write-off accounts receivable balances when it is determined that there is no possibility of collection.

Coin Revenues. The authentication, grading and sales of collectible coins, related services and coin product sales accounted for approximately 68% of our net revenues for three months ended September 30, 2017, as compared to 63% of our net revenues for the three months ended September 30, 2016.

Customers. One of our customers, accounted for approximately 18% of our net revenues in the three months ended September 30, 2017. There were no customers that exceeded 10% of revenues in the three months ended September 30, 2016.

Inventories

Our inventories consist primarily of (i) coin s which we have purchased pursuant to our coin authentication and grading warranty program and (ii) consumable supplies and special inserts that we use in our continuing authentication and grading businesses. Coin collectibles inventories are recorded at the lower of cost or estimated market value using the specific identification method. Consumable supplies are recorded at the lower of cost (using the first-in first-out method) or market. Inventories are periodically reviewed to identify slow-moving items, and an allowance for inventory losses is recognized, as considered necessary. It is possible that our estimates of market value of collectible coins in inventory could change due to market conditions in the various collectibles markets served by the Company, which could require us to increase that allowance for inventory losses.

Capitalized Software

We capitalize certain costs incurred in the development and upgrading of our software, either from internal or external sources, as part of intangible assets and we amortize these costs on a straight-line basis over the estimated useful life of the software of three years. In the three months ended September 30, 2017 we capitalized approximately \$274,000 of software development costs as compared to \$172,000 in the three months ended September 30, 2016. In the three months ended September 30, 2017, we recorded approximately \$154,000 as amortization expense for capitalized software as compared to \$104,000 in the three months ended September 30, 2016. Planning, training, support and maintenance costs incurred either prior to or following the implementation phase of software development projects are recognized as expense in the period in which they are incurred. We evaluate the carrying value of capitalized software for possible impairment, and, if necessary, an impairment loss is recorded in the period in which any impairment is determined to have occurred.

Warranty Costs

We offer a limited warranty covering the coins and trading cards that we authenticate and grade. Under the warranty, if any collectible coin or trading card that was previously authenticated and graded by us is later submitted to us for re-grading and either (i) receives a lower grade upon that re-submittal or (ii) is determined not to have been authentic, we will offer to purchase the collectible or, in the alternative, at the customer's option, pay the difference in value of the item at its original grade, as compared to its value at its lower grade. However, this warranty is voided if the collectible, upon re-submittal to us, is not in the same tamper-resistant holder in which it was placed at the time we last graded it. We accrue for estimated warranty costs based on historical trends and related experience. We monitor the adequacy of our warranty reserves on an ongoing basis for significant claims resulting from resubmissions receiving lower grades, or deemed not to be authentic. As previously disclosed, in the fourth quarter of fiscal 2017, the Company re-evaluated its warranty policy and changed its warranty accrual rate effective July 1, 2017. As a result, warranty expense recognized in the three months ended September 30, 2017 was \$113,000 as compared to \$174,000 in the three months ended September 30, 2016.

Dividends

In accordance with the Company's current quarterly dividend policy, we paid quarterly cash dividends of \$0.35 per share of common stock in the first quarter of fiscal 2018. The declaration of cash dividends in the future is subject to final determination each quarter by the Board of Directors based on a number of factors, including the Company's financial performance and its available cash resources, its cash requirements and alternative uses of cash that the Board may conclude would represent an opportunity to generate a greater return on investment for the Company.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, on *Revenue from Contracts with Customers*. The updated guidance modifies the guidance companies use to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance also requires new qualitative and quantitative disclosures, including information about contract balances and performance obligations. In July 2015, the FASB approved a one year deferral of the effective date. Accordingly, the update is effective for us in the first quarter of fiscal 2019 with retrospective application to prior periods presented or as a cumulative effect adjustment in the period of adoption. Early adoption is permitted in the first quarter of 2018. 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)." This new guidance provides additional implementation guidance on how an entity should identify the unit of accounting for the principal versus agent evaluations. In May 2016, the FASB issued 2016 ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." This new ASU provides more specific guidance on certain aspects of Topic 606. The Company is currently analyzing the effect of the standard across all of its revenue streams to evaluate the impact of the new standard on revenue contracts. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. Most of the Company's services are primarily short-term in nature, and the assessment at this stage is that the Company does not expect the adoption of the new revenue recognition standard to have a material impact on its financial statements. The Company plans to adopt the standard in the first quarter of 2019 using the modified retrospective method by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings.

In February 2016, FASB issued Accounting Standards Update 2016-02 on *Accounting for Leases*. The core principle of this guidance is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The adoption of this guidance is expected to have a material effect on the Company's consolidated financial statement and related disclosures. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods thereafter. Early adoption is permitted.

In March 2016, FASB issued Accounting Standards Update 2016-09 *Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. Under this updated guidance all excess tax benefits and tax deficiencies, should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. The Company adopted this guidance effective July 1, 2017. The adoption of this guidance reduced the Company’s tax provision in the three months ended September 30, 2017 by approximately \$832,000, primarily due to the vesting of LTIP shares in the quarter.

In August 2016, FASB issued Accounting Standards Update No. 2016-15 on *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*. The updated guidance addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The adoption of this guidance is not expected to have a material effect on the Company’s Consolidated Financial Statements and related disclosures. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods thereafter.

In January 2017, FASB issued 2017-04, on *Simplifying the Test for Goodwill Impairment*. The updated guidance eliminated step 2 from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The guidance is effective for fiscal years beginning after December 9, 2019. The guidance is not expected to have a material effect on the Company’s financial statements.

In May 2017, FASB issued ASU 2017-09 on *Compensation-Stock Compensation* which provides guidance about which changes to the terms and conditions of a share based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all the following are met: (i) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. (ii) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. (iii) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The guidance is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The guidance should be applied prospectively to an award modified on or after the adoption date. The guidance is not expected to have a material effect on the Company’s financial statements.

2. INVENTORIES

Inventories consist of the following (in thousands):

	September 30 , 2017	June 30, 2017
Coins	\$ 464	\$ 458
Other collectibles	326	391
Grading raw materials consumable inventory	2,837	2,850
	<u>3,627</u>	<u>3,699</u>
Less inventory reserve	(782)	(977)
Inventories, net	<u>\$ 2,845</u>	<u>\$ 2,722</u>

The inventory reserve represents a valuation allowance on certain items of our coins, other collectibles and consumable inventories based upon our review of the current market value of such coins and collectibles and the usage of consumables.

The estimated value of coins can be subjective and can vary depending on market conditions for precious metals, the number of qualified buyers for a particular coin and the uniqueness and special features of a particular coin.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	September 30 , 2017	June 30, 2017
Coins grading reference sets	\$ 263	\$ 263
Computer hardware and equipment	3,018	2,916
Computer software	1,478	1,276
Equipment	6,129	6,063
Furniture and office equipment	1,392	1,177
Leasehold improvements	4,238	1,316
Trading card reference library	52	52
	<u>16,570</u>	<u>13,063</u>
Less accumulated depreciation and amortization	(10,169)	(9,900)
Property and equipment, net	<u>\$ 6,401</u>	<u>\$ 3,163</u>

Leasehold Improvements at September 30, 2017 includes approximately \$2,976,000 of leasehold improvements for the Company's new corporate headquarter, of which approximately \$2,106,000 was contributed by the landlord.

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	September 30 , 2017	June 30, 2017
Warranty reserves	\$ 843	\$ 834
Professional fees	162	84
Other	1,259	734
	<u>\$ 2,264</u>	<u>\$ 1,652</u>

The following table presents the changes in the Company's warranty reserve during the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended	
	September 30,	
	2017	2016
Warranty reserve beginning of period	\$ 834	\$ 892
Provision charged to cost of revenues	113	174
Payments	(104)	(56)
Warranty reserve, end of period	<u>\$ 843</u>	<u>\$ 1,010</u>

5. DISCONTINUED OPERATIONS

During fiscal 2009, the Board of Directors authorized the divestiture and sale of the Company's jewelry and currency grading businesses, the remaining assets and liabilities of which have been reclassified as assets and liabilities of discontinued operations on the Condensed Consolidated Balance Sheets as of September 30, 2017 and June 30, 2017.

The operating results of the discontinued businesses that are included in the accompanying Condensed Consolidated Statements of Operations were not material.

The remaining lease obligation in connection with the fiscal 2009 disposal of our jewelry businesses was \$121,000 at September 30, 2017, all of which was classified as a current liability in the accompanying condensed consolidated balance sheet at September 30, 2017.

6. INCOME TAXES

In the three months ended September 30, 2017 and 2016, we recognized provisions for income taxes based upon estimated annual effective tax rates of approximately 20% and 43% respectively. Both three month periods had normalized tax rates of about 38%; however, the tax rate in the three months ended September 30, 2017 was reduced by excess tax benefits, primarily resulting from the vesting of the LTIP shares in August 2017, whereas the tax rate in the three months ended September 30, 2016 increased due to valuation allowances established against losses incurred by the Company's foreign operations.

7. NET INCOME PER SHARE

The following table presents the changes in the Company's weighted average shares outstanding for the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended	
	September 30,	
	2017	2016
Weighted average shares outstanding: Basic	8,573	8,474
Dilutive effect of restricted shares	192	87
Weighted average shares outstanding: Diluted	<u>8,765</u>	<u>8,561</u>

A total of 3,000 anti-dilutive unvested restricted shares of common stock were excluded from the computation of diluted income per share in the three months ended September 30, 2017 as compared to 4,000 anti-dilutive unvested restricted shares that were excluded from the computation in the three months ended September 30, 2016.

In addition, in the three months ended September 30, 2016, 262,000 of unvested performance based shares were excluded from the computation of diluted earnings per share because we had not achieved the related performance goals required for those shares to vest.

8. BUSINESS SEGMENTS

Operating segments are defined as the components or “segments” of an enterprise for which separate financial information is available that is evaluated regularly by the Company’s chief operating decision maker, or decision-making group, in deciding how to allocate resources to and in assessing performance of those components or “segments”. The Company’s chief operating decision-maker is its Chief Executive Officer. The Company’s operating segments are organized based on the respective services that they offer to customers. Similar operating segments have been aggregated to reportable operating segments based on having similar services, types of customers, and other criteria.

For our continuing operations, we operate principally in three reportable service segments: coins, trading cards and autographs and other collectibles. Services provided by these segments include authentication, grading, publications, advertising and commissions earned, subscription-based revenues and product sales. The other collectibles segment is comprised of CCE, Coinflation.com, Collectors.com and our collectibles trade show business.

We allocate certain operating expenses to each service segment based upon each segment’s estimated expense usage. The following tables set forth on a segment basis, including a reconciliation with the condensed consolidated financial statements, (i) revenues, (ii) depreciation and amortization, (iii) stock-based compensation expense, and (iv) operating income for the three months ended September 30, 2017 and 2016, respectively. Net identifiable assets are provided by business segment as of September 30, 2017 and June 30, 2017, respectively (in thousands):

	Three Months Ended	
	September 30,	
	20 17	20 16
Net revenues :		
Coins ⁽¹⁾	\$ 13,449	\$ 9,971
Trading cards and autographs	5,088	4,439
Other	1,216	1,338
Consolidated total revenue	<u>\$ 19,753</u>	<u>\$ 15,748</u>
Depreciation and amortization:		
Coins	\$ 176	\$ 137
Trading cards and autographs	60	56
Other	134	150
Total	<u>370</u>	<u>343</u>
Unallocated depreciation and amortization	72	77
Consolidated depreciation and amortization	<u>\$ 442</u>	<u>\$ 420</u>
Stock-based compensation :		
Coins	\$ 57	\$ 11
Trading cards and autographs	16	3
Other	11	2
Total	<u>84</u>	<u>16</u>
Unallocated stock-based compensation	140	86
Consolidated stock-based compensation	<u>\$ 224</u>	<u>\$ 102</u>
Operating income :		
Coins	\$ 4,527	\$ 2,755
Trading cards and autographs	1,376	1,081
Other	265	295
Total	<u>6,168</u>	<u>4,131</u>
Unallocated operating expenses	(1,646)	(1,357)
Consolidated operating income	<u>\$ 4,522</u>	<u>\$ 2,774</u>

⁽¹⁾ Includes service revenues of \$4.9 million generated from outside the United States in the three months ended September 30, 2017 as compared to \$1.5 million in the three months ended September 30, 2016.

	September 30 , 2017	June 30, 2017
Identifiable Assets:		
Coins	\$ 9,369	\$ 9,128
Trading cards and autographs	1,617	1,547
Other	3,035	3,198
Total	14,021	13,873
Unallocated assets	18,280	14,736
Consolidated assets	\$ 32,301	\$ 28,609
Goodwill:		
Coins	\$ 515	\$ 515
Other	1,568	1,568
Consolidated goodwill	\$ 2,083	\$ 2,083

9. RELATED-PARTY TRANSACTIONS

During the three months ended September 30, 2017, an adult member of the immediate family of Mr. David Hall, the President of the Company, paid grading and authentication fees to us of \$804,000 as compared to \$466,000 for the three months ended September 30, 2016. At September 30, 2017, the amount owed to the Company by that person for these services was approximately \$206,000 as compared to \$268,000 at June 30, 2017.

An associate of Richard Kenneth Duncan Sr., who as of July 2015 was the beneficial owner of approximately 5% of our outstanding shares, paid us grading and authentication fees of \$202,000 in the three months ended September 30, 2017 as compared to \$239,000, in the same three months of fiscal 2017. At September 30, 2017, there was \$37,000 owed to the Company for these services as compared to \$50,000 at June 30, 2017.

In each case, these authentication and grading fees were comparable in amount to the fees which we charge, in the ordinary course of our business, for similar authentication and grading services we render to unaffiliated customers.

10. CONTINGENCIES

The Company is named from time to time, as a defendant in lawsuits and disputes that arise in the ordinary course of business. We believe that none of the lawsuits or disputes currently pending against the Company is likely to have a material adverse effect on the Company's financial position or results of operations.

11. SUBSEQUENT EVENTS

On October 24, 2017, the Company announced that, in accordance with its dividend policy the Board of Directors had approved a second quarter cash dividend of \$0.35 per share of common stock, which will be paid on November 24, 2017 to stockholders of record on November 15, 2017.

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

Forward-Looking Statements

The discussion in this Item 2 of this Quarterly Report on Form 10-Q (this "Report") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "1934 Act"). Those Sections of the 1933 Act and 1934 Act provide a "safe harbor" from liability for forward-looking statements in order to encourage companies to provide prospective information about their expected future financial performance so long as they provide cautionary statements identifying important factors that could cause their actual results to differ from projected or anticipated results. Other than statements of historical fact, all statements in this Report and, in particular, any projections of or statements as to our expectations or beliefs concerning our future financial performance or financial condition or as to trends in our business or in our markets, are forward-looking statements. Forward-looking statements often include the words "believe," "expect," "anticipate," "intend," "plan," "estimate," "project," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," or "may." Our actual financial performance in future periods may differ significantly from the currently expected financial performance set forth in the forward-looking statements contained in this Report due to the risks to which our business is subject and other circumstances or occurrences which are not presently predictable and over which we do not have control. Consequently, the forward-looking statements and information contained in this Report are qualified in their entirety by, and readers of this Report are urged to read the risk factors that are described in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (the "Fiscal 2017 10-K"), which we filed with the Securities and Exchange Commission (the "SEC") on August 31, 2017, and the section, entitled "Factors that Can affect our Results of Operations or Financial Position," below in this Item 2.

Due to these and other possible uncertainties and risks, readers are cautioned not to place undue reliance on the forward-looking statements that are contained or recent trends that we describe in this Report, which speak only as of the date of this Report, or to make predictions about our future financial performance based solely on our historical financial performance. We also disclaim any obligation to update or revise any forward-looking statements contained in this Report or in our Fiscal 2017 10-K or any of our other prior filings with the SEC, except as may be required by applicable law or applicable NASDAQ rules.

Our Business

Collectors Universe, Inc. ("we", "us", "our", or the "Company") provides authentication and grading services to dealers and collectors of coins, trading cards, event tickets, autographs, sports and historical memorabilia. We believe that our authentication and grading services add value to these collectibles by providing dealers and collectors with a high level of assurance as to the authenticity and quality of the collectibles they seek to buy or sell; thereby enhancing their marketability and providing increased liquidity to the dealers, collectors and consumers that own, buy and sell such collectibles.

We principally generate revenues from the fees paid for our authentication and grading services. To a lesser extent, we generate revenues from other related services which consist of: (i) revenues from sales of advertising placed and commissions earned on our websites; (ii) sales of printed publications and collectibles price guides and sales of advertising in our publications; (iii) sales of membership subscriptions in our Collectors Club, which is designed primarily to attract interest in high-value collectibles among new collectors; (iv) sales of subscriptions to our CCE dealer-to-dealer Internet bid-ask market for coins that have been authenticated and graded (or "certified") and (v) the management and operation of collectibles trade shows and conventions. We also generate revenues from sales of our collectibles inventory, which is comprised primarily of collectible coins that we have purchased under our coin grading warranty program; however, such product sales are neither the focus nor an integral part of our on-going revenue generating activities.

Overview of First Quarter Fiscal 2018 Operating Results

The following table sets forth comparative financial data for the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
	Amount	Percent of Revenues	Amount	Percent of Revenues
Net revenues:				
Grading authentication and related services	\$ 19,753	100.0%	\$ 15,748	100.0%
Cost of revenues:				
Grading authentication and related services	7,450	37.7%	6,138	39.0%
Gross Profit	12,303	62.3%	9,610	61.0%
Selling and marketing expenses	2,754	13.9%	2,422	15.4%
General and administrative expenses	5,027	25.5%	4,414	28.0%
Operating income	4,522	22.9%	2,774	17.6%
Interest and other income, net	31	0.1%	24	0.2%
Income before provision for income taxes	4,553	23.0%	2,798	17.8%
Provision for income taxes	919	4.6%	1,210	7.7%
Income from continuing operations	3,634	18.4%	1,588	10.1%
Loss from discontinued operations, net of income taxes	(1)	-	(7)	(0.1)%
Net income	\$ 3,633	18.4%	\$ 1,581	10.0%
Net income per diluted share:				
Income from continuing operations	\$ 0.41		\$ 0.19	
Loss from discontinued operations	-		(0.01)	
Net income	\$ 0.41		\$ 0.18	

Grading authentication and related service revenues increased by \$4.0 million, or 25%, to a quarterly record of \$19.8 million in the three months ended September 30, 2017, as compared to the same period of the prior year. The increase in revenues in the quarter was attributable to (i) coin increases of \$3.5 million or 35% and (ii) cards and autographs increases of \$0.6 million or 15%. Contributing to the coin increases in this year's first quarter was increased China revenues of \$3.2 million or 365%. See *Net Revenues* below.

Due primarily to the revenue increase, operating income increased by \$1.7 million or 63% to a first quarter record of \$4.5 million in the three months ended September 30, 2017, from \$2.8 million in the three months ended September 30, 2016.

These, as well as other factors affecting our operating results in the three months ended September 30, 2017, are described in more detail below. See "Factors that Can Affect our operating Results and Financial Position" and "Results of Operations for the Three Months Ended September 30, 2017, as compared to the Three Months Ended September 30, 2016", below.

Factors That Can Affect our Operating Results and Financial Position

Factors That Can Affect our Revenues and Gross Profit Margins . Authentication and grading fees accounted for approximately 89% of our service revenues in the three months ended September 30, 2017. The amount of those fees and our gross profit margins are primarily driven by the volume and mix of coin and collectibles sales and purchase transactions by collectibles dealers and collectors, because our authentication and grading services generally facilitate sales and purchases of coins and other collectibles by providing dealers and collectors with a high level of assurance as to the authenticity and quality of the collectibles they seek to sell or buy. Consequently, dealers and collectors most often submit coins and other collectibles to us for authentication and grading at those times when they are in the market to sell or buy coins and the other high-value collectibles, that we authenticate and grade.

In addition, our coin authentication and grading revenues are impacted by the volume of modern coin submissions, which can be volatile, primarily in the U.S., depending on the timing and size of modern coin marketing programs by the United States Mint and by customers or dealers who specialize in sales of such coins. Furthermore, we have achieved a significant increase in world coin authentication and grading revenues, mainly in China, in the three months ended September 30, 2017, primarily attributable to the previously announced multi-year agreement with a customer that markets collectible coins to the banking channels in China. The levels of future revenues that we will generate from this contract are dependent upon the success of our customer's coin marketing programs, which could lead to volatility in the level of world coin revenues on a quarterly basis.

Our authentication and grading revenues and gross profit margins are affected by (i) the volume and mix of authentication and grading submissions among coins and trading cards; (ii) in the case of coins and trading cards, the turnaround times requested by our customers, because we charge higher fees for faster service times; and (iii) the volume and mix of authentication and grading submissions between vintage or "classic" coins and trading cards, and modern coins and trading cards, as vintage or classic collectibles generally are of significantly higher value than modern coins and trading cards; and justify a higher average service fee. Furthermore, because a significant proportion of our costs of revenues are relatively fixed in nature in the short term, our gross profit margin is also affected by the overall volume of collectibles that we authenticate and grade in any period.

Our revenues and gross profit margin are also affected by the number of coin authentication and grading submissions we receive at collectibles trade shows where we provide on-site authentication and grading services to show attendees, because show attendees typically request higher priced same-day turnaround for the coins they submit to us for authentication and grading at those shows. The number of trade show submissions varies from period to period depending upon a number of factors, including the number and the timing of the shows in each period and the volume of collectible coins that are bought and sold at those shows by dealers and collectors. In addition, the number of such submissions and, therefore, the revenues and gross profit margin we generate from the authentication and grading of coins at trade shows can be impacted by dealer and collectors sentiment arising from short-term changes in the prices of gold that may occur around the time of shows, because short-term changes in gold prices can affect the willingness of dealers and collectors to sell and purchase coins at the shows.

One of our coin authentication and grading customers accounted for in the aggregate approximately 18% of our total net revenues in the three months ended September 30, 2017. Our top five customers accounted, in the aggregate, for approximately 29% of our total revenues in the three months ended September 30, 2017, as compared to 14% in the same period of the prior year. As a result, the loss of any of those customers, or a significant decrease in the volume of grading submissions from any of them to us, could cause our net revenues to decline and, therefore, could adversely affect our results of operations.

The following table provides information regarding the respective numbers of coins and trading cards and autographs that we authenticated and graded in the three months ended September 30, 2017 and 2016, and their estimated values, which are the amounts at which those coins and trading cards and autographs were declared for insurance purposes by the dealers and collectors who submitted them to us for authentication and grading:

	Units Processed				Declared Value (000 s)			
	Three Months Ended September 30 ,		Three Months Ended September 30 ,		Three Months Ended September 30 ,		Three Months Ended September 30 ,	
	2017		2016		2017		2016	
Coins	1,147,500	71.0%	599,300	57.8%	\$ 453,532	86.1%	\$ 584,035	87.1%
Trading cards and autographs ⁽¹⁾	468,200	29.0%	436,800	42.2%	73,516	13.9%	86,636	12.9%
Total	1,615,700	100.0%	1,036,100	100.0%	\$ 527,048	100.0%	\$ 670,671	100.0%

(1) Consists of trading cards authenticated and graded by our PSA trading card authentication and grading business and autographs certified by our PSA/DNA autograph authentication and grading business.

Impact of Economic Conditions on our Financial Performance. As discussed above, our operating results are affected by the number of collectibles transactions by collectibles dealers and collectors which, in turn, is primarily affected by (i) the cash flows generated by collectibles dealers and their confidence about future economic conditions, which affect their willingness and the ability of such dealers to purchase collectibles for resale; (ii) the availability and cost of borrowings because collectibles dealers often rely on borrowings to fund their purchases of collectibles, (iii) the disposable income available to collectors and their confidence about future economic conditions, because high-value collectibles are generally purchased with disposable income; (iv) prevailing and anticipated rates of inflation and the strength or weakness of the U.S. dollar, and uncertainties regarding the strength of the economy in the United States, Western Europe and China, because conditions and uncertainties of this nature often lead investors and consumers to purchase or invest in gold and silver coins as a hedge against inflation or reductions in the purchasing power of the U.S. currency; as well as an alternative to investments in government bonds and other treasury instruments; and (v) the performance and volatility of the gold and other precious metals markets, which can affect the level of purchases and sales of collectible coins, because investors and consumers will often increase their purchases of gold coins, as well as other hard assets if they believe that the market prices of those assets will increase. As a result, the volume of collectibles transactions and, therefore, the demand for our authentication and grading services, generally increase during periods characterized by increases in disposable income and the availability of lower cost borrowings, on the one hand, or increases in inflation or in gold prices, economic uncertainties and declines in business and consumer confidence or a weakening of the U.S. dollar on the other hand. By contrast, collectibles transactions and, therefore, the demand for our services generally decline during periods characterized by economic downturns or recessions, declines in consumer and business confidence, an absence of inflationary pressures, or periods of stagnation or a downward trend in the market prices of gold. However, these conditions can sometimes counteract each other as it is not uncommon, for example, for investors to shift funds from gold to other investments during periods of economic growth and growing consumer and business confidence and from stocks and other investments to gold during periods of economic uncertainties and decreases in disposable income and consumer and in business confidence.

Factors That Can Affect our Liquidity and Financial Position . A substantial number of our authentication and grading customers pay our authentication and grading fees when they submit their collectibles to us for authentication and grading or prior to the shipment of the collectible back to them. As a result, historically, we have been able to rely on internally generated cash and have never incurred borrowings to fund our continuing operations.

In addition to the operating performances of our businesses, and in particular our coin authentication and grading business, which accounts for over 60% of our revenues, our overall financial position can also be affected by other factors, including the Company's tax position, the dividend policy adopted by the Board of Directors from time to time, the Company's decisions to invest in and to fund the acquisition of established and/or early stage businesses and any capital raising activities or stock repurchases. Furthermore, our domestic financial position can be impacted by our ability to repatriate cash balance back to the United States from China. Due to the evolving exchange control rules in China, delays can be experienced in transferring funds back from China.

As discussed in note 1 to the condensed consolidated financial statements included elsewhere in this Quarterly Report, and in "Liquidity and Capital Resources— Future Sources of Cash " below, in January 2017 the Company obtained a \$10,000,000 three-year unsecured revolving credit line from a commercial bank. In addition, in September 2017, the Company obtained a five year \$3,500,000 unsecured term loan to primarily fund capital expenditures and costs associated with the move to our new corporate headquarters, which is expected to take place in the second quarter of fiscal 2018. However, to the extent not used for that purpose, the proceeds of the term loan may be used for other corporate purposes.

We expect that internally generated cash flows, current cash and cash equivalent balances and borrowings available under the credit line and term loan will be sufficient to fund our continuing operations at least through the end of September 2018.

Critical Accounting Policies and Estimates

During the three months ended September 30, 2017 there were no changes in our critical accounting policies or estimates which are described in Item 7 of our Fiscal 2017 10-K. Readers of this report are urged to read that Section of the Fiscal 2017 10-K for a more complete understanding and detailed discussion of our critical accounting policies and estimates.

Goodwill

We test the carrying value of goodwill and other indefinite-lived intangible assets at least annually on their respective acquisition anniversary dates, or more frequently if indicators of impairment are determined to exist. When testing for impairment, in accordance with Accounting Standards Update No. 2011-08, we consider qualitative factors, and where determined necessary, we proceed to the two-step goodwill impairment test. When applying the two-step impairment test, we apply a discounted cash flow model or an income approach in determining a fair value that is used to estimate the fair value of the reporting unit on a total basis, which is then compared to the carrying value of the reporting unit. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, no impairment of goodwill exists as of the measurement date. However, if the fair value is less than the carrying value, then there is the possibility of goodwill impairment and further testing and re-measurement of goodwill would be required.

During the first quarter ended September 30, 2017, we completed the annual goodwill impairment assessment with respect to the goodwill acquired in our fiscal year 2006 purchases of CCE and CoinFacts. We assessed qualitative factors, including the significant excess of their fair values over carrying value in prior years, and any material changes in the estimated cash flows of the reporting units, and determined that it was more likely than not that the fair values of CCE and CoinFacts were greater than their respective carrying values, including goodwill, and therefore, it was not necessary to proceed to the two-step impairment test.

Stock-Based Compensation

We recognize stock-based compensation attributable to service-based equity grants over the service period based on the grant date fair value of the awards. For performance-based equity grants with financial performance goals, we begin recognizing compensation expense based on their respective grant date fair values when it becomes probable that we will achieve one or more of the financial performance goals.

Restricted Stock Awards

As previously disclosed, in fiscal 2013, the Compensation Committee of the Board of Directors adopted a Long-Term Incentive Plan (“LTIP”) for the Company’s Chief Executive Officer and Chief Financial Officer, as well as for other selected key management employees (collectively, “Participants”). At the time of the adoption of the LTIP, the Compensation Committee established a threshold annual financial performance goal, and four increasingly higher annual financial performance goals and made the vesting of the LTIP shares conditioned on the Company’s achievement of one or more of those financial performance goals during any fiscal year within a six-year period ending on June 30, 2018 (the “Performance Period”).

As previously reported in our 2017 Form 10K for the year ended June 30, 2017, based on the financial results achieved in fiscal 2017, a determination was made that the Company had achieved the maximum performance goal under the LTIP in fiscal 2017. Therefore, in accordance with the terms of the LTIP, 50% of the then remaining shares available under the LTIP vested at the determination date and assuming continuous service by the participants the remaining 50% of the shares will vest on June 30, 2018.

The Company recognized total stock-based compensation related to both service-based and performance-based restricted shares of \$ 224,000 and \$102,000 in the three months ended September 30, 2017 and 2016, respectively.

Results of Operations for the Three Months Ended September 30, 2017 as compared to the Three Months Ended September 30, 2016

Net Revenues

Net revenues consist primarily of fees that we generate from the authentication and grading of high-value collectibles, including coins, trading cards and autographs, and related special inserts, if applicable. To a lesser extent, we generate collectibles related service revenues (which we refer to as “other related revenues”) from advertising and commissions earned on our websites and in printed publications and collectibles price guides; subscription/membership revenues related to our CCE (dealer-to-dealer Internet bid-ask market for certified coins), and Collectors Club memberships; and fees earned from promoting, managing and operating collectibles trade shows. Net revenues also include, to a significantly lesser extent, revenues from the sales of products, which consist primarily of coins that we have purchased under our coin authentication and grading warranty policy. We do not consider such product sales to be the focus or an integral part of our ongoing revenue generating activities.

The following tables set forth the information regarding our net revenues for the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,					
	2017		2016		Increase (Decrease)	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Authentication and grading fees	\$ 17,674	89.5%	\$ 13,608	86.4%	\$ 4,066	29.9%
Other related services	2,079	10.5%	2,140	13.6%	(61)	(2.9)%
Total service revenues	\$ 19,753	100.0%	\$ 15,748	100.0%	\$ 4,005	25.4%

The following table s set forth certain information regarding the increases (decreases) in net revenues in our larger markets (which are inclusive of revenues from our other related services) and in the number of units authenticated and graded in the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,											
	2017				2016				2017 vs. 2016			
	2017		2016		Increase (Decrease)							
	Amount	% of Net Revenues	Amount	% of Net Revenues	Revenues		Units Processed					
				Amounts	%	Number	%					
Coins	\$ 13,449	68.1%	\$ 9,971	63.3%	\$ 3,478	34.9%	548,200	91.5%				
Cards and autographs ⁽¹⁾	5,088	25.8%	4,439	28.2%	649	14.6%	31,400	7.2%				
Other ⁽²⁾	1,216	6.1%	1,338	8.5%	(122)	(9.1)%	-	-				
	\$ 19,753	100.0%	\$ 15,748	100.0%	\$ 4,005	25.4%	579,600	55.9%				

(1) Consists of revenues from our trading card and our autograph authentication and grading businesses.

(2) Includes CCE subscription fees, Coinflation.com revenues, revenues earned from our Expos convention business and Collectors.com.

For the three months ended September 30, 2017, our total service revenues increased by \$4,005,000, or 25.4%, to a quarterly record of \$19,753,000. That increase was attributable to a \$4,066,000, or 29.9%, increase in authentication and grading fees partially offset by a decrease of \$61,000, or 2.9%, in other related services. The increase in authentication and grading fees was attributable to a \$3,429,000, or 35.9%, increase in coin fees and a \$637,000, or 15.7%, increase in cards and autograph fees.

The increase of 29.9% in authentication and grading fees in the three months ended September 30, 2017, as compared to the increase of 55.9% in the number of units processed in the same period, primarily, reflects a higher proportion of modern coin authenticated and graded in the quarter, on which we earn a lower average service fee.

The increases in coin authentication and grading fees in the quarter ended September 30, 2017 reflected (i) higher world coin fees of \$3,396,000 or 184.2%, representing record world coin fees, primarily attributable to a \$3,175,000 or 365% increase in fees generated in China, resulting from higher submissions from a customer who serves the banking channel in China, (ii) higher U.S. modern fees of \$836,000, or 38.8%, primarily reflecting fees generated from authenticating and grading the Enhanced Uncirculated Mint Set released by the U.S. Mint in the quarter, and (iii) higher vintage coin fees of \$53,000, or 1.6%. These increases were partially offset by lower coin trade show revenues of \$856,000 or 37.1% in the quarter, representing one less show in the quarter and less revenue per show, due partly to the hurricanes that occurred in the quarter.

Due to the increase in our coin authentication and grading revenues in the three months ended September 30, 2017, our coin business represented approximately 68% of total service revenues in that period, as compared to 63% of total service revenues for the same period of the prior year, reflecting the continued importance of our coin authentication and grading business to our overall financial performance.

For the reasons discussed above under “Factors That Can Affect our Revenues and Gross Profit Margin”, and “Impact of Economic Conditions on our Financial Performance”, the level of coin service revenues can be volatile.

Revenues from our trading cards and autographs business continued to show consistent growth. Those revenues increased by 14.6% in the first quarter, and represented record quarterly revenues for that business. Moreover, our card and autographs business has achieved quarter-over-quarter revenue growth in 28 of the last 29 quarters.

As previously disclosed, our second fiscal quarter is typically our seasonally slowest quarter of the year in the United States due to the winter holidays that occur in that quarter and we expect that trend to continue in this year’s second quarter. With respect to our overseas offices and in particular China, our current expectation is that our China revenues in this year’s second quarter will be lower than this year’s first quarter, due to the seasonal nature of that business. This is in contrast to the first and second quarters of fiscal 2017, when second quarter revenues in China were higher than the first quarter. We attribute that change to the fact that the second quarter of fiscal 2017, was our first full quarter of authenticating and grading coins for the banking channels in China.

Gross Profit

Gross profit is calculated by subtracting the cost of revenues from net revenues. Gross profit margin is gross profit stated as a percent of net revenues. The costs of authentication and grading revenues consist primarily of labor to authenticate and grade collectibles, production costs, credit card fees, warranty expense and occupancy, security and insurance costs that directly relate to providing authentication and grading services. Cost of revenues also includes printing, other direct costs of generating our non-grading related services revenues and the costs of product revenues, which represent the carrying value of the inventory of products (primarily collectible coins) that we sold and any inventory related reserves, considered necessary.

Set forth below is information regarding our gross profit in the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30 ,			
	20 17		20 16	
	Amount s	% of Revenues	Amount s	% of Revenues
Gross profit	\$ 12,303	62.3%	\$ 9,610	61.0%

As indicated in the above table, our services gross profit margin was 62.3% for the three months ended September 30, 2017 as compared to 61.0% in the same period of fiscal 2017. The slightly higher gross profit margin in this year’s first quarter, was due to the impact of the significantly higher modern revenues in China partially offset by the lower U.S. coin trade show revenues. As discussed in prior filings, there can be variability in the services gross profit margin due to the mix of revenue and the seasonality of our business. During the three years ended June 30, 2017, our quarterly services gross profit varied between 59% and 65%.

Selling and Marketing Expenses

Selling and marketing expenses include advertising and promotions costs, trade-show related expenses, customer service personnel costs, business development incentives, depreciation and outside services. Set forth below is information regarding our selling and marketing expenses in the three months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30 ,	
	2017	2016
Selling and marketing expenses	\$ 2,754	\$ 2,422
Percent of net revenue	13.9%	15.4%

As indicated in the above table, selling and marketing expenses declined to 13.9% of revenues in the three months ended September 30, 2017, as compared to 15.4% in the same period of the prior year. In absolute dollars, selling and marketing expenses increased by \$332,000 in this year's first quarter and was due primarily to (i) increased business development incentive costs, of \$132,000, primarily attributable to the growth in revenues at our China business and (ii) increased trade show and travel costs of \$178,000 in support of trade show authentication and grading activities.

General and Administrative Expenses

General and administrative ("G&A") expenses are comprised primarily of compensation paid to general and administrative personnel, including executive management, finance and accounting and information technology personnel, non-cash stock-based compensation, facilities management costs, depreciation, amortization and other miscellaneous expenses. Set forth below is information regarding our G&A expenses in the three months ended September 30, 2017 and 2016, (in thousands):

	Three Months Ended September 30 ,	
	2017	2016
General and administrative expenses	\$ 5,027	\$ 4,414
Percent of net revenue	25.5%	28.0%

As indicated in the above table, G&A expenses declined to 25.5% of revenues in the three months ended September 30, 2017 as compared to 28.0% in the same period of the prior year. In absolute dollars, G&A expenses increased by \$613,000 in this year's first quarter, and was primarily due to increased payroll related costs of \$457,000, including increased performance-based bonuses and incentives due to the improved performance of our business, higher recruitment costs of \$108,000, primarily related to the CEO recruitment process undertaken due to the retirement of Robert Deuster as CEO and increased non-cash G&A stock-based compensation of \$105,000, due to the vesting of the remaining LTIP shares on June 30, 2018.

Stock-Based Compensation

As discussed in Note 1, *Stock-Based Compensation Expense* to the Company's condensed consolidated financial statements, included elsewhere in this report, the Company recognized stock-based compensation expense (in thousands), as follows:

<u>Included In:</u>	Three Months Ended September 30 ,	
	2017	2016
Selling and marketing expenses	\$ 25	\$ 8
General and administrative expenses	199	94
	<u>\$ 224</u>	<u>\$ 102</u>

See *Critical Accounting Policies and Estimates: Stock-Based Compensation and Restricted Stock Awards*, earlier in this Item 2, for further discussion of stock-based compensation in the three months ended September 30, 2017 as compared to the same period in the prior year.

The following table sets forth unrecognized non-cash stock-based compensation expense totaling \$633,000 related to unvested stock-based equity awards outstanding at September 30, 2017 which represents the expense expected to be recognized through fiscal year 2020, on the assumptions that the holders of the equity awards will remain in the Company's service through fiscal 2020. The amounts do not include the costs or effects of possible grants of additional stock-based compensation awards in the future (in thousands):

Fiscal Year Ending June 30,	Amount
201 8 (remaining 9 months)	515
201 9	89
2020	29
	\$ 633

Income Tax Expense

	Three Months Ended September 30,	
	2017	2016
	(In Thousands)	
Income tax expense	\$ 919	\$ 1,210

The income tax provisions in the three months ended September 30, 2017 and 2016, were determined based on estimated annual effective tax rates of approximately 20%, and 43%, respectively. Both three month period had normalized tax rates of about 38%, however, the tax rate in the three months ended September 30, 2017 was reduced by excess tax benefits, primarily resulting from the vesting of the LTIP shares in August 2017, whereas the tax rate in the three months ended September 30, 2016, increased due to valuation allowances established against losses incurred by the Company's foreign operations.

Discontinued Operations

	Three Months Ended September 30,	
	2017	2016
	(In Thousands)	
Loss from discontinued operations (net of income taxes)	\$ (1)	\$ (7)

The losses from discontinued operations (net of income taxes) for the three months ended September 30, 2017 and 2016, related to remaining obligations associated with the New York City facilities, formerly occupied by our discontinued jewelry businesses and royalty income realized from our discontinued currency business.

Liquidity and Capital Resources

Cash and Cash Equivalent Balances

Historically, we have been able to rely on internally generated funds, rather than borrowings, as our primary source of funds to support our operations, because many of our authentication and grading customers pay our fees at the time they submit their collectibles to us for authentication and grading or prior to the shipment of their collectibles back to them.

At September 30, 2017, we had cash and cash equivalents of approximately \$10,207,000, as compared to cash and cash equivalents of \$9,826,000 at June 30, 2017.

Cash Flows

Cash Flows from Continuing Operations. During the three months ended September 30, 2017 and 2016, our operating activities from continuing operations generated cash of \$4,155,000 and \$2,050,000, respectively. The higher cash provided by operating activities in the three months ended September 30, 2017, reflects the improved operating performance of our businesses as adjusted for changes in working capital.

Cash Flows of Discontinued Operations. Discontinued operations used cash of \$126,000 and \$122,000 in the three months ended September 30, 2017 and 2016, respectively, primarily related to payments for our ongoing obligation for the New York facility, formerly occupied by our discontinued jewelry business.

Cash used by Investing Activities. Investing activities used cash of \$1,675,000 and \$567,000 in the three months ended September 30, 2017 and 2016, respectively. In the three months ended September 30, 2017, we used \$1,401,000 for capital expenditures and \$274,000 for capitalized software. Capital expenditures included approximately \$1,214,000 of expenditures for the buildout of our new principal business operations and headquarters offices. In the three months ended September 30, 2016, we used \$439,000 for capital expenditures, and \$172,000 for capitalized software.

Cash used in Financing Activities. In the three months ended September 30, 2017 and 2016, financing activities used net cash of \$1,973,000 and \$2,984,000, respectively. Cash dividends paid to stockholders were \$2,973,000 and \$2,984,000 in the three months ended September 30, 2017 and 2016, respectively. The Company borrowed \$1,000,000 under its term loan in the three months ended September 30, 2017.

Outstanding Financial Obligations

Continuing Operations. On February 3, 2017, the Company, as tenant, entered into a triple net Office Lease pursuant to which the Company will be leasing approximately 62,755 rentable square feet space for its principal business operations and headquarters offices. The term of this new lease will be approximately 10 years and 10 months, commencing on the completion of tenant improvements, which are expected to be completed on or about January 1, 2018. The Company will be entitled to an abatement of the monthly rent for the period from the 2nd month through the 11th month of the lease term, provided there is no default by the Company in its obligations under the lease. The landlord will contribute approximately \$2.8 million to the tenant improvements of which approximately \$2.1 million was recognized as leasehold improvements and deferred rent as September 30, 2017. Aggregate minimum obligations over the term of the lease will be approximately \$14.2 million.

The following table sets forth the amounts of our financial obligations, consisting primarily of rent expense, and sublease income, under operating leases for our continuing operations, in each of the years indicated below (in thousands):

Fiscal Year	Gross Amount	Sublease Income	Net
2018 (remaining 9 months)	\$ 1,449	\$ 65	\$ 1,384
2019	2,141	67	2,074
2020	1,466	-	1,466
2021	1,399	-	1,399
2022	1,350	-	1,350
Thereafter	9,451	-	9,451
	<u>\$ 17,256</u>	<u>\$ 132</u>	<u>\$ 17,124</u>

Discontinued Operations. The following table sets forth our expected remaining minimum base payment obligation in respect of the remaining facility, formerly occupied by our discontinued jewelry business. The obligation, which is payable in monthly installments is scheduled to expire on December 31, 2017.

<u>Fiscal Year</u>	<u>Remaining Obligation</u>	
2018	\$	122
Less: Discounted estimated fair value of lease payments		(121)
Accretion expense to be recognized in future periods	\$	<u>1</u>

Revolving Credit Line. As previously reported, in January 2017 we obtained a three-year, \$10,000,000 unsecured revolving credit line from a commercial bank to enhance the Company's liquidity and to support the growth of the Company's business. We are entitled to obtain borrowings under the credit line at such times and in such amounts as we may request, provided that the maximum principal amount of credit line borrowings that may be outstanding at any one time may not exceed \$10,000,000. We also may repay outstanding borrowings in whole or in part at any time or from time to time and reborrow amounts based upon availability under the line of credit, except that no borrowings may be outstanding under the credit line during a 30 consecutive day "out of loan" period each year. Borrowings bear interest, at the Company's option, at LIBOR plus 2.25% or at 0.25% below the highest prime lending rate published from time to time by the Wall Street Journal. The Company is required to pay a quarterly unused commitment fee of 0.0625% of the amount by which (if any) that the average of the borrowings outstanding under the credit line in any calendar quarter is less than \$4 million. During the quarter ended September 30, 2017 we borrowed \$3,000,000 under the credit line. Those borrowings were subsequently repaid and no borrowings were outstanding under the credit line at September 30, 2017. We were in compliance with all of our financial and other covenants under our credit line agreement at September 30, 2017.

Term Loan. As previously reported, on September 15, 2017 the Company obtained a five-year, \$3,500,000 unsecured term loan from the same commercial bank from which we obtained the above-described credit line. During its first year, the term loan will take the form of a non-revolving credit line during which period the Company is entitled to draw down borrowings at such times and in such amounts as it may request, up to a maximum of \$3,500,000. During that first year the Company is required to make monthly payments of accrued but unpaid interest, only, at whichever of the following two interest rates it may select: (i) LIBOR plus 2.25% per annum (the "LIBOR Rate"), or (ii) the highest prime lending rate published from time to time by the Wall Street Journal less 0.25% per annum (the "Prime Rate"), in either case subject to an interest rate floor of 2.250% per annum.

At the end of that first year, the loan will automatically convert into a four-year term loan in the principal amount of the borrowings then outstanding. The Company will be required to repay those borrowings in 48 equal monthly principal payments, together with interest at whichever of the following three rates as is selected by the Company: (i) the LIBOR Rate, (ii) the Prime Rate, or (iii) a fixed rate (the Fixed Rate"), in any case subject to an interest rate floor of 2.250% per annum. If the Company chooses the Fixed Rate of interest, it will be required to pay the bank a prepayment penalty if the Company prepays more than 20% of the principal amount after the end of the first year and prior to the last year of the term loan. No penalty will be payable on a prepayment of the loan if the Company selects the LIBOR Rate or the Prime Rate.

The agreement governing the term loan contains two financial covenants, which require the Company to maintain (a) a funded debt coverage ratio and (b) a debt service coverage ratio, respectively. The loan agreement also contains certain other covenants typical for this type of loan, including a covenant which provides that, without the bank's consent, the Company may not incur additional indebtedness for borrowed money, except for (i) borrowings under the above-described revolving credit line, (ii) purchase money indebtedness and (iii) capitalized lease obligations.

The Company plans to use borrowings under the term loan primarily to fund the Company's share of the construction and related facility costs for its new corporate headquarters, as well as its moving costs, and lease exit costs for its existing corporate headquarters. The Company also may use the loan proceeds for other general corporate purposes. At September 30, 2017, the Company had \$1,000,000 of outstanding borrowings under the term loan and was in compliance with its loan covenants.

Dividends. Our current dividend policy calls for us to pay quarterly cash dividends of \$0.35 per share of common stock to our stockholders, for an expected total annual cash dividend of \$1.40 per common share.

The declaration of cash dividends in the future, pursuant to our current dividend policy, is subject to determination each quarter by the Board of Directors based on a number of factors, including the Company's financial performance (and in particular the on-going performance of the Company's coin business), its available cash resources, its cash requirements and alternative uses of cash that the Board may conclude would represent an opportunity to generate a greater return on investment for the Company. For these reasons, as well as others, there can be no assurance that the Board of Directors will not decide to reduce the amount, or suspend or discontinue the payment, of cash dividends in the future.

Share Buyback Program . In December 2005, our Board of Directors approved a common stock buyback program that authorized up to \$10,000,000 of stock repurchases in open market or privately negotiated transactions, in accordance with applicable SEC rules, when opportunities to make such repurchases, at attractive prices, become available. At September 30, 2017, we continued to have \$3.7 million available under this program. However, no open market repurchases of common stock have been made under this program since the fourth quarter of fiscal 2008.

Future Uses of Cash .

We plan to use our cash resources, consisting of available cash and cash equivalent balances , internally generated cash flows, and borrowings under our recently obtained line of credit and term loan (i) to introduce new collectibles related services and initiatives for our existing customers and other collectibles customers (ii) to fund the international expansion of our business; (iii) to fund working capital requirements; (iv) to fund acquisitions; (v) to fund the payment of cash dividends; (vi) to fund the Company's share of the construction and related facility costs for its new corporate headquarters as discussed above; and (vii) for other general corporate purposes.

Although we have no current plans to do so, we also may seek to sell additional shares of our stock to finance the growth of our collectibles businesses. However, there is no assurance that we would be able to raise additional capital on terms acceptable to us, if at all.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, on *Revenue from Contracts with Customers* . The updated guidance modifies the guidance companies use to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance also requires new qualitative and quantitative disclosures, including information about contract balances and performance obligations. In July 2015, the FASB approved a one year deferral of the effective date. Accordingly, the update is effective for us in the first quarter of fiscal 2019 with retrospective application to prior periods presented or as a cumulative effect adjustment in the period of adoption. Early adoption is permitted in the first quarter of 2018. 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)." This new guidance provides additional implementation guidance on how an entity should identify the unit of accounting for the principal versus agent evaluations. In May 2016, the FASB issued 2016 ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." This new ASU provides more specific guidance on certain aspects of Topic 606. The Company is currently analyzing the effect of the standard across all of its revenue streams to evaluate the impact of the new standard on revenue contracts. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. Most of the Company's services are primarily short-term in nature, and the assessment at this stage is that the Company does not expect the adoption of the new revenue recognition standard to have a material impact on its financial statements. The Company plans to adopt the standard in the first quarter of 2019 using the modified retrospective method by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings.

In February 2016, FASB issued Accounting Standards Update 2016-02 on *Accounting for Leases*. The core principle of this guidance is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The adoption of this guidance is expected to have a material effect on the Company's consolidated financial statement and related disclosures. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods thereafter. Early adoption is permitted.

In March 2016, FASB issued Accounting Standards Update 2016-09 *Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. Under this updated guidance all excess tax benefits and tax deficiencies, should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. The Company adopted this guidance effective July 1, 2017. The adoption of this guidance reduced the Company's tax provision in the three months ended September 30, 2017 by approximately \$832,000, primarily due to the vesting of LTIP shares in the quarter.

In August 2016, FASB issued Accounting Standards Update No. 2016-15 on *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*. The updated guidance addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The adoption of this guidance is not expected to have a material effect on the Company's Consolidated Financial Statements and related disclosures. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods thereafter.

In January 2017, FASB issued 2017-04, on *Simplifying the Test for Goodwill Impairment*. The updated guidance eliminated step 2 from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The guidance is effective for fiscal years beginning after December 9, 2019. The guidance is not expected to have a material effect on the Company's financial statements.

In May 2017, FASB issued ASU 2017-09 on *Compensation—Stock Compensation* which provides guidance about which changes to the terms and conditions of a share based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all the following are met: (i) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. (ii) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. (iii) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The guidance is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The guidance should be applied prospectively to an award modified on or after the adoption date. The guidance is not expected to have a material effect on the Company's financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk and other relevant market rate or price risks.

Due to the cash and cash equivalent balances that we maintain, we are exposed to risk of changes in short-term interest rates. At September 30, 2017, we had \$10,207,000 in cash and cash equivalents, of which, \$3,823,000 was invested in money market accounts, and the balance of \$6,384,000 (which is inclusive of cash in overseas bank accounts) was held in non-interest bearing accounts. Reductions in short-term interest rates could result in reductions in the amount of income we are able to generate on available cash. However, any adverse impact on our operating results from reductions in interest rates is not expected to be material.

We do not engage in any activities that would expose us to significant foreign currency exchange rate risk or commodity price risks. When considered appropriate, we repatriate excess cash from foreign operations. Overseas cash balances were approximately \$4,282,000 at September 30, 2017, of which \$3,899,000 was in China. Due to the evolving exchange control rules in China, delays can be experienced in transferring funds from China.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our CEO and CFO, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In accordance with SEC rules, an evaluation was performed under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness, as of September 30, 2017, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2017, that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1A . Risk Factors

There have been no material changes in the risk factors previously disclosed in Item 1A of Part 1 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 that we filed with the SEC on August 31, 2017.

ITEM 6 . Exhibits

- Exhibit 31.1 Certification of Chief Executive Officer Under Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification of Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Certification of Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Certification of Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 101.INS XBRL Instance Document
- Exhibit 101.SCH XBRL Taxonomy Extension Schema Document
- Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- Exhibit 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COLLECTORS UNIVERSE, INC.

Date: November 2, 2017

By: /s/ JOSEPH J. ORLANDO
Joseph J. Orlando
Chief Executive Officer

COLLECTORS UNIVERSE, INC.

Date: November 2, 2017

By: /s/ JOSEPH J. WALLACE
Joseph J. Wallace
Chief Financial Officer

INDEX TO EXHIBITS

Exhibit No.	Description
Exhibit 31.1	Certification of Chief Executive Officer Under Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Joseph J. Orlando, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Collectors Universe, Inc. for the quarter ended September 30, 2017.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

By: /s/ JOSEPH J. ORLANDO
Joseph J. Orlando
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Joseph J. Wallace, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Collectors Universe, Inc. for the quarter ended September 30, 2017.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

By: /s/ JOSEPH J. WALLACE
Joseph J. Wallace
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
UNDER
SECTION 906 OF THE SARBANES-OXLEY ACT**

COLLECTORS UNIVERSE, INC.

Quarterly Report on Form 10-Q
For the quarter ended September 30, 2017

The undersigned, who is the Chief Executive Officer of Collectors Universe, Inc. (the "Company"), hereby certifies that (i) the Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, as filed by the Company with the Securities and Exchange Commission (the "Quarterly Report"), to which this Certification is an Exhibit, fully complies with the applicable requirements of Section 13(a) and 15(d) of the Exchange Act; and (ii) the information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2017

By: /s/ JOSEPH J. ORLANDO

Joseph J. Orlando
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Collectors Universe, Inc. and will be retained by Collectors Universe, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
UNDER
SECTION 906 OF THE SARBANES-OXLEY ACT**

COLLECTORS UNIVERSE, INC.

Quarterly Report on Form 10-Q
For the quarter ended September 30, 2017

The undersigned, who is the Chief Financial Officer of Collectors Universe, Inc. (the "Company"), hereby certifies that (i) the Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, as filed by the Company with the Securities and Exchange Commission (the "Quarterly Report"), to which this Certification is an Exhibit, fully complies with the applicable requirements of Section 13(a) and 15(d) of the Exchange Act; and (ii) the information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2017

By: /s/ JOSEPH J. WALLACE

Joseph J. Wallace
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Collectors Universe, Inc. and will be retained by Collectors Universe, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.