

COLLECTORS UNIVERSE INC  
Form 10-Q  
May 09, 2011

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 March 31, 2011

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.R.S. 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 or a "smaller reporting company". See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting



QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2011

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Exhibit 32.2 Certification of Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002

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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)

|  | March 31,<br>2011 | June 30,<br>2010 |
|--|-------------------|------------------|
| <b>ASSETS</b>  |                   |                  |
| Current assets:  |                   |                  |
| Cash and cash equivalents  | \$21,259          | \$20,321         |
| Accounts receivable, net of allowance of \$69 at March 31, 2011 and \$75 at June 30, 2010  | 1,852             | 1,246            |
| Inventories, net   | 1,159             | 708              |
| Prepaid expenses and other current assets  | 893               | 919              |
| Refundable income taxes  | 65                | 335              |
| Deferred income tax assets   | 1,654             | 4,365            |
| Notes receivable from sale of net assets of discontinued operations  | 50                | 96               |
| Current assets of discontinued operations  | 28                | 52               |
| Total current assets   | 26,960            | 28,042           |
| Property and equipment, net  | 1,176             | 1,145            |
| Goodwill   | 2,826             | 2,826            |
| Intangible assets, net   | 1,860             | 2,184            |
| Deferred income tax assets   | 3,807             | 3,807            |
| Notes receivable from sale of net assets of discontinued operations  | 132               | 170              |
| Other assets   | 225               | 330              |
| Non-current assets of discontinued operations  | 182               | 182              |
|  | \$37,168          | \$38,686         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                  |
| Current liabilities:   |                   |                  |
| Accounts payable   | \$1,194           | \$1,434          |
| Accrued liabilities  | 1,451             | 1,495            |
| Accrued compensation and benefits  | 1,961             | 1,804            |
| Income taxes payable   | 184               | 197              |
| Deferred revenue   | 2,538             | 1,926            |
| Current liabilities of discontinued operations   | 785               | 923              |
| Total current liabilities  | 8,113             | 7,779            |
| Deferred rent  | 381               | 321              |
| Non-current liabilities of discontinued operations   | 2,670             | 2,974            |
| Commitments and contingencies  |                   |                  |
| Stockholders' equity:  |                   |                  |
| Preferred stock, \$.001 par value; 3,000 shares authorized, none issued or outstanding   | -                 | -                |
| Common stock, \$.001 par value; 20,000 shares authorized; 7,896 and 7,693 issued and outstanding at March 31, 2011<br>and at June 30, 2010, respectively | 8                 | 8                |
| Additional paid-in capital   | 69,861            | 68,134           |
| Accumulated deficit  | (43,865 )         | (40,530 )        |

|                            |          |          |
|----------------------------|----------|----------|
| Total stockholders' equity | 26,004   | 27,612   |
|                            | \$37,168 | \$38,686 |

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<br>March 31, |          | Nine Months Ended<br>March 31, |          |
|--|---------------------------------|----------|--------------------------------|----------|
|  | 2011                            | 2010     | 2011                           | 2010     |
| Net revenues   | \$12,818                        | \$10,790 | \$32,174                       | \$28,971 |
| Cost of revenues   | 4,907                           | 4,204    | 12,577                         | 11,576   |
| Gross profit   | 7,911                           | 6,586    | 19,597                         | 17,395   |
| Selling and marketing expenses   | 1,585                           | 1,449    | 4,426                          | 3,785    |
| General and administrative expenses  | 3,013                           | 2,602    | 8,469                          | 7,814    |
| Operating income   | 3,313                           | 2,535    | 6,702                          | 5,796    |
| Interest and other income, net   | 36                              | 35       | 88                             | 87       |
| Income before provision for income taxes   | 3,349                           | 2,570    | 6,790                          | 5,883    |
| Provision for income taxes   | 1,381                           | 129      | 2,735                          | 54       |
| Income from continuing operations  | 1,968                           | 2,441    | 4,055                          | 5,829    |
| Net loss from discontinued operations, net of loss on sales of discontinued businesses,<br>net of income taxes | -                               | (68 )    | (35 )                          | (629 )   |
| Net income   | \$1,968                         | \$2,373  | \$4,020                        | 5,200    |
| Net income per basic share:  |                                 |          |                                |          |
| Income from continuing operations  | \$0.25                          | \$0.33   | \$0.53                         | \$0.78   |
| Loss from discontinued operations  | -                               | (0.01 )  | (0.01 )                        | (0.08 )  |
| Net income per basic shares  | \$0.25                          | \$0.32   | \$0.52                         | \$0.70   |
| Net income per diluted share:  |                                 |          |                                |          |
| Income from continuing operations  | \$0.25                          | \$0.32   | \$0.52                         | \$0.76   |
| Loss from discontinued operations  | -                               | (0.01 )  | -                              | (0.08 )  |
| Net income per diluted shares  | \$0.25                          | \$0.31   | \$0.52                         | \$0.68   |
| Weighted average shares outstanding:   |                                 |          |                                |          |
| Basic  | 7,727                           | 7,420    | 7,672                          | 7,459    |
| Diluted  | 7,841                           | 7,676    | 7,795                          | 7,620    |
| Dividends declared per common share  | \$0.325                         | \$0.25   | \$0.95                         | \$0.50   |

See accompanying notes to condensed consolidated financial statements.

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

|  | Nine Months Ended<br>March 31, |         |
|--|--------------------------------|---------|
|  | 2011                           | 2010    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                |         |
| Net income   | \$4,020                        | \$5,200 |
| Discontinued operations  | 35                             | 629     |
| Income from continuing operations  | 4,055                          | 5,829   |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: |                                |         |
| Depreciation and amortization expense  | 592                            | 797     |
| Stock-based compensation expense   | 856                            | 733     |
| Provision for bad debts  | 14                             | (17)    |
| Provision for inventory write-down   | 1                              | 39      |
| Provision for warranty   | 549                            | 466     |
| Gain on sale of property and equipment   | (11)                           | (8)     |
| Interest on notes receivable   | (12)                           | (9)     |
| Provision for deferred income taxes  | 2,711                          | -       |
| Change in operating assets and liabilities:  |                                |         |
| Accounts receivable  | (585)                          | (473)   |
| Inventories  | (451)                          | (76)    |
| Prepaid expenses and other   | 77                             | 46      |
| Refundable income taxes  | 270                            | (248)   |
| Other assets   | 55                             | (160)   |
| Accounts payable and accrued liabilities   | (750)                          | (211)   |
| Accrued compensation and benefits  | 157                            | 207     |
| Income taxes payable   | (13)                           | 7       |
| Deferred revenue   | 612                            | 395     |
| Deferred rent  | 60                             | 80      |
| Net cash provided by operating activities of continuing operations                                       | 8,187                          | 7,397   |
| Net cash used in operating activities of discontinued businesses   | (487)                          | (959)   |
| Net cash provided by operating activities  | 7,700                          | 6,438   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                |         |
| Proceeds from sale of property and equipment   | 89                             | -       |
| Capital expenditures   | (369)                          | (260)   |
| Proceeds from collection of customer notes receivable  | -                              | 2,355   |
| Expos purchase price adjustment  | -                              | (200)   |
| Capitalized software   | (9)                            | -       |
| Cash received from sale of net assets of discontinued operations   | 96                             | 192     |
| Net cash (used in) provided by investing activities  | (193)                          | 2,087   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                |         |
| Proceeds from exercise of stock options  | 871                            | -       |
| Dividends paid to common stockholders  | (7,440)                        | (3,712) |
| Repurchase of common stock under "Dutch Auction" tender  | -                              | (8,911) |

|  |          |           |
|--|----------|-----------|
| Net cash used in financing activities                | (6,569 ) | (12,623 ) |
| Net increase (decrease) in cash and cash equivalents | 938      | (4,098 )  |
| Cash and cash equivalents at beginning of period     | 20,321   | 23,870    |
| Cash and cash equivalents at end of period           | \$21,259 | \$19,772  |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

|                   |      |       |
|-------------------|------|-------|
| Interest paid     | \$-  | \$-   |
| Income taxes paid | \$13 | \$294 |

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”, “management”, “us”, “our”). At March 31, 2011, such subsidiaries were Collectors Finance Corporation (“CFC”), Certified Asset Exchange, Inc. (“CAE”) and Expos Unlimited, Inc. (“Expos”), all of which are 100% owned by Collectors Universe, Inc. All intercompany transactions and accounts have been eliminated.

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 in the United States of America (“GAAP”). Operating results for the three and nine months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending June 30, 2011 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 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, 2010, as filed with the SEC. Amounts related to disclosure of June 30, 2010 balances within these interim condensed consolidated financial statements were derived from the aforementioned audited consolidated financial statements and notes thereto included in that Annual Report on Form 10-K.

Reclassifications

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

Revenue Recognition Policies

We generally record revenue at the time of shipment of the authenticated and graded collectible to the customer. Due to the insignificant delay between the completion of our grading and authentication services and the shipment of the collectible or high-value asset back to the customer, the time of shipment corresponds to the completion of our services. 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 generated by the promotion, management and operation of collectibles conventions and trade shows in the periods in which the event takes place.

A portion of our net revenues are comprised of subscription fees paid by customers for memberships in our Collectors Club. Those memberships entitle members access to our on-line and printed publications, and sometimes also to vouchers for free grading services. We record revenue for this multi-element service arrangement, by recognizing approximately 65% of the subscription fee in the month following the membership purchase. The balance of the membership fee is recognized as revenue over the life of the membership, which can range from one to two years. We evaluate, at least semi-annually, the relative fair values of the deliverables and the percentage factors used to allocate the membership fee between the grading and the other services provided under this membership service.

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management 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 related stock-based compensation expense, the amount of goodwill and the existence or non-existence of goodwill impairment, the amount of warranty reserves, the provision or benefit for income taxes and related valuation allowances against deferred tax assets, and adjustments to the fair value of remaining lease obligations for our former jewelry businesses. Each of these estimates is discussed in more detail in the notes to these Condensed Consolidated Financial Statements, in the Critical Accounting Policies and Estimates section of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, contained elsewhere in this Report or in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

### 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 has occurred. 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. Management has determined that no impairment of goodwill or other long-lived assets occurred as of March 31, 2011.

### Foreign Currency Translation

The Company has determined that the U.S. Dollar is the functional currency for its French branch office, which maintains its accounting records in Euros. 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 periods, were not material.

### Stock-Based Compensation Expense

Stock-based compensation expense is measured at the grant date of an award, based on its estimated fair value, and is recognized as expense over the employee or non-employee director's requisite service period, which is generally the vesting period. However, if the vesting of a stock-based compensation award is subject to satisfaction of a performance requirement or condition, the stock-based compensation expense is recognized if, and when, management determines that the achievement of the performance requirement or condition (and therefore the vesting of the award) has become probable. In the event that stock-based compensation is recognized on the basis that the performance condition is probable, and management subsequently determines that the performance condition is not met, then all expense previously recognized with respect to the performance condition would be reversed.



The following table shows total stock-based compensation expense included as part of continuing operations in the Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2011 and 2010 (in thousands):

| Included in:                        | Three Months Ended |       | Nine Months Ended |       |
|-------------------------------------|--------------------|-------|-------------------|-------|
|                                     | March 31,          |       | March 31,         |       |
|                                     | 2011               | 2010  | 2011              | 2010  |
| General and administrative expenses | \$276              | \$238 | \$856             | \$733 |

No stock options were granted during the three and nine months ended March 31, 2011 and 2010. The following table presents information relative to the stock options outstanding under all equity incentive plans as of March 31, 2011 and stock option activity during the nine months ended March 31, 2011. The closing prices of our common stock as of March 31, 2011 and June 30, 2010 were \$14.14 and \$13.41, respectively.

| Options:                                    | Shares<br>(In<br>Thousands) | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(yrs.) | Aggregate<br>Intrinsic<br>Value<br>(In<br>Thousands) |
|---|-----------------------------|--|---|--|
| Outstanding at June 30, 2010                | 434                         | \$10.72                                  | 3.67  | \$1,535  |
| Forfeited or cancelled                      | (24 )                       | 12.32                                    | -   | -  |
| Exercised                                   | (106 )                      | 8.19                                     | -   | -  |
| Outstanding at March 31, 2011               | 304                         | \$11.49                                  | 3.14  | \$1,111  |
| Exercisable at March 31, 2011               | 301                         | \$11.47                                  | 3.11  | \$1,108  |
| Unvested at March 31, 2011                  | 3                           | \$13.18                                  | 6.67  | \$3  |
| Unvested expected to vest at March 31, 2011 | 3                           | \$13.18                                  | 6.67  | \$3  |

The 3,000 options to purchase common stock that were expected to vest at March 31, 2011 are based on the current forfeiture rate of 0% and the remaining vesting term of those options at March 31, 2011.

During the nine months ended March 31, 2011 and 2010, approximately 2,750 and 5,500 options to purchase common stock, respectively, were vested with aggregate fair values of approximately \$38,000 and \$27,500, respectively.

#### Fiscal 2010 Restricted Stock Awards

In August 2010, the Compensation Committee of the Board of Directors definitively determined that the Company had achieved the financial performance goal for fiscal 2010. The remaining compensation expense to be recognized under the FY2010 Restricted Stock Awards of approximately \$144,000, assuming continuous service by participants, will be recognized over the remaining service periods through June 30, 2012, of which approximately \$56,000 will be recognized in the remaining three months of fiscal 2011 and the balance of \$88,000 will be recognized in fiscal 2012.

#### Fiscal 2011 Equity Incentive Grants

On July 16, 2010, the Compensation Committee awarded 80,000 restricted shares to certain executive officers and senior management employees ("Participant"), pursuant to the Company's 2006 Equity Incentive Plan. Those restricted shares are subject to certain risks of forfeiture, in which are summarized below.



(1) Service-Contingent Shares. The vesting of 50% of the restricted shares awarded (the “Service-Contingent Shares”) is contingent on the Participant remaining in the continuous service of the Company. If a Participant does not remain in the continuous service of the Company until at least June 30, 2011, all of his/her restricted shares will be forfeited. If, on the other hand, a Participant remains in the service of the Company until at least June 30, 2011, then 25% of his/her restricted shares will vest (that is, cease to be subject to the risk of forfeiture), and another 25% of his/her restricted shares will vest if he/she remains in the service of the Company until June 30, 2012.

(2) Performance Contingent Shares. The vesting of 50% of the restricted shares awarded (the “Performance-Contingent Shares”) is contingent on the Company’s achievement of a financial performance goal, measured on the basis of the Company’s fiscal 2011 operating income. If that goal is not achieved, all of those shares may be forfeited and cancelled. If, on the other hand, that financial performance goal is achieved, then, (i) 50% of the Participant’s Performance-Contingent Shares will become vested if he/she is still in the Company’s service on June 30, 2011; (ii) another 25% of his/her Performance-Contingent Shares will become vested on June 30, 2012, if the Participant is still in the Company’s service as of that date; and (iii) the final 25% of the Performance-Contingent Shares will vest on June 30, 2013, provided that he/she is still in the Company’s service on such date.

The Company estimated the fair value of the 80,000 shares of restricted stock to be \$997,000 based on the closing price per share of the Company’s common stock of \$12.46 on the grant date, of which \$499,000 relates to Service-Based Awards and \$498,000 relates to Performance-Based Awards. For service-based awards, we will record stock-based compensation expense over the requisite service period that commenced on July 16, 2010 and will continue through June 30, 2012.

As of December 31, 2010, management determined that achieving the performance condition for the full fiscal year 2011 was probable based upon financial results achieved as of that date and the expected results for the remainder of fiscal 2011. As a result, the Company recognized \$88,000 and \$265,000 of stock-based compensation expense for those Performance-Contingent Shares during the three and nine months ended March 31, 2011, respectively.

#### Other Fiscal 2011 Grants

In the second quarter of fiscal 2011, the Company granted approximately 17,000 service contingent shares, which vest quarterly over the next twelve months to its non-employee directors and one employee. The Company estimated the fair value of those shares to be approximately \$248,000, and such stock-based compensation expense will be recognized over the service period of one year.

The following table presents the non-vested status of the restricted shares for the nine months ended March 31, 2011 and the weighted average grant-date fair values:

|                                  | Shares            | Weighted<br>Average<br>Grant-Date<br>Fair<br>Values |
|----------------------------------|-------------------|---|
| Non-Vested Restricted<br>Shares: | (In<br>Thousands) |   |
| Non-vested at June 30,<br>2010   | 254               | \$ 4.43   |
| Granted                          | 97                | 12.83   |
| Vested                           | (131 )            | 4.99  |
| Non-vested at March<br>31, 2011  | 220               | \$ 7.79   |



The following table sets forth total unrecognized compensation cost in the amount of \$859,000 related to non-vested stock-based awards (both options and restricted shares) expected to be recognized through fiscal year 2013, on the assumption that (i) the performance condition described above is met; and (ii) the Participants remain in the Company's employment throughout the applicable vesting periods. The amount does not include the cost or effect of the possible grant of any additional stock-based compensation awards in the future or any change that may occur in the Company's forfeiture percentage.

| Fiscal Year Ending June 30, | Amount<br>(In<br>Thousands) |
|-----------------------------|-----------------------------|
| 2011 (remaining 3 months)   | \$ 276                      |
| 2012                        | 542                         |
| 2013                        | 41                          |
|                             | \$ 859                      |

### Concentrations

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

**Financial Instruments and Cash Balances.** At March 31, 2011, we had cash and cash equivalents totaling approximately \$21,259,000, of which approximately \$19,910,000 was invested in money market accounts. At March 31, 2011, the Company had approximately \$1,349,000 in non-interest bearing bank accounts for general day-to-day operations.

Substantially all of our cash is deposited at four financial institutions. We maintained cash due from banks in excess of the banks' FDIC insured deposit limits of approximately \$19,400,000 at March 31, 2011.

**Accounts Receivable.** A substantial portion of accounts receivable are due from collectibles dealers. At March 31, 2011 two customers accounted for approximately 20% of the total net accounts receivable balances of \$1,852,000; whereas, at June 30, 2010, one customer's accounts receivable accounted for 10% of the total net accounts receivable balances of \$1,246,000 outstanding on that date. The Company performs an analysis 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, management establishes an allowance for doubtful accounts, when deemed necessary. The allowance for doubtful accounts receivable was \$69,000 at March 31, 2011 and \$75,000 at June 30, 2010. Ultimately, management will write-off account receivable balances when it is determined that there is no possibility of collection.

**Coin Revenues.** The authentication, grading and sales of collectible coins and related services accounted for approximately 71% and 67% of our net revenues for the three and nine months ended March 31, 2011, respectively, and 67% and 64% of our net revenues for the three and nine months ended March 31, 2010, respectively.

**Customers.** Five of our coin authentication and grading customers accounted, in the aggregate, for approximately 13% of our total net revenues in the nine months ended March 31, 2011.

### Capitalized Software

We capitalize certain costs incurred, either from internal or external sources, as part of intangible assets and amortize these costs on a straight-line basis over the estimated useful life of the software of three years. At March 31, 2011 and June 30, 2010, we had capitalized approximately \$2,634,000 and \$2,625,000, respectively, as capitalized software. The related net book value of capitalized software at March 31, 2011 and June 30, 2010 was \$110,000 and \$317,000, respectively. During the nine months ended March 31, 2011, we capitalized costs of \$9,000. During the three and nine months ended March 31, 2011, approximately \$54,000 and \$216,000 was recorded as amortization expense for capitalized software, respectively, and for the three and nine months ended March 31, 2010, we amortized \$103,000 and \$386,000, respectively. Planning, training, support and maintenance costs incurred either prior to or following the implementation phase are recognized as expense in the period in which they occur. Management evaluates the carrying value of capitalized software to determine if the carrying value is impaired, 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, trading cards and stamps that we authenticate and grade. Under the warranty, if any collectible that was previously authenticated and graded by us is later submitted to us for re-grading at any time 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, at our option, pay the difference in value of the item at its original grade as compared with 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. To the extent that we purchase an item under a warranty claim, we recognize a reduction in our warranty reserve for the difference in value of the item at its original grade and its re-graded estimated value. We include in our collectibles inventory the estimated value of the re-graded item. We accrue for estimated warranty costs based on historical trends and related experience. Increased future claims experience under our warranty program could increase to levels higher than in the past which could result in additional warranty accruals in anticipation of these claims, and our ongoing warranty accrual rate could increase to cover potential higher claims in the future, both of which could have a material adverse impact on our future results of operations.

### Dividends

In the second quarter of fiscal 2010, the Company resumed its quarterly cash dividends in an amount of \$0.25 per share, and we paid quarterly dividends under such policy of \$0.25 per share in the second and third fiscal quarters of fiscal 2010. On April 20, 2010, the Board of Directors approved an increase in the quarterly cash dividend to \$0.30 per share of common stock, and on October 6, 2010, approved a further increase in its quarterly cash dividend to \$0.325 per share. 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 January 2010, the FASB issued amended fair value disclosure guidance. The new guidance requires disclosure of transfers in and out of Levels 1 and 2 fair value measurements including a description of the reasons for the transfer where significant and disclosure of activity in Level 3 fair value measurements, including information on a gross basis regarding purchases, sales, issuances and settlements. Amendments to existing guidance were also made regarding classes of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value. The Company will adopt this guidance on July 1, 2011. Management does not expect the adoption of these standards to have any material impact on the Consolidated Financial Statements.

## 2. INVENTORIES

Inventories consist of the following (in thousands):

|  | March 31,<br>2011 | June 30,<br>2010 |
|--|-------------------|------------------|
| Coins                                      | \$ 672            | \$ 493           |
| Other collectibles                         | 122               | 32               |
| Grading raw materials consumable inventory | 493               | 327              |
|  | 1,287             | 852              |
| Less inventory reserve                     | (128 )            | (144 )           |
| Inventories, net                           | \$ 1,159          | \$ 708           |

## 3. PROPERTY AND EQUIPMENT

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

|  | March 31,<br>2011 | June 30,<br>2010 |
|--|-------------------|------------------|
| Coins and stamp grading reference sets         | \$ 385            | \$ 461           |
| Computer hardware and equipment                | 1,491             | 1,419            |
| Computer software                              | 1,007             | 999              |
| Equipment                                      | 2,347             | 2,090            |
| Furniture and office equipment                 | 902               | 907              |
| Leasehold improvements                         | 702               | 695              |
| Trading card reference library                 | 52                | 52               |
|  | 6,886             | 6,623            |
| Less accumulated depreciation and amortization | (5,710 )          | (5,478 )         |
| Property and equipment, net                    | \$ 1,176          | \$ 1,145         |

## 4. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

|                   | March 31,<br>2011 | June 30,<br>2010 |
|-------------------|-------------------|------------------|
| Warranty reserves | \$ 679            | \$ 669           |
| Professional fees | 120               | 82               |
| Other             | 652               | 744              |
|                   | \$ 1,451          | \$ 1,495         |

The following table presents the changes in the Company's warranty reserve during the nine months ended March 31, 2011 and 2010 (in thousands):

| Nine Months<br>Ended | Nine Months<br>Ended |
|----------------------|----------------------|
|----------------------|----------------------|

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|                                       | March 31,<br>2011 | March 31,<br>2010 |
|---------------------------------------|-------------------|-------------------|
| Warranty reserve, beginning of period | \$ 669            | \$ 708            |
| Charged to cost of revenue            | 549               | 466               |
| Payments                              | (539 )            | (333 )            |
| Warranty reserve, end of period       | \$ 679            | \$ 841            |

## 5. DISCONTINUED OPERATIONS

During fiscal 2009, the Board of Directors authorized the divestiture and sale of GCAL, Gemprint and AGL (the “Jewelry Businesses”) and the currency grading business, 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 March 31, 2011 and June 30, 2010. As previously reported, discontinued operations also include the remaining activities related to the disposal of our collectibles sales businesses that we discontinued in fiscal 2004.

The operating results of the discontinued businesses that are included in the accompanying Condensed Consolidated Statements of Operations are as follows (in thousands):

|   | Three Months Ended<br>March 31, |          | Nine Months Ended<br>March 31, |           |
|---|---------------------------------|----------|--------------------------------|-----------|
|   | 2011                            | 2010     | 2011                           | 2010      |
| R e v e n u e s ,<br>net                              | \$ 1                            | \$ 9     | \$ 15                          | \$ 12     |
| Income from operations of discontinued<br>businesses  | -                               | 6        | -                              | 7         |
| Net loss on sale of discontinued businesses           | -                               | (74 )    | (59 )                          | (636 )    |
| I n c o m e t a x<br>benefit                          | -                               | -        | 24                             | -         |
| L o s s f r o m d i s c o n t i n u e d<br>operations | \$ -                            | \$ (68 ) | \$ (35 )                       | \$ (629 ) |

The following table contains summary balance sheet information with respect to the net assets and liabilities of the discontinued operations held for sale that is included in the accompanying Condensed Consolidated Balance Sheets as of March 31, 2011 and June 30, 2010 (in thousands):

|                             | March 31,<br>2011 | June 30,<br>2010 |
|-----------------------------|-------------------|------------------|
| Current Assets:             |                   |                  |
| Accounts receivable, net    | \$ 1              | \$ 25            |
| Assets held for sale        | 27                | 27               |
|                             | \$ 28             | \$ 52            |
| Non-Current Assets:         |                   |                  |
| Other assets                | \$ 182            | \$ 182           |
| Current Liabilities:        |                   |                  |
| Accounts payable            | \$ 7              | \$ 27            |
| Lease obligations           | 551               | 532              |
| Other accrued expenses      | 200               | 342              |
| Deferred revenue            | 27                | 22               |
|                             | \$ 785            | \$ 923           |
| Non-Current Liabilities:    |                   |                  |
| Lease obligations           | \$ 2,670          | \$ 2,938         |
| Other long-term liabilities | -                 | 36               |
|                             | \$ 2,670          | \$ 2,974         |

In connection with the sale of CTP in 2005, we recorded a note receivable of \$458,000, bearing interest at 10% per annum and payable over five years, which was fully repaid in November 2010. At June 30, 2010, the carrying value of the note was \$46,000 and is included in other assets.

In fiscal 2009, we disposed of our currency grading business and licensed the business name for consideration of approximately \$354,000 and license fees to be determined based on future annual revenues of the business. The consideration of \$351,000 was payable through a cash payment to us of \$50,000 and a promissory note (the "Note") with a face value of \$304,000. The Note provided for three annual payments of \$50,000 due on the anniversary dates in each year between February 2010 to February 2012 and a \$154,000 payment due in February 2013. The Note is discounted using an imputed rate of 7.25% and is carried on the Condensed Consolidated Balance Sheets as of March 31, 2011 and June 30, 2010 in the amount of \$182,000 and \$220,000, respectively, as part of notes receivable from sale of net assets of discontinued operations, of which \$50,000 is classified as a current asset and the balance classified as long term. In the three months ended March 31, 2011, the Company earned license fees of approximately \$42,000 that became determinable in the period.

In connection with our exiting the Jewelry Businesses, we recognized facility obligations (including operating costs and other estimated costs associated with subletting the spaces) of approximately \$3,221,000 and \$3,470,000 at March 31, 2011 and June 30, 2010, respectively, of which \$551,000 and \$532,000, respectively, were classified as part of current liabilities of discontinued operations on the Condensed Consolidated Balance Sheets.

## 6. INCOME TAXES

At June 30, 2010, we released our valuation allowances against deferred tax assets. In the three and nine months ended March 31, 2011, we recognized provisions for income taxes based upon an estimated annual effective tax rate of 41% for fiscal 2011, partially offset by an income tax benefit of approximately \$60,000 in the nine months ended March 31, 2011, related to the exercise of incentive stock options. Due to the availability of net operating losses and other tax attributes to offset current year taxable income, the provisions for income taxes for the three and nine months ended March 31, 2011, represents the non-cash realization of deferred tax assets. Cash payments for income taxes continue to be minimal.

The income tax provisions of \$129,000 and \$54,000 for the three and nine months ended March 31, 2010, respectively, reflected an estimated annual effective rate of approximately 5%, and in the nine months ended March 31, 2010, a federal income tax benefit of \$248,000 related to the suspension of the 90% Alternative Minimum Tax (AMT) limitation for the carryback of net operating losses.

## 7. NET INCOME PER SHARE

The aggregate number of shares subject to options that were excluded from the computation of diluted loss per share, because they would have been anti-dilutive in the calculation of diluted income or loss per share, totaled approximately 88,000 and 90,000 for the three and nine months ended March 31, 2011, respectively, compared to 292,000 and 391,000 for the three and nine months ended March 31, 2010, respectively.

## 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 operating segments of the Company are organized based on the respective services that they offer to customers of the Company. 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 high-end collectibles. Services provided by these segments include authentication, grading, publication and web advertising and subscription-based revenues. The other collectibles segment is comprised of stamps, the CCE subscription business, our CFC dealer financing business and our collectibles conventions business.

We allocate operating expenses to each service segment based upon each segment's activity level. The following tables set forth on a segment basis, including reconciliation with the Condensed Consolidated Financial Statements, (i) external revenues, (ii) amortization and depreciation, (iii) stock-based compensation expense, and (iv) operating income for the three and nine months ended March 31, 2011 and 2010. Net identifiable assets are provided by business segment as of March 31, 2011 and June 30, 2010 (in thousands):

|  | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|--------------------------------|-----------|
|  | 2011                            | 2010      | 2011                           | 2010      |
| Net revenues from external customers:      |                                 |           |                                |           |
| Coins (including product sales)            | \$ 9,060                        | \$ 7,279  | \$ 21,591                      | \$ 18,686 |
| Trading cards and autographs               | 2,614                           | 2,392     | 7,590                          | 7,262     |
| Other                                      | 1,144                           | 1,119     | 2,993                          | 3,023     |
| Total revenue                              | \$ 12,818                       | \$ 10,790 | \$ 32,174                      | \$ 28,971 |
| Amortization and depreciation:             |                                 |           |                                |           |
| Coins                                      | \$ 64                           | \$ 39     | \$ 169                         | \$ 189    |
| Trading cards and autographs               | 38                              | 51        | 142                            | 153       |
| Other                                      | 57                              | 98        | 201                            | 297       |
| Total                                      | 159                             | 188       | 512                            | 639       |
| Unallocated amortization and depreciation  | 25                              | 30        | 80                             | 158       |
| Consolidated amortization and depreciation | \$ 184                          | \$ 218    | \$ 592                         | \$ 797    |
| Stock-based compensation:                  |                                 |           |                                |           |
| Coins                                      | \$ 56                           | \$ -      | \$ 140                         | \$ -      |
| Trading cards and autographs               | 8                               | -         | 23                             | -         |
| Other                                      | 11                              | -         | 34                             | -         |
| Total                                      | 75                              | -         | 197                            | -         |
| Unallocated stock-based compensation       | 201                             | 238       | 659                            | 733       |
| Consolidated stock-based compensation      | \$ 276                          | \$ 238    | \$ 856                         | \$ 733    |
| Operating income:                          |                                 |           |                                |           |
| Coins                                      | \$ 3,627                        | \$ 2,951  | \$ 7,980                       | \$ 7,458  |
| Trading cards and autographs               | 409                             | 231       | 930                            | 831       |
| Other                                      | 265                             | 239       | 682                            | 464       |
| Total                                      | 4,301                           | 3,421     | 9,592                          | 8,753     |
| Unallocated operating expenses             | (988 )                          | (886 )    | (2,890 )                       | (2,957 )  |
|  | \$ 3,313                        | \$ 2,535  | \$ 6,702                       | \$ 5,796  |

| Identifiable Assets:         | March 31,<br>2011 | June 30,<br>2010 |
|------------------------------|-------------------|------------------|
|                              | (In Thousands)    |                  |
| Coins                        | \$ 4,301          | \$ 3,509         |
| Trading cards and autographs | 725               | 810              |
| Other                        | 4,330             | 4,460            |

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|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Total                               | 9,356     | 8,779     |
| U n a l l o c a t e d<br>assets     | 27,812    | 29,907    |
| C o n s o l i d a t e d<br>assets   | \$ 37,168 | \$ 38,686 |
| Goodwill:                           |           |           |
| Coins                               | \$ 515    | \$ 515    |
| Other                               | 2,311     | 2,311     |
| C o n s o l i d a t e d<br>goodwill | \$ 2,826  | \$ 2,826  |

## 9. RELATED-PARTY TRANSACTIONS

During the three and nine months ended March 31, 2011, a member of the immediate family of Mr. David Hall, the President of the Company, paid grading and authentication fees to PCGS of \$107,000 and \$321,000, respectively, compared with \$97,000 and \$341,000 for the three and nine months ended March 31, 2010, respectively. Those fees were charged and paid at the same rates that we charge for comparable services to unaffiliated customers. At March 31, 2011, the amount owed to the Company for these services was approximately \$122,000, compared with \$23,000 at June 30, 2010.

## 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. The Company continues to be involved in a dispute with a former employee who has claimed \$175,000. Should this dispute proceed to and be decided at arbitration, the Company could also be responsible for penalties and costs. Management believes that none of the lawsuits or disputes currently pending against the Company, are likely to have a material adverse effect on the Company.

## 11. SUBSEQUENT EVENTS

On April 25, 2011, the Company announced that in accordance with its dividend policy, the Board of Directors had approved a fourth quarter cash dividend of \$0.325 per share of common stock, and such dividend will be paid on May 27, 2011 to stockholders of record on May 13, 2011.

Subsequent to March 31, 2011, the Company repurchased certain coins under its coin warranty policy for approximately \$915,000, including one coin for approximately \$860,000. Management currently expects the estimated losses on these coins to be covered by its current warranty reserves and our normal ongoing warranty accruals. However, the estimated value of coins can be subjective and can vary depending on market conditions for precious metals and the uniqueness and special features of a particular coin.

Subsequent to March 31, 2011, the Company disposed of its remaining discontinued Gemprint and diamond jewelry assets for approximately \$216,000.

## ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 2. 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" for forward-looking statements to encourage companies to provide prospective information about their expected future financial performance so long as they provide meaningful, cautionary statements identifying important factors that could cause 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. 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, 2010 (the "Fiscal 2010 10-K"), which we filed with the Securities and Exchange Commission (the "SEC") on September 8, 2010, 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 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 future performance based solely on historical financial performance. We also disclaim any obligation to update or revise any forward-looking statements contained in this Report or in our Fiscal 2010 10-K or any 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” “management” “our” or the “Company”) provides grading and authentication services to dealers and collectors of high-value coins, trading cards, event tickets, autographs, sports and historical memorabilia and stamps. 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 collectible 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 much lesser extent, we generate revenues from other related services which consist of: (i) the sale of advertising on our websites; (ii) the sale of printed publications and collectibles price guides and advertising in our publications and on our website; (iii) the sale of membership subscriptions in our Collectors Club, which is designed primarily to attract interest in high-value collectibles among new collectors; (iv) the sale of subscriptions to our CCE dealer-to-dealer Internet bid-ask market for certified coins and to our CoinFacts website, which offers a comprehensive one-stop source for historical U.S. numismatic information and value-added content; and (v) the management and operation of collectibles trade shows and conventions. We also generate revenues from sales of our collectibles inventory, which is primarily comprised 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

Set out below is a summary of our results (in thousands, except percentages and per share amounts):

|   | Three Months Ended<br>March 31, |          |            | Nine Months Ended<br>March 31, |          |            |
|---|---------------------------------|----------|------------|--------------------------------|----------|------------|
|   | 2011                            | 2010     | Variance   | 2011                           | 2010     | Variance   |
| Net sales                                     | \$12,818                        | \$10,790 | 18.8 %     | \$32,174                       | \$28,971 | 11.1 %     |
| Gross profit                                  | \$7,911                         | \$6,586  | 20.1 %     | \$19,597                       | \$17,395 | 12.7 %     |
| Gross margin percentage                       | 61.7 %                          | 61.0 %   | -          | 60.9 %                         | 60.0 %   | -          |
| Operating expenses                            | \$4,598                         | \$4,051  | 13.5 %     | \$12,895                       | \$11,599 | 11.1 %     |
| Operating expenses as a percentage of revenue | 35.9 %                          | 37.5 %   | -          | 40.1 %                         | 40.0 %   | -          |
| Operating income                              | \$3,313                         | \$2,535  | 30.7 %     | \$6,702                        | \$5,796  | 15.6 %     |
| Operating margin as a percentage of revenues  | 25.8 %                          | 23.5 %   | -          | 20.8 %                         | 20.0 %   | -          |
| Pre-tax income                                | \$3,349                         | \$2,570  | 30.3 %     | \$6,790                        | \$5,883  | 15.4 %     |
| Pre-tax income as a percentage of revenues    | 26.1 %                          | 23.8 %   | -          | 21.1 %                         | 20.3 %   | -          |
| Income from continuing operations             | \$1,968                         | \$2,441  | (19.4 %) % | \$4,055                        | \$5,829  | (30.4 %) % |

|   |        |   |        |   |   |        |   |        |   |   |
|---|--------|---|--------|---|---|--------|---|--------|---|---|
| Income from continuing operations as a percentage of revenues | 15.4   | % | 22.6   | % | - | 12.6   | % | 20.1   | % | - |
| Diluted income per share-continuing                           | \$0.25 |   | \$0.32 |   | - | \$0.52 |   | \$0.76 |   | - |

Pre-tax income increased by \$779,000 or 30.3% and \$907,000 or 15.4% in the three and nine months ended March 31, 2011, compared to the same periods of the prior year, due primarily to increases of 16.7% and 9.4% in total service revenues in the current third quarter and nine months, respectively. These revenue increases more than offset increased cost of revenues and operating expenses in those periods. The increase in total service revenues was primarily attributable to increases in authentication and grading fees in our coin business, comprising increases in the modern, vintage and world coins graded and authenticated in the current three and nine month periods.

However, due to an increase in our annual effective tax rate to approximately 41% in the three months and nine months ended March 31, 2011 from approximately 5.0% and 1% in the three months and nine months ended March 31, 2010, respectively, income from continuing operations decreased by \$473,000 or 19.4% in the three months ended March 31, 2011 and by \$1,774,000 or 30.4% for the nine months ended March 31, 2011. The substantially higher effective tax rate for the three and nine months ended March 31, 2011 was due to the release of valuation allowances against deferred tax assets at June 30, 2010. Cash payments for income taxes continue to be minimal.

These, as well as other factors affecting our operating results in the three and nine months ended March 31, 2011, are described in more detail below. See “Factors that Can Affect our Operating Results and Financial Condition” and “Results of Operations – Three and Nine Months Ended March 31, 2011 and 2010” below.

#### Factors That Can Affect our Operating Results and Financial Position

**Factors That Can Affect our Revenues and Gross Profit Margins.** Our authentication and grading fees accounted for approximately 80% of our total net revenues for the nine months ended March 31, 2011. 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 collectibles authentication and grading services generally facilitate sales and purchases of coins and other high value 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 other high-value collectibles.

In addition, our coin grading and authentication revenues are impacted by the level of modern coin submissions, which can be volatile, primarily 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.

The amounts of 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, on the one hand, and other collectibles on the other hand; (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 mix of authentication and grading submissions between vintage or “classic” coins and trading cards, on the one hand, and modern coins and trading cards, on the other hand, because dealers generally request faster turnaround times for vintage or classic coins and trading cards than they do for modern submissions, as vintage or classic collectibles are of significantly higher value and are more saleable by dealers than modern coins and trading cards; and (iv) as discussed above, the timing of marketing programs for modern coins.

Our revenues and gross profit margin are also affected by the level 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 they typically request higher priced same-day turnaround for the coins they submit to us for authentication and grading at those shows. The level 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 short-term changes in the prices of gold that sometimes occur around the time of the shows, because gold prices can affect the willingness of dealers and collectors to sell and purchase coins at the shows.

Five of our coin authentication and grading customers accounted, in the aggregate, for approximately 13% of our total net revenues in the nine months ended March 31, 2011. 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 tables provide information regarding the respective number of coins, trading cards, autographs, and stamps that were graded or authenticated by us in the three and nine months ended March 31, 2011 and 2010, respectively, and their estimated values, which are the amounts at which those coins, trading cards and stamps were declared for insurance purposes by the dealers and collectors who submitted them to us for grading and authentication (in thousands):

|                                 | Units Processed                   |       |   |         |       |   | Declared Value (000)              |       |   |           |       |   |
|---------------------------------|-----------------------------------|-------|---|---------|-------|---|-----------------------------------|-------|---|-----------|-------|---|
|                                 | Three Months Ended March 31, 2011 |       |   | 2010    |       |   | Three Months Ended March 31, 2011 |       |   | 2010      |       |   |
| Coins                           | 576,100                           | 62.7  | % | 480,300 | 59.8  | % | \$359,708                         | 92.8  | % | \$458,096 | 94.3  | % |
| Trading cards and autographs(1) | 340,200                           | 37.0  | % | 317,500 | 39.6  | % | 25,930                            | 6.7   | % | 24,764    | 5.1   | % |
| Stamps                          | 2,800                             | 0.3   | % | 4,800   | 0.6   | % | 1,882                             | 0.5   | % | 3,027     | 0.6   | % |
| Total                           | 919,100                           | 100.0 | % | 802,600 | 100.0 | % | \$387,520                         | 100.0 | % | \$485,887 | 100.0 | % |

|                                 | Units Processed                  |       |   |           |       |   | Declared Value (000)             |       |   |             |       |   |
|---------------------------------|----------------------------------|-------|---|-----------|-------|---|----------------------------------|-------|---|-------------|-------|---|
|                                 | Nine Months Ended March 31, 2011 |       |   | 2010      |       |   | Nine Months Ended March 31, 2011 |       |   | 2010        |       |   |
| Coins                           | 1,427,600                        | 58.9  | % | 1,239,200 | 56.2  | % | \$975,840                        | 92.1  | % | \$1,027,720 | 92.8  | % |
| Trading cards and autographs(1) | 986,600                          | 40.7  | % | 952,300   | 43.1  | % | 77,644                           | 7.3   | % | 69,602      | 6.3   | % |
| Stamps                          | 10,600                           | 0.4   | % | 14,900    | 0.7   | % | 6,612                            | 0.6   | % | 10,367      | 0.9   | % |
| Total                           | 2,424,800                        | 100.0 | % | 2,206,400 | 100.0 | % | \$1,060,096                      | 100.0 | % | \$1,107,689 | 100.0 | % |

Consists of trading cards units 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 volume of collectibles transactions by collectibles dealers and collectors which, in turn, is primarily affected by (i) the disposable income available to collectors and their confidence about future economic conditions, because high-value collectibles are generally viewed as luxury goods and are purchased with disposable income; (ii) the cash flows generated by collectibles dealers and their confidence about future economic conditions, which affect the willingness and the ability of such dealers to purchase collectibles for resale; (iii) the availability and cost of borrowings because collectibles dealers often rely on borrowings to fund their purchases of collectibles, (iv) prevailing and anticipated rates of inflation, because the threat of an actual increase in inflation often lead investors and consumers to purchase gold and silver coins as a hedge against inflation; 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 hard assets, including gold coins if they believe that the market prices of hard 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 economic growth, the availability of lower cost borrowings, or increases in inflation or in gold prices. 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 pressure, or declines 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.

Despite the continued uncertainties with respect to the strength and the sustainability of the economic recovery, our revenues (excluding product revenues) in the first nine months of the current fiscal year increased by approximately 9%, compared to the same period of the prior year, and included a 13% increase in revenue from the authentication and grading of collectible coins, which is our largest grading and authentication market. We believe those increases reflect the continued high prices of gold and concerns about inflation and the continued weakness of the U.S. dollar among collectors and investors, as well as customer-specific marketing initiatives that drive the grading of modern coins. Our revenues are discussed in more detail below under the caption Results of Operations: "Net Revenues".

**Factors That Can Affect our Financial Position.** A substantial number of our authentication and grading customers prepay our authentication and grading fees when they submit their collectibles to us for authentication and grading. As a result, historically, we have been able to rely on internally generated cash and have never incurred borrowings to fund our continuing operations. We currently expect that internally generated cash flows and current cash and cash equivalent balances will be sufficient to fund our continuing operations at least through the end of fiscal 2011.

In addition to the day-to-day operating performance of our business, our overall financial position can also be affected by the Company's capital raising or stock buyback activities, the dividend policy adopted by the Board of Directors from time to time, and the Company's decisions to invest in and to fund the acquisition of established businesses and or early stage businesses. In the first quarter of fiscal 2011, the Company's dividend policy provided for the payment of dividends of \$0.30 per share per quarter. In October 2010, the Board of Directors increased the Company's quarterly cash dividend to \$0.325 per share per quarter, for an expected annual dividend of \$1.30 per share. In addition, our financial position is impacted by the Company's tax position as the Company may only be required to pay minimum taxes, when it has net operating losses and other tax attributes available to offset taxable income.

#### Critical Accounting Policies and Estimates

Except as discussed below, during the three and nine months ended March 31, 2011, there were no changes in the critical accounting policies or estimates that were described in Item 7 of our Annual Report on Form 10-K, filed with the SEC, for the fiscal year ended June 30, 2010. Readers of this report are urged to read that Section of that Annual Report 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, 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. 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 is required. During the first quarter ended September 30, 2010, we completed the annual goodwill impairment evaluations with respect to the goodwill acquired in our fiscal year 2006 purchases of CCE and CoinFacts and the fiscal year 2007 acquisition of our Expos business, and determined that the carrying values of the acquired goodwill of these respective businesses were not impaired.

The use of the income approach in determining the fair value of our acquired businesses requires that future after-tax cash flows be discounted using a discount rate that reflects a risk adjusted weighted average cost of capital. We determined the fair values of Expos using a discount rate of 17%, and we concluded that no impairment existed. In making that determination, we considered the discount rate, revenue growth opportunities and other potential cost reduction scenarios when reviewing Expos, which we consider to be reasonable based upon the recurring and predictable nature of the revenues for this business and its existing cost structure.

The annual impairment review requires management judgment and the use of estimates and assumptions to determine the fair value of our acquired businesses. Our Expos business is a well-established, mature business, with a recurring customer base, and the Long Beach show, which is the bigger of the two shows that comprise the Expos business, is considered in the industry to be one of the more important coin shows staged on the West Coast of the United States. We develop internal forecasts to estimate the future cash flows, which are based on the current year operating plan and, for future periods, are based on revenue trends. Our revenue forecasts reflect the number of shows to be staged. Larger customer revenues are forecast on a specific basis, and smaller customer revenues are forecast as a group. The incremental costs to be incurred around staging the shows are predictable, as certain of those costs, e.g., the venue costs, are negotiated a number of years in advance of staging the show. We also review the long-term overhead structure of the business based on our expectation of future revenues. For years that extend beyond 2016, we apply a terminal value calculation reflecting the long-term growth prospects of the business which we have estimated at 3%. Operating cash flows generated by the business are reduced by capital expenditures, corporate overhead costs and taxes to reflect the net cash flows of the business on a stand-alone basis. A third party firm assists us in developing the discount rate. They typically present a range of discount rates, and we apply the mid-point rate. We concluded that, at a 2% per annum revenue growth rate and a 17% discount rate, the fair value of the

business was \$2.337 million, compared to a carrying value of the business (including goodwill of \$1.2 million) of \$2.163 million, and therefore there was no impairment. We applied sensitivity analysis to our significant assumptions ranging from revenue growth rates of 0% to 4%, and discount rates ranging from 15% to 19%. The lowest fair value corresponding to a 0% revenue growth and a 19% discount rate was \$1.9 million. Like any forecast, there is uncertainty concerning the future, and our assumptions around certain customer groups activity may prove to be incorrect; however, we believe that, should we be required to recognize an impairment charge in the future, it would reflect a gradual deterioration of the Expos business over time, rather than a sharp decline in a given period.

The fair value of the CCE and CoinFacts reporting units are substantially in excess of their carrying value, and the risks of impairment in those businesses are minor.

**Stock-Based Compensation.** We recognize share-based compensation attributable to service-based equity grants over the service period based on the grant date fair value. For performance-based share grants with a financial performance goal, we begin to recognize compensation expense when it becomes probable that we will achieve the performance financial goal based on the grant date fair value.

**Fiscal 2011 Restricted Stock Awards.** On July 6, 2010, the Compensation Committee of the Board of Directors approved a management incentive compensation program for the fiscal year ending June 30, 2011 (the “2011 Stock Incentive Program”). Under the terms of that program, certain executive officers and management employees (“Participants”) were awarded 80,000 restricted shares. Retention by each Participant of the restricted shares is subject to satisfaction of certain vesting requirements and, if a vesting requirement that applies to any of the shares is not satisfied; those shares will be forfeited and cancelled. The vesting requirements of the 2011 Stock Incentive Program are as follows:

(1) **Service-Based Vesting Requirement.** The vesting of 50% of the restricted shares (the “Service-Based Shares”) awarded is contingent on the Participant’s continued service with the Company; whereby 50% of the Service-Based Shares vest on June 30, 2011 and the remaining 50% vest on June 30, 2012.

(2) **Performance-Based Vesting Requirement.** The vesting of the other fifty percent (50%) of the restricted shares awarded to each of these Participants (the “Performance-Based Shares”) is contingent on the Company’s achievement of a financial performance goal for fiscal 2011. If that goal is not achieved, all of those Performance-Based Shares will be forfeited and cancelled. On the other hand, if the Company achieves that fiscal 2011 financial performance goal, then (i) 50% of the Performance-Based Shares will vest when it is determined that the performance goal was achieved, provided that the Participant is still in the Company’s service at the end of fiscal 2011, (ii) another 25% of the Performance-Based Shares will vest on June 30, 2012, provided the officer is still in the Company’s service at that time, and (iii) the final 25% of the Performance-Based Shares will vest on June 30, 2013, provided the Participant is still in the Company’s service at that time, subject to acceleration of such vesting if a Participant’s service with the Company is terminated without cause or if a change of control occurs.

For the three and nine months ended March 31, 2011, the Company recorded stock-based compensation expense for both the Service-Based Shares and Performance-Based Shares.

**Fiscal 2010 Restricted Stock Awards.** In August 2010, the Compensation Committee of the Board of Directors definitively determined that the Company had achieved the financial performance goal for fiscal 2010, and one-third of the fiscal 2010 performance shares vested. As a result, stock-based compensation on the remaining unvested shares granted will be recognized over the remaining service period through June 30, 2012 dependent on the continued service of the Participant.

**Income Taxes, Deferred Tax Assets And Valuation Allowances.** At June 30, 2010, the Company released the valuation allowances that had been established in prior years against the Company’s deferred tax assets. The Company recognized an estimated annual effective tax rate of approximately 41% in the three and nine months ended March 31, 2011.

Results of Operations for the Three and Nine Months Ended March 31, 2011 Versus the Three and Nine Months Ended March 31, 2010.

The following table sets forth certain financial data, expressed as a percentage of net revenues, derived from our interim Condensed Consolidated Statements of Operations (included earlier in this Report) for the respective periods indicated below:

|  | Three Months Ended<br>March 31, |   |       |    | Nine Months Ended<br>March 31, |    |       |    |
|--|---------------------------------|---|-------|----|--------------------------------|----|-------|----|
|  | 2011                            |   | 2010  |    | 2011                           |    | 2010  |    |
| Net revenues   | 100.0                           | % | 100.0 | %  | 100.0                          | %  | 100.0 | %  |
| Cost of revenues   | 38.3                            | % | 39.0  | %  | 39.1                           | %  | 40.0  | %  |
| Gross profit   | 61.7                            | % | 61.0  | %  | 60.9                           | %  | 60.0  | %  |
| Operating expenses:  |                                 |   |       |    |                                |    |       |    |
| Selling and marketing expenses   | 12.4                            | % | 13.4  | %  | 13.8                           | %  | 13.1  | %  |
| General and administrative expenses  | 23.5                            | % | 24.1  | %  | 26.3                           | %  | 26.9  | %  |
| Total operating expenses   | 35.9                            | % | 37.5  | %  | 40.1                           | %  | 40.0  | %  |
| Operating income   | 25.8                            | % | 23.5  | %  | 20.8                           | %  | 20.0  | %  |
| Interest and other income, net   | 0.3                             | % | 0.3   | %  | 0.3                            | %  | 0.3   | %  |
| Income before provision for income taxes   | 26.1                            | % | 23.8  | %  | 21.1                           | %  | 20.3  | %  |
| Provision for income taxes   | 10.7                            | % | 1.2   | %  | 8.5                            | %  | 0.2   | %  |
| Income from continuing operations  | 15.4                            | % | 22.6  | %  | 12.6                           | %  | 20.1  | %  |
| Net loss from discontinued operations, net of gain on sales of discontinued businesses,<br>net of income taxes | -                               |   | (0.6) | )% | (0.1)                          | )% | (2.2) | )% |
| Net income   | 15.4                            | % | 22.0  | %  | 12.5                           | %  | 17.9  | %  |

#### Net Revenues

Net revenues consist primarily of fees that we generate from the authentication and grading of high-value collectibles, including coins, trading cards, autographs and stamps. To a lesser extent, we generate collectibles related service revenues (referred to as "other related revenues") from sales of collectibles club memberships and advertising on our websites and in printed publications and collectibles price guides; subscription-based revenues primarily related to our CCE dealer-to-dealer Internet bid-ask market for coins authenticated and graded by us and CoinFacts; and fees earned from promoting, managing and operating collectibles conventions. Net revenues also include, to a significantly lesser extent, revenues from the sales of products, which consist primarily of coins that we purchase under our warranty policy. We do not consider such product sales to be an integral part of our ongoing revenue generating activities.

The following tables set forth the total net revenues for the three and nine months ended March 31, 2011 and 2010 between grading and authentication services revenues, other related services revenues and product revenues:

|                                 | 2011                   |                   | 2010    |                   | Increase (Decrease) |         |
|---------------------------------|------------------------|-------------------|---------|-------------------|---------------------|---------|
|                                 | Amount                 | % of Net Revenues | Amount  | % of Net Revenues | Amount              | Percent |
|                                 | (Dollars in thousands) |                   |         |                   |                     |         |
| Grading and authentication fees | \$10,389               | 81.0              | \$8,853 | 82.0              | \$1,536             | 17.4    |
| Other related services          | 2,166                  | 16.9              | 1,908   | 17.7              | 258                 | 13.5    |
| Total service revenues          | 12,555                 | 97.9              | 10,761  | 99.7              | 1,794               | 16.7    |

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|                    |          |       |   |          |       |   |         |       |   |
|--------------------|----------|-------|---|----------|-------|---|---------|-------|---|
| Product revenues   | 263      | 2.1   | % | 29       | 0.3   | % | 234     | 806.9 | % |
| Total net revenues | \$12,818 | 100.0 | % | \$10,790 | 100.0 | % | \$2,028 | 18.8  | % |

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|                                 | 2011     |                   | Nine Months Ended March 31, |                   |                     |         | Increase (Decrease) |         |
|---------------------------------|----------|-------------------|-----------------------------|-------------------|---------------------|---------|---------------------|---------|
|                                 | Amount   | % of Net Revenues | 2010                        |                   | Increase (Decrease) |         | Amount              | Percent |
|                                 |          |                   | Amount                      | % of Net Revenues | Amount              | Percent |                     |         |
|                                 |          |                   | (Dollars in thousands)      |                   |                     |         |                     |         |
| Grading and authentication fees | \$25,969 | 80.7 %            | \$23,848                    | 82.3 %            | \$2,121             | 8.9 %   |                     |         |
| Other related services          | 5,661    | 17.6 %            | 5,072                       | 17.5 %            | 589                 | 11.6 %  |                     |         |
| Total service revenues          | 31,630   | 98.3 %            | 28,920                      | 99.8 %            | 2,710               | 9.4 %   |                     |         |
| Product revenues                | 544      | 1.7 %             | 51                          | 0.2 %             | 493                 | 966.7 % |                     |         |
| Total net revenues              | \$32,174 | 100.0 %           | \$28,971                    | 100.0 %           | \$3,203             | 11.1 %  |                     |         |

The following tables 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 graded and authenticated in the three and nine months ended March 31, 2011 and 2010.

|               | 2011     |                   | 2010     |                   | Three Months Ended March 31, |         |          |          |                     |                 |
|---------------|----------|-------------------|----------|-------------------|------------------------------|---------|----------|----------|---------------------|-----------------|
|               | Amount   | % of Net Revenues | Amount   | % of Net Revenues | 2011 vs. 2010                |         |          |          | Increase (Decrease) |                 |
|               |          |                   |          |                   | Amount                       | Percent | Number   | Percent  | Revenues            | Units Processed |
|               |          |                   |          |                   | (Dollars in thousands)       |         |          |          |                     |                 |
| Coins         | 8,798    | 68.6 %            | 7,252    | 67.2 %            | 1,546                        | 21.3 %  | 95,800   | 19.9 %   |                     |                 |
| Trading cards | 2,614    | 20.4 %            | 2,392    | 22.2 %            | 222                          | 9.3 %   | 22,700   | 7.1 %    |                     |                 |
| Other (1)     | 1,406    | 11.0 %            | 1,146    | 10.6 %            | 260                          | 22.7 %  | (2,000 ) | (41.7 )% |                     |                 |
| Net Revenues  | \$12,818 | 100.0 %           | \$10,790 | 100.0 %           | \$2,028                      | 18.8 %  | 116,500  | 14.5 %   |                     |                 |

|               | 2011     |                   | 2010     |                   | Nine Months Ended March 31, |         |          |          |                     |                 |
|---------------|----------|-------------------|----------|-------------------|-----------------------------|---------|----------|----------|---------------------|-----------------|
|               | Amount   | % of Net Revenues | Amount   | % of Net Revenues | 2011 vs. 2010               |         |          |          | Increase (Decrease) |                 |
|               |          |                   |          |                   | Amount                      | Percent | Number   | Percent  | Revenues            | Units Processed |
|               |          |                   |          |                   | (Dollars in thousands)      |         |          |          |                     |                 |
| Coins         | 21,050   | 65.4 %            | 18,638   | 64.3 %            | 2,412                       | 12.9 %  | 188,400  | 15.2 %   |                     |                 |
| Trading cards | 7,589    | 23.6 %            | 7,262    | 25.1 %            | 327                         | 4.5 %   | 34,300   | 3.6 %    |                     |                 |
| Other (1)     | 3,535    | 11.0 %            | 3,071    | 10.6 %            | 464                         | 15.1 %  | (4,300 ) | (28.9 )% |                     |                 |
| Net Revenues  | \$32,174 | 100.0 %           | \$28,971 | 100.0 %           | \$3,203                     | 11.1 %  | 218,400  | 9.9 %    |                     |                 |

(1) Consists of stamps, CCE subscription business, CFC interest income our Expos convention revenues and coin product sales.

For the three months ended March 31, 2011, our total service revenues increased by \$1,794,000 or 16.7%, compared to the three months ended March 31, 2010 and comprised increases of \$1,536,000 or 17.4%, in grading and authentication fees and \$258,000 or 13.5% in other related services. For the nine months ended March 31, 2011, total service revenues increased by \$2,710,000, or 9.4%, and comprised of increases in grading and authentication fees of \$2,121,000 or 8.9% and \$589,000 or 11.6% in other related services.

The increased grading and authentication fees in both the three and nine-month periods ended March 31, 2011, were primarily attributable to increases in coin authentication and grading fees of \$1,392,000 or 21.0% in the third quarter and \$1,990,000 or 11.7% for the nine months. In addition, revenues from our PSA/DNA autograph authentication and grading business increased by \$299,000 or 52% in the current third quarter and \$491,000 or 27.2% for the current nine months ended March 31, 2011. These increases were partially offset by decreases of \$155,000 and \$360,000 in the three and nine months ended March 31, 2011 in our sportcards and stamp businesses.

The increase in the number of coins graded and authenticated of 20% in the quarter and 15% in the nine months ended March 31, 2011, compared to the increased coin grading and authentication fees of 21% and 11.7% for the same three and nine-month periods of fiscal 2010, reflects the mix of fees earned from shows, vintage, modern coin grading and world coins (including France), in the respective periods. Our modern coin grading and authentication fees increased by approximately \$1,150,000 or 40.5 % for the quarter and approximately \$1,300,000 or 19.3% for the nine months, reflecting marketing programs by the U.S. Mint and by our customers and dealers, in the third quarter, in what is generally our seasonally biggest quarter of the year for modern coin programs. World coin grading and authentication revenues grew by approximately \$500,000 or 206% in the third quarter, and \$820,000 or 117% for the nine months, reflecting increased submission of world coins, including grading at our Paris, France facility. Vintage grading and authentication fees increased by approximately \$100,000 for the quarter, and \$350,000 for the nine months, representing increases of approximately 5% for both periods. Show grading and authentication revenues decreased by approximately \$380,000 or 27% for the third quarter and \$460,000 or 14% for the nine months, reflecting one less show in the current third quarter and lower average grading fees earned per show for the three and nine month periods. As discussed under "Factors That Can Affect our Revenues and Gross Profit Margin," the level of modern coin and trade show revenues can be volatile, and it is therefore uncertain what level of growth in those revenues, if any, will be achieved in future quarters.

The increases in other related services of \$258,000 and \$589,000 in the three and nine months ended March 31, 2011 included increased web-based subscription, advertising revenues, and Collector Club membership revenues, partially offset by a reduction in the revenues of our Expos collectibles convention business.

### 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, occupancy, security and insurance costs that directly relate to providing authentication and grading services. Cost of revenues also includes printing, other direct costs of the revenues generated by our other non-grading related services 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 and nine months ended March 31, 2011 and 2010 (in thousands):

|              | Three Months Ended March 31, |                     |         |                     | Nine Months Ended December 31, |                     |          |                     |
|--------------|------------------------------|---------------------|---------|---------------------|--------------------------------|---------------------|----------|---------------------|
|              | 2011                         |                     | 2010    |                     | 2011                           |                     | 2010     |                     |
|              | Amount                       | Gross Profit Margin | Amount  | Gross Profit Margin | Amounts                        | Gross Profit Margin | Amount   | Gross Profit Margin |
| Gross profit | \$7,911                      | 61.7 %              | \$6,586 | 61.0 %              | \$19,597                       | 60.9 %              | \$17,395 | 60.0 %              |

As indicated in the above table, our gross profit margin increased to 61.7% and 60.9% for the three and nine months ended March 31, 2011, respectively, from 61% and 60% for the three and nine months ended March 31, 2010, respectively. Excluding the effect of product sales in all periods, the adjusted gross profit margin would have been 63.2% in the three months ended March 31, 2011 and 61.7% for the nine months ended March 31, 2011, compared with 61.4% and 60.2%, respectively, for the three and nine months ended March 31, 2010. There can be some variability in the gross profit margin depending upon the mix of revenues in any quarter. In addition, our gross profit margin will typically increase as the number of units graded and authenticated increase due to the relatively fixed nature of certain of our direct costs. The improved gross profit margin earned in the three and nine months ended March 31, 2011, compared to the three and nine months ended March 31, 2010, reflects the higher coin revenues, on which we earn a higher gross profit margin than our other grading and authentication businesses.

## Selling and Marketing Expenses

Selling and marketing expenses include advertising and promotions costs, trade-show related expenses, customer service personnel costs, depreciation and outside services. Set forth below is information regarding our selling and marketing expenses in the three and nine months ended March 31, 2011 and 2010 (in thousands):

|                                | Three Months Ended<br>March 31, |         | Nine Months Ended<br>March 31, |         |
|--------------------------------|---------------------------------|---------|--------------------------------|---------|
|                                | 2011                            | 2010    | 2011                           | 2010    |
| Selling and marketing expenses | \$1,585                         | \$1,449 | \$4,426                        | \$3,785 |
| Percent of net revenue         | 12.4                            | % 13.4  | % 13.8                         | % 13.1  |

The increases of \$136,000 and \$641,000 in selling and marketing expenses in the three and nine months ended March 31, 2011, respectively, compared to the same periods of the prior year were attributable to (i) increased business development costs and incentives of \$133,000 and \$211,000 for the three and nine months ended March 31, 2011, respectively, due to higher revenues in the current year periods; (ii) increased trade show costs of \$221,000 in the nine months ended March 31, 2011, related to conducting five shows in Paris, France. Trade show costs decreased in the third quarter of fiscal 2011 by \$56,000 due to attending one less show and incurring less costs for shows attended in the quarter; (iii) increased costs related to our Paris, France office of \$42,000 in the quarter and \$123,000 for the nine months; and (iv) increased general marketing personnel and other costs of \$17,000 in the quarter and \$86,000 in the nine months ended March 31, 2011 in support of the increased revenues of the business.

## 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, facilities management costs, depreciation, amortization and other miscellaneous expenses (in thousands):

|                                     | Three Months Ended<br>March 31, |         | Nine Months Ended<br>March 31, |         |
|-------------------------------------|---------------------------------|---------|--------------------------------|---------|
|                                     | 2011                            | 2010    | 2011                           | 2010    |
| General and administrative expenses | \$3,013                         | \$2,602 | \$8,469                        | \$7,814 |
| Percent of net revenues             | 23.5                            | % 24.1  | % 26.3                         | % 26.9  |

G&A expenses increased by \$411,000 and \$655,000 in the three and nine months ended March 31, 2011, respectively, compared to the same period of fiscal 2010 and represented 23.5% and 26.3% of revenues in the three and nine months ended March 31, 2011, respectively, compared to 24.1% and 26.9% of revenues in the three and nine months ended March 31, 2010, respectively. The dollar increases included outside consultant services of \$74,000 for the quarter and \$238,000 for the nine months, incurred in connection with the development of a more advanced technology system (designed to enhance our ability to identify counterfeit or altered coins) and certain internal system modifications, increased compensation and incentive costs of \$182,000 for the quarter and \$337,000 for the nine months in support of the growth of the business, and outside legal and compliance services incurred of \$118,000 for the quarter and \$126,000 for the nine months. In addition, non-cash stock-based compensation increased by \$38,000 and \$123,000 in the three and nine months ended March 31, 2011, respectively, related to restricted stock grants to management (see “Stock-Based Compensation below”). These cost increases were partially offset by reduced software amortization and depreciation costs in the three and nine month periods.



## Stock-Based Compensation

As discussed in Note 1, Stock-Based Compensation to the Company's Condensed Consolidated Financial Statements, included elsewhere in this report, the Company recognized stock-based compensation expense in the Condensed Consolidated Statements of Operations (in thousands), as follows:

| Included in:                        | Three Months Ended |       | Nine Months Ended |       |
|-------------------------------------|--------------------|-------|-------------------|-------|
|                                     | March 31,          |       | March 31,         |       |
|                                     | 2011               | 2010  | 2011              | 2010  |
| General and administrative expenses | \$276              | \$238 | \$856             | \$733 |

The increases in stock-based compensation expense of \$38,000 and \$123,000 in the three and nine months ended March 31, 2011 was due to the grant of restricted stock in the first quarters of fiscal 2010 and 2011. The expense associated with the fiscal 2010 grants will be recognized through fiscal year 2012.

The following table sets forth unrecognized compensation cost totaling \$859,000 related to non-vested stock-based awards expected to be recognized through fiscal year 2013 and is inclusive of, and assumes \$234,000 of performance-based stock compensation expense related to the July 2010 stock grants that is required to be recognized. The following amounts and time periods do not reflect the costs or effects of (i) possible grant of additional stock-based compensation awards in the future or (ii) any change that may occur in the Company's forfeiture percentage (in thousands):

| Fiscal Year Ending June 30, | Amount |
|-----------------------------|--------|
| 2011 (remaining 3 months)   | \$ 276 |
| 2012                        | 542    |
| 2013                        | 41     |
|                             | \$ 859 |

See Note 1, "Stock-Based Compensation Expense" for a more detailed description of the restricted stock grants that were awarded in fiscal 2010 and 2011.

## Interest and Other Income, Net:

|                                | Three Months Ended |      | Nine Months Ended |      |
|--------------------------------|--------------------|------|-------------------|------|
|                                | March 31,          |      | March 31,         |      |
|                                | 2011               | 2010 | 2011              | 2010 |
|                                | (In Thousands)     |      |                   |      |
| Interest and Other Income, net | \$36               | \$35 | \$88              | \$87 |

Interest income is generated primarily on cash and cash equivalent balances that we invest primarily in highly liquid money-market accounts. Interest income, net was \$20,000 and \$71,000 in the three and nine months ended March 31, 2011, respectively, compared with \$26,000 and \$51,000 for the same periods of the prior year, respectively.

## Income Tax Expense

|  | Three Months Ended |      | Nine Months Ended |      |
|--|--------------------|------|-------------------|------|
|  | March 31,          |      | March 31,         |      |
|  | 2011               | 2010 | 2011              | 2010 |
|  |                    |      |                   |      |

|                          | (In Thousands) |       |         |      |
|--------------------------|----------------|-------|---------|------|
| Provision for income tax | \$1,381        | \$129 | \$2,735 | \$54 |

The income tax provisions of \$1,381,000 and \$2,735,000 in the three and nine months ended March 31, 2011, respectively, represented an estimated annual effective tax rate of approximately 41% for fiscal 2011, partially offset by an income tax benefit of approximately \$60,000 related to incentive stock options exercised in the second quarter of fiscal 2011. The income provision of \$129,000 and \$54,000 for the three and nine months ended March 31, 2010, respectively, reflected an estimated annual effective rate of 5%, and in the nine months ended March 31, 2010, a federal income tax benefit of \$248,000 related to the suspension of the 90% Alternative Minimum Tax (AMT) limitation for the carryback of net operating losses. The change in the estimated annual effective tax rate between 2011 and 2010, related to the release of valuation allowances against deferred tax assets at June 30, 2011 on the basis that it was more likely than not that the deferred tax assets would be realized in the future.

## Discontinued Operations

|  | Three Months Ended |      | Nine Months Ended |       |
|--|--------------------|------|-------------------|-------|
|  | March 31,          |      | March 31,         |       |
|  | 2011               | 2010 | 2011              | 2010  |
|  | (In Thousands)     |      |                   |       |
| Loss from discontinued operations, net of income taxes | \$-                | \$68 | \$35              | \$629 |

The losses from discontinued operations (net of income taxes) of \$0 (net) and \$35,000 for the three and nine months ended March 31, 2011, respectively, related to (i) accretion expense associated with the Company's ongoing obligations for the New York City facilities, formerly occupied by our discontinued jewelry businesses, net of (ii) license fees of \$42,000, arising from the disposal of the Company's former currency grading and authentication business that became determinable in the three months ended March 31, 2011; and (iii) a reduction in a severance accrual of \$22,000 in the nine months ended March 31, 2011. The losses from discontinued operations, net of income taxes, of \$68,000 and \$629,000 for the three and nine months ended March 31, 2010, were related to \$405,000 associated with additional accruals recorded in the second quarter of fiscal 2010 for the leased facilities in New York City, which we were required to carry at the fair value of the remaining lease obligations. In addition, losses from discontinued operations included interest accretion of \$57,000 and \$175,000 in the three and nine months ended March 31, 2010 and reserves established for assets to be sold. As discussed in our Annual Report on Form 10-K for the year ended June 30, 2010, in May 2010, the Company entered into two agreements to reduce its lease obligations, whereby one lease was sublet to a third party, and the second facility was returned to the landlord, and the lease terminated with only a financial obligation remaining. No income tax benefit was recorded in connection with the losses from discontinued operations in the three and nine months ended March 31, 2010.

## 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 prepay our fees at the time they submit their collectibles to us for authentication and grading.

At March 31, 2011, we had cash and cash equivalents of approximately \$21,259,000, as compared to cash and cash equivalents of \$20,321,000 at June 30, 2010.

## Cash Flows.

**Cash Flows from Continuing Operations.** During the nine months ended March 31, 2011 and 2010, our operating activities from continuing operations generated cash of \$8,187,000 and \$7,397,000, respectively, primarily attributable to the income from operations that we generated during those nine-month periods. The increase in the cash flows from operations in the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, reflects the improved operating results in the current nine month period and the timing of working capital receipts and disbursements in the nine months ended March 31, 2011 that included the payment of annual employee incentives, the purchase of coin and consumable inventories, the payment of other operating vendor balances and the collection of refundable income taxes and account receivable balances.

**Cash Flows of Discontinued Operations.** Discontinued operations used cash of \$487,000 and \$959,000 in the nine months ended March 31, 2011 and 2010, respectively. In the nine months ended March 31, 2011, cash used in discontinued operations primarily related to payments for our ongoing obligations for the New York facilities,

formerly occupied by our jewelry businesses, and the payment of a severance obligation of \$135,000 related to the closure of the jewelry business, net of cash collections from license fee income related to the Company's former currency grading and authentication business. During the nine months ended March 31, 2010, we used approximately \$780,000 to meet the ongoing obligations for the New York facilities, of which, approximately \$85,000 was used to pay severance payments to former employees of the jewelry businesses, and \$60,000 was used to settle a legal claim arising from our discontinued auction businesses.

Cash from or used in Investing Activities. Investing activities used cash of \$193,000 during the nine months ended March 31, 2011, compared with cash generated of \$2,087,000 in the nine months ended March 31, 2010. In the nine months ended March 31, 2011, the payment of \$378,000 for capital expenditures and capitalized software costs were partially offset by cash received of \$89,000 for the sale of property and equipment and the collection of notes receivable of \$96,000 related to the sale of discontinued businesses. In the nine months ended March 31, 2010, cash generated comprised of \$2,355,000 of cash receipts in connection with the repayment of a CFC customer note receivable, \$192,000 of cash receipts related to the sale of discontinued businesses, partially offset by \$460,000 used for the purchase of fixed assets and the purchase price adjustment relating to our Expos acquisition.

Cash used in Financing Activities. In the nine months ended March 31, 2011 and 2010, financing activities used net cash of \$6,569,000 and \$12,623,000, respectively. In the nine months ended March 31, 2011, the Company received cash proceeds of \$871,000 from the exercise of employee and director stock options and used cash of \$7,440,000 to pay our quarterly dividends to stockholders. In the nine months ended March 31, 2010, we used \$8,911,000 to repurchase shares of our common stock pursuant to a "Dutch Auction" tender offer and \$3,712,000 to pay quarterly dividends to stockholders.

#### Outstanding Financial Obligations

Continuing Operations. 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:

| Fiscal Year                  | Gross Amount | Sublease Income | Net      |
|------------------------------|--------------|-----------------|----------|
| 2011(remaining three months) | \$ 271       | \$ 11           | \$ 260   |
| 2012                         | 1,264        | 43              | 1,221    |
| 2013                         | 1,273        | 45              | 1,228    |
| 2014                         | 1,194        | 46              | 1,148    |
| 2015                         | 1,158        | 47              | 1,111    |
| Thereafter                   | 4,280        | 191             | 4,089    |
|                              | \$ 9,440     | \$ 383          | \$ 9,057 |

Discontinued Operations. The following table sets forth our expected remaining minimum base obligations in respect of the two facilities, in New York City, that had formerly been occupied by our discontinued jewelry authentication and grading businesses. Those obligations are scheduled to expire on December 31, 2015 and 2017, respectively.

| Fiscal Year                     | Gross Amount | Sublease Income | Net      |
|---------------------------------|--------------|-----------------|----------|
| 2011(remaining three months)    | \$ 166       | \$ 43           | \$ 123   |
| 2012                            | 675          | 174             | 501      |
| 2013                            | 721          | 181             | 540      |
| 2014                            | 758          | 192             | 566      |
| 2015                            | 794          | 195             | 599      |
| Thereafter                      | 1,350        | 99              | 1,251    |
|                                 | \$ 4,464     | \$ 884          | \$ 3,580 |
| Less: Accrual at March 31, 2011 |              |                 | 3,100    |
|                                 |              |                 | \$ 480   |



The accrual for facility-related obligations at March 31, 2011 includes an estimate of the minimum lease payments of \$3,100,000 and an estimate of the operating expenses related to the leased properties of \$120,000.

With the exception of facility obligations for continuing and discontinued operations, we do not have any material financial obligations, such as long-term debt, capital leases or purchase obligations.

**Dividends.** In the first quarter of fiscal 2011, the Company's quarterly dividend policy was to pay cash dividends of \$0.30 per share per quarter. On October 6, 2010, our Board of Directors approved an increase in the quarterly cash dividend to \$0.325 per share of common stock, for an expected total annual cash dividend of \$1.30 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, 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 stock buyback program that authorized up to \$10,000,000 of stock repurchases in open market or privately negotiated transactions, in accordance with applicable Securities Exchange Commission ("SEC") rules, when opportunities to make such repurchases, at attractive prices, become available. At March 31, 2011, 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 fiscal quarter of 2008.

**Future Uses and Sources of Cash.** We plan to use our cash resources, consisting of available cash and cash equivalent balances, together with internally generated cash flows, (i) to introduce new collectibles related services for our customers; (ii) to fund working capital requirements; (iii) to fund the payment of cash dividends; (iv) to pay the obligations under the two facilities formerly occupied by our discontinued jewelry businesses; and (v) for other general corporate purposes which may include additional repurchases of common stock under our stock buyback program.

Although we have no current plans to do so, we also may seek borrowings or credit facilities and we may issue additional shares of our stock to finance the growth of our collectibles businesses. However, due primarily to the uncertainties about the strength of the economic recovery in the United States, there is no assurance that we would be able to obtain such borrowings or raise additional capital on terms acceptable to us, if at all.

#### Recent Accounting Pronouncements

In January 2010, the FASB issued amended fair value disclosure guidance. The new guidance requires disclosure of transfers in and out of Levels 1 and 2 fair value measurements including a description of the reasons for the transfer where significant and disclosure of activity in Level 3 fair value measurements, including information on a gross basis regarding purchases, sales, issuances and settlements. Amendments to existing guidance were also made regarding classes of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value. The Company will adopt this guidance on July 1, 2011. Management does not expect the adoption of these standards to have any material impact on the Consolidated Financial Statements.

#### ITEM 4T. 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 March 31, 2011, 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 March 31, 2011, 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 March 31, 2011, 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 are 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, 2010 that we filed with the SEC on September 8, 2010.

ITEM 6.

EXHIBITS

|                 |  |
|-----------------|--|
| Exhibit<br>31.1 | Certification of Chief Executive Officer Under Section 302 of the Sarbanes-Oxley Act of 2002 |
|-----------------|--|

|                 |  |
|-----------------|--|
| Exhibit<br>31.2 | Certification of Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act of 2002 |
|-----------------|--|

|                 |  |
|-----------------|--|
| Exhibit<br>32.1 | Certification of Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002 |
|-----------------|--|

|                 |   |
|-----------------|---|
| Exhibit<br>32.2 | Certification of Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002. |
|-----------------|---|

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: May 9, 2011

By: /s/ MICHAEL J. MCCONNELL

Michael J. McConnell

Chief Executive Officer

COLLECTORS UNIVERSE,  
INC.

Date: May 9, 2011

By: /s/ JOSEPH J. WALLACE

Joseph J. Wallace

Chief Financial Officer

INDEX TO EXHIBITS

Number Description

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32.1 Certification of Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002

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