



FORM 10-K

COLLECTORS UNIVERSE INC – CLCT

Filed: September 13, 2005 (period: June 30, 2005)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark
One)

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

For the fiscal year ended June 30, 2005

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 0-27887



COLLECTORS UNIVERSE
THE COLLECTIBLES COMPANY™

COLLECTORS UNIVERSE, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
Incorporation or organization)

1921 E. Alton Avenue, Santa Ana, California

(Address of principal executive offices)

33-0846191

(I.R.S. Employer Identification No.)

92705

(Zip Code)

(949) 567-1234

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$.001 per share

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 [X] NO []

Indicate, by check mark, if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Securities Exchange Act Rule 12b-2). YES NO []

Indicate by check mark whether the Registrant is a shell company (as defined in Securities Exchange Act Rule 12b-2). YES [] NO

As of December 31, 2004, the aggregate market value of the Common Stock held by non-affiliates was approximately \$84,462,000, based on the per share closing price of \$20.43 of Registrant's Common Stock as of such date as reported by the Nasdaq Stock Market.

As of September 9, 2005, a total of 8,611,000 shares of Registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Except as otherwise stated therein, Items 10, 11, 12, 13 and 14 in Part III of the Form 10-K are incorporated by reference from Registrant's Definitive Proxy Statement, for its

Annual Meeting which is expected to be filed with the Securities and Exchange Commission on or before October 26, 2005, for its Annual Meeting of Stockholders to be held on December 5, 2005.

COLLECTORS UNIVERSE, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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FORWARD-LOOKING STATEMENTS

Statements contained in this Report that are not historical facts or that discuss our expectations or beliefs regarding our future operations or future financial performance, or financial or other trends in our business, constitute “forward-looking statements” as defined in the Private Securities Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Often, such statements 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”. Forward looking statements are estimates or predictions about the future that are based on current information and are subject to a number of risks and uncertainties that could cause our financial condition or operating results in the future to differ significantly from those expected at the current time, as described in the forward-looking statements that are contained in this Report. Those risks and uncertainties are described in Part I below under the caption “Factors that Could Affect Our Future Financial Performance” and in Part II under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Accordingly, readers of this Report are urged to read the cautionary statements contained in those Sections of this Report.

Due to these uncertainties and risks, readers are cautioned not to place undue reliance on forward-looking statements contained in this Report, which speak only as of the date of this Annual Report and which are based on current information or factual assumptions that are subject to change for a number of reasons, including those set forth in the Section of this Report entitled “Certain Factors that Could Affect Our Future Financial Performance” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

Overview

We are a leading provider of value-added authentication, grading and information services to dealers and collectors of high-value coins, sports cards, autographs and stamps and vintage U.S. currency notes. These collectibles have market values generally ranging from \$200 to over \$1 million, due principally to their rarity, age or association with famous individuals or historical events. The authenticity and the state of preservation, or quality, of these collectibles are also important determinants of their value in the collectibles markets. For that reason, dealers and collectors submit their high-value collectibles to us for:

- a certification by our independent experts of their authenticity; that is, confirmation that the collectibles are real and are what they have been represented to be; and
- an evaluation of their physical condition and appearance and the assignment of a grade by our independent experts on the basis of uniform quality standards.

Once we have authenticated and assigned a grade to a collectible, we encapsulate it in a tamper-evident, clear plastic holder, or issue a certificate of authenticity, that (i) identifies the specific collectible, (ii) sets forth the quality grade we have assigned to it and (iii) bears one of our brand names and logos: “PCGS” for coins, “PSA” for sports cards, “PSA/DNA” for autographs, “PSE” for stamps and “PCGS Currency” for U.S. vintage currency notes¹. Additionally, we warrant our certification of authenticity and the grade that we assign to the coins and sports cards that we authenticate and grade, and we have recently begun offering warranties with respect to our determinations of authenticity and our assignment of quality grades to stamps.

We believe that our authentication and grading services increase the liquidity and marketability and, therefore, add to the value, of these collectibles. Our services provide dealers and collectors with (i) the confidence of knowing that the collectibles they are buying or selling are authentic, and (ii) information, in the form of objective

¹ *Collectors Universe, PCGS Professional Sports Authenticator and PSA/DNA, Set Registry, CU3000 and First Strike, and each of the logos associated with those names, are registered service or trade marks of the Company.*

and uniform measures of quality, that enable dealers and collectors to assess the value of those collectibles. Armed with this information, a prospective buyer who might otherwise be reluctant to purchase a high priced collectible is more confident and more willing to make the purchase, particularly “sight–unseen,” on internet auction sites such as those operated by eBay. We also believe that collectibles dealers who sell collectibles that have been authenticated and graded by us are more readily able to sell, and are more likely to obtain higher prices for those collectibles, than if the collectibles had not been authenticated and graded by us.

We originated the standards and methodologies we use for authenticating and grading coins, sportscards, autographs, stamps and currency. Those standards and methodologies have become generally accepted in the collectible coin, sportscards and autograph markets. Since we are the only company to have launched an independent third party stamp grading service, and the concept of stamp grading is relatively novel, our stamp grading standards have not yet become generally accepted; however, we believe that these standards have been gaining wider acceptance in that market.

We also have developed some of the leading brands in the collectibles markets in which we conduct our business:

- “PCGS” (Professional Coin Grading Service), which is the brand name for our independent coin authentication and grading service;
- “PSA” (Professional Sports Authenticator), which is the brand name for our independent sportscard authentication and grading service;
- “PSA/DNA” (PSA/DNA Authentication Services), which is the brand name for our independent authentication and grading service for vintage autographs;
- “PSE” (Professional Stamp Experts), which is the brand name for our independent stamp authentication and grading service; and
- “PCGS Currency” the brand name for our recently inaugurated currency authentication and grading service.

PCGS and PSA are among the leading independent authentication and grading services in the collectible coin and sportscard markets in the United States. PSA/DNA and PSE also are among the leading independent authentication services and, to our knowledge, provide the only independent grading services, in their respective markets. Currency authentication and grading are new to the currency market and PCGS Currency began offering its authentication and grading services in the third quarter of fiscal 2005 and began receiving authentication and grading submissions in the fourth quarter of fiscal 2005.

We began offering our PCGS coin authentication and grading services in 1986 and, from inception through the fiscal year ended June 30, 2005, we had authenticated and graded more than 11 million coins. In 1991, we launched our PSA sportscard authentication and grading service and, through June 30, 2005, had authenticated and graded over 8 million sportscards. In 1999, we launched our PSA/DNA vintage autograph authentication business and in June 2004 we extended that business by introducing vintage autograph grading services to dealers and collectors of autographed sports memorabilia. We started our PSE stamp authentication and grading service in 2000.

The following table provides information regarding the respective numbers of coins, sportscards, autographs and stamps that we authenticated or graded from 2003 to 2005 and the number of currency notes that we graded since the inception of our currency authentication and grading service in the third quarter of fiscal 2005.

	Units Authenticated or Graded					
	Fiscal Year Ended June 30,					
	2005		2004		2003	
Coins	1,670,000	58%	1,241,000	53%	917,000	46%
Sportscards	1,084,000	38%	998,000	43%	1,058,000	53%
Autographs	77,000	3%	68,000	3%	15,000	1%
Stamps	26,000	1%	16,000	1%	12,000	0%
Currency	<u>3,000</u>	—	<u>—</u>	—	<u>—</u>	—
Total	<u>2,860,000</u>	<u>100%</u>	<u>2,323,000</u>	<u>100%</u>	<u>2,002,000</u>	<u>100%</u>

	Declared Values (000)					
	Fiscal Year Ended June 30,					
	2005		2004		2003	
Coins	\$ 1,191,000	91%	\$ 993,000	90%	\$ 769,000	90%
Sportscards	66,000	5%	67,000	6%	72,000	8%
Autographs	26,000	2%	31,000	3%	7,000	1%
Stamps	17,000	1%	10,000	1%	8,000	1%
Currency	<u>8,000</u>	<u>1%</u>	<u>—</u>	—	<u>—</u>	—
Total	<u>\$ 1,308,000</u>	<u>100%</u>	<u>\$ 1,101,000</u>	<u>100%</u>	<u>\$ 856,000</u>	<u>100%</u>

We generate revenues principally from our authentication and grading service fees. Those fees range from \$6 to as much as \$200 per collectible authenticated and graded, based primarily on the type of collectible authenticated or graded and the turn-around times selected by our customers, which range from 1 to approximately 60 days. In fiscal 2005, our authentication and grading fees averaged \$11. As a general rule, collectibles dealers and, to a lesser extent, individual collectors, request faster turn-around times and, therefore, generally pay higher fees for more valuable, older or “vintage” collectibles, than they do for modern collectibles.

We also generate revenues, to a lesser extent, from sales of (i) advertising on our websites; (ii) our printed publications and price guides and advertising placed in such publications; and (iii) our rarity or “population” reports that contain data regarding the total number of coins and sportscards we have graded since our inception, categorized by item type and grade determination. We believe that our printed publications, price guides and reports make collectors better informed consumers and make collecting more interesting and exciting for them.

Industry Background

The primary determinants of the prices of, and the willingness of dealers and collectors to purchase, high-value or high priced collectibles or other high-value assets are their authenticity and quality. The authenticity of a collectible relates not only to the genuineness of the collectible, but also to the absence of any alterations or repairs that may have been made to hide damage or to restore the item. The quality of a collectible relates to its state of preservation relative to its original state of manufacture or creation. With regard to value, confirmation of authenticity generally is required before a buyer is willing to proceed with a purchase of a high priced collectible. Quality directly affects value and price, usually on an exponential basis, with higher quality collectibles generally attracting dramatically higher prices than lower quality collectibles. Even a relatively modest difference in quality can translate into a significant difference in perceived value and, therefore, in price. For example, a 1952 Mickey Mantle baseball card that received a PSA grade from us of 10 on our PSA grading scale of 1-to-10 was sold in 2001 for \$275,000. By comparison, a similar 1952 Mickey Mantle baseball card that received a PSA grade of 8 was sold in 2004 for \$62,338.

Until the advent of independent third party authentication and grading, most prospective buyers, including experienced collectibles dealers, insisted on physically examining high priced collectibles before consummating transactions. However, unlike professional dealers, most collectors lacked the experience and knowledge needed to determine, with confidence, the authenticity or the quality, and hence the value, of high priced collectibles, even when they had the opportunity to examine them physically. As a result, collectors had to rely on representations

made by sellers regarding authenticity and quality. For these reasons, “buyer beware” characterized the high–value collectibles markets, and “sight–unseen” markets for rare coins and other high–value collectibles were practically non–existent.

Dealers and collectors traditionally marketed high–value collectibles by means of direct mail, catalogues, price lists and advertisements in trade publications, and sold and purchased them at collectibles shows, auction houses and local dealer shops. These markets were highly inefficient because:

- they were fragmented and localized, which limited both the variety of available collectibles and the number of potential buyers;
- transaction costs were often relatively high due to the number of intermediaries involved;
- buyers usually lacked the information needed to determine the authenticity and quality and, hence the value, of the collectibles being sold; and
- buyers and sellers were vulnerable to fraudulent practices because they had to rely on the dealers of high–value collectibles for opinions or representations as to authenticity and quality.

Coin Market. In an effort to overcome some of these inefficiencies, approximately 30 years ago, professional coin dealers began using a numerical grading scale for grading coins. That scale ranged from 1 to 70, with higher numbers denoting a higher quality. Previously, professional dealers used descriptive terms, such as “Fair,” “Fine” and “Uncirculated,” to characterize the quality of the coins they sold, a practice that continued after the development of the numeric grading system. However, whether using a numeric or a descriptive system, grading standards varied significantly from dealer to dealer, depending on a dealer's subjective criteria of quality. Moreover, dealers were hardly disinterested or independent since, as the sellers or buyers of the coins they were grading, they stood to benefit financially from the assignment of a particular grade.

Sportscard Market. Misrepresentations of authenticity and quality also operated as a barrier to the liquidity and growth of the collectibles market for sportscards. Even experienced and knowledgeable dealers insisted on physically examining purportedly rare and higher priced sportscards. Most collectors lacked the knowledge needed to purchase collectible sportscards with confidence, even when they had physically examined them. Sportscard dealers eventually developed a rudimentary adjectival system to provide measures of quality, using descriptive terms such as “Poor,” “Very Good,” “Mint” and “Gem Mint.” These measures of quality were assigned on the basis of such characteristics as the centering of the image on the card and the presence or absence of bent or damaged corners, scratches and color imperfections. However, as was the case with coins, grading standards varied significantly from dealer to dealer, depending on a dealer's subjective criteria of quality. Additionally, since the dealers who bought and sold sportscards were the ones that assigned these grades, collectors remained vulnerable to fraudulent practices.

Autographed Memorabilia Market. The market for autographed sports, entertainment and historical memorabilia has been plagued by a high incidence of forgeries and misrepresentations of authenticity. For example, Operation Bullpen, initiated by the FBI and other law enforcement agencies beginning in 1997, has uncovered a high volume of outright forgeries of signatures and widespread misrepresentations as to the genuineness of sports memorabilia. We believe that the high incidence of such fraudulent activities was due, in large part, to a dearth of independent third party memorabilia authentication services and an absence of systematic methodologies and specimen data needed for verification of authenticity.

Stamp Market. Stamp dealers developed an adjectival system, similar to the one developed for sportscards, by which they valued and priced stamps based primarily on the centering of the stamp image on the stamp paper background, ignoring other faults in the stamp. As a result, experienced and knowledgeable dealers insisted on physically examining purportedly rare and higher priced stamps before purchasing them. Additionally, most collectors lacked the knowledge and experience needed to purchase higher priced stamps with confidence. Consequently, as was the case with coins and sportscards, collectors were forced to depend on representations of authenticity and quality from the very dealers from whom they purchased or to whom they sold stamps.

Currency Market. While the market for third–party currency grading is not new, none of the entrants in the past have been particularly successful, and the currency market has not developed substantial demand for these services. The only established grading services with market presence prior to the beginning of 2005 were not

independent third-party grading services, as they are operated and owned by currency dealers who also buy and sell the currency that they grade, thereby creating potential conflicts of interest, much as we have seen in some of our other markets.

These conditions in our collectibles markets created a need and the demand for independent authentication and grading services from which dealers and collectors could obtain:

- determinations, from independent, third party experts, of the authenticity of the high-value collectibles that dealers and collectors purchased, particularly “sight-unseen”;
- representations of quality based on uniform standards applied by independent, third party experts; and
- authoritative information, compiled by a credible third party, to help collectors understand the factors that affect a collectible's perceived value and price, including:
 - its rarity;
 - its quality or grade; and
 - its historical and recent selling prices.

The Impact of eBay on the Collectibles Markets. The advent of the internet and, in particular, eBay's development of an internet or “virtual” marketplace, have overcome many of the inefficiencies that had characterized the traditional collectibles markets. eBay's online marketplace (i) offers enhanced interaction between and greater convenience for sellers and buyers of high-value collectibles; (ii) eliminates the involvement of dealers and other “middlemen;” (iii) reduces transaction costs; (iv) allows trading at all hours; and (v) provides continually updated information. However, internet commerce still raises, and has even heightened, concerns about the authenticity and quality of the collectibles that are listed for sale on the internet. Buyers have no ability to physically examine those collectibles and no means to confirm the identity or the credibility of the dealers or sellers who sell purportedly high-value collectibles on the internet. As a result, we believe that the growth of internet collectibles markets, such as eBay's, has increased awareness of the importance of, and the demand for, independent third party authentication and grading services of the type we provide. Our services enable collectors to use the internet to purchase collectibles “sight-unseen,” with the confidence of knowing that those collectibles are authentic and are of the quality represented by sellers. The importance and value of our services to collectors, we believe, are demonstrated by eBay's inclusion, on its collectibles websites, of information that identifies, and encourages visitors to use, our independent third party authentication and grading services, as well as similar services offered by some of our competitors.

Our Services

PCGS Coin Authentication and Grading Services. Recognizing the need for third party authentication and grading services, we launched Professional Coin Grading Service in 1986. PCGS employs expert coin graders, who are independent of coin buyers and sellers, to provide impartial authentication and grading services. Currently, we employ 16 experts who have an average of 27 years of experience in the collectible coin market, in most cases initially as dealers and later as authenticators and graders. We also established uniform standards of quality measured against an actual “benchmark” set of coins kept at our offices. We place each coin that we authenticate and grade in a tamper-evident, clear plastic holder that bears our logo, so that any prospective buyer will know that it is a PCGS authenticated and graded coin. We also provide a warranty as to the accuracy of our coin authentication and grading.

By providing an independent assessment by coin experts of the authenticity and quality of coins, we believe that PCGS has increased the liquidity of the trading market for collectible coins. Following the introduction of our independent, third party authentication and grading service, buyer confidence, even between dealers, increased to such a degree that coins authenticated and graded by PCGS were able to be traded “sight-unseen.” As a result, PCGS facilitated the development, in 1990, of a dealer market, known as the “Certified Coin Exchange,” on which coin dealers traded rare coins “sight-unseen,” over a private satellite network, which now operates on the internet. In addition, we began to provide a range of authoritative content on coin collecting to inform and communicate with the collector community, including guides and reports that track the trading prices and the rarity of PCGS-graded coins.

More recently, our coin authentication and grading services have facilitated the development of a growing internet or “virtual” marketplace for collectible coins. A prospective buyer, who might otherwise be reluctant to purchase a high priced coin listed on the internet, is able to rely on a PCGS certification in deciding whether or not to bid and in determining the amount to offer for the coin. As a result, to enhance the marketability of higher priced coins, many sellers submit their coins to PCGS for authentication and grading. That enables the sellers to include, in their internet sales listings, digital images of the coins in their tamper-evident, clear plastic holders, which identify the coins as having been authenticated and graded by PCGS as well as their PCGS-assigned grades.

PSA Sportscard Authentication and Grading Services. Leveraging the credibility and using the methodologies that we had established with PCGS in the coin market, in 1991 we launched Professional Sports Authenticator (PSA), which instituted a similar authentication and grading system for sportscards. Our independent sportscard experts certify the authenticity of and assign a grade to sportscards using a numeric system with a scale from 1-to-10 that we developed, together with an adjectival system to describe their condition. Currently, we employ 13 experts who have an average of 21 years of experience in the collectible sportscard market. We believe that our authentication and grading services have removed barriers that were created by the historical seller-biased grading process and, thereby, have improved the overall marketability of and facilitated commerce in sportscards, including over the internet and at telephonic sports memorabilia auctions.

PSA/DNA Autograph Authentication and Grading Services. In 1999, we launched our vintage autograph authentication business, initially offering authentication services for “vintage” sports autographs and memorabilia that were autographed or signed prior to the time they were presented to us for authentication. The vintage autograph authentication business is distinctly different from the “signed-in-the-presence” authentication of autographs where the “authenticator” is present and witnesses the actual signing. Vintage autograph authentication involves the rendering of an opinion of authenticity by a handwriting expert based on (i) an analysis of the signed object, such as the signed document or autographed item of memorabilia, to confirm that its age and material composition are consistent with similar materials or items that existed during the signer's lifetime; (ii) a comparison of the signature submitted for authentication with exemplars; and (iii) a handwriting analysis. We currently employ 2 autograph experts with an average of 19 years of experience in the autograph memorabilia market.

In June 2004, we also began offering grading services for vintage sports autographs and vintage signed sports memorabilia, beginning with baseballs containing a single signature or autograph. We use uniform grading standards that we have developed and a numeric scale of 1-to-10, with the highest number representing “Mint” condition or perfect quality. We assign two grades to the collectible: one based on the physical condition or state of preservation and legibility of the autograph and the other based on the physical condition of the autographed item of memorabilia. Autograph grading is in its infancy and we cannot predict whether it will gain market acceptance. However, if we find that there is a demand for such services, we intend to extend our grading services to include autographed historical and entertainment memorabilia.

PSE Stamp Authentication and Grading Services. In January 2000, we launched our Professional Stamp Experts (PSE) as an independent, third party stamp authentication and grading service. We use both an adjectival system and a numeric scale from 1-to-100 to grade stamps. We assign grades based on the centering of the stamp image on the stamp paper background and the absence or presence of other faults on the stamp. There have been viable third party stamp authentication services in operation for several decades, and stamp dealers and collectors had been using a subjective grading system based primarily on the centering of the stamp image on the stamp paper background, ignoring other faults. However, prior to our entry into the stamp market, independent third party stamp grading was non-existent. As a result, we have encountered some resistance to this concept in the stamp collectibles market, which is steeped in tradition and slow to change, as we did from coin dealers when we launched PCGS and from sportscard dealers when we launched PSA. We believe, however, that the grading of stamps can potentially gain, albeit gradually, increased market acceptance. Currently, we employ four stamp graders who have an average of 36 years of experience in the collectible stamp market.

Vintage U.S. Paper Currency Authentication and Grading. In the third quarter of fiscal 2005, we began marketing a U.S. paper currency authentication and grading service, which we decided to brand as “PCGS Currency” because many of the dealers of currency notes are familiar with and have used PCGS' coin authentication and grading service. We have employed one currency expert and engaged the services of other currency grading experts for this business and began generating revenues in the fourth quarter of fiscal 2005.

Publications and Advertising. We publish authoritative price guides, rarity reports and other collectibles data to provide collectors with information that makes them better informed consumers and makes collecting more interesting and exciting. Our publications also enable us to market our services, create increased brand awareness and to generate advertising revenues. Our publications include the *Sports Market Report*, which we publish on a monthly basis primarily for distribution to approximately 6,500 PSA Collectors Club members, and the *Stamp Market Quarterly*, which we publish for distribution to approximately 2,500 stamp dealers and collectors. We sell advertising to dealers and vendors for placement in our publications. In addition, we manage a Collectors Universe website and individual websites for four of our authentication and grading services. On those websites, we offer collectible content, some of which is available for a fee and some of which is available without charge. On a combined basis, our PCGS, PSA, PSA/DNA and PSE websites attracted, on average, approximately 167,000 and 154,000 unique visitors per week during the fiscal years ended June 30, 2005 and 2004, respectively. As a result of the increasing number of collectors visiting our websites, during the year ended June 30, 2005, we began selling advertising on our websites to dealers and other vendors that serve the collectibles markets. Such on-line advertising generated approximately \$400,000 in revenues in 2005.

Our Mission

Our mission is to provide the finest available authentication and grading services to sellers and buyers of high-value collectibles and other high-value assets in order to:

- increase the values and liquidity of the high-value collectibles and other high-value assets;
- enable and facilitate transactions in high-value collectibles and other high-value assets;
- generally enhance interest, activity and trading in high-value collectibles and other high-value assets; and
- achieve profitable growth, build long-term value for our stockholders and provide rewarding opportunities for our employees.

Our Growth Strategy

Our growth strategies include:

- Leveraging the strong brand awareness that we have achieved in our existing markets:
 - to increase the demand for and use of our services not only by dealers, but also by collectors, only a relatively small percentage of whom use independent authentication or grading services; and
 - to introduce new value-added services to customers in our existing collectibles markets.
- Identifying and entering other high-value collectibles or high-value asset markets where we believe we can succeed in building and meeting the demand among dealers, sellers and buyers for independent, third party authentication and grading services.

We are pursuing the following strategic initiatives in order to achieve these growth objectives:

Increasing the Demand for our Services. We have established leading brands in our existing collectibles markets, including PCGS, PSA, PSA/DNA and PSE. We intend to use those brands, as well as our new PCGS Currency brand, to promote Collectors Universe as the premier provider of authentication and grading services in the high-value collectibles markets in order (i) to increase our market share among existing users of authentication and grading services and (ii) to increase the use of our services by the numerous collectors that do not currently use any independent third party authentication or grading services.

Although we have authenticated and graded over 11 million coins since the inception of PCGS and over 8 million sportscards since the inception of PSA, we estimate that less than 10% of the vintage United States coins and vintage sportscards have been authenticated and graded. According to recent data available on eBay's websites, the number of coins being sold at any one time on eBay generally ranges from approximately 150,000 to 180,000, of which only approximately 15% are authenticated and graded by a third party authentication and grading service, such as ours. Similarly, the number of sportscards being sold at any one time on eBay generally ranges from

approximately 250,000 to 300,000, of which only about 10% are independently authenticated and graded. Additionally, we are not aware of any other companies that offer grading services for autographs or stamps and we estimate that we have authenticated and graded less than 1% of the potential market of autographs and stamps in the United States. Also, new collectibles are introduced each year into the markets in which we operate, some of which are authenticated and graded in the year of manufacture. Over time, these collectibles will increase the supply of vintage items that are sold by dealers and collectors and, therefore, that will be submitted for independent third party authentication and grading.

To take advantage of these market opportunities, we have:

- enhanced our marketing programs to promote our brands and services directly to internet and other auction-related businesses. These programs emphasize the benefits of using our services, including increased marketability and the prospect of higher bids for collectibles.
- initiated joint marketing programs with collectibles dealers that are designed to make their customers aware of the availability and benefits of our authentication and grading services.
- established authorized PCGS and PSA dealer networks to increase the visibility of our brands and the use of our services by those dealers and their customers.
- developed and expanded our Set RegistrySM programs to increase demand for our collectible coin, sportscard and stamp authentication and grading services among collectors and to increase traffic on our websites.
- increased the promotion of our Collectors Clubs to attract and to provide incentives for collectors to use our services.

Introducing New Services in our Existing Markets. Using the brand recognition we have established in the markets we serve, we intend to create and promote new services and expand recently introduced services in our existing markets. These services include:

- *Collectors Universe Invitationals.* Since 2001, we have been holding special “invitation-only” events for our authorized PCGS and PSA dealers. At those events, dealers have the opportunity to meet and engage in collectibles trading with other invited dealers. To facilitate collectibles trading at these events, we offer same day, on-site authentication and grading services, enabling the dealers to complete their transactions while at the invitationals. In fiscal 2005, we held nine dealer invitationals.
- *Sales of Website Advertising.* During the quarter ended September 30, 2004, we began selling advertising on our websites to collectibles dealers and auctioneers in the markets in which we offer our branded authentication and grading services. Due to the increasing number of visitors to our websites, we are able to offer those dealers and auctioneers the opportunity to market their products and services to an increased number of prospective customers. In July 2005, the Company acquired substantially all the assets of Coinfacts.com, Inc., which operates an internet website on which it publishes detailed proprietary information and history on rare U.S. Coins. Integration of the Coinfacts website onto the Company's PCGS website will add significantly to the number of advertising pages that will be contributing revenues in the very near term.
- *Dealer Financing Program.* We initiated a dealer finance program beginning in the fourth quarter of 2005. Under that program, we offer short-term loans to established collectibles dealers that use our authentication and grading services. The loans, which are collateralized by collectibles that dealers submit to us for authentication and grading, are intended to provide those dealers with working capital during the authentication and grading process. We believe these loans will provide an incentive to dealers to submit additional collectibles to us for authentication and grading, and will generate interest income for us.

- *Autograph Grading Services.* In June 2004, we launched autograph grading services, beginning with single signed baseballs (patent pending). Our autograph grading service is intended to meet existing and create additional demand for differentiation in the quality, and thus in the value, of autographed memorabilia. Our grading is based primarily on sharpness, intensity, readability and clarity of autographs. It is our intention to expand this grading service to other autographed sports memorabilia and then to historical and entertainment autographs, if we find that there is a demand for our signed baseball grading services.
- *Expansion of Website Information Services.* We have been expanding the information available on our websites, including the addition of: (i) historical coin auction prices; (ii) reproductions of historical reference books; and (iii) the contents of famous coin, sportscard and stamp collections. These services are designed to attract new collectors, increase the number of visitors to our websites and increase advertising revenues. During the year ended June 30, 2005, on a combined basis our five websites attracted, on average, over 167,000 visitors per week, as compared to 154,000 in the same period of the prior fiscal year.
- *Photography Services.* We now offer digital photography for collectibles that are submitted to us for authentication and grading. The digital images can be used by dealers for recordkeeping purposes and by both dealers and collectors when listing collectibles on internet auction sites, such as eBay. We believe that we are able to offer digital photography services more efficiently than other service providers, because we will be able to easily incorporate this service as part of our authentication and grading processes.
- *eBay Promotional Programs.* Leveraging our expertise and reputation as a leading independent third party authenticator and grader of high-value collectibles, we work with eBay to create programs designed to increase the marketability of collectibles on its auction websites and, at the same time, promote our authentication and grading services. We now offer a fee-based "Quick Opinion" autograph authentication service to visitors on eBay's sports memorabilia auction website. Our autograph experts render an authenticity opinion based on an examination of the digital image of the autograph posted on eBay. We also have included, at eBay's request, information about the benefits of our authentication and grading services on our websites, to which eBay has placed links on its collectibles websites in order to make that information readily accessible to its users.
- *First Strikes™ Program.* Every calendar year, the U.S. Mint produces new dies with the new year engraved on the die for minting the coins of that year, including the gold and silver bullion coins. In the third quarter of fiscal 2005, PCGS introduced a new program designed to generate submissions of these coins to us for authentication and grading with a special "First Strike" designation. This program was launched based on our belief that the marketplace would prefer coins struck early in the life of the die so that the details of the coin would be very sharp, provided that there was independent evidence of an early strike. To provide assurance to the marketplace of these early strikes, we required that coins for *First Strike* designation be submitted in January of the year as struck on the coin or otherwise be provided to us in their original, date-stamped, Mint-sealed containers. With such evidence, we would then encapsulate the coins in our tamper-evident, clear plastic holders with an imprint on the descriptive label designating the coins as *First Strike* coins. We inaugurated our *First Strike* program in January 2005 for U.S. Gold and Silver Eagle bullion coins.
- *Set Registry KioskSM Program.* The kiosk program places an attractive graphic and Internet link on a participating commercial dealer or auctioneer website that connects the customers to our popular and free Set Registry program. The Set Registry program provides for customers to register their partial or complete collection and compete on a worldwide basis for top ranking of the type of collection, while requiring that all items registered be certified for authenticity and quality by the appropriate division of our Company. (See Marketing– Pull Strategy– Set Registry Programs). Until the launch of the kiosk program, Set Registry participants must have registered on the PCGS website directly. We believe that by obtaining the participation, promotion and support of the commercial dealers and auctioneers through their respective websites, we will increase the exposure of Set Registry to the collecting community.

- *Certified Coin Exchange.* In September 2005, the company acquired Certified Coin Exchange (CCE) www.certifiedcoinexchange.com, a dealer-to-dealer Internet-based, bid-ask system for certified coins. This system and its predecessors have been in continuous operation since the 1960's. The CCE has approximately 400 dealer-members paying a fixed monthly fee with two access levels, the full access level supporting approximately 125 dealer-members paying \$295 per month and allowed to post bid and ask prices for certified coins, including PCGS coins, and an associate access level supporting approximately 275 dealer-members paying \$139 per month and allowed to view the pricing information. The CCE now supports approximately 100,000 bid-ask prices. In addition, there is an open segment of the website called "Collectors Corner" where dealer-members can post offerings at retail prices, with approximately 11,000 items now being listed. We believe that the CCE system will allow us to better take advantage of and monetize our data base of supply-demand information and to provide a platform for extending the CCE concept into other markets served by the Company.

Entering Other Collectibles and High-Value Asset Markets. There are additional high-value collectibles and high-value assets with respect to which marketability and value depend primarily on their authenticity and state of preservation or quality. We believe that the growth of some of these markets has been hampered by the absence or limited availability of independent authentication and grading services. It is our intention to expand our business into one or more of those markets. Markets that we are considering for possible expansion include:

Antique silver	Estate jewelry
Colored gemstones	Musical instruments
Comic books	Political memorabilia
Diamonds	Postcards
Entertainment memorabilia	Rare books

We intend to consider the following criteria in selecting markets for future expansion:

- *Market Size.* The size of the target market, measured both in terms of the volume and the value of the collectibles or high-value assets that trade in the market.
- *Trading Prices.* The prices at which collectibles or other high-value assets trade in the target market, because we have found that the more valuable the collectible or asset, the greater is the demand for authentication and grading services.
- *Competitive Environment.* The presence or absence of existing independent authentication and grading services in the target market, its capacity for new entrants and the satisfaction of dealers and collectors with the services offered by existing providers.
- *Availability of Experts.* The availability of experts needed to succeed in entering a target market.
- *Means of Entry.* The benefits and costs of entry by means of an opportunistic acquisition, if possible, as opposed to starting a new authentication and grading service that would require the development of a new brand. Most of the markets we are targeting have no existing authentication and grading services, and in those cases, as opposed to starting a new business, we may acquire a business with experts who trade the products in the market, then convert the acquired business to authentication and grading services while ceasing the trading operations.

The largest of these currently targeted markets are the diamond and colored gemstone markets. According to the Rapaport Group, an independent research firm to the diamond, gem and jewelry industry, in 2003 approximately 18 million carats of polished diamonds, valued in excess of \$10 billion, were imported into the United States. Currently there are four companies of significant size that provide third party authentication and grading services in the diamond market, and two in the colored gemstone market, as well as a few smaller, mostly more recently established, companies that provide various authentication and grading services in those markets. Other large markets include estate and pre-owned jewelry and entertainment memorabilia, such as Hollywood props, scripts and wardrobes. According to data available from eBay, at any one time there are approximately 800,000 to 1,000,000 items of pre-owned jewelry, including watches, and from 300,000 to 500,000 items of entertainment memorabilia, listed on eBay. We are not aware of any significant third party authentication or grading services in either of these markets. Although the other targeted markets are much smaller than the diamond, pre-owned jewelry and entertainment memorabilia markets, we are not aware of any significant third party authentication or grading companies that operate in any of those markets.

There is no assurance that we will succeed in expanding our business into any of these new markets or, even if we do succeed in doing so, that the authentication or grading services we will offer in those markets will gain market acceptance or become profitable.

Operations

We offer authentication and grading services for coins, sports cards, autographs and autographed memorabilia, stamps and currency. Our trained and experienced authentication and grading experts determine the authenticity of and, using uniform quality standards, assign a quality grade to these collectibles.

PCGS. Since our inception in 1986, we have graded approximately 11 million coins. We now authenticate and grade approximately 1,700,000 coins per year. We typically charge authentication and grading fees that range between \$8 and \$200 per coin, depending primarily on the turn-around time requested by the customer, which varies from one day for the highest level of service to approximately 60 days for the lowest level of service. In the fiscal year ended June 30, 2005, our fee per coin averaged approximately \$13. We authenticate and grade coins in accordance with standards that we developed and which have become generally accepted in the industry. We use both an adjectival and numeric system, with a scale of 1-to-70, to rate the quality of the coins, with the highest number representing “gem” or perfect quality. We have authenticated and graded, either before or after sale, two of the three highest priced U.S. coins ever sold at public auction, including an 1804 Draped Bust Silver Dollar, that was sold by the owner at an auction in 1999 for approximately \$4.1 million, and a U.S. 1913 Liberty Head Nickel, that was recently sold for \$4.15 million, the second highest price paid for any coin.

Our grading of coins involves an exacting and standardized process. We receive coins from dealers and collectors and remove all packaging that identifies the submitter in any way. We then enter information regarding the coins into our proprietary computerized inventory system, which tracks the coins at every stage of our authentication and grading process. Generally, our process requires that two of our experts evaluate each coin independently, and no authenticity opinion is issued and no quality grade is assigned unless their opinions of authenticity and the grades independently assigned by each of them are the same. In some cases, depending on the type of coin being authenticated and graded or on the results of the initial review process, a third expert is involved to make the final determinations of authenticity and grade. The coin, the determination of authenticity and its grade are then verified by one of our senior experts, who has the authority to resubmit the coin for further review if deemed to be necessary. Only after this process is complete is the coin reunited with its invoice, thus keeping the authentication and grading process independent of the identity of the owner and the history of the coin. The coin is then sonically sealed in our specially-designed, tamper-evident, clear plastic holder, which also encases a label describing the coin, the quality grade that we have assigned to it, a unique certificate number and bar code, and the PCGS hologram and brand name.

PSA. We launched our PSA sports card authentication and grading service in 1991 and, through June 30, 2005, had authenticated and graded over 8 million sports cards. Our sports card grading system uses both an adjectival and a numeric system with a scale from 1-to-10, with the highest number representing “mint” condition or perfect quality. We employ sports card authentication and grading procedures that are similar to our coin authentication and grading procedures. On receipt of sports cards from dealers and collectors, we remove all packaging that identifies the submitter in any way and enter information regarding the sports cards into our proprietary computerized inventory system that enables us to track the sports cards throughout our authentication and grading process. Only after the authentication and grading process is complete is the sports card reunited with its invoice, thus keeping the authentication and grading process independent of the identity of the owner and the history of the sports card. The sports card is then sonically sealed in our specially-designed, tamper-evident, clear plastic holder, which also encases a label that identifies the sports card, the quality grade that we have assigned to it and a unique certificate number and bar code, and the PSA hologram and brand name.

We primarily authenticate and grade baseball sports cards and, to a lesser extent, football, basketball and hockey sports cards, as well as entertainment and other collectible cards. We typically charge fees ranging between \$6 and \$100 per card, with an average fee of \$6 per card in 2005. As is the case with coin authentication and grading, sports card authentication and grading fees are based on the particular turn-around time requested by the submitter, ranging from one day's turn-around for the highest level of service to approximately 60 days for the lowest level of service.

The sportscards submitted to us for authentication and grading include primarily (i) older or vintage sportscards, particularly of memorable or historically famous players, such as Honus Wagner, Joe DiMaggio, Ted Williams and Mickey Mantle, and (ii) modern or newly produced sportscards of current or new athletes who have become popular with sports fans or have achieved new records or milestones, such as Nolan Ryan and Mark McGwire. These sportscards have, or are perceived to have, sufficient collectible value and are sold more frequently than are sportscards of less notable athletes, leading dealers and collectors to submit them for grading to enhance their marketability. Also, the production and sale of each new series of sportscards, which take place at the beginning and during the course of each new sports season, create new collectibles that provide a source of future additional authentication and grading submissions to us. Among the sportscards that we have authenticated and graded is a 1909 Honus Wagner baseball card, which received a PSA grade of 8 and was sold by the owner in 2000 for approximately \$1.3 million.

PSA/DNA. In 1999, we began offering authentication services for vintage sports autographs. Because of the variability in the size of autographed memorabilia, the procedures we use necessarily differ from those used in authenticating and grading coins and sportscards. Customers may ship the memorabilia to us for authentication at our offices or, in the case of dealers or collectors that desire to have a large number of items authenticated, we will sometimes send an expert to the customer's location for "on-site" examination and authentication. Generally, our procedures require at least two of our autograph experts to agree on either a positive or a negative opinion on authenticity for most items that are submitted for authentication. Our experts reference what we believe is one of the largest databases of known genuine examples of signatures for comparison to a submitted specimen and draw upon their training and experience in handwriting analysis. In most cases, we take a digital photograph of the autographs that we authenticate and store those photographs in a master database. Before shipping the item back to the customer, a tamper-evident holographic label is affixed to the collectible. The label contains our PSA/DNA name and logo and a unique certificate number. For additional security, in most cases we tag the items with synthetic DNA-laced ink, which is odorless, colorless and tasteless and visible only when exposed to a narrow band wavelength of laser light using a hand-held, battery-powered lamp. As a result, if the label is removed from the item, it is still possible to verify that the item was authenticated by us.

Memorabilia that have been authenticated by our vintage autograph service include Mark McGwire's 70th home run baseball, which was sold at auction in 1999 for more than \$3 million, a baseball bat autographed by Babe Ruth, which he used to hit the first home run ever hit in Yankee Stadium in 1923 that was sold by Sotheby's for more than \$1.2 million and a 1919 contract trading Babe Ruth from the Boston Red Sox to the New York Yankees, which was recently sold at auction for \$996,000.

In June 2004, we also began offering grading services for vintage sports autographs, beginning with single signed baseballs. We use uniform grading standards that we have developed to assign two grades to the collectible, one based on the physical condition or state of preservation and legibility of the autograph, and the other based on the physical condition of the collectible, using a numeric scale of 1-to-10, the highest number representing "mint" condition or perfect quality. However, the grading standards that we apply for "game-used" baseballs, which by their very nature are not in "pristine" condition, are different than the grading standards for unused or souvenir autographed baseballs. Autograph grading is in its infancy and we cannot predict whether it will gain market acceptance. However, if we find that there is a demand for such services, it is our intention to offer grading services for autographed historical and entertainment memorabilia as well.

PSE. We commenced our PSE stamp authentication and grading service in January 2000. In rating the quality of stamps, we assign a numeric grade to each stamp that ranges from 1-to-100. The grade assigned to a stamp is based on several characteristics, including the centering of the image on the stamp and the absence or presence of various faults, such as creases, perforation problems and other imperfections that, if present, will reduce the value of the stamp. For a stamp to receive a grade of 100, which means that it is in "gem" condition, the image on the stamp must be perfectly centered and the stamp must be flawless. Stamps submitted to us for grading are independently examined and graded by two of our stamp experts, who must have independently arrived at the same grade before a final grade is assigned. After a stamp has been authenticated and graded, we generally issue a certificate of authentication that briefly describes the stamp and the grade assigned to it and has a digital image of the stamp attached. The certificate bears the PSE name and logo and a unique certification number that we assign to the stamp for record keeping purposes. We also offer our customers the option of having the stamp encapsulated in a tamper-evident, clear plastic holder with an encased label that, like the certificate, identifies the stamp and sets forth the grade assigned to it, its unique certification number and the PSE name and logo.

Stamps that have been authenticated and graded by us include an 1868 1¢“Z” Grill U.S. postage stamp, which received a PSE grade of Extremely Fine (XF) 90 and was last sold at auction in 1989 for more than \$900,000. The owner submitted the stamp to us shortly after we initiated our stamp authentication and grading service in 2000.

The volume of stamp authentication and grading submissions through fiscal 2005, relative to the number of coin and sportscard submissions, has not been material. Since stamp grading services are new to the market, we cannot predict when or even whether our services will gain the level of market acceptance needed for stamp grading to become a material contributor to our operating results.

Vintage U.S. Paper Currency. PCGS began marketing a vintage U.S. paper currency grading service, under the brand name “PCGS Currency” in the third fiscal quarter ended March 31, 2005. We have engaged a number of paper currency experts to grow this business and to authenticate and grade vintage paper currency. We use an adjectival and numeric grading system, with a scale of 1–to–70, which is similar to the system that we use for grading coins, largely because most vintage currency dealers are already familiar with that system. Currently, there are two relatively small vintage paper currency authentication and grading companies. Additionally, Numismatic Guaranty Corporation of America, our principal coin authentication and grading competitor, started a separate vintage paper currency authentication and grading service in the first calendar quarter of 2005. The rare currency market is smaller than our other collectibles markets and, although we began generating currency and authentication and grading revenues in the fourth quarter of fiscal 2005, there is no assurance that our currency authentication and grading service will gain market acceptance or that our entry into that market will generate material revenues for us or become profitable.

Publications and Content. We publish authoritative price guides and rarity reports for coins, sportscards, sports autographs and memorabilia and stamps. This information is available on our website and in our publications. These publications include:

- *Price Guides.* We provide a wide variety of authoritative price guides for a number of collectible markets. For example, we track the prices at which the 3,000 most actively–traded U.S. coins are sold, dating back to 1970, and compile and publish this information in a generally recognized collectible coin index, known as the *PCGS3000*.™
- *Rarity Reports.* We compile and publish reports that list the total number of coins and sportscards we have graded since our inception, categorized by item type and grade determination. We can publish, for example, the exact number of Mint State (MS) 67–grade 1881–S Morgan silver dollars that we have graded. We believe that collectors use this information to make more informed decisions regarding the purchase of particular coins.
- *Articles.* Collecting is a passion for many and has nuances and anecdotes that are well suited to a library of articles for each category of collectibles. We write informative articles and publish them on our websites. A sense of community is also important to collectors. We therefore encourage our customers to communicate and to write articles which we sometimes publish on our websites or include in our publications.
- *Historical Content.* Collecting is often about history, and, in many instances, historical events associated with a collectible enhance its value. In our publications, we provide short histories about unusual and rare collectibles. We believe that these historical accounts add to the attractiveness and excitement of purchasing such items. During 2004, House of Collectibles, a division of Random House, published the second edition of the *Official Guide to Coin Grading and Counterfeit Detection*, which was authored by our collectible coin experts. To enhance the historical content that we are able to provide dealers and collectors, in the first quarter of the current fiscal year we acquired CoinFacts.com, which operates a website at www.coinfacts.com, at which we are now able to offer coin dealers and collectors proprietary information about the date and mintmark combinations of U.S. Colonial Coins, early U.S. coins, such as the Liberty Cap Half Cent of 1794, to the most recent U.S. minted coins, such as the Fifty State Quarters™ and the One Ounce American Eagle Gold and Silver Bullion Coins currently being produced by the U.S. Mint.

- *News.* We provide market news and information that are accessible to collectors and dealers on our websites. The news and information most often relate to recent events, such as sales of collectibles at record prices, the introduction of new collectibles and trends and developments in the collectibles markets we serve.

Marketing

We employ both “pull” and “push” strategies in marketing our services to dealers and collectors of high-value collectibles. Our “pull” strategies are designed to promote our brands and increase the preference among collectors for our authentication and grading services and to encourage collectors to communicate that preference to their collectibles dealers, because most authentication and grading submissions are made by dealers. In our experience, if a customer requests a particular service, the dealer ordinarily will comply with that request. On the other hand, if the customer expresses no preference, the dealer will make its own choice of authentication and grading service or may even decide not to submit the collectible to an independent service for authentication and grading. Therefore, our “pull” oriented marketing programs emphasize (i) the protections that collectors will have if they purchase collectibles that we have authenticated and graded, and (ii) the improved marketability and higher prices that they can realize if they use our independent third party authentication and grading services. Our “push” strategy, on the other hand, is designed to market our services directly to collectibles dealers and to encourage them to use and promote our services.

Our “Pull” Strategy. We have developed and implemented a number of marketing programs and initiatives designed to create consumer preference for collectibles that have been authenticated and graded by us. Those programs and initiatives include:

- *Direct Advertising.* We directly address collectors by advertising our services in trade journals and periodicals in each of our markets. Those journals include *Coin World*, *Linn's Stamp News*, *Sports Collectors Digest* and *Autograph Collector Magazine*. We make personal appearances at major, national-market trade shows around the United States that are attended by collectors, as well as dealers. We also participate in and support programs conducted by non-profit associations whose members are primarily collectors, such as the American Numismatic Association and the American Stamp Dealers Association.
- *Set Registry Programs.* We provide collectors with the opportunity to participate in free internet “Set Registry”SM programs that we host on our collectibles websites. These programs encourage collectors to assemble full sets of related collectibles that have been authenticated and graded by us. Generally, each registered set is comprised of between 50 and 200 separate, but related, collectibles. Examples include particular issues of coins, such as Twenty Dollar Gold Double Eagles or Morgan Silver Dollars; particular sets of sportscards, such as all Hall of Fame pitchers or a particular team, like the 1961 Yankees; or sets of collectible stamps, such as Columbian Commemoratives or Graf Zeppelin Airmail stamps. Our Set Registry programs enable collectors:
 - to register their sets on our websites, which provides them with an off-site reference source for insurance and informational purposes;
 - to display on our websites, and compare the completeness and quality grades of, the collectibles making up their sets to those of other collectors who have registered similar sets on our websites, thereby creating a competitive aspect to collecting that adds to its excitement; and
 - to enter our annual company-sponsored Set Registry competitions and awards programs in which collectors can win awards for having collected the most complete and highest graded sets of particular series or issues of coins, sportscards or stamps.

The collectibles that may be registered on our Set Registries and included in our Set Registry competitions are limited to collectibles that have been authenticated and graded by us. To register the collectibles to be included in a particular set, a collector is required to enter the unique certificate number that we had assigned to each of the collectibles when last authenticated and graded by us. We use the certificate number to compare the information being submitted by the collector with our database of information to verify that the collectibles being registered by a participant for inclusion in a particular set qualify to be included in that set.

We have found that our Set Registry competitions (i) create a preference and increase demand among collectors for our brands, and (ii) promote the trading of collectibles authenticated and graded by us by set registrants seeking to improve the completeness and overall quality of their sets, which generally results in additional authentication and grading submissions to us. Annual awards for set completeness and quality have been issued by PCGS and PSA each year since 2002 and by PSE beginning in 2004. As an indication of the popularity of our Set Registry programs, more than 30,000 sets were registered on our Set Registries as of June 30, 2005, which represents a 41% increase over the number registered as of June 30, 2004.

- *Collectors Clubs Subscription Program.* We also have established “Collectors Clubs” for coin and sportscard collectors. For an annual membership fee, ranging from \$100 to \$200, collectors receive a number of benefits, including (i) the right to have, without any further charge, a specified number of collectibles authenticated and graded by us, a privilege that non-member collectors do not have; and (ii) access to certain proprietary data that we make available on our websites or in print. As of June 30, 2005, there were approximately 15,000 members in our Collectors Clubs.

Our “Push” Strategy. We also market our services directly to collectibles dealers and auctioneers to promote their use of our authentication and grading services. Our marketing message is focused on the potential increase in marketability of the collectibles due to the increase in consumer confidence that is attributable to our authentication and grading of those collectibles. These marketing programs include:

- *Trade Publication Advertising and Direct Communications.* We communicate to dealers and auctioneers by direct contact and through advertising in trade journals and publications in the respective markets. Those journals include *Coin World*, *Linn’s Stamp News*, *Sports Collectors Digest* and *Autograph Collector Magazine*. We also communicate with our dealers and with auctioneers by direct mail, email, and telephone.
- *Trade Shows and Conventions.* There are numerous collectibles trade shows and conventions held annually in the United States, of which approximately 30 generally are considered to be the largest and most significant in the collectible coin, sportscard, autograph and stamp markets. At these shows and conventions, collectibles dealers gather on a trading floor or “bourse” to buy and sell collectibles. We offer same day, on-site authentication and grading services, which facilitate the trading and sales of collectibles at these shows and conventions. At the same time, we obtain additional brand exposure and generate increased revenues, because dealers and collectors generally are willing to pay higher fees for same day, on-site services.
- *Our Dealer Invitationals.* We sponsor and host 8-to-10 “invitation-only” events per year for our larger dealers that provide them with forums for buying and selling their collectibles. We also offer same day, on-site authentication and grading services at these invitationals. Like the other trade shows and conventions we attend, these invitationals enable us to generate additional authentication and grading revenues. At the same time, because we host the invitationals, they provide additional brand exposure and build goodwill for us among the collectibles dealers.
- *Authorized Dealer Network.* We have implemented authorized dealer programs for coin and sportscard collectibles dealers and auction companies. Authorized dealers are able to use our marketing materials which are designed to promote our services and those of our authorized dealers to collectors. Those materials include “point of sale” and “point of purchase” displays and brochures and direct mail pieces for insertion in customer mailings. In addition, authorized dealers may use our brand logotypes on their websites to attract buyers for coins and sportscards that have been authenticated and graded by us. We also conduct joint marketing programs with our authorized dealers in which we provide financial support for dealer marketing programs, approved by us, that promote both the dealer’s products and services and our authentication and grading services.

eBay Promotional Programs. Since 1999, we have worked with eBay on programs to increase the volume of collectibles traded on eBay and, at the same time, to provide greater exposure for our authentication and grading services. Current programs include:

- *Informative and Educational Web Pages.* We have created web pages for eBay specifically designed to inform and educate eBay buyers and sellers about the benefits of our authentication and grading services. eBay includes, on its collectibles web pages, links to our web pages and encourages its collectibles customers to use our services. eBay has similar programs with other collectibles authentication and grading services.
- *Quick Opinion Autograph Authentication Service.* We have developed, for eBay's customers that visit its sports memorabilia auction website, a fee-based "Quick Opinion" autograph authentication service. For a prescribed fee, currently approximately \$7 per autograph, an eBay visitor that is interested in selling or buying an autographed item of memorabilia on the eBay auction website can obtain, from one of our autograph experts, a "quick" opinion as to the authenticity of the autograph, generally provided within a day of submission. The opinion is based on an examination of a digital image of the autograph posted on eBay and, due to the limitations inherent in this process, we do not warrant the accuracy of these opinions. The fees generated by this service are shared between us and eBay.
- *Other Initiatives.* We have maintained an ongoing dialogue with eBay regarding other programs that will attract collectibles sellers and buyers and make it easier for them to complete collectibles transactions on eBay's collectibles auction websites. For example, we recently authenticated and graded, for exclusive sale on eBay's sports memorabilia auction website, a special issue of Boston Red Sox Poker Chips that commemorate the team's World Series victory and we also graded promotional cards for the Star Wars Return of the Sith movie that were auctioned on eBay.

Patents and Intellectual Property

Our intellectual property consists primarily of trademarks, copyrights, proprietary software and trade secrets. As part of our confidentiality procedures, we generally enter into agreements with our employees and consultants and limit access to, and distribution of, our software, documentation and other proprietary information. The following table sets forth a list of our trademarks, both registered and unregistered, that are currently being used in the conduct of our business:

Registered Marks		Unregistered Marks
Collectors Universe	Cert & Sell	PSE
PCGS	World Series of Grading	Coin Universe
Professional Sports Authenticator	PCGS3000™	Collectors.com
PSA/DNA	History in Your Hands	Record Universe
Set Registry	First Strike	PCGS Currency

We have not conducted an exhaustive search of possible prior users of the unregistered trademarks listed above and, therefore, it is possible that our use of some of these trademarks may conflict with others.

In addition, the Company or its subsidiaries have been awarded two patents, one patent application is pending, and we have filed a provisional patent application in connection with grading and authentication of collectibles.

Collectibles Experts

As of June 30, 2005, we employed 36 collectibles experts in our authentication and grading operations, who have from 1 to 49 years, and an overall average of 25 years, of collectibles marketplace experience. Our experts include individuals that either (i) had previously been collectibles dealers or were recognized as experts in the markets we serve, or (ii) who we have trained in our authentication and grading methodologies and procedures. However, talented authentication and grading experts are in short supply and there is considerable competition among collectibles authentication and grading companies for their services. As a result, we have recently increased our focus on training young authenticators and graders who we believe have the skills or knowledge base to become collectibles experts. Such full-time graders and authenticators are prohibited from submitting items to us for grading or authentication. We also sometimes contract with outside experts on a consulting basis, who are usually collectibles dealers, to help grade and/or authenticate significant and/or very specialized items. These consultants can, and do, use our services. However, they are prohibited from grading and/or authenticating any item in which

they have a financial interest. In addition, we may use outside consultants to enable us to address short-term increases in authentication and grading orders.

Service Warranties

We issue an authenticity or grading warranty with every coin and sportscard authenticated or graded by us. Under the terms of the warranty, if a coin or sportscard that was graded by us later receives a lower grade upon resubmission to us for grading, we are obligated either to purchase the coin or sportscard at the price paid by the then-owner of the coin or sportscard or, instead, if we so choose, to pay the difference in value of the item at its original grade as compared with its lower grade. Similarly, if a coin or sportscard that has been authenticated by us is later determined not to have been authentic, we are obligated under our warranty to purchase the coin or sportscard at the price that the then-owner paid for that collectible. We accrue for estimated warranty costs based on historical claims experience.

Before returning an authenticated or graded coin or sportscard to our customer, we place the coin or sportscard in a tamper-evident, clear plastic holder that encapsulates a label identifying the collectible as having been authenticated and graded by us. The warranty is voided in the event the plastic holder has been broken or damaged or shows signs of tampering.

We recently began offering a similar warranty for stamps and currency that we authenticate and grade. To obtain such a warranty, the customer must elect to have his or her stamp encapsulated in a tamper-evident, clear plastic holder that includes a label identifying the collectible as having been authenticated or graded by us. We do not offer such a warranty in those cases where the customer chooses, instead, to have us issue a certificate of authenticity and grade.

We do not provide a warranty with respect to our opinions regarding the authenticity or quality of autographs.

Customer Service and Support

We devote significant resources, including a 24 person staff, to providing personalized customer service and support in a timely manner. On our websites, customers are able to check the status of their collectibles submissions throughout the authentication and grading process and to confirm the authenticity of the over 15 million collectibles that we have graded. When customers need services or have any questions, they can telephone or e-mail our support staff, Monday through Friday between the hours of 7:00 A.M. and 6:00 P.M., Pacific Time. We also involve our collectibles experts in providing support services when necessary to address special issues.

Supplies

In order to obtain volume discounts, we have chosen to purchase most of the injection-molded plastic parts for our clear plastic holders principally from a single supplier. There are numerous suppliers for these items, however, and we believe that, if necessary, we could obtain those items from any of those other suppliers without significant cost to us. However, if it were to become necessary for us to obtain another supplier, we might have to arrange for the fabrication of a die for the new supplier. Fabrication of high precision dies can be a lengthy process. Therefore, it is our practice to maintain at least a one month supply of these molded plastic parts in inventory.

Competition

Coin Authentication and Grading. We have three primary competitors in the coin authentication and grading market: Numismatic Guaranty Corporation of America, Independent Coin Grading and ANACS.

Sportscard Authentication and Grading. We have two primary competitors in sportscard authentication and grading: Beckett Sportscard Grading Corporation and Global Authentication, Inc.

Autograph Authentication and Grading. In the vintage autograph authentication market, we compete with Global Authentication, Inc. and a few smaller competitors. By contrast, there are a number of competitors for “signed-in-the-presence” grading, including Tri-Star, Steiner Sports and Upper Deck Authentication. We have not encountered any competitors that offer autograph grading services.

Stamp Authentication and Grading. In stamp authentication, our principal competitors are the Philatelic Foundation and the American Philatelic Society, both of which are non-profit organizations. On the other hand, we are not aware of any companies or other organizations that provide stamp grading services.

Currency Authentication and Grading. In the paper currency authentication and grading market, we compete against Numismatic Guaranty Corporation of America and two smaller competitors.

The principal competitive factors in our collectibles authentication and grading markets are (i) brand recognition and awareness, (ii) an established reputation for integrity, independence and consistency in the application of grading standards, and (iii) responsiveness of service. Price is much less of a factor in the case of vintage collectibles, but is a more important consideration with respect to modern coins and sportscards because of their significantly lower values. We believe that our PCGS, PSA, PSA/DNA, PSE and PCGS Currency brands compete favorably with respect to all of these factors and are among the leaders in each of their respective markets. Barriers to entry into the authentication and grading market are relatively low, especially in the sportscard authentication and grading market. However, brand name recognition and a reputation for integrity, independence and consistency in the application of grading standards can take several years to develop. The limited supply of collectibles experts also operates as a barrier to entry or expansion.

Information Technology

We have developed proprietary software systems that we use in our authentication and grading operations, principally for order tracking, processing and recordkeeping, and the operation and maintenance of our internet websites. These software systems include Grading Management and Production Systems, Set Registry, Population Reports, Price Guides, Market Indexes, Article Libraries QuickOpinion Systems and Featured Dealer Systems. These systems operate on software platforms in Microsoft Visual Basic.NET, Microsoft ASP.NET and Microsoft SQL Server. We also have legacy systems, which we are in process of replacing, in Cold Fusion and Visual Basic 6. We also maintain an integrated local area network that assists in and provides certain controls on production, product physical movement, accounting and financial functions, data warehousing and other tasks. During the fiscal year ended June 30, 2005, these systems tracked the authentication and grading process and generated records and data for over 2.9 million collectibles submitted to us for authentication and grading, without significant disruption or loss of service.

Although we do not primarily conduct our business on the internet, we do use the internet for information exchange and delivery of market-oriented content and for our Set Registry and certain of our other marketing programs. As a result, we have 25 Dell PowerEdge Servers with RAID, along with a fully redundant SQL Server 2000 with high-availability cluster supporting over two terabytes of clustered storage. The hardware resides at our headquarters in a server room that has 24/7 environmental monitoring and alerting through hardware sensors, 24/7 network availability and performance monitoring and alerting through network management software and 24/7 internet availability and performance monitoring and alerting through third party providers. The internet connectivity flows through multiple internet providers supporting up to approximately 47 megabit internet bandwidth with multiple layers of internet firewall protection, including three Cisco PIX firewalls and Microsoft ISA Server protection. We maintain a multi-tiered antivirus and anti-spam SMTP infrastructure scanning all incoming mail through four different AV engines. The system is backed up nightly with 1.6 terabyte capacity, expandable to over 3 terabytes under current configuration, and is managed by administrators certified by Microsoft, Cisco and Linux.

However, we do not have redundant computer systems at a location that is remote from Southern California, where our computer systems currently are located. As a result, any damage to or failure of our computer systems due to a catastrophic event in Southern California, such as an earthquake, could cause an interruption in our services.

Government Regulation

With the exception of laws in some states that require memorabilia authenticators to certify to the accuracy of their authentication opinions, there are no material government regulations specifically relating to the authentication and grading businesses that we conduct, other than regulations that apply generally to businesses operating in the markets where we maintain operations or conduct business. However, our dealer finance program is subject to numerous laws and regulations in those states in which we may make loans to dealers.

Disposition of Collectibles Sales Businesses

During the period from 1999 through the latter part of fiscal 2004, we also were engaged in the business of marketing and selling collectible coins, sports cards, currency and sports entertainment and historical memorabilia. Most of those sales were made at multi-venue auctions that were conducted by our collectibles sales businesses, which were comprised of Bowers and Merena Galleries and Kingswood Coin Auctions for rare coins, Superior Sports Auctions for vintage sports cards and sports memorabilia, Lyn Knight Currency Auctions for currency and Odyssey Publications for entertainment and historical memorabilia. We also sold collectible coins by direct sales methods.

In December 2003, our Board of Directors authorized management to implement a plan to focus our financial and management resources, and collectibles expertise, on the operations and growth of our authentication and grading businesses, and to divest the collectibles auctions and direct sales businesses. This decision was based on a number of factors and considerations that included, among others, (i) the historical operating results of the collectibles auction and direct sales businesses, which had proven to be disappointing as compared to the operating results of our authentication and grading businesses; (ii) a lack of synergies between the collectibles sales businesses and our grading authentication businesses, which made it difficult to achieve a meaningful reduction in our operating expenses; and (iii) the additional capital that we believed would be required to grow our collectibles auction and direct sales businesses in comparison to the lower capital requirements of our authentication and grading businesses.

As a result of this decision, we sold our collectibles sales businesses during fiscal 2004, but retained the collectibles inventory and accounts receivable of those businesses, which we have substantially liquidated. We also terminated the licenses under which we operated our David Hall Rare Coins Division, which had been engaged in the business of selling collectible coins at retail. We generated cash of \$10,435,000 in fiscal year ended June 30, 2004 and \$2,332,000 in the year ended June 30, 2005, from the disposition of those businesses and the liquidation of their inventories and accounts receivable.

We believe that the divestiture of the collectibles sales businesses enables us to focus our financial and managerial resources on growing our existing authentication and grading revenues and to reduce our operating expenses, and, thereby, increase our overall profitability. Additionally, we intend to use the cash generated from the sales of the discontinued businesses, along with our other cash resources, to develop and implement new marketing programs, expand the value-added services that we are able to offer our existing customers and acquire or start new businesses that will enable us to offer authentication and grading services in other high-value collectibles or high-value asset markets.

Employees

As of June 30, 2005, we had 167 full-time employees and 19 part-time employees, of which 139 were employed in authentication and grading, including our 36 collectibles experts and 24 customer service and support personnel. The other employees included 8 in information services, 3 in marketing, and 36 in other business and administrative services. We have never had a work stoppage, and no employees are represented under collective bargaining agreements. We consider relations with our employees to be good.

Factors That Could Affect Our Future Financial Performance

Our business is subject to a number of risks and uncertainties that could prevent us from achieving our business objectives and that could hurt our future financial performance and the price performance of our common stock, and cause our future financial condition and future financial performance to differ significantly from our current expectations described in the forward-looking statements contained in this Report. Those risks and uncertainties, many of which are outside of our control, include the following:

A decline in the popularity of high-value collectibles and a resulting decrease in submissions for our services could adversely impact our business.

The volume of collectibles submitted to us for authentication and grading is affected by the demand for and market value of those collectibles. As the demand for and value of collectibles increase, authentication and grading submissions, as well as requests by submitters for higher price, faster turn-around times, also increase. However,

that also means that a decline in popularity and, therefore in the value, of the collectibles that we authenticate and grade would cause decreases in authentication and grading submissions and in requests for faster turn-around times and, therefore, also in our revenues and profitability. We have found, over the years, that the popularity of collectibles can vary due to a number of factors, most of which are outside of our control, including perceived scarcity of collectibles, general consumer confidence and trends and their impact on disposable income, precious metals prices, interest rates and other general economic conditions. For example, declines in gold prices or further increases in interest rates could lead to reductions in authentication and grading submissions and, therefore, could adversely affect our profitability and financial condition.

Declines in general economic conditions could result in decreased demand for our services, which could adversely affect our operating results.

The availability of discretionary or disposable income is an important factor in the willingness and ability of collectors to purchase, and the prices that they are willing to pay for, high-value collectibles. Declines in purchases and sales, and in the value, of collectibles usually result in declines in the use of authentication and grading services, as such services are most often used by sellers and purchasers of collectibles in conjunction with and to facilitate collectibles sale and purchase transactions. As a result, economic uncertainties, downturns and recessions can and do adversely affect our operating results by (i) reducing the frequency with which collectors submit their coins, sportscards and other collectibles for authentication and grading; (ii) causing customers to request longer authentication and grading turn-around times, which would reduce our revenues and profitability, and (iii) reducing the ability of customers to pay outstanding accounts receivable.

Temporary popularity of some collectibles may result in short-term increases, followed by decreases, in the volume of submissions for our services, which could cause our revenues to fluctuate.

Temporary consumer popularity or “fads” among collectors may lead to short-term or temporary increases, followed by decreases, in the volume of collectibles that we authenticate and grade. These trends may result in significant period-to-period fluctuations in our operating results and could result in declines in our net revenues and profitability, not only because of a resulting decline in the volume of authenticating and grading submissions, but also because such trends could lead to increased price competition, which could require us to reduce our authentication and grading fees in order to maintain market share. In the last few years, for example, the popularity of sportscards has declined and, at the same time, we have experienced a decline in sportscard authentication and grading submissions.

Our revenues and income depend significantly on revenues generated by our coin authentication and grading services. A decrease in the level of submissions for these services, which historically has been impacted by changes in economic conditions, could adversely affect our revenues and results of operations.

Coin authentication and grading accounted for approximately 69%, 66% and 60% of our net revenues in fiscal 2005, 2004 and 2003, respectively. Furthermore, in fiscal 2005, coin grading was the segment of our authentication and grading business that experienced the most significant increase in net revenues. We believe that this growth in coin grading submissions has been due, at least in part, to the volatility of and uncertainties regarding the performance of the stock markets, coupled with the decline in interest rates and in the value of the U.S. Dollar, which have led investors to shift some of their investments from stocks and bonds to precious metals. The lack of diversity in our sources of revenues and our dependence on coin grading submissions for a majority of our net revenues make us more vulnerable to adverse changes in economic conditions. These adverse changes include declines in the value of precious metals or recessionary conditions that could result in declines in collectibles authentication and grading submissions generally or, more particularly, in collectible coin submissions that would, in turn, result in reductions in our total net revenues and income.

Our top 5 customers, account for approximately 27% of our total net revenues.

During the year ended June 30, 2005, five of our coin authentication and grading customers accounted for approximately 27% of our total net revenues. As a result, the loss of any of those customers, or a lower level of activity by any of those customers, would cause our net revenues to decline and, therefore, could harm our profitability. During the fourth quarter of fiscal 2005, the owner of the largest of these customers encountered an unexpected and serious medical problem, which led to a 45% decrease in revenues from that customer in the fourth

quarter, compared to the third quarter of fiscal 2005. This reduction in revenues from that customer is expected to continue in fiscal 2006.

Our autograph grading, stamp and currency authentication and grading businesses are in their start-up phase. There can be no assurance that these businesses will prove to be successful.

We only commenced our autograph grading and currency authentication and grading businesses in fiscal 2005 and our stamp authentication and grading business, which we commenced in 2000, has yet to make a material contribution to our net revenues. There is no assurance that these services will gain market acceptance. To date, our stamp and currency grading businesses have incurred operating losses and our autograph grading business has been in operation for a short period of time. As a result, there is no assurance that any of these businesses will ever make a material contribution to our net revenues or achieve profitability. In that event, we may have to discontinue, and write off our investments in, those businesses.

There are risks associated with our decision to exit our collectibles auctions and direct sales businesses.

In December 2003, we adopted a new strategic plan that focuses our financial and management resources, and collectibles expertise, on the operations and growth of our authentication and grading businesses and that led us to dispose of our collectibles auctions and direct sales businesses. We adopted this strategic plan because we believed it would enable us to improve our profitability and the consistency and predictability of our operating results and cash flows. Although our operating results have improved since we initiated this strategy, there is no assurance that this strategy will prove to be successful over the longer term. Among other things, one consequence of our strategy is that there has been a significant reduction in our net revenues, because our discontinued auction and direct sale businesses had accounted for, on average, more than 60% of our net revenues from continuing operations in each of the fiscal years ended June 30, 2003, 2002 and 2001. Therefore, our future success will depend to a great extent on our ability to continue to increase our revenues by introducing and offering additional revenue generating services in our existing markets and entering into collectibles or high value asset markets in which we do not presently operate, either by acquisition of existing businesses or the commencement of new authentication and grading businesses.

There is no assurance that we will be successful in doing so, and if we are unable to achieve internal growth or acquire new authentication or grading businesses, this strategy could have a negative impact on our future financial performance.

Future acquisitions and the commencement of new businesses present risks, and we may be unable to achieve the financial and strategic goals of any acquisition or commencement of any new business.

One component of our growth strategy is to acquire existing or to start new businesses that serve other markets for other collectibles or high-value assets. Even if we succeed in acquiring or starting any such businesses, those new businesses will face a number of risks and uncertainties, including:

- difficulties in integrating newly acquired or newly started businesses into existing operations, as a result of which we may incur increased operating costs that would adversely affect our operating results;
- the risk that our current and planned facilities, computer systems and personnel and controls will not be adequate to support our future operations;
- diversion of management time and capital resources from our existing businesses, which could adversely affect their performance and our operating results;
- dependence on key management personnel of acquired or newly started businesses and the risk that we will be unable to integrate or retain such personnel;
- the risk that new services we may introduce or begin offering, whether as a result of internal expansion or business acquisitions, will not gain acceptance among dealers or collectors;

- the risk that we will face competition from established or larger competitors in the new markets we may enter, which could adversely affect the financial performance of any businesses we might acquire or start; and
- the risk that the anticipated benefits of any acquisition or of the commencement of any new business may not be realized, in which event we will not be able to achieve an attractive return on our investment.

There are risks associated with new service offerings, including our dealer financing program, with which we have little experience.

We are exploring new services that we might introduce and offer to our existing authentication and grading customers as a means of increasing our net revenues and profitability. Those new services, however, may be unprofitable and harm our operating results.

One of those new services is a dealer financing program that involves our making short-term loans to collectibles dealers that would be collateralized by the collectibles they submit to us for authentication and grading. There is no assurance that we will succeed in achieving the objectives of our dealer finance program. Additionally the lending business is subject to a number of risks and uncertainties and we do not have loan underwriting or collection experience. In addition, the failure or inability of borrowers to repay their loans is an inherent risk in a lending business. Our ability to minimize loan losses will depend on several factors, including:

- The loan underwriting policies and controls we adopt and implement, which could prove to be inadequate to prevent loan losses from occurring;
- Our ability to sell collateral, when a borrower defaults in the payment of a loan, for amounts sufficient to offset loan losses, which can be affected by a number of factors outside of our control, including (i) changes in economic conditions, (ii) increases in market rates of interest and (iii) changes in the condition or value of the collateral that will secure the loans we make; and
- The reserves we will need to establish for potential loan losses, which may prove to be inadequate, in which case we would have to incur additional charges, which would have the effect of reducing our income and could hurt our financial condition.

Additionally, the business of lending is subject to numerous state and certain federal laws and regulations, which may impose significant costs or limitations on the way we conduct or expand such a business.

We also have obtained a \$7 million bank credit line that we will use to fund some of the dealer loans we make. We cannot assure that our cash flow from the operations of our dealer finance program will be sufficient to enable us to repay those borrowings. Also, the loan agreements establishing the line of credit impose certain restrictive covenants on the Company which could operate to restrict our plans to grow our business.

We are dependent on our key management personnel.

Our performance is greatly dependent on the performance of our senior management and certain other key employees. As a result, the loss of the services of any of our executive officers or other key employees could harm our business. Some of our executive officers and key employees are experts in the collectibles markets and have industry-wide reputations for authentication and grading of collectibles. In particular, the loss of Michael R. Haynes, our Chief Executive Officer, or David G. Hall, our President, could have a negative effect on our reputation for expertise in the collectibles markets in which we operate and could lead to a reduction in authentication and grading submissions to us.

We are dependent on our collectibles experts.

There are a limited number of individuals who have the expertise to authenticate and grade collectibles, and compete for available collectibles experts is intense. Accordingly, our business and our growth initiatives are heavily dependent on our ability (i) to retain our existing collectibles experts, who have developed relatively unique skills and enjoy a reputation for being experts within the collectibles markets, and (ii) to implement personnel recruiting,

succession and training programs that will enable us to add collectibles experts, as necessary, to grow our business and offset employee turnover that can occur from time to time. If we are not successful in retaining our existing collectibles experts or in hiring and training new collectibles experts, this could adversely affect our growth initiatives and harm our business, operating results and financial condition. Moreover, some of our experts could leave our company to join a competitor or start a competing business.

We could suffer losses on authentication and grading warranties.

We offer a warranty covering the coin, sportscard and stamps authentication and grading services that we provide. Under the terms of our warranty:

- if any coin, sportscard or stamp that we have authenticated and sealed in our tamper-evident plastic cases is later determined not to have been genuine, we would have to purchase the coin or sportscard at the price paid for it by its then owner; and
- if any coin, sportscard or stamp that was graded by us and sealed in our tamper-evident plastic cases later receives a lower grade upon resubmission to us for grading, we would be obligated either to purchase the coin, sportscard or stamp at the price paid by its then owner or to pay the difference in its value at its original grade as compared to its value at the lower grade.

We have no insurance coverage for claims made under these warranties and, therefore, we maintain reserves to satisfy such warranty claims based on historical experience, which in the past have proven to be adequate. If warranty claims were to exceed these reserves, we would incur additional charges that would adversely affect our operating results and financial condition.

Increased competition could adversely affect our financial performance.

Although there are few major competitors in the collectibles authentication and grading markets in which we currently operate, competition in these markets is, nevertheless, intense. Increased competition could adversely affect our pricing and profit margins and our ability to achieve further growth. We cannot assure that we will continue to be successful in competing against existing or future competitors. Additionally, if we succeed in expanding our business into new collectibles markets in which there are companies that already provide authentication and grading services, we are likely to encounter intense competition from those companies. Also, our entry into new collectibles or high-value asset markets could lead other potential competitors to enter those markets as well. Such competition could adversely affect our ability to generate profits and could cause us to incur losses and damage our financial condition.

We depend on our ability to protect and enforce our intellectual property rights.

We believe that our trademarks and other proprietary rights are important to our success and competitive position. We rely on a combination of trademark, copyright and trade secret laws to establish and protect our proprietary rights. However, the actions we take to establish and protect our trademarks and other proprietary rights may prove to be inadequate to prevent imitation of our services or products or to prevent others from claiming violations of their trademarks and proprietary rights by us. In addition, others may develop similar trade secrets or other intellectual property independently or assert rights in our trademarks and other proprietary rights that could lead them to seek to block sales of our services based on allegations that use of some of our marks or other intellectual property constitutes a violation of their intellectual property rights.

Our unregistered trademarks could conflict with trademarks of others.

We have not conducted an exhaustive search of possible prior users of our unregistered trademarks, including Coin Universe, Collectors.com and PSE. Therefore, it is possible that our use of some of these trademarks may conflict with others. As a result, we could face litigation or lose the use of some of these trademarks, which could have an adverse effect on our name recognition and result in a decrease in revenues and an increase in expenses.

The imposition of government regulations could increase our costs of doing business.

With the exception of state laws applicable to autograph authentication, the collectible coin and other high-value collectibles markets are not currently subject to direct federal, state or local regulation. However, from time to time government authorities discuss additional regulations which could impose restrictions on the collectibles industry, such as regulating collectibles as securities or requiring collectibles dealers to meet registration or reporting requirements, or regulating the conduct of auction businesses. Adoption of laws or regulations of this nature could lead to a decline in sales and purchases of collectibles and, therefore, also to a decline in the volume of coins, sportscards and other collectibles that are submitted to us for authentication and grading.

Our reliance on a single source for principally all of our “tamper-evident,” clear plastic coin and sportscard holders exposes us to potential supply problems.

We place all of the coins and sportscards and currency notes, and sometimes also the stamps, that we authenticate and grade in tamper-evident, clear plastic holders. In order to take advantage of volume pricing discounts, we have chosen to purchase substantially all of those holders, on a purchase order basis, from one principal supplier. Our reliance on a single supplier for a substantial portion of those plastic holders exposes us to potential for delay in our ability to deliver timely authentication and grading services in the event that supplier were to terminate its services to us or to encounter financial or production problems. If, in such an event, we were unable to obtain replacements of comparable quality in a relatively short period of time, we could lose customer orders or incur additional costs, which could cause a decline in our net revenues and have a material adverse effect on our results of operations.

Our computer and network systems may be vulnerable to unforeseen problems and security risks, and we are vulnerable to system failure due to a lack of redundant systems at another location.

Our operations are dependent on our ability to protect our computer systems that we use in our authentication and grading operations and to maintain our websites against damage from fire, power loss, telecommunications failure, earthquakes and similar catastrophic events. In this regard, Southern California, where we are located, is particularly vulnerable to earthquakes and fires that could result in damage to our computer systems; however, we do not have redundant computer systems at a location that is remote from Southern California. Any damage to or failure of our computer systems could cause an interruption in our services that could harm our business, operating results and financial condition.

In addition, our operations are dependent on our ability to protect our computer systems and network infrastructure from damage that could occur from physical break-ins, security breaches and other disruptive problems caused by the technology that we employ in our operations. Computer break-ins and security breaches also could jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which could cause us to incur significant liability and possibly also damage our reputation. Other disruptions due to problems on the internet or actions of internet users could make it difficult for our customers to access our websites. In either case, problems of this nature could adversely affect our business and operating results, and security breaches that would adversely affect the privacy of customer information could lead existing customers to terminate their business relationships with us. Although we intend to continue to implement sophisticated technology to prevent such disruptions and damage, there is no assurance that our security measures will prove to be successful.

We rely on third parties for various internet and processing services.

Our operations depend on a number of third parties for internet access and delivery services. We have limited control over these third parties and no long-term relationships with any of them. For example, we do not own a gateway onto the internet, but, instead, rely on internet service providers to connect our website to the internet. Should the third parties that we rely on for internet access or delivery services be unable to serve our needs for a sustained time period as a result of a strike, natural disaster or other reason, our revenues and business could be harmed.

We are exposed to potential risks and we will continued to incur increased costs as a result of the internal control testing and evaluation process mandated by Section 404 of the Sarbanes–Oxley Act of 2002.

Although we have now completed the documentation and testing of the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes–Oxley Act of 2002, we expect we will have to incur continuing costs, including increased accounting fees, in order to maintain compliance with that Section of the Sarbanes–Oxley Act. Also, if our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to our practices, our reputation may be harmed or we may be subject to litigation.

If our quarterly results are below the expectations of securities market analysts and investors, the price of our common stock may decline.

Many factors, including those described in this “Risk Factors” section, can affect our business, financial condition and results of operations, which makes the prediction of our financial results difficult. These factors include:

- increases or decreases in number of collectibles graded from period to period,
- changes in market conditions that can affect the demand for our authentication and grading services, such as a decline in the popularity of certain collectibles,
- general economic conditions that affect the availability of disposable income among collectors, and
- the actions of our competitors.

If our quarterly operating results fall below the expectations of securities market analysts and investors due to these or other risks, securities analysts may downgrade our common stock and some of our stockholders may sell their shares, which could adversely affect the trading prices of our common stock. Additionally, in the past, companies that have experienced declines in the trading price of their shares due to events of this nature have been the subject of securities class action litigation. If we become involved in a securities class action litigation in the future, it could result in substantial costs and diversion of our management's attention and resources, thus harming our business.

Provisions in our charter documents or in Delaware law may make an acquisition of us more difficult or delay a change in control, which may adversely affect the market price of our common stock.

Our Amended and Restated Certificate of Incorporation and Bylaws contain anti–takeover provisions, including those listed below, that could make it more difficult for a third party to acquire control of us, even if that change of control would be beneficial to our stockholders:

- our board of directors has the authority to issue common stock and preferred stock and to determine the price, rights and preferences of any new series of preferred stock without stockholder approval;
- there are limitations on who can call special meetings of our stockholders; and
- stockholders may not take action by written consent.

In addition, provisions of Delaware law and our stock option plans may also discourage, delay or prevent a change in control of our company or unsolicited acquisition proposals.

Ownership of shares by our directors and executive officers.

As of June 30, 2005, our officers and directors and their affiliates owned approximately 12% of the outstanding shares of our common stock. By reason of that ownership and their positions with our Company, those stockholders continue to have the ability to exercise influence over our business. The interests of these stockholders may differ from the interests of other stockholders and their concentration of ownership also could discourage or prevent attempts to effect a change in control of our Company.

We do not intend to pay dividends. As a result, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have not declared or paid any cash dividends on our common stock since our initial public offering in 1999. Moreover, we currently intend to retain any future earnings to finance our operations and for the further expansion and growth of our business and, for that reason, do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. We cannot guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

ITEM 2. PROPERTIES

We lease approximately 59,000 square feet for our California-based headquarters under a nine-year lease that commenced in November 2000. We currently sublease 2,184 square feet of this office space to a sub-tenant with an expiration date that coincides with the expiration of the Company's nine-year lease. We believe that our leased offices are sufficient for our business requirements.

ITEM 3. LEGAL PROCEEDINGS

Bill Miller v. Collectors Universe, Inc. The Company has been named as a defendant in this action, which has been brought in the Superior Court of California, County of Orange, by Bill Miller, a former employee of the Company, who was president of one of the Company's collectibles sales businesses that was sold in 2004 and an expert in the authentication of autographs and memorabilia. The complaint alleges that the Company had issued certificates of authentication bearing his name without his consent, in violation of a California statute prohibiting unauthorized appropriation of a person's name, signature or likeness. The statute entitles the person whose name, signature or likeness has been misappropriated, in violation of the statute, to recover the greater of \$750 or the actual damages suffered as a result of the unauthorized use, and any profits from the unauthorized use that are attributable to the use and are not taken into account in computing the actual damages. Although Plaintiff's complaint does not state the amount of damages he is seeking, during the discovery phase of the action, plaintiff's counsel has asserted that he is entitled to recover damages in excess of \$10 million based on the assertion that the statute entitles plaintiff to \$750 per issued certificate of authenticity. The Company has denied plaintiff's allegations, including a denial that the use of the certificates was unauthorized and a denial that he has suffered damages, and the Company is vigorously defending against the lawsuit. The Company believes, moreover, that it has meritorious defenses to plaintiff's claims and that it will not incur any material liability to plaintiff in this action. However, there is little interpretive history with respect to the statute, creating a number of relatively novel factual and legal issues, and for that reason, it is not possible to predict with certainty the ultimate outcome of the trial, which is scheduled to take place in October 2005.

The Company also is named, from time to time, as a defendant in lawsuits that arise in the ordinary course of its business. Management of the Company believes that none of such lawsuits that are currently pending against it is likely to have a material adverse effect on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF REGISTRANT

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Michael R. Haynes	54	Chief Executive Officer
David G. Hall	58	President
Michael J. Lewis	61	Senior Vice President – Finance and Chief Financial Officer ⁽¹⁾
Joseph J. Wallace	45	Vice President Finance and Chief Financial Officer ⁽¹⁾

(1) Effective as of September 15, 2005, Mr. Lewis will become Senior Vice President of Finance and Mr. Wallace, who has been the Company's Vice President of Finance since November 2004 and Controller since June 2004, will assume the position of Chief Financial Officer.

MICHAEL R. HAYNES has served as Chief Executive Officer and Director since January 1, 2003. He served as Chief Operating Officer, Chief Financial Officer and Director of Tangible Asset Galleries, Inc, a distributor of fine art, from 2000 to 2002. He has been President, Chief Operating Officer and/or Chief Financial Officer of eight collectibles, precious metals, specialty retail, distribution, e-commerce and manufacturing businesses. Overall, Mr. Haynes has more than 25 years of experience in managing the growth and development of growth companies, which includes over 19 years experience in managing both public and private companies engaged in the business of selling collectibles at auction, retail and wholesale. He was also one of the co-founding board members of the Industry Council for Tangible Assets, a Washington, D.C. trade association for dealers and auctioneers of tangible and collectible assets, where he served for nine years. Mr. Haynes holds a Master's degree in Business and a Bachelor of Science degree in mechanical engineering, both from Southern Methodist University. He is a Certified Public Accountant and a Certified Financial Planner.

DAVID G. HALL has served as President of Collectors Universe, Inc. since September 2001. From April 2000 to September 2001, Mr. Hall served as our Chairman of the Board and Chief Executive Officer. Mr. Hall also has served as Chairman of the Board and a Director of Professional Coin Grading Services, Inc., the Company's predecessor, since it was founded in February 1986 and also served as its President and Chief Executive Officer until January 1999. Mr. Hall was honored in 1999 by *COINage Magazine* as Numismatist of the Century, along with 14 others. In 1990, Mr. Hall was named an Orange County Entrepreneur of the Year by *INC. magazine*. In addition, he has written *A Mercenary's Guide to the Rare Coin Market*, a book dedicated to coin collecting. Mr. Hall is also a member of the Professional Numismatists Guild.

MICHAEL J. LEWIS has served as Chief Financial Officer of Collectors Universe, Inc. since October 2001. Effective September 15, 2005, Mr. Lewis will become Senior Vice President – Finance of the Company. At that time, his duties as Chief Financial Officer will be assumed by Joseph J. Wallace, the Company's Vice President of Finance and Controller. From January 2000 to October 2001, Mr. Lewis was a private investor. In 1998, Mr. Lewis was Chief Financial Officer of the Young Presidents' Organization. During 1999, Mr. Lewis was an associate with Eureka Financial Markets, a venture capital firm. From 1994 to 1997, Mr. Lewis served as Chief Executive Officer of National Case Management. Prior to that time, Mr. Lewis served as a Financial Consultant or as Chief Financial Officer in several companies, including Chief Financial Officer of Western Digital Corporation and Emulex Corporation.

JOSEPH J. WALLACE will become the Company's Chief Financial Officer effective as of September 15, 2005. He has been the Company's Vice President of Finance since November 2004 and its Controller since June 2004. From 1997 to 2003, Mr. Wallace was Vice President of Finance, Chief Financial Officer and Secretary of STM Wireless, Inc., a public traded company engaged in the business of developing, manufacturing and marketing satellite communications products and services, which filed for Chapter 11 protection under the Bankruptcy Code in February 2003. Mr. Wallace is a Fellow of the Institute of Chartered Accountants, a member of the Institute of Certified Public Accountants, in Ireland, and a CPA in the State of California.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the Nasdaq National Market, trading under the symbol CLCT. The following table sets forth the high and low closing prices of our common stock, as reported by NASDAQ for each of the fiscal quarters in the fiscal years ended June 30, 2005 and 2004:

Fiscal 2005	High	Low
First Quarter	\$ 14.87	\$ 10.53
Second Quarter	20.43	14.50
Third Quarter	21.60	17.78
Fourth Quarter	19.34	14.82

Fiscal 2004	High	Low
First Quarter	\$ 3.80	\$ 3.35
Second Quarter	10.60	3.45
Third Quarter	12.44	7.45
Fourth Quarter	14.09	9.33

The Company had 111 holders of record of its common stock and approximately 2,184 beneficial owners on June 30, 2005.

Dividends and Share Repurchases

We do not intend to declare or pay cash dividends for the foreseeable future, as it is our current policy to retain all earnings to support future growth and expansion. In addition, there are restrictions on the payment of dividends arising from the Company's new line of credit (see note 9 to the consolidated financial statements).

Pursuant to a program approved by the Board of Directors in 2000, the Company purchased 125,000 of its shares at an average price of \$8.16 per share during the period from September 25, 2000 to December 28, 2000. Although we do not currently have plans to do so, depending on market conditions and the alternatives for the use of the Company's cash that may be in excess of our current requirements, the Board of Directors may consider adopting additional stock repurchase programs in the future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected operating data for the fiscal years ended June 30, 2005, 2004 and 2003, and the selected balance sheet data at June 30, 2005 and 2004, that are set forth below are derived from the Company's audited consolidated financial statements included elsewhere in this Report. The selected operating data for the fiscal years ended June 30, 2002 and 2001 and the related balance sheet data at June 30, 2003, 2002 and 2001 were derived from audited consolidated financial statements that are not included in this Report. The following data should be read in conjunction with our consolidated financial statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included below in this Report.

As previously disclosed, in December 2003 the Company approved, and during the balance of fiscal 2004 implemented, a plan to dispose of its collectibles sales businesses. As a result, the consolidated selected financial data set out below for the five years ended June 30, 2005 have been restated to classify the assets and related liabilities of those businesses as held for sale and the related operating results as discontinued operations. Therefore, for fiscal years 2001 through 2003, the loss from discontinued operations reflects the after-tax results of operations of these businesses in those years. In fiscal 2004, the loss from discontinued operations reflects the after-tax results of operations for these businesses through the respective dates of their disposal, plus any gain or loss recognized on the disposal of those businesses. In fiscal 2005, the loss from discontinued operations reflects the after tax net loss incurred on the disposal of the remaining assets of those businesses, plus additional consideration recognized on the sale of the discontinued businesses that became determinable in the period.

In the third quarter of fiscal 2005, we completed a public offering in which we sold a total of 3,450,000 shares of our common stock at a public offering price of \$17.50 per share, of which 2,195,856 shares were sold by the Company. The net proceeds to us, after payment of underwriting commissions and offering expenses, were approximately \$35,657,000.

	Years Ended June 30, ⁽¹⁾				
	(in thousands, except per share data)				
	2005	2004	2003	2002	2001
Consolidated Statement of Operations Data:					
Net revenues	\$ 33,607	\$ 26,420	\$ 20,337	\$ 18,635	\$ 21,373
Cost of revenues	12,239	10,322	8,754	7,935	8,929
Gross profit	21,368	16,098	11,583	10,700	12,444
Selling, general and administrative expenses	13,901	11,829	11,486	11,884	11,044
Settlement of lawsuit	500	–	–	–	–
Amortization of goodwill	–	–	–	90	60
Impairment of goodwill	–	–	6	51	–
Operating income (loss)	6,967	4,269	91	(1,325)	1,340
Interest income, net	906	135	94	191	855
Other income (expense), net	26	(25)	(6)	(20)	(34)
Income (loss) before provision (benefit) for income taxes	7,899	4,379	179	(1,154)	2,161
Provision (benefit) for income taxes	3,141	1,581	(557)	(502)	949
Income (loss) from continuing operations	4,758	2,798	736	(652)	1,212
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	60	(1,068)	(2,202)	(1,858)	(1,861)
Cumulative effect of accounting change (net of income taxes)	–	–	(8,973)	–	–
Net income (loss)	<u>4,818</u>	<u>\$ 1,730</u>	<u>\$ (10,439)</u>	<u>\$ (2,510)</u>	<u>\$ (649)</u>
Net income (loss) per basic share: ⁽²⁾					
Income (loss) from continuing operations	\$ 0.68	\$ 0.45	\$ 0.12	\$ (0.10)	\$ 0.19
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.01	(0.17)	(0.35)	(0.30)	(0.29)
Cumulative effect of accounting change (net of income taxes)	–	–	(1.45)	–	–
Net income (loss)	<u>\$ 0.69</u>	<u>\$ 0.28</u>	<u>\$ (1.68)</u>	<u>\$ (0.40)</u>	<u>\$ (0.10)</u>
Net income (loss) per diluted share: ⁽²⁾					
Income (loss) from continuing operations	\$ 0.64	\$ 0.44	\$ 0.12	\$ (0.10)	\$ 0.19
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.01	(0.17)	(0.35)	(0.30)	(0.29)
Cumulative effect of accounting change (net of income taxes)	–	–	(1.43)	–	–
Net income (loss)	<u>\$ 0.65</u>	<u>\$ 0.27</u>	<u>\$ (1.66)</u>	<u>\$ (0.40)</u>	<u>\$ (0.10)</u>
Weighted average shares outstanding: ⁽²⁾					
Basic	7,013	6,170	6,205	6,347	6,279
Diluted	7,452	6,463	6,294	6,347	6,408
Balance Sheet Data:					
Cash and cash equivalents	\$ 65,439	\$ 21,454	\$ 4,482	\$ 4,947	\$ 5,874
Working capital – continuing operations	68,576	22,308	4,566	5,621	7,943
Working capital – discontinued operations	338	991	13,803	13,732	12,682
Total assets – continuing operations	75,123	32,690	15,926	11,503	13,588
Total assets – discontinued operations	411	1,384	16,365	34,006	33,281
Stockholders' equity	70,566	29,366	26,319	37,128	39,550

(1) Prior to fiscal 2003 the Company's fiscal year ended on the Saturday closest to June 30 and, as a result, fiscal 2002 ended on June 29, 2002. Beginning with fiscal 2003 the Company changed its fiscal year end to June 30. For clarity of presentation, fiscal 2002 is reported as having ended on June 30.

(2) Per share data and weighted average shares outstanding in fiscal 2002 and 2001 have been retroactively adjusted for a 1-for-4 reverse stock split of our outstanding shares, which was effectuated on December 9, 2002.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the "Selected Consolidated Financial Data" and our Consolidated Financial Statements and related notes, included elsewhere in Part II of this Report. This discussion also should be read in conjunction with the Section of this Report, entitled "Factors That Could Affect Our Future Financial Performance," included in Part I of this Report, which contains information about certain risks and uncertainties that can affect our business and our financial performance in the future.

Introduction and Overview

Our Business

We provide authentication and grading and other services to dealers and collectors of high-value collectible coins, sportscards, autographs and stamps that we believe add value to those collectibles by enhancing their marketability and, thereby, providing increased liquidity to the dealers and collectors that buy and sell these types of collectibles.

We principally generate revenues from the fees paid by dealers and collectors for our authentication and grading services. To a much lesser extent, we also generate revenues from the sale of advertising on our websites; the sale of printed publications and collectibles price guides and advertising in such publications; and the sale of historical data and information about the collectibles authenticated and graded by us.

Discontinued Operations

During the period from 1999 through the latter part of fiscal 2004, we also were engaged in the business of marketing and selling collectible coins, sportscards and sports entertainment and historical memorabilia. For the most part, those sales were made at multi-venue auctions that were conducted by our collectibles sales divisions, including Bowers and Merena Galleries and Kingswood Coin Auctions for rare coins, Superior Sports Auctions for vintage sportscards and sports memorabilia, Odyssey Publications for entertainment and historical memorabilia and Lynn Knight Currency Auctions for currency. We also sold collectible coins, at retail, by direct sales methods.

At the authorization of our Board of Directors, in December 2003, we adopted a plan to focus our financial and managerial resources, and collectibles expertise, on the operation and growth of our authentication and grading and other collectibles service businesses, and to divest our collectibles auctions and direct sales businesses. The decision to implement this plan was based on a number of factors and considerations that included, among others, the historical operating results of the collectibles sales and auction businesses, which had proved to be disappointing as compared to the operating results of our authentication and grading businesses; a lack of synergies between the collectibles sales and auction businesses and our authentication and grading businesses, which made it difficult to achieve operational efficiencies and cost savings; and the additional capital that we believed would be required to grow our auction and retail sales businesses in comparison to the lower capital requirements of our authentication and grading businesses.

Pursuant to that plan, during fiscal 2004 we sold our collectibles sales businesses. We also terminated the licenses under which we operated our David Hall Rare Coins Division, which had been engaged in the business of selling collectible coins at retail. However, we chose to retain and separately sell the collectibles inventories and collect the outstanding accounts receivables of those businesses. By June 30, 2005 we had substantially liquidated those retained assets.

In accordance with Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the assets and related liabilities of the collectible sales businesses have been classified as held for sale, their related operating results have been classified as discontinued operations and prior period financial statements have been restated on that same basis. See "Selected Consolidated Financial Data" included in this Annual Report and our consolidated financial statements contained in Part II of this Report.

As a result of our divestiture of our collectibles sales businesses, the discussion that follows focuses almost entirely on our authentication and grading businesses, which comprise our continuing operations.

Factors That Can Affect our Financial Position and Operating Results

Factors that Can Affect our Revenues and Cash Flows. The provision of authentication and grading services has provided relatively stable and predictable cash flows for us, as the fees for a significant proportion of the authentication and grading submissions we receive are prepaid. In the years ended June 30, 2005, 2004 and 2003, respectively, we generated cash of \$7,447,000, \$6,068,000 and \$838,000, respectively, from the operations of our continuing businesses.

During the year ended June 30, 2005 and 2004, we generated cash of \$2,332,000 and \$10,435,000 from the sales of our collectibles sales businesses and the liquidation of the retained inventories and accounts receivable of those businesses. As a result, at June 30, 2005, the remaining assets of those businesses, which we are in the process of liquidating, totaled \$411,000, as compared to \$1,384,000 at June 30, 2004. Therefore, it is not expected that the Company will generate any substantial cash flows from the sale of the remaining assets of the discontinued businesses in the future.

During the year ended June 30, 2005, five of our coin authentication and grading customers accounted for approximately 27% of our total net revenues. As a result, the loss of any of those customers, or a lower level of activity by any of those customers, would cause our net revenues to decline and, therefore, could harm our profitability. During the fourth quarter of fiscal 2005, the owner of the largest of these customers encountered an unexpected and serious medical problem, which led to a 45% decrease in revenues from that customer in the fourth quarter, compared to the third quarter of fiscal 2005. This reduction in revenues from that customer is expected to continue in fiscal 2006.

In addition, the Company's cash flows from investing activities can be impacted by the extent to which the Company makes advances or receives repayments under the Dealer Financing Program that was initiated in fiscal 2005. Borrowings or repayments under the Company's new line of credit, which will be classified as cash flows from financing activities, may offset the impact of such advances or repayment.

At June 30, 2005, we had cash and cash equivalents totaling \$65,439,000, of which \$35,657,000 represented the net proceeds from our sale, in a public offering, of 2,195,856 shares of our common stock in the third quarter of 2005.

We intend to use our cash resources to fund the growth of our authentication and grading businesses, including (i) the introduction of new services that we can offer our customers in our existing markets and (ii) the acquisition or start up of businesses that authenticate or grade other high-value collectibles or other high-value assets. A description of the new services we plan to introduce and the acquisition opportunities we are exploring is contained in the Section of this Report entitled "BUSINESS — Our Growth Strategy" in Part I of this Report.

Factors Affecting our Gross Profit Margins. The gross profit margins on authentication and grading submissions are primarily affected by the mix of collectibles submitted to us for grading (i) between coins and sports cards and (ii) between vintage or "classic" coins and sports cards, on the one hand, and modern coins and sports cards, on the other hand. Generally, the prices for authentication and grading of collectible coins are higher than those charged for the grading of sports cards, autographs or stamps. In addition, our fees for authentication and grading of coins and sports cards vary depending on the "turn-around" time requested by our customers, because we charge higher fees for faster service times. Since, as a general rule, customers request faster turn-around times for vintage or classic coins and sports cards than they do for modern submissions, the mix of submissions between vintage and modern collectibles also affects our profit margin.

Impact of Economic Conditions on Financial Performance. We generate substantially all of our revenues from the high-value collectibles markets. Accordingly, our operating results are affected by the financial performance of those markets, which depends to a great extent on (i) discretionary consumer spending and, hence, on the availability of disposable income, (ii) other economic conditions, including prevailing interest and inflation rates, which can affect consumer confidence and the performance of the stock market and the precious metals markets, and (iii) the performance and volatility of the precious metals and stock markets. These conditions primarily affect the volume of purchases and sales of collectibles which, in turn, affects the volume of authentication and grading submissions to us, because our services facilitate commerce in collectibles. Accordingly, factors such as improving economic conditions which usually result in increases in disposable income and consumer confidence, and volatility in and declines in the prices of stocks and a weakening in the value of the U.S. Dollar, which lead

investors to increase their purchases of precious metals, such as gold bullion and other coins, and other collectibles, usually result in increases in submissions of collectibles for our services. By contrast, the volume of collectibles sales and purchases and, therefore, the volume of authentication and grading submissions, usually decline during periods characterized by recessionary economic conditions and by declines in disposable income and consumer confidence, and during periods characterized by increasing stock prices and relative stability in the stock markets. We believe that the strengthening of the economy in the United States, together with the weakening of the U.S. Dollar, coupled with some continuing uncertainties over the longer term direction of the stock markets, and the prospect of increased inflation and higher interest rates, have contributed to an increase in the demand for gold and other precious metals and, therefore, also to the increases in our authentication and grading revenues during the years ended June 30, 2005 and 2004, in each case as compared to the immediately preceding fiscal year.

The following table provides information regarding the respective numbers of coins, sportscards, autographs, stamps and currency that we graded or authenticated in the fiscal years ended June 30, 2005, 2004, and 2003 and their estimated values, which are the amounts at which those coins, sportscards, stamps and currency were insured by the dealers and collectors who submitted them to us for grading and authentication.

	Units Processed					
	2005		2004		2003	
Coins	1,670,000	58%	1,241,000	53%	917,000	46%
Sportscards	1,084,000	38%	998,000	43%	1,058,000	53%
Autographs	77,000	3%	68,000	3%	15,000	1%
Stamps	26,000	1%	16,000	1%	12,000	–
Currency	3,000	–	–	–	–	–
Total	<u>2,860,000</u>	<u>100%</u>	<u>2,323,000</u>	<u>100%</u>	<u>2,002,000</u>	<u>100%</u>

	Declared Values (000)					
	2005		2004		2003	
Coins	\$ 1,191,000	91%	\$ 993,000	90%	\$ 769,000	90%
Sportscards	66,000	5%	67,000	6%	72,000	8%
Autographs	26,000	2%	31,000	3%	7,000	1%
Stamps	17,000	1%	10,000	1%	8,000	1%
Currency	8,000	1%	–	–	–	–
Total	<u>\$ 1,308,000</u>	<u>100%</u>	<u>\$ 1,101,000</u>	<u>100%</u>	<u>\$ 856,000</u>	<u>100%</u>

Critical Accounting Policies and Estimates

General. In accordance with accounting principles generally accepted in the United States of America (“GAAP”), we record certain of our assets at the lower of cost or fair value. In determining the fair value of those assets, principally inventories and accounts receivable, we must make judgments, estimates and assumptions regarding circumstances or trends that could affect the value of those assets, such as economic conditions or trends that could impact our ability to realize the amounts at which our inventories are recorded, or to fully collect the accounts receivable shown, on our balance sheet. Those judgments, estimates and assumptions are made based on current information available to us at that time. Many of those conditions, trends and circumstances, however, are outside of our control and, if changes were to occur in economic conditions or trends on which our judgments or estimates were based, or unanticipated events were to occur, we may be required under GAAP to adjust our earlier estimates that are affected by those changes. Changes in such estimates may require that we reduce the carrying value of the affected assets on our balance sheet (which are commonly referred to as “write-downs” of the assets involved).

It is our practice to establish reserves or allowances to record such downward adjustments or “write-downs” in the carrying value of assets such as accounts receivable and inventory. Such write-downs are recorded as charges to income or increases in expense in our statement of operations in the periods when those reserves or allowances are established or increased to take account of changed conditions or events. As a result, our judgments, estimates and assumptions about future events, and changes in the conditions, events or trends upon which those

estimates and judgments were based, can and will affect not only the amounts at which we record those assets on our balance sheet, but also our results of operations.

The decisions as to the timing of adjustments or write-downs of this nature also require subjective evaluations or assessments about the effects and duration of events or changes in circumstances. For example, it is difficult to predict whether events, such as occurred on September 11, 2001, or increases in interest rates or economic slowdowns, will have short or longer term consequences for our business, and it is not uncommon for it to take some time after the occurrence of an event or the onset of changes in economic circumstances for their full effects to be measured. Therefore, management makes such estimates based upon the information available at that time and reevaluates and adjusts its reserves and allowances for potential write-downs on a quarterly basis.

Under GAAP, businesses also must make estimates or judgments regarding the periods during which, and also regarding the amounts at which, sales are recorded. Those estimates and judgments will depend on a number of factors, including whether customers are granted rights to return the products or reject or adjust the payment for the services provided to them (return rights).

In making our estimates and assumptions, we follow GAAP in order to enable us to make fair and consistent estimates of the fair value of assets and to establish adequate reserves or allowances for possible write-downs in their carrying values.

Set forth below is a summary of the accounting policies that we believe are material to an understanding of our financial condition and results of operations.

Revenue Recognition Policies. We record revenue at the time of shipment of the graded collectible to the customer. Our authentication and grading customers generally 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 their graded collectibles are shipped back to them. At that time, we record the revenue from the authentication and grading services we have performed for the customer and deduct this amount from deferred revenue.

Accounts Receivable and the Allowance for Doubtful Accounts. In the normal course of business, we extend payment terms, usually of 30 days duration, to many of the larger, more creditworthy collectibles dealers who submit collectibles to us for authentication and grading on a recurring basis. We regularly review their accounts, estimate the amount of, and establish an allowance for, uncollectible amounts on a quarterly basis. The amount of that allowance is based on several factors, including the age and extent of significant past due accounts, and known conditions or trends that may affect the ability of account debtors to pay their accounts receivable balances. Estimates of uncollectible amounts are reviewed each quarter and, based on that review, are revised to reflect changed circumstances or conditions in the quarterly period they become known. For example, if the financial condition of certain dealers or economic conditions were to deteriorate, adversely affecting their ability to make payments on their accounts, increases in the allowance may be required. Since the allowance is created by a charge against income that is recorded in general and administrative expenses, an increase in the allowance will cause a decline in our operating results in the period when the increase is recorded.

Grading Warranty Costs. We offer a warranty covering the coins, sportscards and currency we authenticate and grade. We have recently begun offering a warranty covering the stamps that we authenticate and grade, if the dealer or collector requests that the stamp be returned to them in our tamper-evident clear plastic holders. Under the warranty, if any coin, sportscard, currency or stamp that was previously graded by us is later submitted to us for re-grading and either (i) receives a lower grade upon that resubmittal or (ii) is determined not to have been authentic, we will offer to purchase the coin, sportscard or stamp or, at our election, to 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 coin, sportscard, currency or stamp, upon resubmittal to us, is not in the same tamper evident clear plastic holder in which it was placed at the time we last graded it, or shows signs of tampering. We accrue for estimated warranty costs based on historical trends and related experience. To date our reserves have proved to be adequate. However, if warranty claims were to increase in relation to historical trends and experience, we would be required to increase our warranty reserves and incur additional charges that would have the effect of reducing our income in those periods during which the warranty reserve is increased.

Inventory Valuation Reserve. Our remaining collectibles sales inventories, which totaled approximately \$189,000 at June 30, 2005 and our coin and other collectibles inventories used in our continuing operations, are valued at the lower of cost or market and have been reduced by an inventory valuation allowance to provide for declines in the estimated value of those inventories. The amount of the allowance is determined on the basis of market knowledge, historical experience and estimates concerning future economic conditions that may impact the sales values of our collectibles inventories. Additionally, due to the relative uniqueness of some of the collectibles included in our collectibles inventory, their valuation often involves judgments that are more subjective than the judgments involved in valuing more standardized products sold by other businesses. If events or circumstances, such as changes in economic conditions, occur that we believe will make it more difficult, or will cause us to reduce the prices at which we will be able, to sell the collectibles, it may become necessary to increase the allowance. Increases in this allowance will cause a decline in operating results, because such increases are recorded by charges against income.

Results of Operations

The following table sets forth certain financial data, expressed as a percentage of net revenues, derived from our statements of operations for the respective periods indicated below:

	Fiscal Years Ended June 30,		
	2005	2004	2003
Net revenues	100.0%	100.0%	100.0%
Cost of revenues	36.4%	39.1%	43.0%
Gross profit	63.6%	60.9%	57.0%
Operating expenses:			
Selling and marketing expenses	10.5%	12.0%	13.0%
General & administrative expenses	30.8%	32.7%	43.6%
Settlement of lawsuit	1.5%	—	—
Total operating expenses	42.8%	44.7%	56.6%
Operating income	20.8%	16.2%	0.4%
Interest income, net	2.7%	0.5%	0.5%
Other, net	0.1%	(0.1%)	—
Income before provision (benefit) for income taxes	23.6%	16.6%	0.9%
Provision (benefit) for income taxes	9.4%	6.0%	(2.7%)
Income from continuing operations	14.2%	10.6%	3.6%
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.1%	(4.1%)	(10.8%)
Cumulative effect of accounting change (net of income taxes)	—	—	(44.1%)
Net income (loss)	14.3%	6.5%	(51.3%)

Net Revenues. Net revenues consist primarily of fees generated from the grading and authentication of sportscards, coins and stamps and, to a much lesser extent, revenues from the sale of advertising and the publication of collectibles magazines. Net revenues are determined net of discounts and allowances.

The following tables sets forth certain information regarding the increases in net revenues and in the number of collectibles authenticated and graded in fiscal 2005, fiscal 2004 and fiscal 2003:

	<u>2005</u>		<u>2004</u>		<u>2005 vs. 2004</u>			
					<u>Increase (Decrease)</u>			
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Revenues Amounts</u>		<u>Units Processed</u>	
				<u>(\$)</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	
	(Dollars in thousands)							
Coins	\$ 23,203	69.0%	\$ 17,474	66.1%	\$ 5,729	32.8%	429,000	34.6%
Sportscards	8,143	24.2%	7,126	27.0%	1,017	14.3%	86,000	8.6%
Other collectibles ⁽¹⁾	<u>2,261</u>	<u>6.8%</u>	<u>1,820</u>	<u>6.9%</u>	<u>441</u>	<u>24.2%</u>	<u>22,000</u>	<u>26.2%</u>
	<u>\$ 33,607</u>	<u>100.0%</u>	<u>\$ 26,420</u>	<u>100.0%</u>	<u>\$ 7,187</u>	<u>27.2%</u>	<u>537,000</u>	<u>23.1%</u>

	<u>2004</u>		<u>2003</u>		<u>2004 vs. 2003</u>			
					<u>Increase (Decrease)</u>			
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Revenues Amounts</u>		<u>Units Processed</u>	
				<u>(\$)</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	
	(Dollars in thousands)							
Coins	\$ 17,474	66.1%	\$ 12,171	59.8%	\$ 5,303	43.6%	324,000	35.3%
Sportscards	7,126	27.0%	6,946	34.2%	180	2.6%	(60,000)	(5.7)%
Other collectibles ⁽¹⁾	<u>1,820</u>	<u>6.9%</u>	<u>1,220</u>	<u>6.0%</u>	<u>600</u>	<u>49.2%</u>	<u>57,000</u>	<u>211.1%</u>
	<u>\$ 26,420</u>	<u>100.0%</u>	<u>\$ 20,337</u>	<u>100.0%</u>	<u>\$ 6,083</u>	<u>29.9%</u>	<u>321,000</u>	<u>16.0%</u>

(1) Other collectibles consisted of autographs, stamps and currency in fiscal 2005 and autographs and stamps in 2004 and 2003.

Fiscal 2005 vs. 2004. The number of coins, sportscards and other collectibles (consisting of autographs, stamps and currency) authenticated or graded in 2005 increased by 34.6%, 8.6% and 26.2%, respectively, in 2005, as compared to 2004, resulting in a 23.1% increase in the number of units authenticated and graded and a 27.2% increase in net revenues. Also contributing to the increase in net revenues in 2005 were increases in sales of advertising and collectors club memberships totaling approximately \$920,000 (which includes an approximate \$319,000 increase in on-line advertising) in 2005, as compared to 2004. The average of the service fees earned for all collectibles was approximately the same in 2005 and 2004. However, modern coin revenues, for which the Company earns a lower average service fee than for vintage coin submissions, accounted for a higher proportion of the coins authenticated and graded in 2005, than in 2004. As a result, in 2005, the increase in the number of coins authenticated and graded was greater than the increase in the net revenues.

Fiscal 2004 vs. 2003. The 30% increase in net revenues in 2004, compared to 2003, was attributable to an overall increase of 16% in the number of collectibles authenticated and graded, including a 35.3% increase in the number of coins authenticated and graded, in 2004 as compared to 2003. The average fees paid for the grading of coins was higher in 2004 than in 2003, due primarily to customers requesting faster turnaround times in 2004, compared to 2003. Coins accounted for 53% of the total collectibles graded in fiscal 2004 as compared to 46% in fiscal 2003. Additionally, while the number of sportscards graded declined by 5.7% in fiscal 2004, as compared to 2003, sportscard grading revenues increased to \$7,126,000 in fiscal 2004 from \$6,946,000 in fiscal 2003, because 2003 included a large bulk order for the grading of newly manufactured sportscards, for which the average selling price was lower than for the grading of sportscards submitted by dealers and collectors.

We believe that the increases in the demand for our coin grading services, both in 2005 and in 2004, in each case as compared to the prior year, were largely attributable to two factors: (i) an increase in purchases and sales of collectible and gold bullion coins by investors, which we believe was due in large part to a shift by investors of some of their funds from marketable securities to tangible assets, primarily in response to the decline in the value of the U.S. dollar and uncertainties and volatility in the stock markets, and (ii) new marketing programs that we initiated in the second half of fiscal 2004. We believe that the increase in the number of other collectibles graded in 2005 versus 2004 was due largely to greater acceptance of and, therefore greater demand for, our grading services particularly among stamp dealers and collectors.

Gross Profit. Gross profit is calculated by subtracting the cost of revenues from net revenues. Cost of revenues consist primarily of labor to grade and authenticate coins, sportscards, autographs and stamps, production and printing costs, credit cards fees, warranty expense, and occupancy, security and insurance costs which directly relate to providing grading and authentication services. Gross profit margin is gross profit stated as a percent of net revenues.

	Fiscal Year Ended June 30, (Dollars in thousands)		
	2005	2004	2003
Gross profit	\$ 21,368	\$ 16,098	\$ 11,583
Gross profit margin	63.6%	60.9%	57.0%

The increase in the gross profit margin in 2005, as compared to 2004, was primarily attributable to (i) increases of 30% in coin authentication and grading revenues, on which we realize higher margins than on authentication and grading submissions of sportscards and other collectibles; (ii) the increases in net revenues (described above), which caused the fixed elements of our costs of revenues to represent a lower percentage of total revenues than in 2004; and (iii) increases, as compared to 2004, in sales of website advertising, for which the cost of sales are minimal.

The increase in our gross profit margin in 2004, as compared to 2003, was due to a combination of factors, the most important of which consisted of (i) the increase in grading submissions of coins, on which we realize higher margins than on submissions of other collectibles for grading, and (ii) an overall increase in net revenues, which caused the fixed elements of our cost of revenues to represent a lower percentage of total revenues in 2004 as compared to 2003.

Selling and Marketing Expenses

Selling and marketing expenses are comprised primarily of advertising and promotions costs, trade-show related expenses, customer service personnel costs and third party consulting costs.

	Fiscal Year Ended June 30, (Dollars in thousands)		
	2005	2004	2003
Selling and marketing expenses	\$ 3,534	\$ 3,165	\$ 2,615
As a percentage of net revenues	10.5%	12.0%	12.9%

The increase of \$369,000 in selling and marketing expenses in 2005, compared to 2004, was primarily attributable to increases in general marketing expenses (customer service personnel, advertising and trade-show related costs) in 2005. Notwithstanding those increases, however, as a percentage of net revenues, selling and marketing expenses decreased from 12.0% of net revenues in 2004 to 10.5% in 2005, indicating that we were able to increase authentication and grading revenues and sales of advertising without having to make commensurate increases in our selling and marketing expenses. The increase in selling and marketing expenses of \$550,000 in 2004, compared to 2003, was due primarily to an increase of \$370,000 in trade-show related costs and other selling expenses in 2004, compared to 2003. However, notwithstanding that increase, as a percentage of net revenues, sales and marketing expenses decreased from 12.9% in 2003 to 12.0% in 2004.

General and Administrative. General and administrative (“G&A”) expenses primarily include wages and payroll-related expenses, advertising and promotional expenses, facility and security expenses, outside professional fees and service charges, travel-related expenses and other general administrative expenses.

	Fiscal Year Ended June 30, (Dollars in thousands)		
	2005	2004	2003
General & administrative expenses	\$ 10,367	\$ 8,664	\$ 8,871
As a percentage of net revenues	30.8%	32.7%	43.6%

Although, as indicated in the table above, G&A expenses increased by \$1,703,000 in 2005, as compared to 2004, such expenses did not increase at the same rate as did net revenues, due primarily to improvements in

operating efficiencies and staff reductions we were able to make as a result of the disposition of our collectibles sales businesses. Therefore, as a percentage of net revenues, G&A expenses declined to 30.8% in 2005 from 32.7% for 2004. In dollar terms, the larger value components of the increases in G&A expenses in 2005, compared to 2004, consisted primarily of (i) increases of approximately \$320,000 in legal fees, including fees incurred on litigation matters, such as the Real Legends lawsuit (discussed below); (ii) approximately \$185,000 of costs incurred in connection with the launch of our new currency grading service during 2005; (iii) consulting fees and audit costs of approximately \$400,000 incurred in connection with the documentation and testing of our internal control over financial reporting, as required by Section 404 of the Sarbanes–Oxley Act 2002; (iv) new business development personnel and outside consulting costs of \$263,000 incurred to develop and maintain our knowledge base in coins and to identify and analyze acquisition opportunities, and (v) general expenses and infrastructure costs incurred to support the increased volume of business that we conducted in 2005, as compared with 2004.

In 2004, G&A expenses decreased both in absolute dollars, by \$207,000, and as a percentage of net revenues to 32.7% from 43.6%, as compared to 2003. The percentage decrease was primarily attributable to the 30% increase in our net revenues in 2004. The dollar decrease in 2004, as compared to 2003, was the result primarily of (i) a reduction in administrative personnel made possible by the disposition of the collectibles sales businesses and (ii) a reduction in consulting fees incurred for services rendered to us in connection with securing State Enterprise Zone Tax Credits in 2004, as compared to 2003, which more than offset increases in G&A expenses that were attributable to the increases in grading submissions in fiscal 2004, as compared to fiscal 2003.

Settlement of Lawsuit. In January 2005, without any admission of wrongdoing, we settled a legal action brought in the Superior Court of California for the County of San Diego, by Real Legends, Inc., a seller of sports cards (plaintiff) against When It Was a Game (“WIWAG”), a sports card dealer, and against us as a co–defendant. Pursuant to the settlement terms, all of the claims asserted against the Company by plaintiff were settled and plaintiff terminated the litigation, with prejudice, and we paid plaintiff \$600,000, of which \$100,000 was reimbursed to us by one of our insurers. As a result, the net cost to us of the settlement in 2005 was \$500,000, or 1.5% of our net revenues.

Goodwill Impairment. In 2003, we recorded, as part of operating expenses, a non–cash goodwill impairment charge of \$6,000 related to continuing operations.

Interest Income, Net. Interest income is generated on cash balances that we invest primarily in highly liquid money market accounts, short–term bank certificates of deposit and commercial paper instruments. Interest income, net was \$906,000 in 2005, \$135,000 in fiscal 2004, and \$94,000 in fiscal 2003. The increase in interest income in 2005 compared to 2004 resulted primarily from increases in our cash, cash equivalent and short–term investment balances that were attributable to (i) the cash generated from the disposition of our collectibles sales businesses, (ii) the increases in income generated by our authentication and grading businesses, and (iii) the sale by us of 2,195,856 shares of our common stock in a public offering that we completed in the third quarter of 2005, which generated net proceeds to us of \$35,657,000. Also contributing to the increase in interest income was an increase in the rates at which we earned interest on our cash and cash equivalent balances and the interest earned on the short–term advances that we made to one of our customers. The increase in interest income in 2004 as compared to 2003 was primarily attributable to interest earned on tax refunds that we received in fiscal 2004.

Provision (Benefit) for Income Taxes. The provision made for income taxes in fiscal 2005 and 2004 and the income tax benefits recorded in fiscal 2003 were calculated on the basis of our expected federal and state effective income tax rates for those years. Contributing to the income tax benefit in fiscal 2003 were \$671,000 of California Enterprise Zone Hiring Tax Credits covering eligibility periods from 1999 to 2002, for which required governmental approvals were obtained in the second quarter of fiscal 2003.

Income (loss) from Discontinued Operations. As a result of our decision in fiscal 2004 to dispose of our collectibles sales businesses, in accordance with SFAS 144 the assets and related liabilities of those businesses have been classified as held for sale and their related operating results for fiscal years 2005, 2004 and 2003 have been classified as discontinued operations in the consolidated financial statements included in this Report. Therefore, in fiscal years 2003, the loss from discontinued operations (net of income taxes) related to the operations of those discontinued businesses for the entire fiscal year and included a goodwill impairment charge of \$1,471,000. In fiscal 2005 and 2004, the income (loss) from discontinued operations includes (i) the losses from the operations of our discontinued collectibles sales businesses through the respective dates on which they were disposed of and

(ii) the losses or gains recognized on the sales of those businesses and the disposition of those assets (consisting primarily of inventories and accounts receivable) that we retained.

Cumulative Effect of Change in Accounting Principle, SFAS No. 142 required us to perform a transitional goodwill impairment test as of the beginning of fiscal 2003, the year of adoption of that new standard. Based on that test, it was determined that a substantial portion of our goodwill was impaired, and we recorded a non-cash after-tax charge of \$8,973,000 or \$1.43 per diluted share, as a cumulative effect of an accounting change, in fiscal 2003.

Quarterly Results of Operations and Seasonality

The following tables present unaudited quarterly financial information for each of the eight quarters beginning September 30, 2003 and ending on June 30, 2005. The information has been derived from our unaudited quarterly financial statements, which have been prepared by us on a basis consistent with our audited financial statements appearing elsewhere in this Form 10-K. The consolidated financial information set forth below includes all necessary adjustments, consisting only of normal recurring adjustments, that management considers necessary for a fair presentation of the unaudited quarterly results when read in conjunction with the consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-K. These operating results, which reflect the reclassification of our results of operations between continuing operations and discontinued operations as a result of the disposition of our collectibles sales businesses, are not necessarily indicative of results that may be expected for any subsequent periods.

Generally, net revenues are lower during our second fiscal quarter that ends on December 31 than in other quarterly periods, which we believe is related primarily to the holidays that take place during that quarter. Additionally, while net revenues increased by 9% in the fourth quarter of fiscal 2005, compared to the fourth quarter of fiscal 2004, they declined by 5% compared to the third quarter of fiscal 2005, due primarily to the introduction of First Strike™ (see *Introducing New Services* in our existing markets) in the third quarter of fiscal 2005 that provided approximately \$700,000 in revenue on approximately 75,000 graded units, which activity, by its nature, occurs only in the third fiscal quarter. Although there is no assurance as to the level of future activity, we anticipate that the third quarter of fiscal 2006 will also recognize First Strike revenue that, like fiscal 2005, will not continue into the fourth quarter of fiscal 2006.

In addition, although net revenues increased by 9% in the fourth quarter of fiscal 2005, as compared to the fourth quarter of fiscal 2004, that percentage increase was lower than the percentage increase in net revenues in each of the first three quarters of fiscal 2005, as compared to the respective corresponding quarters of fiscal 2004. We believe this slowing in the growth of net revenues was largely due to two unrelated factors. During the fourth quarter, we saw a slowing, which we believe is temporary, in the volume of gold trading, which impacts the volume of coins submitted to us for grading. Additionally, during the fourth quarter of fiscal 2005, the owner of our largest customer encountered an unexpected and serious medical problem, which led to a 45% decrease in revenues from that customer in the fourth quarter, compared with the third quarter of fiscal 2005. This reduction in revenues is expected to continue in fiscal 2006.

Our operating results also may fluctuate in the future due to a number of factors which are outside of our control. See “BUSINESS — Factors That Could Affect Our Future Financial Performance” in Part I of this Report and “Factors That Can Affect our Financial Position and Operating Results” earlier in this Section of this Report for a discussion of those factors.

Quarters Ended
(In thousands, except per share data)

	Sept. 30, 2003	Dec. 31, 2003	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	Mar. 31 2005	June 30, 2005
Statement of Operations Data:								
Net revenues	\$ 6,012	\$ 5,753	\$ 6,896	\$ 7,759	\$ 8,195	\$ 7,982	\$ 8,955	\$ 8,475
Cost of revenues	2,549	2,349	2,597	2,827	2,826	2,998	3,263	3,152
Gross profit	3,463	3,404	4,299	4,932	5,369	4,984	5,692	5,323
SG&A expenses	2,766	2,925	2,923	3,215	3,244	3,040	3,464	4,153
Settlement of lawsuit	—	—	—	—	—	500	—	—
Operating income	697	479	1,376	1,717	2,125	1,444	2,228	1,170
Interest and other income (expense), net	—	(5)	7	108	64	112	225	531
Income before income taxes	697	474	1,383	1,825	2,189	1,556	2,453	1,701
Provision for income taxes	313	170	592	506	878	628	981	654
Income from continuing operations	384	304	791	1,319	1,311	928	1,472	1,047
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	47	(782)	201	(534)	(69)	(7)	(3)	139
Net income (loss)	\$ 431	\$ (478)	\$ 992	\$ 785	\$ 1,242	\$ 921	\$ 1,469	\$ 1,186
Net income (loss) per basic share								
Income from continuing operations	\$ 0.06	\$ 0.05	\$ 0.13	\$ 0.21	\$ 0.21	\$ 0.15	\$ 0.21	\$ 0.12
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.01	(0.13)	0.03	(0.08)	(0.01)	—	—	0.02
Net income (loss)	\$ 0.07	\$ (0.08)	\$ 0.16	\$ 0.13	\$ 0.20	\$ 0.15	\$ 0.21	\$ 0.14
Net income (loss) per diluted share:								
Income from continuing operations	\$ 0.06	\$ 0.05	\$ 0.13	\$ 0.20	\$ 0.20	\$ 0.14	\$ 0.19	\$ 0.12
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.01	(0.12)	0.03	(0.08)	(0.01)	—	—	0.01
Net income (loss)	\$ 0.07	\$ (0.07)	\$ 0.16	\$ 0.12	\$ 0.19	\$ 0.14	\$ 0.19	\$ 0.13
Weighted average shares outstanding								
Basic	6,172	6,167	6,135	6,201	6,214	6,242	7,113	8,479
Diluted	6,288	6,391	6,319	6,557	6,569	6,695	7,571	8,902

Quarters Ended
(In thousands)

	Sept 30, 2003	Dec. 31, 2003	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	Mar. 31, 2005	June 30, 2005
Selected Operating Data:								
Units authenticated or graded								
Coins	282	285	297	377	371	421	449	429
Sportscards	253	235	242	268	265	253	283	283
Autographs	9	14	25	20	22	17	15	23
Stamps	5	3	4	4	5	7	7	7
Currency	—	—	—	—	—	—	—	3
Total	549	537	568	669	663	698	754	745

Liquidity and Capital Resources

At June 30, 2005 , we had cash and cash equivalents of \$65,439,000, as compared to \$21,454,000 at June 30, 2004. Contributing to that increase were (i) net proceeds of \$35,657,000 from our sale of 2,195,856 shares of common stock in a public offering that we completed in the third quarter of 2005; (ii) the receipt, in the year ended June 30, 2005, of cash consideration that became determinable in 2005, attributable to the sales of our collectibles sales businesses in fiscal 2004, together with cash from collections of accounts receivables and from sales of

collectibles inventories, which we chose to retain and liquidate ourselves, rather than sell to the buyers of those businesses; and (iii) increases in operating income that were primarily attributable to the increases in authentication and grading revenues.

Historically, we have relied on internally-generated funds, rather than borrowings, as our primary source of funds to support our grading operations. We expect our authentication and grading services to provide us with relatively stable and predictable cash flows, largely because (i) in many instances our customers prepay for those services at the time they submit their collectibles to us for authentication and grading, and (ii) in the event of a decline in authentication and grading submissions, we believe we would be able to reduce our variable operating costs to offset, at least partially, the impact on our cash flows of such a decline.

During the year ended June 30, 2005, operating activities of our continuing operations provided net cash of \$7,447,000, which represented an increase of \$1,379,000, from the \$6,068,000 of net cash generated in fiscal 2004, that resulted primarily from an increase in income from continuing operations in fiscal 2005;

Investing activities used net cash of \$257,000 during the year ended June 30, 2005, primarily to fund net short term advances to two of our established customers of \$1,560,000 and capital expenditures of \$256,000 substantially offset by \$1,548,000 in cash received from the sales of our discontinued businesses; and

In the year ended June 30, 2005, financing activities provided net cash of \$36 million, primarily from the sale of the shares in our public offering during the third quarter ended March 31, 2005 and, to a much lesser extent, exercises of employee stock options and sales of shares under our Employee Stock Purchase Plan.

Currently, we have the following outstanding obligations under operating leases, net of sublease income for years ending June 30:

2006	\$	1,092,000
2007		1,164,000
2008		1,150,000
2009		1,157,000
2010		414,000
	\$	<u>4,977,000</u>

In fiscal 2005 we organized Collectors Finance Corporation (“CFC”), as a wholly-owned subsidiary, to engage in the business of making short term loans primarily to coin dealers. All such loans are required to be collateralized by the delivery to us of collectibles coins for authentication and grading that have a fair market value of at least the amount of the loans. The loans are required to be repaid to us when those collectibles are returned to the dealers. To provide a source of funding for those short term loans, in June 2005 CFC obtained a revolving bank line of credit pursuant to a loan and security agreement that permits CFC to borrow, at any one time, up to the lesser of (i) \$7,000,000 or (ii) an amount equal to 85% of the aggregate principal amount of those of its loan receivables that meet the bank's eligibility criteria. Borrowings under that credit line, which has a term of two years, are secured by the loan receivables due CFC and a guarantee by the Company.

Other than (i) the obligation to repay any future borrowings under CFC's revolving credit line, which we expect will be paid with the proceeds of repayments of the loans made by CFC to its borrowers or the sale of the items collateralizing those loans, and (ii) the cash requirements of our on-going operations, including the payment of rent obligations under operating leases, which we expect to be able to fund with internally generated funds, we do not have any material outstanding obligations.

We plan to use our cash resources, including the net proceeds from the sale of our shares in the public offering completed during the third quarter of 2005, to (i) expand existing and implement new marketing programs, (ii) introduce new services for our customers in our existing markets; (iii) acquire or start-up other high-value collectibles or high-value asset authentication and grading businesses, and (iv) fund working capital requirements, and for other general corporate purposes.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 123R, *Share-Based Payment*. SFAS No. 123R will eliminate the ability to account for share-based compensation transactions using Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and instead will require that such transactions be accounted for using a fair-value-based method with compensation costs related to share-based payments to be recognized in the financial statements. SFAS No. 123R also requires the tax benefit associated with these share-based payments to be classified as financing activities in the statement of cash flows rather than operating activities as currently required. SFAS No. 123R is effective as of the first annual period beginning after June 15, 2005. As a result, we have adopted SFAS No. 123R effective as of July 1, 2005. SFAS No. 123R offers alternative methods for determining the fair value of share based compensation. At the present time, we have not yet determined which alternative method we will use. Regardless of the method we choose to implement, SFAS No. 123R will result in increased compensation expenses in our reported consolidated results of operations. However, we are not able at this time to predict whether the increased compensation expense will be material as that will depend on, among other things, the number or amount of the share-based compensation we award and the prices of our common stock in the future.

In May 2005, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 154, *Accounting Changes and Error Corrections*. SFAS No. 154 replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No 3, *Reporting Accounting Changes in Interim Financial Statements* which required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 will require retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will adopt SFAS No. 154 for our fiscal year beginning July 1, 2005.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Due to the cash and cash equivalent balances that we maintain, we are exposed to risk of changes in short-term interest rates. At June 30, 2005, we had \$65,439,000 in cash and cash equivalents, primarily invested in a bank certificates of deposit, a money market fund and high grade commercial paper. Reductions in short-term interest rates could result in reductions in the amount of that income. However, the impact on our operating results of such changes is not expected to be material.

The Company has no activities that would expose it to foreign currency exchange rate risk or commodity price risks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Collectors Universe, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Collectors Universe, Inc. and subsidiaries (the Company) as of June 30, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended June 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Collectors Universe, Inc. and subsidiaries as of June 30, 2005, and the results of their consolidated operations and their consolidated cash flows for the year ended June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II of Collectors Universe, Inc. and subsidiaries for the year ended June 30, 2005. In our opinion, this schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Collectors Universe, Inc. and subsidiaries' internal control over financial reporting as of June 30, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 2, 2005, expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Irvine, California
September 2, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Collectors Universe, Inc.

We have audited the accompanying consolidated balance sheet of Collectors Universe, Inc. and subsidiaries (the Company) as of June 30, 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended June 30, 2004. Our audits also included the financial statement schedule listed in the index in Part IV, Item 15(A) (2) for the two years in the period ended June 30, 2004. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Collectors Universe, Inc. and subsidiaries as of June 30, 2004 and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule for each of the two years in the period ended June 30, 2004, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As described in Note 2 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets as a result of adopting Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, effective July 1, 2002.

DELOITTE & TOUCHE LLP

Costa Mesa, California
September 23, 2004

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 30,	
	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 65,439	\$ 21,454
Accounts receivable, net of allowance of \$38 in 2005 and \$30 in 2004	1,508	790
Inventories, net	436	452
Prepaid expenses and other current assets	1,102	781
Customer notes receivable	1,560	–
Refundable income taxes	–	13
Deferred income taxes	2,854	1,174
Receivables from sale of net assets of discontinued operations	63	1,611
Current assets of discontinued operations held for sale	<u>365</u>	<u>1,267</u>
Total current assets	73,327	27,542
Property and equipment, net	857	1,045
Deferred income taxes	1,051	5,205
Other assets	253	165
Non-current assets of discontinued operations held for sale	<u>46</u>	<u>117</u>
	<u>\$ 75,534</u>	<u>\$ 34,074</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 753	\$ 455
Accrued liabilities	1,563	1,351
Accrued compensation and benefits	1,069	936
Deferred revenue	1,001	1,225
Current liabilities of discontinued operations held for sale	<u>27</u>	<u>276</u>
Total current liabilities	4,413	4,243
Deferred rent	386	401
Other long-term liabilities	169	64
Commitments and contingencies (note 14)		
Stockholders' equity:		
Preferred stock, \$.001 par value; 5,000 shares authorized; no shares issued or outstanding	–	–
Common stock, \$.001 par value; 45,000 shares authorized; shares issued: 8,610 in 2005 and 6,338 in 2004; shares outstanding (net of treasury stock): 8,485 in 2005 and 6,213 in 2004	9	6
Additional paid-in capital	78,594	42,215
Accumulated deficit	(7,016)	(11,834)
Treasury stock, at cost (125 shares)	<u>(1,021)</u>	<u>(1,021)</u>
Total stockholders' equity	<u>70,566</u>	<u>29,366</u>
	<u>\$ 75,534</u>	<u>\$ 34,074</u>

The accompanying notes are an integral part of these consolidated financial statements.

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended June 30,		
	2005	2004	2003
Net revenues:			
Grading, authentication and related services	\$ 33,607	\$ 26,420	\$ 20,337
Cost of revenues:			
Cost of grading, authentication and related services	12,239	10,322	8,754
Gross profit	21,368	16,098	11,583
Operating expenses:			
Selling and marketing expenses	3,534	3,165	2,615
General and administrative expenses	10,367	8,664	8,871
Settlement of lawsuit	500	-	-
Impairment of goodwill	-	-	6
Total operating expenses	14,401	11,829	11,492
Operating income	6,967	4,269	91
Interest income, net	906	135	94
Other income (expense), net	26	(25)	(6)
Income before provision (benefit) for income taxes	7,899	4,379	179
Provision (benefit) for income taxes	3,141	1,581	(557)
Income from continuing operations	4,758	2,798	736
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes) (see note 3)	60	(1,068)	(2,202)
Cumulative effect of accounting change (net of income tax benefit of \$4,511)	-	-	(8,973)
Net income (loss)	<u>\$ 4,818</u>	<u>\$ 1,730</u>	<u>\$ (10,439)</u>
Net income (loss) per basic share:			
Income from continuing operations	\$ 0.68	\$ 0.45	\$ 0.12
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.01	(0.17)	(0.35)
Cumulative effect of accounting change (net of income taxes)	-	-	(1.45)
Net income (loss)	<u>\$ 0.69</u>	<u>\$ 0.28</u>	<u>\$ (1.68)</u>
Net income (loss) per diluted share:			
Income from continuing operations	\$ 0.64	\$ 0.44	\$ 0.12
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.01	(0.17)	(0.35)
Cumulative effect of accounting change (net of income taxes)	-	-	(1.43)
Net income (loss)	<u>\$ 0.65</u>	<u>\$ 0.27</u>	<u>\$ (1.66)</u>
Weighted average shares outstanding:			
Basic	7,013	6,170	6,205
Diluted	7,452	6,463	6,294

The accompanying notes are an integral part of these consolidated financial statements.

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Shares</u>	<u>Amount</u>	
			<u>Capital</u>	<u>(Accumulated</u>			
				<u>Deficit)</u>			
Balance at June 30, 2002	6,381	\$ 6	\$ 41,268	\$ (3,125)	(125)	\$ (1,021)	\$ 37,128
Redemption of common stock in satisfaction of note receivable from related party	(130)	—	(386)	—	—	—	(386)
Employee stock purchase plan	3	—	14	—	—	—	14
Exercise of stock options	1	—	2	—	—	—	2
Net loss	—	—	—	(10,439)	—	—	(10,439)
Balance at June 30, 2003	6,255	\$ 6	\$ 40,898	\$ (13,564)	(125)	\$ (1,021)	\$ 26,319
Exercise of stock options	204	—	883	—	—	—	883
Tax benefit on exercise of stock options	—	—	342	—	—	—	342
Issuances of stock under stock purchase plan and related compensation expense	12	—	92	—	—	—	92
Net income	—	—	—	1,730	—	—	1,730
Cancellation of stock issued to a former officer	(133)	—	—	—	—	—	—
Balance at June 30, 2004	6,338	\$ 6	\$ 42,215	\$ (11,834)	(125)	\$ (1,021)	\$ 29,366
Issuance of common stock in public offering (net of expenses)	2,196	2	35,655	—	—	—	35,657
Exercise of stock options	71	1	283	—	—	—	284
Tax benefit on exercise of stock options	—	—	338	—	—	—	338
Issuances of stock under stock purchase plan and related compensation expense	5	—	103	—	—	—	103
Net income	—	—	—	4,818	—	—	4,818
Balance at June 30, 2005	<u>8,610</u>	<u>\$ 9</u>	<u>\$ 78,594</u>	<u>\$ (7,016)</u>	<u>(125)</u>	<u>\$ (1,021)</u>	<u>\$ 70,566</u>

The accompanying notes are in integral part of these consolidated financial statements.

COLLECTORS UNIVERSE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	<u>Year ended June 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	\$ 4,758	\$ 2,798	\$ 736
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	443	647	650
Impairment of goodwill	–	–	6
Stock-based compensation expense	33	50	–
Interest on note receivable from a related party	–	–	(9)
Provision for bad debts	38	31	–
Provision for inventory write-down	–	53	–
(Gain) loss on sale of property and equipment	(10)	25	5
Deferred income taxes	2,812	1,496	(1,300)
Changes in operating assets and liabilities:			
Accounts receivable	(756)	(367)	264
Inventories	16	(325)	4
Prepaid expenses and other	(321)	(143)	(216)
Notes receivable	–	–	22
Refundable income taxes	13	1,170	8
Other assets	(88)	29	13
Accounts payable and accrued liabilities	510	(364)	639
Accrued compensation and benefits	133	446	(192)
Deferred revenue	(224)	448	98
Deferred rent	(15)	10	110
Other long-term liabilities	105	64	–
Net cash provided by operating activities	<u>7,447</u>	<u>6,068</u>	<u>838</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	11	83	–
Capital expenditures	(256)	(538)	(297)
Advances on customer notes receivable	(6,078)	–	–
Proceeds from collection of customer notes receivable	4,518	–	–
Collections on notes receivable from related parties	–	–	3
Cash received from sale of net assets of discontinued operations	<u>1,548</u>	<u>2,307</u>	<u>–</u>
Net cash provided by (used in) investing activities	<u>(257)</u>	<u>1,852</u>	<u>(294)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from employee stock purchase plan	70	60	14
Proceeds from sale of common stock, net	35,657	–	–
Proceeds from exercise of stock options	<u>284</u>	<u>864</u>	<u>2</u>
Net cash provided by financing activities	<u>36,011</u>	<u>924</u>	<u>16</u>
Discontinued operations:			
Net cash provided by (used in) discontinued operations	784	8,128	(1,025)
Net increase (decrease) in cash and cash equivalents	43,985	16,972	(465)
Cash and cash equivalents at beginning of year	<u>21,454</u>	<u>4,482</u>	<u>4,947</u>
Cash and cash equivalents at end of year	<u>\$ 65,439</u>	<u>\$ 21,454</u>	<u>\$ 4,482</u>

The accompanying notes are an integral part of these consolidated financial statements.

COLLECTORS UNIVERSE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(in thousands)

	<u>Year ended June 30</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	\$ 213	\$ 14	\$ —
Interest paid	\$ 3	\$ 2	\$ 3

SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS:

See note 2, Supplemental Schedule of Non-Cash Transactions

The accompanying notes are an integral part of these consolidated financial statements.

COLLECTORS UNIVERSE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Company Organization and Nature Of Business

Organization

Collectors Universe, Inc. (“We,” “us,” the “Company” or “Collectors Universe”) is a Delaware corporation that was organized on February 5, 1999 for the purpose of enabling Professional Coin Grading Service, Inc. (“PCGS”) to acquire other businesses that, like PCGS, would provide services to the collectibles markets. On February 5, 1999, Collectors Universe issued 4,327,000 shares of common stock in exchange for all of the outstanding shares of PCGS. As a result of that exchange, the former stockholders of PCGS became stockholders of Collectors Universe, with each of them receiving a number of our shares based on his or her percentage ownership of the shares of PCGS. Prior to this exchange, Collectors Universe had no operating assets or liabilities and had not yet conducted any operations. The assets and liabilities acquired were recorded at the PCGS’ basis as the transaction represented a transfer of assets and liabilities between entities under common control.

Concurrently, with the exchange transaction with PCGS, Collectors Universe acquired the assets of the auction businesses of Lyn F. Knight Rare Coins, Inc. (“Lyn Knight”) and Kingswood Coin Auctions, LLC (“Kingswood”) and the minority ownership interests in Superior Sportscard Auctions, LLC (“Superior”) and Internet Universe, LLC (“IU”), both of which were majority-owned subsidiaries of PCGS at the time these acquisitions were consummated. See note 3, Discontinued Operations.

In fiscal 2005, Collectors Finance Corporation (“CFC”) began operations as a 100% subsidiary of the Company to engage in the business of making short-term loans to collectibles dealers pursuant to a Dealer Financing Program. Under that program, CFC offers short-term loans to established collectibles dealers. The loans are secured by the delivery of coins or other collectibles to us. In March 2005, CFC received a California Finance Lenders License.

Nature of the Business

We are a collectibles company engaged in the provision of authentication, grading and related services for high-end collectibles. We provide authentication and grading services for rare coins, vintage U.S. paper currency, sportscards, stamps and for sports memorabilia and autographs. We also publish magazines that provide market prices and information for certain collectibles and sell advertising on our websites and in those magazines.

During the period from 1999 through the latter part of fiscal 2004, we also were engaged in the business of marketing and selling high-end collectible coins, sportscards and sports entertainment and historical memorabilia. Most of those sales were made at multi-venue auctions that were conducted by our collectibles sales divisions, which were comprised of Bowers and Merena Galleries and Kingswood Coin Auctions for rare coins, Superior Sportscard Auctions for vintage sportscards and sports memorabilia and Odyssey for entertainment and historical memorabilia. We also sold collectible coins by direct sales methods.

On December 4, 2003, our Board of Directors adopted a plan to focus the Company’s financial and management resources and collectibles expertise, on the operations and growth of its authentication and grading businesses, by divesting the collectibles auctions and direct sales businesses comprising its collectibles sales segment. As a result, in the accompanying consolidated financial statements, the assets and related liabilities of the collectibles sales segment have been classified as held for sale and the related operating results have been classified as discontinued operations in accordance with SFAS 144 (see note 3).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Collectors Universe, Inc. and its subsidiaries. In 2004, the Company disposed of the businesses comprising its collectibles sales segment and, accordingly, the assets and liabilities of those businesses have been classified as held for sale and their related operating results (including the gains or losses recognized on the sales of those businesses) have been classified as discontinued operations. See note 3.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates, and such differences may be material to the consolidated financial statements.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. At June 30, 2005, cash and cash equivalents included approximately \$60 million of trading securities, primarily comprising high quality commercial paper and certificates of deposit issued by U.S. or foreign companies. The minimum credit quality of the portfolio must be rated no less than single-A long term or A1/P1 short term, and the portfolio must contain no more than 25% exposure to securities of issuers whose principal business activities are in the same industry. However, the 25% limitation does not apply to securities guaranteed by the U.S. government or to bank obligations, subject to U.S. banking regulations. In addition, the weighted average maturity of the portfolio must not exceed 90 days. Such trading securities are carried at market value in the accompanying consolidated balance sheet at June 30, 2005. Unrealized gains on such trading securities were approximately \$106,000 at June 30, 2005.

Concentrations

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

Financial Instruments and Cash Balances. Through September 30, 2004, the Company had invested its excess cash in a large uninsured institutional money market fund. In September 2004, the Company adopted a policy to invest its excess cash in a portfolio of high quality U.S. dollar-denominated money market type or similar securities, and appointed a new portfolio manager. At June 30, 2005, the Company's excess funds of approximately \$63 million were primarily invested in certificates of deposit, in a money market fund, and in high quality commercial paper. In addition, at June 30, 2005, the Company had approximately \$2 million in a non-interest bearing bank account for general day-to-day operations.

Accounts Receivable. A substantial portion of accounts receivable is due from collectibles dealers. At June 30, 2005 and 2004, accounts receivable from one customer represented 46% and 24% of the Company's total accounts receivable balances. We perform an analysis of the expected collectibility of accounts receivable based on several factors, including the age and extent of significant past due accounts and economic conditions or trends that may offset the ability of the debtor to pay their account receivable balances. Based on such review, we make an allowance for doubtful accounts, when necessary. The allowance for doubtful accounts receivable was \$38,000 and \$30,000 at June 30, 2005 and June 30, 2004, respectively.

Customers. The authentication and grading of collectible coins accounted for approximately 69%, 66% and 60% of our net revenues for the years ended June 30, 2005, 2004 and 2003, respectively.

Customer Notes Receivable. During the year ended June 30, 2005, we made short term advances, in an aggregate principal amount of \$6,078,000 (of which \$4,518,000 had been repaid by June 30, 2005) to two collectibles dealers who have been long time customers. We perform an analysis of the expected collectibility of customer notes receivable based on several factors, including the age and extent of significant past due notes and economic conditions or trends that may offset the ability of the debtor to pay their customer notes receivable balances.

Suppliers. We purchase injection–molded parts, holograms and printed labels for our grading services. There are numerous suppliers for these items and, as a result, it is possible to change suppliers without significant delay or cost to the Company. However, while there are numerous sources for injection–molded parts, these parts require a die to fabricate the part. The manufacture of high precision dies can be a lengthy process and requires considerable expertise in their fabrication. Although, we do not have back–up dies for some of our high volume injection–molded parts and we rely on one supplier for these requirements, we believe that this supplier maintains a large enough inventory of the injection–molded parts to allow time for us to have new molds manufactured for use by other suppliers.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, customer notes receivable, accounts payable and accrued liabilities approximate their respective fair values due to the short–term nature of such instruments. The carrying value of trading securities included in cash and cash equivalents approximate fair value based on quoted market prices for these investments.

Inventories

Our inventories consist primarily of (i) our coin and stamp collectibles inventories, and (ii) consumable supplies that we use in our continuing authentication and grading businesses. We account for those collectibles inventories under the specific identification method. Inventories are valued at the lower of cost or market. Inventories are periodically reviewed to identify slow moving items, and the allowance for inventory loss is recognized, as necessary. The allowance for inventory loss was \$34,000 and \$53,000 at June 30, 2005 and 2004, respectively. It is possible that our estimates of market value could change in the near term due to market conditions in the various collectibles markets served by the Company.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight–line method over the estimated useful lives ranging from three to seven years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the term of the related lease. Repair and maintenance costs are expensed as incurred.

Long–Lived Assets

Management regularly reviews property and equipment and other long–lived assets, including certain identifiable intangibles, for possible impairment. This review occurs annually, or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable in full. If there is indication of impairment of property and equipment or amortizable intangible assets, then management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of that asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated at the present value of the future cash flows discounted at a rate commensurate with management's estimates of the business risks. During the year ended June 30, 2003, the Company determined that a covenant not–to–compete obtained in connection with an acquisition of a collectibles sales business was impaired. Accordingly, the Company wrote–off the unamortized balance of \$18,000. Such amount is included in the loss from discontinued operations in the accompanying consolidated statements of operations for the year ended June 30, 2003 (note 3). In the fiscal year ended June 30, 2003 the Company also recorded impairment charges for goodwill, as discussed further in this Note 2. No long–lived asset impairments were identified at June 30, 2005 or 2004.

Revenue Recognition

Net revenues consist primarily of fees generated from the authentication and grading of coins, sports cards, autographs, currency and stamps. Authentication and grading revenues are recognized when those services have been performed by us and the item is shipped back to the customer. Authentication and grading fees generally are prepaid, although we offer open account privileges to larger dealers. Advance payments received for grading services are deferred until the service is performed and the graded item is shipped to the customer. In the case of dealers to whom we have extended credit, we record revenues at the time the item is shipped to the customer.

Shipping and Handling Costs

Shipping and handling costs incurred to return to our customers their collectibles property are recorded as costs of revenues, net of amounts received from such customers.

Warranty Costs

We offer a warranty covering the coins and sportscards we authenticate and grade and, beginning in the fourth quarter of 2005, we began offering a similar warranty on the stamps and currency that we authenticate and grade. Under the warranty, if any coin, sportscard, stamp or currency that was previously graded by us is later submitted to us for re-grading and either (i) receives a lower grade upon that resubmittal or (ii) is determined not to have been authentic, we will offer to purchase the coin, sportscard, stamp or currency or, in the alternative, 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 coin, sportscard, stamp or currency, upon resubmittal to us, is not in the same tamper-evident clear plastic holder in which it was placed at the time we last graded it or shows signs of tampering. We accrue for estimated warranty costs based on historical trends and related experience.

Advertising Costs

Advertising costs are expensed as incurred and amounted to approximately \$260,000, \$149,000 and \$123,000 in the fiscal years ended June 30, 2005, 2004 and 2003, respectively.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109, *Accounting for Income Taxes*. This statement requires the recognition of deferred tax assets and liabilities for the future consequences of events that have been recognized in the Company’s financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company’s assets or liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Stock-Based Compensation

During the three year period ended June 30, 2005, we accounted for our stock option plans in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. As such, compensation expense was recorded on the date of grant only if the quoted market price of the underlying stock on that date exceeded the exercise price of the options. However, we have provided pro forma net earnings and pro forma net earnings per share disclosures as if the fair value of all stock options as of the grant date were recognized as expense over the vesting period in accordance with SFAS No. 123, *Stock Based Compensation*.

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 123R, *Share-Based Payment*. SFAS No. 123R will eliminate the ability to account for share-based compensation transactions using Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and instead will require that such transactions be accounted for using a fair-value-based method and that the compensation costs related to share-based payments be recognized in the financial statements. SFAS No. 123R also requires the tax benefit associated with these share-based payments to be classified as financing activities in the statement of cash flows rather than operating activities as currently required. SFAS No. 123R is effective as of the first annual period beginning after June 15, 2005. As a result, we have adopted SFAS No. 123R effective as of July 1, 2005. SFAS No. 123R offers alternative methods for determining the fair value of share based compensation grants. At the present time, we have not yet determined which alternative method we will use. Regardless of the method we choose to implement, SFAS No. 123R will result in increased compensation expenses in our reported consolidated results of operations.

The following table illustrates the pro forma effect on net income (loss) and net income (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	(in thousands, except per share data)		
	June 30		
	2005	2004	2003
Net income (loss), as reported	\$ 4,818	\$ 1,730	\$ (10,439)
Add: stock-based employee compensation expense included in reported net income, net of related tax effects	20	50	—
Deduct: total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects	(791)	(402)	(262)
Pro forma net income (loss)	<u>\$ 4,047</u>	<u>\$ 1,378</u>	<u>\$ (10,701)</u>
Net income (loss) per common share – basic			
As reported	\$ 0.69	\$ 0.28	\$ (1.68)
Pro forma	\$ 0.58	\$ 0.22	\$ (1.72)
Net income (loss) per common share – diluted			
As reported	\$ 0.65	\$ 0.27	\$ (1.66)
Pro forma	\$ 0.54	\$ 0.21	\$ (1.70)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

	June 30		
	2005	2004	2003
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	75.0%	75.0%	73.0%
Risk-free interest rate	3.6%	1.7%	2.0%
Expected lives	2.0 years	2.0 years	2.0 years

We account for equity instruments issued to persons other than Company employees and directors (“non-employees”) in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force (“EITF”) Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. All transactions in which goods or services are the consideration received for the issuance of equity instruments issued to non-employees are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date used to determine the fair value of any such equity instrument is the earliest to occur of (i) the date on which the third-party performance is complete, or (ii) the date on which it is probable that performance will occur, or (iii), if different, the date on which the compensation has been earned by the non-employee. No equity instruments have been issued to non employees for goods or services during fiscal 2003, 2004 or 2005.

Net Income (Loss) Per Share

We compute net income (loss) per share in accordance with SFAS No. 128, *Earnings Per Share*. SFAS No. 128 requires the presentation of basic and diluted earnings per share. Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the periods presented. Diluted net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common and common equivalent shares outstanding during the periods presented assuming the exercise of all outstanding stock options and other dilutive securities. However, options with exercise prices that exceed the average market price of the Company's shares for the period for which the calculation of diluted net income (loss) per share is made are disregarded, because they are non-dilutive in their effect.

The following table sets forth the computation of basic and diluted net income (loss) per common share (in thousands except per share data):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income from continuing operations	\$ 4,758	\$ 2,798	\$ 736
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	60	(1,068)	(2,202)
Cumulative effect of accounting change (net of income taxes)	—	—	(8,973)
Net income (loss)	<u>\$ 4,818</u>	<u>\$ 1,730</u>	<u>\$ (10,439)</u>
Net income (loss) per basic share:			
From continuing operations	\$ 0.68	\$ 0.45	\$ 0.12
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.01	(0.17)	(0.35)
Cumulative effect of accounting change (net of income taxes)	—	—	(1.45)
Net income (loss)	<u>\$ 0.69</u>	<u>\$ 0.28</u>	<u>\$ (1.68)</u>
Net income (loss) per diluted share:			
From continuing operations	\$ 0.64	\$ 0.44	\$ 0.12
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	0.01	(0.17)	(0.35)
Cumulative effect of accounting change (net of income taxes)	—	—	(1.43)
Net income (loss)	<u>\$ 0.65</u>	<u>\$ 0.27</u>	<u>\$ (1.66)</u>
Weighted-average shares outstanding:			
Basic	7,013	6,170	6,205
Diluted	7,452	6,463	6,294

Options and warrants to purchase approximately 406,000, 624,000 and 646,000 shares of common stock for the years ended June 30, 2005, 2004 and 2003, respectively at exercise prices up to \$30.52 per share, were not included in the computation of diluted earnings per share because the respective exercise prices of those options and warrants were greater than the average market price for the respective period.

Comprehensive Income

The Company does not have any items of other comprehensive income requiring separate disclosure.

Computer Software Development Costs

In accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Company has capitalized certain costs to obtain or develop software used for internal purposes. For fiscal years 2005, 2004 and 2003, the Company capitalized \$0, \$119,000 and \$0, respectively. During the years ended June 30, 2005, 2004 and 2003, amortization of software development costs was \$35,000, \$67,000 and \$115,000, respectively, based upon a two-year amortization period.

Change in Accounting for Goodwill and Other Intangible Assets

Effective July 1, 2002, we adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 required us, in the year of its adoption, to perform a transitional goodwill impairment test to be measured as of the beginning of that fiscal year. As required by SFAS No. 142, the test was conducted at a "reporting unit" level and involved a comparison of each reporting unit's fair value to its carrying value. We determined that our reporting units were our operating segments that were aggregated into reporting segments. The measurement of value for each reporting unit was based on a weighting of a combination of valuation approaches, including discounted cash flows and multiples of earnings before interest, taxes, depreciation and amortization. Upon adoption of SFAS No. 142, we completed a transitional impairment test and concluded that certain of our goodwill was impaired, resulting in a non-cash, after-tax charge of \$8,973,000. The charge has been recorded as a cumulative effect of an accounting change in the accompanying consolidated statement of operations for the year ended June 30, 2003.

The following is a summary of the transitional impairment charge by segment and reporting unit, net of a related \$4,511,000 tax benefit (in thousands):

Reportable Segments	Reporting Unit	Charge
Discontinued operations – collectible sales	Bowers and Merena	\$ 7,230
	Lyn Knight	1,262
	Odyssey	323
	Superior Sports Auctions	102
Continuing operations – authentication and grading	Professional Stamp Experts	56
		<u>\$ 8,973</u>

Market and economic conditions resulted in impairment to the goodwill allocated to these reporting units.

On June 30, 2003, we tested goodwill and other intangible assets in accordance with the provisions of SFAS No. 142, and concluded that the remaining unamortized goodwill was impaired. The operating profits and cash flows of each of the reporting units were lower than had been expected for fiscal 2003. Based on that trend and a reforecast of the future earnings of those units, the expected present value of future cash flows of each of those reporting units was re-determined, resulting in a pre-tax impairment of \$1,477,000. This impairment was recorded as a goodwill impairment charge of \$6,000, with the balance of \$1,471,000 recorded as part of the loss from discontinued operations in the accompanying consolidated statement of operations for 2003.

Supplemental Schedule of Noncash Transactions

During the year ended June 30, 2003, an officer of the Company transferred to the Company 130,207 shares of the Company's common stock owned by him, with a fair value of \$386,000, in full satisfaction of the then outstanding balance and accrued interest on a note receivable due by the officer to the Company.

In connection with the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company completed the initial impairment test and concluded that certain of its goodwill was impaired, resulting in a non-cash impairment charge in the first quarter of fiscal 2003, of \$8,973,000, net of a tax benefit of \$4,511,000. Such \$8,973,000 is classified as a cumulative effect of accounting change in 2003.

As described above, effective June 30, 2003, pursuant to SFAS No. 142, the Company recorded another non-cash goodwill impairment charge of \$1,477,000. This charge is classified as \$6,000 for goodwill impairment for continuing operations and the balance of \$1,471,000 is classified as part of the loss from discontinued operations in the accompanying consolidated statement of operations for 2003.

Effective June 30, 2003, the Company determined that the unamortized balance of a covenant-not-to compete was impaired, resulting in a non-cash impairment charge of \$18,000, which is classified as part of the loss from discontinued operations in the accompanying statement of operations for 2003.

During 2004, in connection with the divestiture of the Company's collectibles auctions and direct sales businesses, the Company sold such businesses for gross proceeds of approximately \$2,874,000, of which \$2,307,000 and \$544,000 were received in 2004 and 2005, respectively. The balances of \$567,000 and \$23,000 are included as part of the receivables from the sale of discontinued operations in the accompanying balance sheet at June 30, 2004 and June 30, 2005, respectively.

During 2005 and 2004, the Company recorded a tax benefit from the exercise of stock options of \$338,000, and \$342,000, respectively, which is included as an increase to deferred income taxes, and an increase to additional paid-in capital.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment*. SFAS No. 123R will eliminate the ability to account for share-based compensation transactions using Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and instead will require that such transactions be accounted for using a fair-value-based method with compensation costs related to share-based payments to be recognized in the financial

statements. SFAS No. 123R also requires the tax benefit associated with these share-based payments to be classified as financing activities in the statement of cash flows rather than operating activities as currently required. SFAS No. 123R is effective as of the first annual period beginning after June 15, 2005. As a result, we have adopted SFAS No. 123R effective as of July 1, 2005. SFAS No. 123R offers alternative methods of determining the fair value of share-based compensation awards. At the present time, we have not yet determined which alternative method we will use. Regardless of the method we choose to implement, SFAS No. 123R will result in increased compensation expenses in our reported consolidated results of operations.

In May 2005, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 154, *Accounting Changes and Error Corrections*. SFAS No. 154 replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No 3, *Reporting Accounting Changes in Interim Financial Statements* which required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 will require retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will adopt SFAS No. 154 for our fiscal year beginning July 1, 2005.

Reclassifications

Certain reclassifications have been made to the fiscal 2003 and 2004 financial statements to conform to the fiscal 2005 presentation.

3. Discontinued Operations

On December 4, 2003, the Company's Board of Directors authorized management to implement a plan to focus the Company's financial and management resources, and collectibles expertise, on the operations and growth of its grading and authentication businesses, and to divest the Company's collectibles auctions and direct sales businesses.

Accordingly, in accordance with SFAS No. 144, the assets and related liabilities of the collectibles sales businesses, which included the Bowers and Merena, Superior Sports Auctions, Kingswood Coin Auctions, Odyssey Publications, Lyn Knight Currency Auctions and DHRC, have been classified as held for sale in the accompanying consolidated balance sheets at June 30, 2005 and 2004; and the related operating results have been classified as discontinued operations in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2005, 2004 and 2003.

On February 19, 2004 we sold the businesses and certain assets of our Bowers & Merena Auction, Kingswood Coin Auction and Superior Sports Auction divisions (collectively the “BK&S Divisions”) to Spectrum Numismatics International, Inc. (“Spectrum”), a subsidiary of Greg Manning Auctions, Inc. We retained ownership of the collectibles inventories and the then outstanding accounts receivables of the BK&S Divisions and Spectrum assumed certain outstanding contractual obligations of those businesses.

The consideration for the sale of those businesses was \$2,500,000 in cash. We are entitled to receive an additional consideration in an amount that will be determined on the basis of the future sales revenues of the BK&S Divisions over the two-year period following February 19, 2004. We recorded a pre-tax gain of \$1,872,000 on the sale of the BK&S Divisions in the year ended June 30, 2004. We will recognize any additional consideration in future periods as and to the extent the amounts become determinable. However, there was no additional amount received in fiscal 2005.

In furtherance of our strategy to focus our business on the provision of value added collectibles services and to dispose of the collectibles sales businesses, in March 2003 we discontinued the business of selling coins, at retail, under the name “David Hall Rare Coins” (or “DHRC”). In connection with the operation of that business, we had utilized certain intangible assets and trade secrets obtained under a license agreement from an affiliate of David Hall and Van Simmons, two of the Company's largest stockholders and also two of its directors. In connection with the discontinuance of the DHRC business, and with the approval of the disinterested members of our Board of Directors, we terminated that license agreement. We retained the operating inventory, receivables and liabilities of DHRC at the time of the termination of the license and discontinuance of that business.

In the fourth quarter of 2004, we disposed of our Odyssey related auction and publications businesses for \$190,000 cash, of which \$130,000 was paid at the time of sale and the remaining \$60,000 is payable in eight (8) equal quarterly installments. The aggregate payments received through June 30, 2005, inclusive of the cash received at the time of sale, totaled \$167,500. We also accrued for Odyssey's share of the commissions it generated in a fourth quarter 2004 auction. In addition, we retained certain assets and liabilities of these businesses and we are in the process of liquidating these assets and paying down those liabilities.

On September 17, 2003, we sold certain assets of our currency auction business, operated by a wholly-owned subsidiary, Lyn Knight Currency Auctions, Inc., to Collectible Properties, Inc., a private company owned by Lyn F. Knight who, until that sale, had been president of that subsidiary and had managed that business for the Company. We retained ownership of the inventory of collectible currencies and the then outstanding accounts receivable, and Collectible Properties, Inc. assumed certain outstanding contractual obligations, of this business. The consideration received from that sale was equal to the net book value of the assets sold plus an additional amount which will be determined on the basis of the future sales revenue of Collectible Properties, Inc. Through June 30, 2005, we recognized approximately \$127,000 in fiscal 2004 and \$248,000 in fiscal 2005 of additional consideration based on the revenues of Collectible Properties, Inc. If we receive any additional consideration, it will be recorded at the time the amount of that additional consideration becomes determinable.

The operating results of the discontinued collectible sales businesses included in the accompanying consolidated statements of operations, are as follows (in thousands):

	Years Ended June 30,		
	2005	2004	2003
Net revenues	\$ 472	\$ 27,101	\$ 31,928
Loss from operations	(277)	(3,468)	(3,806)
Gain on sale of discontinued businesses	202	2,245	-
	(75)	(1,223)	(3,806)
Income tax benefit	(135)	(155)	(1,604)
Income (loss) from discontinued operations	\$ 60	\$ (1,068)	\$ (2,202)

The following table contains summary balance sheet information (in thousands) with respect to the net assets and liabilities of the collectible sales businesses held for sale that are included in the accompanying consolidated balance sheets:

	June 30,	
	2005	2004
Current assets:		
Accounts receivable	\$ 58	\$ 379
Inventories	189	657
Consignment advances	30	45
Notes receivable	88	186
	<u>\$ 365</u>	<u>\$ 1,267</u>
Non-current assets:		
Notes receivable, net of current portion	46	117
	<u>\$ 46</u>	<u>\$ 117</u>
Current liabilities:		
Consignors payable	\$ 1	\$ 1
Other current liabilities	26	275
	<u>\$ 27</u>	<u>\$ 276</u>

4. Inventories

Inventories consist of the following at June 30:

	(in thousands)	
	2005	2004
Coins	\$ 276	\$ 253
Other collectibles	37	58
Grading raw materials consumable inventory	157	194
	470	505
Less inventory reserve	(34)	(53)
	<u>\$ 436</u>	<u>\$ 452</u>

Inventory reserve represents valuation allowance on certain items held in inventory.

5. Customer Notes Receivable

During 2005, we made short-term cash advances to two of our largest customers, secured by certain collectible coins that the customers had submitted to us for authentication and grading. Principal reduction payments are required at the time the Company returns the authenticated and graded coins to the customer. Current advances bear interest at a rate based on the Prime Rate. During the fourth quarter of 2005, our wholly-owned subsidiary, Collectors Finance Corporation, implemented a Dealer Financing Program, pursuant to which it offers short term loans to collectibles dealers with established credit histories that are willing to collateralize the loans with coins or other collectibles delivered to us for authentication and grading. The customers are required to repay the loan at maturity or, if sooner, on return of the coins to them. The total principal amount of advances and short term loans made to customers in 2005 were \$6,078,000, of which \$4,518,000 had been repaid by June 30, 2005, leaving a remaining unpaid balance as of that date of \$1,560,000. See note 9, Line of Credit.

6. Property and Equipment

Property and equipment consist of the following at June 30:

	(in thousands)	
	2005	2004
Coins and stamp grading reference sets	\$ 62	\$ 57
Computer hardware and equipment	988	997
Computer software	900	867
Equipment	1,330	1,283
Furniture and office equipment	689	659
Leasehold improvements	438	422
Trading card reference library	52	52
	4,459	4,337
Less accumulated depreciation and amortization	(3,602)	(3,292)
Property and equipment, net	<u>\$ 857</u>	<u>\$ 1,045</u>

Depreciation and amortization expense relating to property and equipment for fiscal 2005, 2004 and 2003 was \$443,000, \$647,000 and \$650,000, respectively.

7. Accrued Liabilities

Accrued liabilities consisted of the following at June 30:

	(in thousands)	
	<u>2005</u>	<u>2004</u>
Warranty costs	\$ 609	\$ 492
Professional fees	211	546
Other	743	313
	<u>\$ 1,563</u>	<u>\$ 1,351</u>

Warranty reserve activity and balances related to fiscal years 2005, 2004 and 2003, were as follows (in thousands):

Warranty reserve, June 30, 2002	\$ 302
Charged to cost of revenues	317
Cash payments	(315)
Warranty reserve, June 30, 2003	304
Charged to cost of revenues	646
Payments	(458)
Warranty reserve June 30, 2004	492
Charged to cost of revenues	530
Payments	(413)
Warranty reserve at June 30, 2005	<u>\$ 609</u>

8. Income Taxes

Set forth below are the provision (benefit) for income taxes for the years ended June 30:

	(in thousands)		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current:			
Federal	\$ 2,738	\$ 1,595	\$ 278
State	63	62	(448)
	2,801	1,657	(170)
Deferred:			
Federal	(117)	(216)	146
State	457	140	(533)
	340	(76)	(387)
Total provision (benefit) for income taxes	<u>\$ 3,141</u>	<u>\$ 1,581</u>	<u>\$ (557)</u>

The reconciliation of the provision (benefit) for income taxes computed at federal statutory rates to the provision (benefit) for income taxes for the years ended June 30, was as follows:

	(in thousands)		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Provision at federal statutory rates	\$ 2,685	\$ 1,542	\$ 63
State income taxes (benefit), net	340	132	(644)
Other, net	116	(93)	24
	<u>\$ 3,141</u>	<u>\$ 1,581</u>	<u>\$ (557)</u>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes as of June 30, 2005 and 2004, were as follows:

	(in thousands)	
	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Supplier compensation costs	\$ 553	\$ 546
Reserves	816	1,295
Goodwill and intangibles	136	156
Net operating loss carryforward	1,504	4,110
State credits	919	944
Other	<u>63</u>	<u>19</u>
Total deferred tax assets	3,991	7,070
Deferred tax liabilities:		
State taxes	-	(637)
Property and equipment	(34)	-
Other	<u>(52)</u>	<u>(54)</u>
Total deferred tax liabilities	<u>(86)</u>	<u>(691)</u>
Net deferred tax assets	3,905	6,379
Less: Current portion	<u>(2,854)</u>	<u>(1,174)</u>
	<u>\$ 1,051</u>	<u>\$ 5,205</u>

At June 30, 2005, the Company had federal tax net operating losses of \$3,800,000, which can be carried forward through June 30, 2024 and state tax net operating losses of \$3,600,000, which will begin to expire in the tax year ending June 30, 2019. In addition, the Company has federal and state Alternative Minimum Tax (AMT) credit carry forwards of \$130,000 and \$44,000, respectively, and a state tax credit carryforward of approximately \$1,060,000 related to California Enterprise Zone Credits. These credits have no expiration dates.

9. Line of Credit

To provide a source of funds for its Dealer Financing Program, in June 2005 CFC entered into a two-year revolving bank line of credit agreement, that permits CFC to borrow, at any one time, up to the lesser of (i) \$7,000,000 or (ii) an amount equal to 85% of the aggregate principal amount of customer receivables that meet the bank's eligibility criteria. Borrowings under this credit line bear interest at rates based on the bank's Prime Rate or LIBOR, as applicable, and are secured by substantially all the assets of CFC (including customer receivables and CFC's security interests in customer owned loan collateral).

Costs of approximately \$330,000 (comprising a loan agreement fee, bank fees and legal fees) were incurred in connection with this line of credit. At June 30, 2005, these costs have been capitalized and are included in prepaid expenses and other current assets in the accompanying consolidated balance sheet at June 30, 2005. These debt issue costs will be amortized to interest expense over the term of the revolving bank line of credit agreement, which is two years. On a quarterly basis, CFC will incur an unused line fee of 0.25% per annum, based on the average daily unused portion of the total facility during the quarter.

CFC's obligations under this line of credit have been guaranteed by the Company pursuant to a Continuing Guaranty Agreement with the bank lender. The terms of that Agreement require the Company to be in compliance with certain financial and other restrictive covenants, and require the consent of the lender (i) for the Company to pay cash dividends or repurchase shares of its common stock in amounts exceeding its annual net income in any year, and (ii) to consummate more than \$5 million of business acquisitions in any year. The Company was in compliance with all covenants at June 30, 2005.

10. Employee Benefit Plans

We established an employee benefit plan, effective July 1992, that featured a 401(k) salary reduction provision covering all employees who met the eligibility requirements of the plan. Eligible employees are able to defer up to the lesser of 15% of their base compensation or the statutorily prescribed annual limit.

On July 5, 2000, the Company implemented the 2000 Employee Stock Purchase Plan (the "Plan") covering all employees who meet certain eligibility requirements. The Plan, which was approved by our stockholders, permitted employees to elect, at the beginning of each six-month period (each, a "purchase period"), to authorize withholdings from payroll of up to 15% of their compensation that would be used to purchase shares of the Company's common stock at the end of the six-month period. The Plan provided that the purchase price would be 85% of the closing price of the Company's shares on NASDAQ on (i) the first day of the six-month period, or (ii) the last day of the six-month period, whichever price was lower. Participating employees were entitled to revoke their elections to participate in the purchase of shares at any time prior to the end of a purchase period, in which event the amounts withheld to the date of such revocation were paid to the employee, without interest. This Plan was terminated effective as of July 1, 2005.

During fiscal 2005, 2004 and 2003, we issued 5,000, 12,000 and 3,000 shares of common stock, respectively, under the Plan at an average purchase price of \$12.80, \$7.94 and \$3.22, respectively.

11. Stockholders' Equity

Equity Offering

In March 2005, the Company completed a public offering of a total of 3,450,000 shares of its common stock, of which a total of 2,195,856 shares were sold by the Company, and the remaining shares were sold by David G. Hall and Van D. Simmons, at a public offering price of \$17.50 per share. Messrs. Hall and Simmons, who founded the Company in 1986, are directors of the Company, and Mr. Hall also is the Company's President and Chief Operating Officer. The proceeds to the Company net of the underwriting discount and offering expenses of approximately \$650,000, were approximately \$35,657,000. The Company did not receive any of the net proceeds (representing the public offering price net of underwriting discount) from the sale of shares by Messrs. Hall and Simmons.

Treasury Stock

During fiscal 2001, we repurchased 125,000 shares of our common stock at an aggregate cost of \$1,021,000.

Consulting Agreement

In July 1997, we granted options to an individual to purchase 133,000 shares of our common stock at an exercise price of \$1.32 per share as consideration for a five-year consulting agreement that commenced on July 1, 1997. The options vested in five annual installments of 20% of the shares beginning on December 31, 1997 and continuing through December 31, 2001. The options will terminate if not exercised by December 31, 2005. No amount was recognized for the value of the options, as the amount was not material.

Supplier Compensation Cost

During fiscal 1999, the Company granted warrants to purchase up to an aggregate of 150,000 shares of common stock, at an exercise price of \$20.00 per share, to collectible experts providing content for our websites. These warrants vested immediately and are exercisable over a ten-year term. The fair value of these options was expensed in fiscal 1999, and all of these options are outstanding at June 30, 2005.

12. Stock Option Plans

In January 1999, we adopted the PCGS 1999 Stock Incentive Plan (the "PCGS Plan"). The PCGS Plan, which was assumed by the Company at the time of its acquisition of PCGS, covers an aggregate of 269,250 shares of our common stock. In February 1999, we adopted the 1999 Stock Incentive Plan (the "1999 Plan"), which

provides for grants of incentive stock options, nonstatutory stock options, and restricted stock grants to directors, officers, employees and consultants of Collectors Universe who provide valuable services to Collectors Universe, entitling them to purchase up to 437,250 shares of our common stock. On December 5, 2000, the stockholders, at the Company's Annual Meeting, approved an amendment to the 1999 Plan to increase the authorized number of shares of our common stock that are issuable under this Plan from 437,250 to 749,750 shares.

On December 5, 2003, the stockholders, at the Company's Annual Meeting, approved the 2003 Incentive Plan (the "2003 Plan"), which authorizes the grant of options, and the issuance of restricted rights, to purchase up to an aggregate of 500,000 shares of the Company's common stock to officers and other employees, non-employee directors and service providers of the Company and its subsidiaries.

The PCGS Plan and the 1999 Plan provide that the option exercise price per share may not be less than 100% of the fair market value of a share of common stock on the grant date, as determined by the Board of Directors, for incentive stock options and 85% of fair market value for nonstatutory stock options. The 2003 Plan provides that the exercise price of all options (whether incentive or non-statutory), and the purchase price of shares issued pursuant to restricted stock purchase rights, may not be less than 100% of the fair market value of the shares subject to such options or rights (as the case may be) on the date of grant. However, the exercise price of incentive stock options granted under any of the Plans to any individual possessing 10% or more of the voting power of all classes of our stock may not be less than 110% of the fair market value of a share of common stock on the grant date. The timing of exercise for individual option grants is at the discretion of the Board of Directors, and the options expire no later than ten years after the grant date (five years in the case of incentive stock options granted to individuals possessing 10% or more of the voting power of all classes of our stock). In the event of a change in control of the Company, an option or award of shares under these Plans will become fully exercisable if an agreement is not reached that provides for the surviving corporation to assume such options or awards or to substitute comparable options or awards for the options and awards granted under these Plans.

The following is a summary of stock option activity for fiscal 2005, 2004 and 2003 under the PCGS Plan, the 1999 Plan and the 2003 Plan. No rights to purchase restricted shares have been granted to date.

	<u>(in thousands, except per share data)</u>				
	<u>Number of Shares</u>	<u>Exercise Price Per Share</u>			<u>Weighted-Average Exercise Price Per Share</u>
Options outstanding at June 30, 2002	690	\$ 3.08	–	\$ 30.52	\$ 10.96
Granted	254	2.55	–	4.80	3.40
Cancelled	(241)	3.08	–	30.52	10.83
Exercised	<u>(1)</u>	\$ 3.08			3.08
Options outstanding at June 30, 2003	702	2.55	–	30.52	\$ 8.27
Granted	405	3.79	–	13.73	11.14
Cancelled	(81)	2.79	–	30.52	8.16
Exercised	<u>(204)</u>	2.55	–	8.00	4.25
Options outstanding at June 30, 2004	822	2.55	–	30.52	\$ 10.56
Granted	295	11.58	–	20.10	17.09
Cancelled	(70)	3.08	–	30.52	17.70
Exercised	<u>(71)</u>	2.55	–	12.00	3.99
Options outstanding as June 30, 2005	<u>976</u>	2.55	–	24.00	\$ 12.49

The following table summarizes information about stock options outstanding at June 30, 2005:

Range of Exercise Prices		(In thousands, except per share data)			Exercisable Options	
		Outstanding Options			Number of Shares Outstanding	Weighted Average Exercise Price
		Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price		
\$ 2.55	– \$ 3.80	184	7.47	\$ 3.32	134	\$ 3.32
\$ 5.28	– \$ 7.60	74	8.22	\$ 7.22	72	\$ 7.27
\$ 8.00	– \$ 12.00	182	8.10	\$ 10.40	73	\$ 9.66
\$ 13.24	– \$ 19.60	432	9.40	\$ 16.10	154	\$ 17.33
\$ 20.00	– \$ 24.00	65	3.83	\$ 20.00	65	\$ 20.00
\$ 20.10	– \$ 24.00	39	5.76	\$ 22.99	29	\$ 24.00
		<u>976</u>			<u>527</u>	

At June 30, 2005 options to purchase a total of 527,000 shares of our common stock were exercisable at a weighted-average exercise price of \$11.93 per share. By comparison, at June 30, 2004, exercisable options to purchase a total of 385,000 shares were outstanding at a weighted-average exercise price of \$10.17 per share; and at June 30, 2003, exercisable options to purchase a total of 358,000 shares were outstanding at a weighted average exercise price of \$9.94 per share.

The weighted-average fair values of stock options granted during fiscal 2005, 2004 and 2003 were \$7.20, \$4.66 and \$1.01 per option share, respectively.

13. Related-Party Transactions

A member of the Board of Directors is also a partner in a professional services firm providing service to the Company. For each of the years ended June 30, 2005, 2004 and 2003, the member was paid \$31,250, \$35,000 and \$35,000, respectively, as Board fees; and the professional services firm was paid \$588,000, \$390,000, and \$237,000, respectively, for services rendered.

In May 2003, the Company entered into a license agreement with DHRCC, Inc., which is wholly owned by David Hall and Van Simmons who are two of the Company's stockholders and two of the directors of the Company. Pursuant to that Agreement, the Company obtained (i) an exclusive license to use, for up to a four year period ending May 31, 2007, a customer list owned and compiled by DHRCC, and certain other intangible assets owned by DHRCC, and (ii) a non-exclusive license to use, in perpetuity, a coin inventory control software program owned by DHRCC, both for use by the Company's David Hall Rare Coins ("DHRC") Division, which was engaged in the business of selling collectible coins at retail. Under that agreement, the Company agreed to pay DHRCC, for the use of the DHRCC customer list, a royalty equal to one and one half percent (1.5%) of the net revenues of the Company's David Hall Rare Coins ("DHRC") Division, on a quarterly basis, but in no event to exceed (i) twenty percent (20%) of the quarterly pre-tax profits of that division, or (ii) an aggregate of \$500,000 per year, whichever was less. The Company also paid DHRCC a one-time fee of \$5,000 for use of the other intangible assets licensed by the Company, including the coin inventory software program. The license agreement was terminable by either party at any time, without cause, on 30 days prior written notice to the other. Amounts paid to DHRCC by the Company pursuant to the license agreement totaled \$36,000 in fiscal 2003. The license agreement was terminated by the Company as a result of its decision, made in fiscal 2004, to discontinue its collectibles sales businesses. See note 3.

DHRCC had been engaged in the business of selling collectible coins at retail until June 2000. As a result of the Company's decision to discontinue that business, DHRCC elected to resume selling collectible coins at retail and in connection therewith DHRCC purchased certain fixed assets, that had been used by the Company's DHRC division, for a purchase price of \$13,000, which was equal to the net book value of those assets on the Company's books at March 31, 2003. DHRCC also has subleased from the Company, through November 6, 2009, approximately 2,200 square feet of office space, located at the Company's offices in Santa Ana, California, at a rent equal to between \$1.50 and \$1.75 per square foot per month. That rent, per square foot, is equal to the rent being paid to the Company by an unaffiliated subtenant for comparable space in the same building under a sublease

entered into by the Company in March 2004. Rent received under the DHRCC sublease, which commenced on March 1, 2004, totaled \$40,000 in fiscal 2005 and \$13,000 in fiscal 2004.

In connection with its discontinuance of its retail coin sales business, effective March 1, 2004 the Company engaged DHRCC to sell the Company's remaining inventory of collectible coins that had been held for sale at retail by the Company's DHRC division. Sales of collectible coins by DHRCC pursuant to this engagement totaled \$11,000 and \$840,000 for the periods ended June 30, 2005 and 2004, respectively, and the Company paid DHRCC commissions of \$1,000 and \$84,000 in connection with those sales. At June 30, 2005, and June 30, 2004, accounts receivable balances arising from those sales totaled \$0 and \$376,000, respectively.

All of the above-described transactions with DHRCC were approved by the disinterested members of the Company's Board of Directors.

During 2005, the Company charged DHRCC approximately \$29,000 for advertising fees, and approximately \$26,000 for grading and authentication fees, which were comparable to the fees charged by the Company in the ordinary course of its business to unaffiliated customers for similar services. During 2005, the Company also reimbursed DHRCC for warranty claims of approximately \$11,000 in accordance with its standard authentication and grading warranty, and paid DHRCC approximately \$9,000 for the purchase of certain coin inventory.

14. Commitments and Contingencies

Leases

The Company has various operating lease commitments for facilities and equipment that expire through November 2009. During fiscal 2005, the Company subleased office space that was in excess of its current requirements to an unaffiliated third party and also to a related party (see note 13). Such lease for office space contains escalations over the term of the lease. In accordance with SFAS No. 13, rent expense is recognized on a straight-line basis over the lease period. Total rent expense, net of sublease income, was approximately \$1,349,000, \$1,462,000 and \$1,523,000, respectively, for the years ended June 30, 2005, 2004 and 2003. At June 30, 2005, deferred rent (representing the cumulative difference between rent paid and the rent expense recognized) was \$386,000. Effective October 1, 2005, the sublease to the unaffiliated third party will be cancelled. Future minimum lease payments under these agreements are as follows:

	(In thousands)		
	Company's Gross Payment	Sublease Income	Net
2006	\$ 1,181	\$ 89	\$ 1,092
2007	1,206	42	1,164
2008	1,194	44	1,150
2009	1,202	45	1,157
2010	430	16	414
	<u>\$ 5,213</u>	<u>\$ 236</u>	<u>\$ 4,977</u>

Employment Agreements

The Company has entered into employment agreements with certain executive officers and other key employees. The employment agreements provide for minimum salary levels, incentive compensation and severance benefits, among other items.

Guarantees

As discussed in note 9, the Company has guaranteed the obligations of CFC under its line of credit. However, since CFC is a wholly-owned, consolidated subsidiary of the Company, its line of credit borrowings, which the Company has guaranteed, are required to be set forth on our consolidated balance sheet. There were no such borrowings outstanding at June 30, 2005.

Indemnification Obligations

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily relate to (i) agreements pursuant to which the Company has sold its discontinued collectibles sales businesses and which require the Company to indemnify the purchasers from certain contingent liabilities that might arise from the operation of those businesses prior to their sale by the Company, which is customary in business sale transactions such as these; (ii) certain real estate leases under which the Company may be required to indemnify property owners for environmental or other liabilities and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers and directors, under which the Company may be required to indemnify such persons for liabilities arising out of their relationships as officers or directors of the Company. The terms of such obligations vary by contract and in most instances a specific or maximum dollar amount is not explicitly stated therein. Historically, the Company has not been obligated to make significant payments under, and no liabilities have been recorded in the accompanying consolidated balance sheets for these indemnification obligations.

Legal Settlement

As previously reported, the Company was named as a co-defendant in a lawsuit brought by Real Legends Inc, (Plaintiff), against When It Was a Game ("WIWAG"), a sports card dealer. In the lawsuit, Plaintiff was seeking alleged damages to its business of \$4 million, alleged to have arisen out of actions taken by WIWAG, together with punitive damages. Plaintiff also alleged that the Company was liable for those damages, because a Company employee had introduced WIWAG to Plaintiff.

On January 26, 2005, the Company and Plaintiff settled that lawsuit. Pursuant to the settlement, all claims against the Company were released by Plaintiff and the Company paid Plaintiff the sum of \$600,000 on or about February 23, 2005. The cost of the settlement to the Company, net of \$100,000 insurance reimbursement, was \$500,000, which was recorded as part of operating expenses in the Company's consolidated statements of operations for the year ended June 30, 2005.

Other Legal Matters

Bill Miller v. Collectors Universe, Inc. The Company has been named as a defendant in this action, which has been brought in the Superior Court of California, County of Orange, by Bill Miller, a former employee of the Company, who was president of one of the Company's collectibles sales businesses that was sold in 2004 and an expert in the authentication of autographs and memorabilia. The complaint alleges that the Company had issued certificates of authentication bearing his name without his consent, in violation of a California statute prohibiting unauthorized appropriation of a person's name, signature or likeness. The statute entitles the person whose name, signature or likeness has been misappropriated, in violation of the statute, to recover the greater of \$750 or the actual damages suffered as a result of the unauthorized use, and any profits from the unauthorized use that are attributable to the use and are not taken into account in computing the actual damages. Although Plaintiff's complaint does not state the amount of damages he is seeking, during the discovery phase of the action, plaintiff's counsel has asserted that he is entitled to recover damages in excess of \$10 million based on the assertion that the statute entitles plaintiff to \$750 per issued certificate of authenticity. The Company has denied plaintiff's allegations, including a denial that the use of the certificates was unauthorized and a denial that he has suffered damages, and the Company is vigorously defending against the lawsuit. The Company believes, moreover, that it has meritorious defenses to plaintiff's claims and that it will not incur any material liability to plaintiff in this action. However, there is little interpretive history with respect to the statute, creating a number of relatively novel factual and legal issues, and for that reason, it is not possible to predict with certainty the ultimate outcome of the trial, which is scheduled to take place in October 2005.

The Company also is named, from time to time, as a defendant in lawsuits that arise in the ordinary course of its business. Management of the Company believes that none of such lawsuits that are currently pending against it is likely to have a material adverse effect on the Company.

15. Segment, Geographic and Major Customer Information

Operating segments are defined as components of an enterprise about 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 and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The operating segments of the Company are organized based on the services it offers. Similar operating segments have been aggregated to reportable operating segments based on having similar products or services, types of customers, and other criteria under SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*.

For our continuing operations, we operate principally in three service segments: coins, sportscards and other high-value collectibles. Services provided by these segments include authentication, grading, publication and advertising.

We allocate operating expenses to each service segment based upon activity levels. We do not allocate specific assets to these service segments. All of our sales and identifiable assets are located in the United States. No individual customer accounted for 10% or more of revenue in any of the years ended June 30, 2005, 2004 and 2003.

	Year Ended June 30		
	(in thousands)		
	2005	2004	2003
Net revenues from external customers			
Coins	\$ 23,203	\$ 17,474	\$ 12,171
Sportscards	8,143	7,126	6,946
Other	<u>2,261</u>	<u>1,820</u>	<u>1,220</u>
Total revenue	<u>33,607</u>	<u>26,420</u>	<u>20,337</u>
Operating income before unallocated expenses			
Coins	12,183	8,837	6,010
Sportscards	1,344	968	1,000
Other	<u>(704)</u>	<u>(117)</u>	<u>(452)</u>
Total	12,823	9,688	6,558
Unallocated operating expenses	(5,356)	(5,419)	(6,461)
Settlement of lawsuit	(500)	—	—
Goodwill impairment	—	—	(6)
Consolidated operating income	<u>\$ 6,967</u>	<u>\$ 4,269</u>	<u>\$ 91</u>

16. Quarterly Reports of Operations (unaudited)

	Quarters Ended							
	(In thousands, except per share data)							
	Sept. 30, 2003	Dec. 31, 2003	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	Mar. 31 2005	June 30, 2005
Statement of Operations Data:								
Net revenues	\$ 6,012	\$ 5,753	\$ 6,896	\$ 7,759	\$ 8,195	\$ 7,982	\$ 8,955	\$ 8,475
Cost of revenues	<u>2,549</u>	<u>2,349</u>	<u>2,597</u>	<u>2,827</u>	<u>2,826</u>	<u>2,998</u>	<u>3,263</u>	<u>3,152</u>
Gross profit	3,463	3,404	4,299	4,932	5,369	4,984	5,692	5,323
SG&A expenses	2,766	2,925	2,923	3,215	3,244	3,040	3,464	4,153
Settlement of lawsuit	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>500</u>	<u>—</u>	<u>—</u>
Operating income	697	479	1,376	1,717	2,125	1,444	2,228	1,170
Interest and other income (expense), net	<u>—</u>	<u>(5)</u>	<u>7</u>	<u>108</u>	<u>64</u>	<u>112</u>	<u>225</u>	<u>531</u>
Income before income taxes	697	474	1,383	1,825	2,189	1,556	2,453	1,701
Provision for income taxes	<u>313</u>	<u>170</u>	<u>592</u>	<u>506</u>	<u>878</u>	<u>628</u>	<u>981</u>	<u>654</u>
Income from continuing operations	384	304	791	1,319	1,311	928	1,472	1,047
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	<u>47</u>	<u>(782)</u>	<u>201</u>	<u>(534)</u>	<u>(69)</u>	<u>(7)</u>	<u>(3)</u>	<u>139</u>
Net income (loss)	<u>\$ 431</u>	<u>\$ (478)</u>	<u>\$ 992</u>	<u>\$ 785</u>	<u>\$ 1,242</u>	<u>\$ 921</u>	<u>\$ 1,469</u>	<u>\$ 1,186</u>
Net income (loss) per basic share:								
Income from continuing operations	\$ 0.06	\$ 0.05	\$ 0.13	\$ 0.21	\$ 0.21	\$ 0.15	\$ 0.21	\$ 0.12
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	<u>0.01</u>	<u>(0.13)</u>	<u>0.03</u>	<u>(0.08)</u>	<u>(0.01)</u>	<u>—</u>	<u>—</u>	<u>0.02</u>
Net income (loss)	<u>\$ 0.07</u>	<u>\$ (0.08)</u>	<u>\$ 0.16</u>	<u>\$ 0.13</u>	<u>\$ 0.20</u>	<u>\$ 0.15</u>	<u>\$ 0.21</u>	<u>\$ 0.14</u>
Net income (loss) per diluted share:								
Income from continuing operations	\$ 0.06	\$ 0.05	\$ 0.13	\$ 0.20	\$ 0.20	\$ 0.14	\$ 0.19	\$ 0.12
Income (loss) from discontinued operations, net of gain on sales of discontinued businesses (net of income taxes)	<u>0.01</u>	<u>(0.12)</u>	<u>0.03</u>	<u>(0.08)</u>	<u>(0.01)</u>	<u>—</u>	<u>—</u>	<u>0.01</u>
Net income (loss)	<u>\$ 0.07</u>	<u>\$ (0.07)</u>	<u>\$ 0.16</u>	<u>\$ 0.12</u>	<u>\$ 0.19</u>	<u>\$ 0.14</u>	<u>\$ 0.19</u>	<u>\$ 0.13</u>
Weighted average shares outstanding								
Basic	6,172	6,167	6,135	6,201	6,214	6,242	7,113	8,479
Diluted	6,288	6,391	6,319	6,557	6,569	6,695	7,571	8,902

17. Subsequent Events

In July 2005, the Company acquired a substantial portion of the assets of CoinFacts.com for \$500,000. CoinFacts.com operates an Internet website on which it publishes detailed proprietary information and history on rare U.S. coins.

On September 2, 2005, the Company acquired the common stock of Certified Coin Exchange (“CCE”) and a related business for \$2,180,000 in cash, of which \$1,680,000 was paid at closing, and the balance of \$500,000 is payable no later than 60 days from closing. CCE is a subscription-based dealer-to-dealer Internet electronic exchange for third party certified coins.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously reported in a Current Report on Form 8-K dated January 26, 2005, on that date we were informed by Deloitte & Touche LLP ("D&T") that it had decided to resign as the Company's independent registered public accounting firm upon the completion of D&T's review of the Company's interim financial information to be included in its Quarterly Report on Form 10-Q for our second quarter that ended on December 31, 2004. We were informed by D&T that its decision to resign was not the result of any disagreements between us and D&T on matters of accounting principles or practices, financial statement disclosure or auditing scope or procedures.

The audit reports of D&T on our financial statements for fiscal years ended June 30, 2004 and 2003 contained no adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the period from July 1, 2002, the beginning of fiscal 2003, to January 26, 2005, there were no disagreements between us and D&T on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures which, if not resolved to D&T's satisfaction, would have caused it to make reference to the subject matter of the disagreement in connection with its reports.

During the period from July 1, 2002 to January 26, 2005 there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

We provided D&T with a copy of the disclosure we included in our Current Report on Form 8-K reporting its resignation and, at our request D&T furnished us with a letter addressed to the Securities and Exchange Commission stating whether D&T agreed us with the statements that we have made in that Current Report. A copy of D&T's letter was attached to that Report as Exhibit 16.1.

As also previously reported, in a Current Report on Form 8-K dated February 8, 2005, that we had filed with the Securities and Exchange Commission, the Audit Committee of the Company's Board of Directors approved the appointment and engagement of Grant Thornton LLP ("Grant Thornton") as the Company's independent registered public accounting firm.

During the period from July 1, 2002 to February 8, 2005 (the date Grant Thornton was engaged), neither the Company, nor anyone acting on its behalf, consulted with Grant Thornton regarding (i) the application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or (ii) any of the matters or events set forth in Item 304(a)(2)(ii) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are designed to provide reasonable assurance that information required to be disclosed in our reports filed under that Act (the Exchange Act), such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. Our disclosure controls and procedures also are designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Our management, under the supervision and with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures in effect as of June 30, 2005. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2005, our disclosure controls and procedures were effective to provide reasonable assurance that material information, relating to the Company and its consolidated subsidiaries, required to be included in our Exchange Act reports, including this Annual Report on Form 10-K, is made known to management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter ended June 30, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of Collectors Universe, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Management's Assessment and Determination

Our management assessed the effectiveness of Collectors Universe's internal control over financial reporting as of June 30, 2005, based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design and the testing of the operational effectiveness of Collectors Universe's internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on that assessment, management determined that, as of June 30, 2005, Collectors Universe, Inc. maintained effective internal control over financial reporting.

Grant Thornton LLP, independent registered public accounting firm, which audited and reported on our consolidated financial statements for the fiscal year ended June 30, 2005 which are included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of internal control over financial reporting, which is set forth below.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Board of Directors and Stockholders
Collectors Universe, Inc. and Subsidiaries

We have audited management's assessment, included in the accompanying Collectors Universe, Inc. and subsidiaries Management's Report on Internal Control Over Financial Reporting, that Collectors Universe, Inc. and subsidiaries maintained effective internal control over financial reporting as of June 30, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Collectors Universe, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design of the operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Collectors Universe, Inc. and subsidiaries maintained effective internal control over financial reporting as of June 30, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, Collectors Universe, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Collectors Universe, Inc. and subsidiaries as of June 30, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended and our report dated September 2, 2005 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Irvine, California
September 2, 2005

ITEM 9B. OTHER INFORMATION

None

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS**

Except for information concerning the Company's executive officers, which is included in Part I of this Report, the information required by Item 10 is incorporated by reference from the Company's definitive proxy statement, expected to be filed with the Commission on or before October 28, 2005, for the Company's 2005 annual stockholders' meeting.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference from the Company's definitive proxy statement, expected to be filed with the Commission on or before October 28, 2005 for the Company's 2005 annual stockholders' meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Except for the information below regarding our equity compensation plans, the information required by Item 12 is incorporated herein by reference from the Company's definitive proxy statement, expected to be filed with the Commission on or before October 28, 2005, for the Company's 2005 annual stockholders' meeting.

The following table provides information relating to our equity compensation plans as of June 30, 2005

	Column A	Column B	Column C
	Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	Weighted-Average Exercise Price of Outstanding Options and Warrants	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity compensation plans approved by shareholders	976,000	\$ 12.49	190,000
Equity compensation not approved by shareholders ⁽¹⁾	282,000	11.21	—
Total	1,258,000	\$ 12.20	190,000

(1) Warrants to purchase common stock granted to non-employee service providers in the fiscal years ended June 30, 1997 and 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated herein by reference from the Company's definitive proxy statement, expected to be filed with the Commission on or before October 28, 2005, for the Company's 2005 annual stockholders' meeting.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference from the Company's definitive proxy statement, expected to be filed with the Commission on or before October 28, 2005, for the Company's 2005 annual stockholders' meeting.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following financial statements are included in Item 8 of Form 10-K:

Report of Grant Thornton LLP, Independent Registered Public Accounting Firm

Report of Deloitte & Touche, LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2005 and 2004

Consolidated Statements of Operations for the years ended June 30, 2005, 2004 and 2003

Consolidated Statements of Stockholders' Equity for the years ended June 30, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended June 30, 2005, 2004 and 2003

Notes to the Consolidated Financial Statements

(a)(2) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts

The other schedules are omitted because the required information is either inapplicable or has been disclosed in the consolidated financial statements and notes thereto.

(a)(3) Exhibits

See Index to Exhibits immediately following the Signature Page of this Report for a list of the Exhibits required, pursuant to Item 601 of Regulation S-K, to be filed with this Report.

<u>Description</u>	Schedule II				
	Valuation and Qualifying Accounts for Continuing Operations				
	For the Years Ended June 30, 2003, 2004 and 2005				
	Balance at	Charged to	Charged to		Balance
	Beginning	Operating	Cost of	Deductions	at End
	of Period	Expenses	Revenues		of Period
Allowance for doubtful accounts	\$ 45,000	\$ 210,000	\$ -	\$ (226,000)	\$ 29,000
Inventory reserve	-	-	-	-	-
Total at June 30, 2003	<u>\$ 45,000</u>	<u>\$ 210,000</u>	<u>\$ -</u>	<u>\$ (226,000)</u>	<u>\$ 29,000</u>
Allowance for doubtful accounts	\$ 29,000	\$ 31,000	\$ -	\$ (30,000)	\$ 30,000
Inventory reserve	-	-	53,000	-	53,000
Total at June 30, 2004	<u>\$ 29,000</u>	<u>\$ 31,000</u>	<u>\$ 53,000</u>	<u>\$ (30,000)</u>	<u>\$ 83,000</u>
Allowance for doubtful accounts	\$ 30,000	\$ 17,000	\$ -	\$ (9,000)	\$ 38,000
Inventory reserve	53,000	-	26,000	(45,000)	34,000
Total at June 30, 2005	<u>\$ 83,000</u>	<u>\$ 17,000</u>	<u>\$ 26,000</u>	<u>\$ (54,000)</u>	<u>\$ 72,000</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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: September 13, 2005	By: /s/ MICHAEL J. LEWIS
	Michael J. Lewis, Chief Financial Officer

POWER OF ATTORNEY

Each person whose signature to this report appears below hereby appoints Michael R. Haynes and Michael J. Lewis, and either of them, individually, to act severally as attorneys-in-fact and agents, with power of substitution and resubstitution, for each of them, to sign on his behalf, individually and in the capacities stated below, and to file, any and all amendments to this Annual Report, which amendment or amendments may make changes and additions as such attorneys-in-fact may deem necessary or appropriate.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ A. CLINTON ALLEN</u> <u>A. Clinton Allen</u>	Chairman/Director	September 13, 2005
<u>/s/ MICHAEL R. HAYNES</u> <u>Michael R. Haynes</u>	Chief Executive Officer	September 13, 2005
<u>/s/ DAVID HALL</u> <u>David G. Hall</u>	President and Director	September 13, 2005
<u>/s/ MICHAEL J. LEWIS</u> <u>Michael J. Lewis</u>	Chief Financial Officer (Principal Financial and Primary Accounting Officer)	September 13, 2005
<u>/s/ BEN A. FRYDMAN</u> <u>Ben A. Frydman</u>	Director	September 13, 2005
<u>/s/ VAN D. SIMMONS</u> <u>Van D. Simmons</u>	Director	September 13, 2005
<u>/s/ A.J. BERT MOYER</u> <u>A.J. Bert Moyer</u>	Director	September 13, 2005
<u>/s/ DEBORAH A. FARRINGTON</u> <u>Deborah A. Farrington</u>	Director	September 13, 2005

INDEX TO EXHIBITS

<u>Exhibit No</u>	<u>Description</u>
1.1	Form of Underwriting Agreement.*
1.2	Form of Underwriting Agreement between Collectors Universe and Thomas Weisel Partners LLC, Needham & Company, Inc. and Roth Capital Partners LLC. Incorporated by reference to Exhibit 1.1 to Amendment No. 1 to the Company's Registration Statement on Form S-3 (File No. 333-122129), filed on February 14, 2005.
3.2	Amended and Restated Certificate of Incorporation of Collectors Universe. Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-3 (File No. 333-122129), filed on January 19, 2005.
3.2.1	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Collectors Universe. Incorporated by reference to Exhibit 3.2.1 to the Company's Registration Statement on Form S-3 (File No. 333-122129), filed on January 19, 2005.
3.3	Amended and Restated Bylaws of Collectors Universe, as adopted September 1, 1999.*
4.1	Registration Rights Agreement.*
4.2	Form of Registration Rights Agreement for Stockholders pursuant to private placement.*
5.1	Opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation.*
10.1	Collectors Universe 1999 Stock Incentive Plan.*
10.2	Form of Stock Option Agreement for the Collectors Universe 1999 Plan.*
10.4	PCGS 1999 Stock Incentive Plan.*
10.5	Form of Stock Option Agreement for the PCGS 1999 Plan.*
10.6	Employee Stock Purchase Plan.*
10.7	Form of indemnification Agreement.*
10.8	Asset Acquisition Agreement dated January 25, 1999 between Professional Coin Grading Service, Inc., Info Exchange, Inc. and Brent Gutekunst.*
10.9	Collectors Universe/eBay Mutual Services Term Sheet dated February 10, 1999, between the Company and eBay, Inc.*
10.10	Net Lease between Orix Searls Santa Ana Venture and Collectors Universe, dated June, 1999.*
10.11	Agreement for the Sale of Goods and Services dated March 31, 1999, between the Company and DNA Technologies,*
10.12	Contribution and Acquisition Agreement dated February 3, 1999, between the Company and Hugh Sconyers.*
10.13	Contribution and Acquisition Agreement dated February 3, 1999, between the Company and BJ Searls.*
10.14	Contribution and Acquisition Agreement dated February 3, 1999, between the Company and Greg Bussineau.*
10.15	Contribution and Acquisition Agreement dated February 3, 1999, between the Company and Lyn F. Knight Rare Coins*
10.16	Contribution and Acquisition Agreement dated February 3, 1999, between the Company, Kingswood Coin Auction, LLC and the Members of Kingswood.*
10.17	Contribution and Acquisition Agreement dated February 3, 1999, between the Company and Professional Coin Grading Service, Inc.*
10.18	Employment Agreement dated March 1999, between Superior Sportscard Auctions, LLC and Greg Bussineau.*
10.19	Employment Agreement dated March 5, 1999, between Lyn F. Knight, Lyn Knight Currency Auctions, Inc. and Collectors Universe.*
10.24	Asset Purchase Agreements between Collectors Universe, Inc. and Auctions by Bowers and Merena, Inc., Bowers and Merena Galleries, Inc. and Bowers and Merena Research, Inc. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated March 21, 2000).*
10.25	Asset Purchase Agreements dated February 19, 2004 between Collectors Universe, Inc. and Spectrum Numismatics, Inc. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated February 19, 2004).

INDEX TO EXHIBITS

(Continued)

<u>Exhibit No.</u>	<u>Description</u>
10.26	Non-Competition Agreement dated February 19, 2004 between Collectors Universe, Inc. and Spectrum Numismatics, Inc. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated February 19, 2004).
10.27	Collectors Universe 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-121035), filed on December 6, 2004.
10.28	Form of Stock Option Agreement for 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-8 (File No. 333-121035), filed on December 6, 2004.
10.29	Form of Restricted Stock Purchase Agreement for 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-8 (File No. 333-121035), filed on December 6, 2004.
10.30	Employment Agreement, dated January 1, 2003, between the Company and Michael Haynes. Incorporated by reference to Exhibit 10.30 to the Company's Registration Statement on Form S-3 (File No. 333-122129), filed on January 19, 2005.
10.30.1	First Amendment to Employment Agreement, dated October 1, 2003, between the Company and Michael Haynes. Incorporated by reference to Exhibit 10.30.1 to the Company's Registration Statement on Form S-3 (File No. 333-122129), filed on January 19, 2005.
10.30.2	Second Amendment to Employment Agreement, dated November 1, 2004, between the Company and Michael Haynes. Incorporated by reference to Exhibit 10.30.2 to the Company's Registration Statement on Form S-3 (File No. 333-122129), filed on January 19, 2005.
10.31	2005 Management Bonus Plan. Incorporated by reference to Exhibit 10.99 to the Company's Quarterly Report on
10.32	Form 10-Q for the quarter ended December 31, 2004, filed with the Commission on February 14, 2005 Loan and Security Agreement between Collectors Finance Corporation and California Bank & Trust dated as of June 30, 2005.
10.33	Continuing Guaranty issued as of June 30, 2005 by Collectors Universe, Inc. to California Bank & Trust.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm
23.2	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
31.1	Certifications of CEO Under Section 302 Of The Sarbanes-Oxley Act.
31.2	Certifications of CFO Under Section 302 Of The Sarbanes-Oxley Act.
32.1	CEO Certification of Periodic Report Under Section 906 of the Sarbanes-Oxley Act.
32.2	CFO Certification of Periodic Report Under Section 906 of the Sarbanes-Oxley Act.

* Incorporated by reference to the same numbered exhibit to the Company's Registration Statement (No. 333-86449) on Form S-1 filed with the Commission on September 2, 1999.

Loan and Security Agreement

Borrower: Collectors Finance Corporation

Address: 1921 East Alton Avenue
Santa Ana, California 92705

Date: June 30, 2005

THIS LOAN AND SECURITY AGREEMENT ("Agreement"), dated the date set forth above, is entered into by and between the borrower named above (the "Borrower"), whose address is set forth above and CALIFORNIA BANK & TRUST ("CB&T"), whose address is 550 South Hope Street, 3rd Floor, Los Angeles, California 90071.

1. LOANS.

1.1 Total Facility. Upon the terms and conditions set forth herein and provided that no Event of Default (as defined herein) or event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default, shall have occurred and be continuing, CB&T shall, upon Borrower's request, make advances to Borrower from time to time in an aggregate outstanding principal amount not to exceed the Total Facility amount (the "Total Facility") set forth on the schedule hereto (the "Schedule"). The Schedule is an integral part of this Agreement and all references to "herein", "herewith" and words of similar import shall for all purposes be deemed to include the Schedule.

1.2 Loans. Advances under the Total Facility ("Loans") shall be comprised of the amounts shown on the Schedule.

1.3 Overlines. If at any time or for any reason the outstanding amount of advances made pursuant hereto exceeds any of the dollar or percentage limitations contained in the Schedule (any such excess, an "Overline"), then Borrower shall, upon CB&T's demand, immediately pay to CB&T, in cash, the full amount of such Overline. Without limiting Borrower's obligation to repay to CB&T on demand the amount of any Overline, Borrower agrees to pay CB&T interest on the outstanding principal amount of any Overline, on demand, at the rate set forth on the Schedule.

1.4 Loan Account. All advances made hereunder shall be added to and deemed part of the Obligations when made. CB&T may from time to time charge all Obligations of Borrower to Borrower's loan account with CB&T.

2. CONDITIONS PRECEDENT.

2.1 Initial Advance. The obligation of CB&T to make the initial advance hereunder, is subject to the fulfillment, to the satisfaction of CB&T and its counsel, of each of the following conditions on or prior to the date set forth on the Schedule:

(a) Loan Documents. CB&T shall have received each of the following Loan Documents: (i) Guaranty executed by the Guarantor; and (ii) such other documents, instruments and agreements in connection herewith as CB&T shall require, executed, certified and/or acknowledged by such parties as CB&T shall designate;

(b) Charter Documents. CB&T shall have received copies of Borrower's By-laws and Articles of Incorporation, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of Borrower;

(c) Good Standing. CB&T shall have received a certificate of corporate status with respect to Borrower, dated within ten (10) days of the Closing Date, by the Secretary of State of the state of incorporation of Borrower, which certificate shall indicate that Borrower is in good standing in such state;

(d) Foreign Qualification. CB&T shall have received certificates of corporate status with respect to Borrower and each other Loan Party, each dated within ten (10) days of the Closing Date, issued by the Secretary of State of each state in which such party's failure to be duly qualified or licensed would have a material adverse effect on its financial condition or assets, indicating that such party is in good standing;

(e) Authorizing Resolutions and Incumbency. CB&T shall have received a certificate from the Secretary of Borrower attesting to (i) the adoption of resolutions of Borrower's Board of Directors authorizing the borrowing of money from CB&T and execution and delivery of this Agreement and the other Loan Documents to which Borrower is a party, and authorizing specific officers of Borrower to execute same, and (ii) the authenticity of original specimen signatures of such officers;

(f) Insurance. CB&T shall have received the insurance certificates and certified copies of policies required by Section 4.4 hereof, in form and substance satisfactory to CB&T and its counsel;

(g) Searches; Certificates of Title. CB&T shall have received searches reflecting the filing of its financing statements and fixture filings in such jurisdictions as it shall determine, and shall have received certificates of title with respect to the Collateral which shall have been duly executed in a manner sufficient to perfect all of the security interests granted to CB&T;

(h) Fees. Borrower shall have paid all fees payable by it on the Closing Date pursuant to this Agreement;

(i) Officer Certificate. CB&T shall have received a certificate of the President and the Chief Financial Officer or similar official of Borrower, attesting to the accuracy of each of the representations and warranties of Borrower set forth in this Agreement and the fulfillment of all conditions precedent to the initial advance hereunder;

(j) Other Matters. All other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed or recorded and shall be in form and substance satisfactory to CB&T and its counsel.

2.2 Subsequent Advances. The obligation of CB&T to make any advance, including the initial advance, shall be subject to the further conditions precedent that, on and as of the date of such advance.

(a) the representations and warranties of Borrower set forth in this Agreement shall be accurate, before and after giving effect to such advance and to the application of any proceeds thereof;

(b) no Event of Default and no event which, with notice or passage of time or both, would constitute an Event of Default has occurred and is continuing, or would result from such advance or from the application of any proceeds thereof;

(c) no material adverse change has occurred in the Borrower's or any Guarantor's business, operations, financial condition, or assets or in the prospect of repayment of the Obligations; and

(d) CB&T shall have received such other approvals or documents as CB&T shall reasonably request.

3. INTEREST RATE AND OTHER CHARGES.

3.1 Interest. The unpaid principal balance of the Loans shall bear interest at the applicable rate per annum provided below:

(a) Interest Rate Options. Subject to the terms and conditions hereof, all or portions of the Loans shall be outstanding as Prime Rate Borrowings or LIBOR Rate Borrowings, in each case, as selected by Borrower.

(i) Each Prime Rate Borrowing shall bear interest at the Prime Rate, plus, a quarter of one percent (0.25%) per annum;

(ii) Each LIBOR Rate Borrowing shall bear interest at the LIBOR Rate, plus, two and a half percent (2.50%) per annum;

provided, however, that no more than three (3) LIBOR Rate Borrowings shall be outstanding at any time; provided, further, all LIBOR Rate Borrowings shall be in a minimum amount of One Hundred Thousand Dollars (\$100,000) each. Borrower shall select the type of Borrowing and Interest Period, if any, applicable to such Borrowing. Any Loan, or any portion thereof, as to which Borrower has not duly specified a type of Borrowing as provided herein shall be deemed a Prime Rate Borrowing. A LIBOR Rate Borrowing shall not be available until three (3) Business Days after the Closing Date.

(b) Interest Periods for LIBOR Rate Borrowings. In connection with each LIBOR Rate Borrowing, Borrower, by giving notice to CB&T no later than 12:00 p.m., Los Angeles, California time, two (2) Business Days prior to the day on which such LIBOR Rate Borrowing is to be made, shall elect an interest period (each, an "Interest Period") to be applicable to such LIBOR Rate Borrowing, which Interest Period shall be a period of one (1), two (2), three (3), six (6), or twelve (12) months, though the actual length of such periods shall be calculated as follows:

(i) the initial Interest Period, unless commenced on the first Business Day of a month, shall, notwithstanding the length of the Interest Period selected by the Borrower, (i) for Interest Periods beginning before the 25th of each calendar month, end on the first Business Day of the month following commencement of the initial Interest Period, and (ii) for Interest Periods beginning on or after the 25th of each calendar month, end on the first Business Day of the second month following commencement of the initial Interest Period;

(ii) all subsequent Interest Periods shall commence on the first Business Day of the relevant month and end on the first Business Day of the month determined by the length of the Interest Period selected by Borrower;

(iii) no Interest Period shall extend beyond the Term; and

(iv) CB&T's calculation pursuant to this Section 3.1(b) shall be in its sole and absolute discretion and shall conclusively bind the Borrower absent manifest error.

(c) Default Rate. Upon the occurrence and during the continuance of an Event of Default, (i) Borrower shall no longer have the option to request LIBOR Rate Borrowings, (ii) all outstanding LIBOR Rate Borrowings shall bear interest at a rate per annum equal to three percent (3%) in excess of the rate then applicable to such Borrowings; and (iii) all outstanding Prime Rate Borrowings shall bear interest at a rate per annum equal to three percent (3%) in excess of the rate then applicable to such Borrowings. Interest shall continue to accrue on the Obligations after the filing by or against Borrower of any petition seeking any relief in bankruptcy or under any act or law pertaining to insolvency or debtor relief, whether state, federal or foreign.

(d) Interest Payments and Computation. Interest on each Prime Rate Borrowing shall be payable in arrears on the last Business Day of each month commencing April 31, 2005; and interest on each LIBOR Rate Borrowing shall be payable on the last day of each Interest Period applicable thereto, and if such Interest Period extends over one (1) month, at the end of each month during such Interest Period. All interest with respect to Prime Rate Borrowings shall be computed on the basis of a 365-day year or 366-day year, as applicable, and assessed for the actual number of days elapsed. All interest with respect to LIBOR Rate Borrowings and all other interest rates, fees and commissions provided hereunder shall be computed on the basis of a 360-day year and assessed for the actual number of days elapsed. In the event that the Prime Rate announced is, from time to time, changed, adjustment in the rate of interest payable hereunder on all Prime Rate Borrowings shall be made as of 12:01 a.m. (Los Angeles, California time) on the effective date of the change in the Prime Rate. Interest shall accrue from the Closing Date to the date of repayment of the Loans in accordance with the provisions of this Agreement; provided however, if a Loan is repaid on the same day on which it is made, then one (1) day's interest shall be paid on that Loan. Any and all interest not paid when due shall thereafter be deemed to be a Prime Rate Borrowing and shall bear interest thereafter at the default rate set forth herein.

(e) Maximum Interest Rate. In no event shall the interest rate and other charges hereunder exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that Bank has received interest and other charges hereunder in excess of the highest rate applicable hereto, such excess shall be deemed received on account of, and shall automatically be applied to reduce, the Obligations, other than interest, in the inverse order of maturity, and the provisions hereof shall be deemed amended to provide for the highest permissible rate. If there are no Obligations outstanding, Bank shall refund to Borrower such excess.

3.2 LIBOR Costs.

(a) Reimbursement for Increase in CB&T's Costs. Borrower shall reimburse CB&T, within ten (10) days after demand by CB&T, for any increase in CB&T's costs (which shall include, but not be limited to, taxes, other than taxes imposed on the overall net income of CB&T), or any loss or expense (including, without limitation, any loss or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by CB&T to fund or maintain outstanding the principal amount of the Loans) incurred by it directly or indirectly resulting from the making of any LIBOR Rate Borrowing due to: (i) the existence, application, modification, adoption, or enactment of any law, regulation or treaty or the interpretation thereof by any governmental or other authority (whether or not having the force of law); (ii) the modification or new application of any law, regulation or treaty or the interpretation thereof by any governmental or other authority (whether or not having the force of law) which becomes effective after the date hereof; (iii) compliance by CB&T with any request or directive (whether or not having the force of law) of any monetary or fiscal agency or authority; (iv) any violation by Borrower of the terms of this Agreement; (v) any prepayment (whether voluntary or

involuntary) of a LIBOR Rate Borrowing at any time prior to the end of the applicable Interest Period; or (vi) any failure to complete a Borrowing.

(b) Reasonable Averaging Methods. In attributing CB&T's general costs relating to its eurocurrency operations to any transaction under this Agreement or averaging any costs over a period of time, CB&T may use any reasonable attribution or averaging methods which it deems appropriate and practical.

(c) No Representation as to Source of Funding. Nothing in this Agreement shall be deemed to obligate CB&T to obtain the funds for any Loan in any particular place or manner, or constitute a representation by CB&T that it has obtained or will obtain the funds for any Loan in any particular place or manner.

3.3 Special LIBOR Circumstances: Increased Risk-Based Capital Cost.

(a) Special LIBOR Circumstances. In the event that any law, regulation, treaty or directive, or any change therein or in the interpretation or application thereof, shall at any time in the opinion of CB&T make it unlawful or impractical for CB&T to fund or maintain a LIBOR Rate Borrowing in the interbank LIBOR market or to continue such funding, or to determine or charge interest rates based upon any appropriate LIBOR Rate, then CB&T shall promptly notify Borrower thereof, and (i) in the case of any LIBOR Rate Borrowing which is outstanding, Borrower shall, if requested by CB&T, prepay such LIBOR Rate Borrowing, together with interest accrued thereon, either (A) on the last day of the then current Interest period for the LIBOR Rate Borrowing if CB&T may lawfully continue to maintain and fund such LIBOR Rate Borrowing to such day, or (B) immediately if CB&T determines that it may not lawfully continue to maintain and fund such LIBOR Rate Borrowing to such day, and concurrent with any such prepayment, CB&T shall make a Prime Rate Borrowing, to Borrower in the principal amount equal to the principal amount of the LIBOR Rate Borrowings so prepaid, and (ii) CB&T shall not be obligated to make any further LIBOR Rate Borrowings until CB&T determines that it would no longer be unlawful or impractical to do so. Any such prepayment shall be made from the proceeds of such Prime Rate Borrowing. Notwithstanding anything herein to the contrary,

(i) if CB&T is unable to determine the LIBOR Rate, the right of Borrower to select or maintain the LIBOR Rate for such Borrowing or any subsequent Borrowing shall be suspended until CB&T notifies Borrower that the circumstances causing such suspension no longer exists, and each Loan comprising such Borrowing shall be a Prime Rate Borrowing, and

(ii) if CB&T shall, at least one (1) Business Day before the first day of any Interest Period, determine that the LIBOR Rate for Loans comprising such Borrowing will not adequately reflect the cost to CB&T of making the Loan for such Borrowing, the right of Borrower to select the LIBOR Rate for such Borrowing shall be suspended until CB&T shall notify Borrower that the circumstances causing such suspension no longer exist, and each Loan comprising such Borrowing shall be a Prime Rate Borrowing.

(b) Increased Risk–Based Capital Cost. If the amount of capital required or expected to be maintained by CB&T or any Person directly or indirectly owning or controlling CB&T (each a “Control Person”) shall be affected by:

(i) the introduction or phasing in of any law, rule or regulation after the date hereof,

(ii) any change after the date hereof in the interpretation of any existing law, rule or regulation by any central bank or United States or foreign governmental authority charged with the administration thereof, or

compliance by CB&T or such Control Person with any directive, guideline or request from any central bank or United States or foreign governmental authority (whether or not having the force of law) promulgated or made after the date hereof, and CB&T shall have determined that such introduction, phasing in, change or compliance shall have had or will thereafter have the effect of reducing (x) the rate of return on CB&T's or Control Person's capital, or (y) the asset value to CB&T or such Control Person of the Revolving Loans made or maintained by CB&T, in either case to a level below that which CB&T or such Control Person could have achieved or would thereafter be able to achieve on any then outstanding LIBOR Rate Borrowing but for such introduction, phasing in, change or compliance (after taking into account CB&T's or such Control Person's policies regarding capital), and such change is not given effect in the determination of the LIBOR Rate, then, within ten (10) days after demand by CB&T, Borrower shall pay to CB&T or such Control Person such additional amount or amounts as shall be sufficient to compensate CB&T or such Control Person, as the case may be, for such reduction actually suffered.

A certificate of CB&T claiming compensation under this Section 3.3(b) and setting forth the additional amount or amounts to be paid to it hereunder and calculations therefor shall be provided to Borrower at the time of any such demand. In determining such amount, CB&T may use any reasonable averaging and attribution methods. If CB&T demands compensation under this Section 3.3(b), Borrower may at any time, upon at least five Business Days' prior notice to CB&T, prepay in full the then outstanding affected LIBOR Rate Borrowing, together with accrued interest thereon to the date of prepayment. Concurrently with prepaying such LIBOR Rate Borrowing, Borrower shall borrow a Prime Rate Borrowing, or a LIBOR Rate Borrowing not so affected, from CB&T in the principal amount equal to the principal amount of the LIBOR Rate Borrowings so prepaid, and CB&T shall make such Prime Rate Borrowing in such amount.

3.4 Fees. Borrower shall pay CB&T the fees set forth on the Schedule.

3.5 Examination Fees. Borrower agrees to pay to CB&T an examination fee in the amount set forth on the Schedule in connection with each audit or examination of Borrower performed by CB&T after the date hereof. In addition, Borrower shall pay to CB&T an initial examination fee in an amount equal to One Thousand Nine Hundred Fifty Dollars (\$1,950). Such initial examination fee shall be deemed fully earned at the time of payment and due and

payable upon the closing of this transaction, and shall be deducted from any good faith deposit paid by Borrower to CB&T prior to the date of this Agreement.

4. COLLATERAL.

4.1 Security Interest in the Collateral. To secure the payment and performance of the Obligations when due, Borrower hereby grants to CB&T a security interest in all of Borrower's now owned or hereafter acquired or arising Inventory, Investment Property, Equipment, Receivables, and General Intangibles, including, without limitation, all of Borrower's Deposit Accounts, Fixtures, Goods, Documents, Instruments, Letter of Credit Rights, Supporting Obligations, Commercial Tort Claims, money, cash, cash equivalents, any and all General Intangibles (including without limitation all Intellectual Property, Payment Intangibles, contract rights, choses in action and Software) property now or at any time hereafter in CB&T's possession (including claims and credit balances), and all proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties), all products and all books and records related to any of the foregoing (all of the foregoing, together with all other property in which CB&T may be granted a lien or security interest, is referred to herein, collectively, as the "Collateral"). The term "Collateral" shall also include, without limitation, Borrower's interest in and rights to, all present and future Customer Receivables, Customer Loan Collateral, and Customer Loan Documents. CB&T acknowledges that Collateral does not include the Customer Loan Collateral as Borrower does not own, or have title to, the Customer Loan Collateral, and that Borrower's sole rights therein are as a secured party pursuant to the Customer Loan Documents.

4.2 Perfection and Protection of Security Interest. Borrower shall, at its expense, take all actions at any time to perfect, maintain, protect and enforce CB&T's security interest and other rights in the Collateral and the priority thereof from time to time, including, without limitation, (i) executing and filing financing or continuation statements and amendments thereof and executing and delivering such documents and titles in connection with motor vehicles as CB&T shall require, all in form and substance satisfactory to CB&T, (ii) if requested by CB&T, delivering to CB&T warehouse receipts covering any portion of the Collateral located in warehouses and for which warehouse receipts are issued, (iii) if requested by CB&T, placing notations on Borrower's books of account to disclose CB&T's security interest therein, and (iv) if requested by CB&T, delivering to CB&T all letters of credit on which Borrower is named beneficiary and (v) if requested by CB&T, with respect to any Customer who is in default of its obligations under the Customer Loan Documents, assigning to CB&T all UCC financing statements, fixture filings, mortgages, trust deeds and all other evidences of security interests or assignments filed in any public record against any Customer Loan Collateral of such Customer or any other asset of such Customer, Customer Obligors or other account debtors and delivering to the possession of CB&T all original loan agreements, promissory notes, stock certificates and all other chattel paper and instruments. CB&T may file, without Borrower's signature, one or more financing statements disclosing CB&T's security interest under this Agreement. Borrower agrees that a carbon, photographic, photostatic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of Borrower's agents or processors, Borrower shall notify such Person of CB&T's security interest in such Collateral and, upon CB&T's request, instruct them to hold all such Collateral for CB&T's account subject to CB&T's

instructions. From time to time, Borrower shall, upon CB&T's request, execute and deliver confirmatory written instruments pledging the Collateral to CB&T, but Borrower's failure to do so shall not affect or limit CB&T's security interest or other rights in and to the Collateral. Until the Obligations have been fully satisfied and CB&T's obligation to make further advances hereunder has terminated, CB&T's security interest in the Collateral shall continue in full force and effect.

4.3 Preservation of Collateral. CB&T may, upon the occurrence and during the continuation of an Event of Default, discharge any lien or encumbrance on the Collateral or bond the same, pay any insurance, maintain guards, pay any service bureau, obtain any record or take any other action to preserve the Collateral and charge the cost thereof to Borrower's loan account as an Obligation.

4.4 Insurance. Borrower will maintain and deliver evidence to CB&T of such insurance as is reasonably required by CB&T, written by insurers and in amounts reasonably satisfactory to CB&T. All premiums with respect to such insurance shall be paid by Borrower as and when due. Accurate and complete copies of the policies shall be delivered by Borrower to CB&T. If Borrower fails to comply with this Section, CB&T, after five (5) Business Days prior notice to Borrower, may (but shall not be required to) procure such insurance at Borrower's expense and charge the cost thereof to Borrower's loan account as an Obligation.

5. EXAMINATION OF RECORDS; FINANCIAL REPORTING.

5.1 Examinations. CB&T shall at all reasonable times have full access to and the right to examine, audit, make abstracts and copies from and inspect Borrower's records, files, books of account and all other documents, instruments and agreements relating to the Collateral and the right to check, test and appraise the Collateral. Borrower shall deliver to CB&T any instrument necessary for CB&T to obtain records from any service bureau maintaining records for Borrower. CB&T may, at any time after the occurrence of an Event of Default, remove from Borrower's premises Borrower's books and records (or copies thereof) or require Borrower to deliver such books and records or copies to CB&T. CB&T may, without expense to CB&T, use such of Borrower's personnel, supplies and premises as may be reasonably necessary for maintaining or enforcing CB&T's security interest.

5.2 Reporting Requirements. Borrower shall furnish CB&T, such information and statements as CB&T shall reasonably request from time to time regarding Borrower's business affairs, financial condition and the results of its operations. Without limiting the generality of the foregoing, Borrower shall provide CB&T with:

(i) on or prior to the date set forth on the Schedule, monthly agings of payables reports, and company prepared financial statements (including balance sheet, income statement, and statement of cash flows) with respect to the prior month prepared on a basis consistent with such statements prepared in prior months and otherwise in accordance with generally accepted accounting principles, consistently applied;

(ii) notice of an overadvance to any of Borrower's Customers within ten (10) days of such overadvance;

(iii) notice of acceleration of any Customer Receivables within five (5) days of such acceleration;

(iv) annual financial statements, prepared in accordance with generally accepted accounting principles applied on a basis consistent with the most recent Prepared Financials provided to CB&T by Borrower, as soon as available, and in any event, within ninety (90) days after the end of each of Borrower's fiscal years; and

(v) such certificates relating to the foregoing as CB&T may reasonably request, including, without limitation, (a) a monthly certificate in the form of Exhibit 5.2 attached hereto, from the president or the chief financial officer of Borrower showing Borrower's compliance with each of the financial covenants set forth in this Agreement, and stating whether any Event of Default has occurred or event which, with giving of notice or the passage of time, or both, would constitute an Event of Default, and if so, the steps being taken to prevent or cure such Event of Default, and (b) a monthly certificate from the president or the chief financial officer of Borrower stating that, except as otherwise noted, Customers and Customer Obligors are in compliance with each of their respective material loan covenants set forth in their respective Customer Loan Documents.

5.3 Guarantor's Financial Statements and Tax Returns. Borrower shall cause the Guarantor to deliver to CB&T, within ninety (90) days of the end of each fiscal year, the Guarantor's audited annual financial statement (in form acceptable to CB&T) and, within fifteen (15) days of the filing therein, a copy of the Guarantor's federal income tax return with respect to the corresponding year, in each case on the date when such tax return is due (or, if the return is on extension, the date the extension expires) or, if earlier, on the date when available.

6. COLLATERAL REPORTING.

6.1 Instruments. In the event any Receivable is or becomes evidenced by a promissory note, trade acceptance or any other instrument for the payment of money, Borrower shall, if requested by CB&T, immediately deliver such instrument to CB&T appropriately endorsed to CB&T as Collateral for the Obligations.

7. PRINCIPAL PAYMENTS; PROCEEDS OF COLLATERAL.

7.1 Principal Payments. Except where evidenced by notes or other instruments issued or made by Borrower to CB&T specifically containing payment provisions which are in conflict with this Section 7.1 (in which event the conflicting provisions of said notes or other instruments shall govern and control), that portion of the Obligations consisting of principal payable on account of Receivable Loans shall be payable by Borrower to CB&T immediately upon the earliest of (i) the receipt by CB&T or Borrower of any proceeds of any of the Collateral, to the extent of said proceeds, (ii) the occurrence of an Event of Default in consequence of which CB&T elects to accelerate the maturity and payment of such loans, or

(iii) any termination of this Agreement pursuant to Section 15 hereof; provided, however, that any Overline shall be payable on demand pursuant to the provisions of Section 1.3 hereof.

7.2 Collections. CB&T or its designee may, at any time upon the occurrence and continuation of an Event of Default, notify Customers, Customer Obligors, and other account debtors that the Receivables have been assigned to CB&T and of CB&T's security interest therein, and may collect the Receivables directly and charge the collection costs and expenses to Borrower's loan account.

7.3 Payments Without Deductions. Borrower shall pay principal, interest, and all other amounts payable hereunder, or under any related agreement, without any deduction whatsoever, including, but not limited to, any deduction for any setoff or counterclaim.

7.4 Periodic Accountings. CB&T shall provide Borrower with notices of or copies of receipts, records or documents reflecting advances, charges, expenses and payments made pursuant to this Agreement. CB&T may periodically provide Borrower with an account of such advances, charges, expenses and payments. Such account shall be deemed correct, accurate and binding on Borrower and an account stated (except for reverses and reapplications of payments made and corrections of errors discovered by CB&T), unless Borrower notifies CB&T in writing to the contrary within thirty (30) days after each account is rendered, describing the nature of any alleged errors or admissions.

8. POWER OF ATTORNEY.

Borrower appoints CB&T and its designees as Borrower's attorney, with the power to endorse Borrower's name on any checks, notes, acceptances, money orders or other forms of payment or security that come into CB&T's possession; to sign Borrower's name on any invoice or bill of lading relating to any Receivable, on drafts against customers, on assignments of Receivables, on notices of assignment, financing statements and other public records, on verifications of accounts and on notices to Customers, Customer Obligors, or other account debtors; to send requests for verification of Receivables to Customers, Customer Obligors, or other account debtors; after the occurrence and continuation of any Event of Default, to notify the post office authorities to change the address for delivery of Borrower's mail to an address designated by CB&T and to open and dispose of all mail addressed to Borrower; and to do all other things CB&T deems necessary or desirable to carry out the terms of this Agreement. Borrower hereby ratifies and approves all acts of such attorney. Neither CB&T nor any of its designees shall be liable for any acts or omissions nor for any error of judgment or mistake of fact or law while acting as Borrower's attorney unless such act, omission, error or mistake was caused by the gross negligence or willful misconduct of CB&T or any such designee. This power, being coupled with an interest, is irrevocable until the Obligations have been fully satisfied and CB&T's obligation to provide loans hereunder shall have terminated.

9. CUSTOMER RECEIVABLES.

9.1 Eligibility. Borrower represents and warrants that each Customer Receivable covers and shall cover a bona fide loan by Borrower in the ordinary course of its business, and shall be for a liquidated amount and CB&T's security interest shall not be subject to any offset,

deduction, counterclaim, rights of return or cancellation, lien or other condition. If any representation or warranty herein is breached as to any Customer Receivable or any Customer Receivable ceases to be an Eligible Customer Receivable for any reason other than payment thereof, then CB&T may, in addition to its other rights hereunder, designate any and all Customer Receivables owing by that Customer as not Eligible Customer Receivables; provided, that CB&T shall in any such event retain its security interest in all Customer Receivables, whether or not Eligible Customer Receivables, until the Obligations have been fully satisfied and CB&T's obligation to provide loans hereunder has terminated.

9.2 Disputes. Borrower shall notify CB&T promptly of all disputes or claims with Customer or Customer Obligors and settle or adjust such disputes or claims at no expense to CB&T, but no discount, credit or allowance shall be granted to any account debtor and no returns of merchandise shall be accepted by Borrower without CB&T's consent, except for discounts, credits and allowances made or given in the ordinary course of Borrower's business. CB&T may, at any time after the occurrence of an Event of Default, settle or adjust disputes or claims directly with Customers, Customer Obligors, or other account debtors for amounts and upon terms which CB&T considers advisable in its reasonable credit judgment and, in all cases, CB&T shall credit Borrower's loan account with only the net amounts received by CB&T in payment of any Receivables..

10. OTHER LIENS; NO DISPOSITION OF COLLATERAL.

Borrower represents, warrants and covenants that (a) all Collateral (other than Customer Loan Collateral) is and shall continue to be owned by it free and clear of all liens, claims and encumbrances whatsoever (except for CB&T's security interest, Permitted Encumbrances, and such other liens, claims and encumbrances as may be permitted by CB&T in its sole discretion from time to time in writing), and (b) Borrower shall not, without CB&T's prior written approval, sell, encumber or dispose of or permit the sale, encumbrance or disposal of any Collateral or any interest of Borrower therein, except for the sale of Inventory in the ordinary course of Borrower's business, the release of Customer Loan Collateral in the ordinary course of Borrower's business or pursuant to a foreclosure or other disposition of Collateral constituting Customer Loan Collateral. The proceeds of any such sales shall be remitted to CB&T pursuant to this Agreement for application to the Obligations.

11. GENERAL REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants that:

11.1 Due Organization. It is a corporation duly organized, validly existing and in good standing under the laws of the State set forth on the Schedule, is qualified and authorized to do business and is in good standing in all states in which such qualification and good standing are necessary in order for it to conduct its business and own its property, and has all requisite power and authority to conduct its business as presently conducted, to own its property and to execute and deliver each of the Loan Documents to which it is a party and perform all of its Obligations thereunder, and has not taken any steps to wind-up, dissolve or otherwise liquidate its assets;

11.2 Other Names. Borrower has not, during the preceding five (5) years, been known by or used any other corporate or fictitious name except as set forth on the Schedule, nor has Borrower been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any person during such time;

11.3 Due Authorization. The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been authorized by all necessary corporate action and do not and shall not constitute a violation of any applicable law or of Borrower's Articles of Incorporation or By-Laws or any other document, agreement or instrument to which Borrower is a party or by which Borrower or its assets are bound;

11.4 Binding Obligation. Each of the Loan Documents to which Borrower is a party is the legal, valid and binding obligation of Borrower enforceable against Borrower in accordance with its terms;

11.5 Intangible Property. Borrower possesses adequate assets, licenses, patents, patent applications, copyrights, trademarks, trademark applications and trade names for the present and planned future conduct of its business without any known conflict with the rights of others, and each is valid and has been duly registered or filed with the appropriate governmental authorities;

11.6 Capital. Borrower has capital sufficient to conduct its business, is able to pay its debts as they mature and owns property having a fair salable value greater than the amount required to pay all of its debts (including contingent debts);

11.7 Material Litigation. Borrower has no pending or overtly threatened litigation, actions or proceedings which would materially and adversely affect its business, assets, operations, prospects or condition, financial or otherwise, or the Collateral or any of CB&T's interests therein;

11.8 Title; Security Interests of CB&T. Borrower has good, indefeasible and merchantable title to the Collateral and, upon the filing of UCC-1 Financing Statements, the recording of any mortgages or deeds of trust with respect to real property, in each case in the appropriate offices, and the delivery of documents as requested by CB&T, this Agreement and such documents shall create valid and perfected first priority liens in the Collateral, subject only to Permitted Encumbrances;

11.9 Restrictive Agreements; Labor Contracts. Borrower is not a party or subject to any contract or subject to any charge, corporate restriction, judgment, decree or order materially and adversely affecting its business, assets, operations, prospects or condition, financial or otherwise, or which restricts its right or ability to incur Indebtedness, and it is not party to any labor dispute. In addition, no labor contract is scheduled to expire during the Term of this Agreement, except as disclosed to CB&T in writing prior to the date hereof;

11.10 Laws. Borrower is not in violation of any applicable statute, regulation, ordinance or any order of any court, tribunal or governmental agency, in any respect materially and adversely affecting the Collateral or its business, assets, operations, prospects or condition, financial or otherwise;

11.11 Consents. Borrower has obtained or caused to be obtained or issued any required consent of a governmental agency or other Person in connection with the financing contemplated hereby;

11.12 Defaults. Borrower is not in default with respect to any note, indenture, loan agreement, mortgage, lease, deed or other agreement to which it is a party or by which it or its assets are bound, nor has any event occurred which, with the giving of notice or the lapse of time, or both, would cause such a default;

11.13 Financial Condition. The Prepared Financials fairly present Borrower's financial condition and results of operations and those of such other Persons described therein as of the date thereof; there are no material omissions from the Prepared Financials or other facts or circumstances not reflected in the Prepared Financials; and there has been no material and adverse change in such financial condition or operations since the date of the initial Prepared Financials delivered to CB&T hereunder;

11.14 ERISA. None of Borrower, any ERISA Affiliate, or any Plan is or has been in violation of any of the provisions of ERISA, any of the qualification requirements of IRC Section 401(a) or any of the published interpretations thereunder, nor has Borrower or any ERISA Affiliate received any notice to such effect. No notice of intent to terminate a Plan has been filed under Section 4041 of ERISA, nor has any Plan been terminated under ERISA. The PBGC has not instituted proceedings to terminate, or appointed a trustee to administer, a Plan. No lien upon the assets of Borrower has arisen with respect to a Plan. No prohibited transaction

or Reportable Event has occurred with respect to a Plan. Neither Borrower nor any ERISA Affiliate has incurred any withdrawal liability with respect to any Multiemployer Plan. Borrower and each ERISA Affiliate have made all contributions required to be made by them to any Plan or Multiemployer Plan when due. There is no accumulated funding deficiency in any Plan, whether or not waived;

11.15 Taxes. Borrower has filed all tax returns and such other reports as it is required by law to file and has paid or made adequate provision for the payment on or prior to the date when due of all taxes, assessments and similar charges that are due and payable;

11.16 Locations. Borrower's chief executive office and the offices and locations where it keeps the Collateral are at the locations set forth on the Schedule, except to the extent that such locations may have been changed after notice to CB&T in accordance with Section 12.5 below;

11.17 Business Relationships. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship between Borrower and any customer or any group of customers whose purchases individually or in the aggregate are material to the business of Borrower, or with any material supplier, and there exists no present condition or state of facts or circumstances which would materially and adversely affect Borrower or prevent Borrower from conducting such business after the consummation of the transactions contemplated by this Agreement in substantially the same manner in which it has heretofore been conducted; and

11.18 Reaffirmations. Each request for a loan made by Borrower pursuant to this Agreement shall constitute (i) an automatic representation and warranty by Borrower to CB&T that there does not then exist any Event of Default and (ii) a reaffirmation as of the date of said request of all of the representations and warranties of Borrower contained in this Agreement and the other Loan Documents.

12. AFFIRMATIVE COVENANTS.

Borrower covenants that, so long as any Obligation remains outstanding and this Agreement is in effect, it shall:

12.1 Expenses. Promptly reimburse CB&T for all out-of-pocket costs, fees and expenses incurred by CB&T in connection with the negotiation, preparation, execution, delivery, administration and enforcement of each of the Loan Documents, including, but not limited to, the attorneys' and paralegals' fees of outside counsel, expert witness fees, lien, title search and insurance fees, appraisal fees, all charges and expenses incurred in connection with any and all environmental reports and environmental remediation activities, and all other costs, expenses, taxes and filing or recording fees payable in connection with the transactions contemplated by this Agreement, including without limitation all such costs, fees and expenses as CB&T shall incur or for which CB&T shall become obligated in connection with (i) any inspection or verification of the Collateral, (ii) any proceeding relating to the Loan Documents or the Collateral, (iii) actions taken with respect to the Collateral and CB&T's security interest therein,

including, without limitation, the defense or prosecution of any action involving CB&T and Borrower or any third party, (iv) enforcement of any of CB&T's rights and remedies with respect to the Obligations or Collateral, and (v) consultation with CB&T's attorneys and participation in any workout, bankruptcy or other insolvency or other proceeding involving any Loan Party or any Affiliate, whether or not suit is filed. Borrower shall also pay all CB&T charges in connection with bank wire transfers, forwarding of loan proceeds, deposits of checks and other items of payment, returned checks, establishment and maintenance of lockboxes and other Blocked Accounts, if any, and all other bank and administrative matters, in accordance with CB&T's schedule of bank and administrative fees and charges in effect from time to time;

12.2 Taxes. File all tax returns and pay or make adequate provision for the payment of all taxes, assessments and other charges on or prior to the date when due;

12.3 Notice of Litigation. Promptly notify CB&T in writing of any litigation, suit or administrative proceeding which may materially and adversely affect the Collateral or Borrower's business, assets, operations, prospects or condition, financial or otherwise, whether or not the claim is covered by insurance;

12.4 ERISA. Notify CB&T in writing (i) promptly upon the occurrence of any event described in Paragraph 4043 of ERISA, other than a termination, partial termination or merger of a Plan or a transfer of a Plan's assets and (ii) prior to any termination, partial termination or merger of a Plan or a transfer of a Plan's assets;

12.5 Change in Location. Notify CB&T in writing forty–five (45) days prior to any change in the location of Borrower's chief executive office or the location of any Collateral, or Borrower's opening or closing of any other place of business;

12.6 Corporate Existence. Maintain its corporate existence and its qualification to do business and good standing in all states necessary for the conduct of its business and the ownership of its property and maintain adequate assets, licenses, patents, copyrights, trademarks and trade names for the conduct of its business;

12.7 Labor Disputes. Promptly notify CB&T in writing of any labor dispute to which Borrower is or may become subject and the expiration of any labor contract to which Borrower is a party or bound;

12.8 Violations of Law. Promptly notify CB&T in writing of any violation of any law, statute, regulation or ordinance of any governmental entity, or of any agency thereof, applicable to Borrower which may materially and adversely affect the Collateral or Borrower's business, assets, prospects, operations or condition, financial or otherwise;

12.9 Defaults. Notify CB&T in writing within ten (10) business days of Borrower's default under any note, indenture, loan agreement, mortgage, lease or other agreement to which Borrower is a party or by which Borrower is bound, or of any other default under any Indebtedness of Borrower;

12.10 Capital Expenditures. Promptly notify CB&T in writing of the making of any Capital Expenditure materially affecting Borrower's business, assets, prospects, operations or condition, financial or otherwise;

12.11 Books and Records. Keep adequate records and books of account with respect to its business activities in which proper entries are made in accordance with generally accepted accounting principles consistently applied, reflecting all of its financial transactions;

12.12 Leases; Warehouse Agreements. Provide CB&T with (i) copies of all agreements between Borrower and any landlord or warehouseman which owns any premises at which any Collateral may, from time to time, be located, and (ii) landlord and mortgagee waivers in form acceptable to CB&T with respect to all locations where any Collateral is hereafter located;

12.13 Additional Documents. At CB&T's request, promptly execute or cause to be executed and delivered to CB&T any and all documents, instruments or agreements deemed necessary by CB&T to facilitate the collection of the Obligations or the Collateral or otherwise to give effect to or carry out the terms or intent of this Agreement or any of the other Loan Documents.

13. NEGATIVE COVENANTS.

Without CB&T's prior written consent, which consent CB&T may withhold in its sole discretion, so long as any Obligation remains outstanding and this Agreement is in effect, Borrower shall not:

13.1 Mergers. Merge or consolidate with or acquire any other Person, or make any other material change in its capital structure or in its business or operations which might adversely affect the repayment of the Obligations other than the Permitted Acquisitions;

13.2 Loans. Except in the ordinary course of Borrower's business, make advances, loans or extensions of credit to, or invest in, any Person;

13.3 Dividends. Except for dividends or distributions to the Guarantor, declare or pay cash dividends upon any of its stock or distribute any of its property or redeem, retire, purchase or acquire directly or indirectly any of its stock;

13.4 Change in Control. Cause or permit to occur, directly or indirectly, any change in the ownership of its capital stock which would cause (i) any Person to own less than twenty-five percent (25%) of the outstanding capital stock entitled to vote for the election of directors, or (ii) any Person to have a lien on, security interest in or pledge of any capital stock of Borrower;

13.5 Adverse Transactions. Enter into any transaction which materially and adversely affects the Collateral or its ability to repay the Obligations in full as and when due;

13.6 Indebtedness of Others. Become directly or contingently liable for the Indebtedness of any Person, except by endorsement of instruments for deposit;

13.7 Repurchase. Except with respect to the foreclosure sale of any Customer Loan Collateral, make a sale to any customer on a bill-and-hold, guaranteed sale, sale and return, sale on approval, consignment, or any other repurchase or return basis;

13.8 Name. Use any corporate or fictitious name other than its corporate name as set forth in its Articles of Incorporation on the date hereof or as set forth on the Schedule;

13.9 Prepayment. Prepay any Indebtedness other than trade payables and other than the Obligations;

13.10 Affiliate Transactions. Except as set forth below, sell, transfer, distribute or pay any money or property to any Affiliate, or invest in (by capital contribution or otherwise) or purchase or repurchase any stock or Indebtedness, or any property, of any Affiliate, or become liable on any guaranty of the indebtedness, dividends or other obligations of any Affiliate. Notwithstanding the foregoing, Borrower may reimburse Guarantor for allocated shared expenses and may borrow money from, and repay money to, Guarantor at any time prior to the occurrence of an Event of Default.

13.11 Nature of Business. Enter into any new business or make any material change in any of Borrower's business objectives, purposes or operations;

13.12 CB&T's Name. Use the name of CB&T in connection with any of Borrower's business or activities, except in connection with internal business matters or as required in dealings with governmental agencies and financial institutions or with trade creditors of Borrower, solely for credit reference purposes; or

13.13 Margin Security. Own, purchase or acquire (or enter into any contract to purchase or acquire) any "margin security" as defined by any regulation of the Federal Reserve Board as now in effect or as the same may hereafter be in effect.

14. ENVIRONMENTAL MATTERS.

14.1 Definitions. The following definitions apply to the provisions of this Section 14:

(a) the term "Applicable Law" shall include, but shall not be limited to, each statute named or referred to in this Section 14.1 and all rules and regulations thereunder, and any other local, state and/or federal laws, rules, regulations or ordinances, whether currently in existence or hereafter enacted, which govern, to the extent applicable to the Property or to Borrower, (i) the existence, cleanup and/or remedy of contamination on real property; (ii) the protection of the environment from soil, air or water pollution, or from spilled, deposited or

otherwise emplaced contamination; (iii) the emission or discharge of hazardous substances into the environment; (iv) the control of hazardous wastes; or (v) the use, generation, transport, treatment, removal or recovery of Hazardous Substances;

(b) The term “Hazardous Substance” shall mean (i) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which either pose a hazard to the Property or to persons on or about the Property or cause the Property to be in violation of any Applicable Law; (ii) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (iii) any chemical, material or substance defined as or included in the definition of “hazardous substances,” “waste,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Applicable Law, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety §§ 25100 et seq.; the Underground Storage of Hazardous Substances Act (Cal. Health & Safety §§ 25280 et seq.; Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Porter–Cologne Water Quality Control Act (the “Porter–Cologne Act”), Cal. Water Code §§ 13000 et seq.; the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); Title 22 of the California Code of Regulations, Division 4, Chapter 30; (iv) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority which may or could pose a hazard to the health or safety of the occupants of the Property or the owners and/or occupants of property adjacent to or surrounding the Property, or any other person coming upon the Property or adjacent property; and (v) any other chemical, materials or substance which may or could pose a hazard to the environment; and

(c) the term “Property” shall mean all real property, wherever located, in which Borrower or any Affiliate of Borrower has any right, title or interest, whether now existing or hereafter arising, and including, without limitation, as owner, lessor or lessee.

14.2 Covenants and Representations.

(a) Borrower represents and warrants that there have not been during the period of Borrower's possession of any interest in the Property and, to the best of its knowledge after reasonable inquiry, there have not been at any other times, any activities on the Property involving, directly or indirectly, the use, generation, treatment, storage or disposal of any Hazardous Substances by Borrower or its Affiliates except in compliance with Applicable Law (i) under, on or in the land included in the Property, whether contained in soil, tanks, sumps, ponds, lagoons, barrels, cans or other containments, structures or equipment, (ii) incorporated in the buildings, structures or improvements included in the Property, including any building material containing asbestos, or (iii) used in connection with any operations on or in the Property.

(b) Without limiting the generality of the foregoing and to the extent not included within the scope of this Section 14.2, Borrower represents and warrants that it is in full compliance with Applicable Law and has received no notice from any person or any governmental agency or other entity of any violation by Borrower or its Affiliates of any Applicable Law.

(c) Borrower shall be solely responsible for and agrees to indemnify CB&T, protect and defend CB&T with counsel reasonably acceptable to CB&T, and hold CB&T harmless from and against any claims, actions, administrative proceedings, judgments, damages, punitive damages, penalties, fines, costs, liabilities (including sums paid in settlements of claims), interest or losses, attorneys' fees (including any fees and expenses incurred in enforcing this indemnity), consultant fees, expert fees, and other out-of-pocket costs or expenses actually incurred by CB&T (collectively, the "Environmental Costs"), that may, at any time or from time to time, arise directly or indirectly from or in connection with: (i) the presence, suspected presence, release or suspected release of any Hazardous Substance whether into the air, soil, surface water or groundwater of or at the Property, or any other violation of Applicable Law, or (ii) any breach of the foregoing representations and covenants; except to the extent any of the foregoing result from the actions of CB&T, its employees, agents and representatives. If Borrower fails to so indemnify CB&T, CB&T may, after thirty (30) days prior written notice to Borrower, pay Environmental Costs incurred by CB&T, in which event all Environmental Costs so paid by CB&T shall be deemed to be made by CB&T in good faith and shall constitute Obligations hereunder.

15. TERM; TERMINATION.

15.1 Term. The initial term of this Agreement shall be for two (2) years from the Closing Date (the "Term") unless earlier terminated as provided herein or in the Schedule.

15.2 Early Termination. This Agreement may be terminated prior to the end of the Term as follows: (a) by Borrower, effective three (3) Business Days after written notice of termination is given to CB&T; (b) by CB&T at any time after the occurrence of an Event of Default, without notice, effective immediately.

15.3 Payment in Full. Upon the effective date of termination, the Obligations shall become immediately due and payable in full in cash.

16. DEFAULT.

16.1 Events of Default. Any one or more of the following events shall constitute an Event of Default under this Agreement:

(a) Borrower fails to pay when due and payable any portion of the Obligations at stated maturity, upon acceleration or otherwise;

(b) Borrower or any other Loan Party fails or neglects to perform, keep, or observe any Obligation including, but not limited to, any term, provision, condition, covenant or agreement contained in any Loan Document to which Borrower or such other Loan Party is a party and such default shall have continued for a period of five (5) Business Days after notice thereof is provided to Borrower; provided, however, that the failure of the Guarantor to observe Section 16(a), (b) or (e) of its Guaranty as a result of a merger, consolidation or acquisition not approved by CB&T, shall not be an Event of Default until such failure shall have continued for a period of three (3) months after the occurrence thereof;

(c) Any material adverse change occurs in Borrower's business, assets, operations, prospects or condition, financial or otherwise;

(d) The prospect of repayment of any portion of the Obligations or the value or priority of CB&T's security interest in the Collateral is materially impaired;

(e) Any material portion of Borrower's assets is seized, attached, subjected to a writ or distress warrant, is levied upon or comes into the possession of any judicial officer;

(f) Borrower shall generally not pay its debts as they become due or shall enter into any agreement (whether written or oral), or offer to enter into any agreement, with all or a significant number of its creditors regarding any moratorium or other indulgence with respect to its debts or the participation of such creditors or their representatives in the supervision, management or control of the business of Borrower;

(g) Any bankruptcy or other insolvency proceeding is commenced by Borrower, or any such proceeding is commenced against Borrower and remains undischarged or unstayed for thirty (30) days;

(h) Any notice of lien, levy or assessment for an amount in excess of Fifty Thousand Dollars (\$50,000) is filed of record with respect to any of Borrower's assets and remains undischarged for fifteen (15) days;

(i) Any final judgments (after the expiration of all times to appeal therefrom) are entered against Borrower in an aggregate amount exceeding Fifty Thousand Dollars (\$50,000) and remains undischarged for thirty (30) days unless the same shall be covered by insurance;

(j) Any default shall occur under any material agreement between Borrower and any third party including, without limitation, any default which would result in a right by such third party to accelerate the maturity of any Indebtedness of Borrower in excess of \$100,000 to such third party;

(k) Any representation or warranty made or deemed to be made by Borrower, any Affiliate or any other Loan Party in any Loan Document or any other statement, document or report made or delivered to CB&T in connection therewith shall prove to have been misleading in any material respect;

(l) Any Prohibited Transaction or Reportable Event shall occur with respect to a Plan which could have a material adverse effect on the financial condition of Borrower; any lien upon the assets of Borrower in connection with any Plan shall arise; Borrower or any of its Affiliates shall fail to make full payment when due of all amounts which Borrower or any of its Affiliates may be required to pay to any Plan or any Multiemployer Plan as one or more contributions thereto; Borrower or any of its Affiliates creates or permits the creation of any accumulated funding deficiency, whether or not waived; or

(m) Any transfer of more than twenty-five percent (25%) of the issued and outstanding shares of common stock or other evidence of ownership of Borrower.

16.2 Remedies. Upon the occurrence of an Event of Default, CB&T may, at its option and in its sole discretion and in addition to all of its other rights under the Loan Documents, terminate this Agreement and declare all of the Obligations to be immediately payable in full. CB&T shall also have all of its rights and remedies under applicable law, including, without limitation, the default rights and remedies of a secured party under the Code. Further, CB&T may, at any time, take possession of the Collateral and keep it on Borrower's premises, at no cost to CB&T, or remove any part of it to such other place(s) as CB&T may desire, or Borrower shall, upon CB&T's demand, at Borrower's sole cost, assemble the Collateral and make it available to CB&T at a place reasonably convenient to CB&T. CB&T may sell and deliver any Collateral at public or private sales, for cash, upon credit or otherwise, at such prices and upon such terms as CB&T deems advisable, at CB&T's discretion, and may, if CB&T deems it reasonable, postpone or adjourn any sale of the Collateral by an announcement at the time and place of sale or of such postponed or adjourned sale without giving a new notice of sale. Notwithstanding anything to the contrary contained in this Agreement, CB&T shall have no right to sell Customer Loan Collateral (as opposed to CB&T's right, upon the occurrence of an Event of Default as provided herein or at law, to foreclose on Borrower's interest as a secured creditor to such Customer Loan Collateral) except as permitted under the Customer Loan Documents. Borrower agrees that CB&T has no obligation to preserve Borrower's rights to the Collateral or marshal any Collateral (other than Customer Loan Collateral) for the benefit of any Person. CB&T is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, name, trade secrets, trade names, trademarks and advertising matter, or any similar property, in completing production, advertising or selling any Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to CB&T's benefit. Any requirement of reasonable notice shall be met if such notice is mailed postage prepaid to Borrower at its address set forth in the heading to this Agreement at least ten (10) days before sale or other disposition. The proceeds of sale shall be applied, first, to all attorneys fees and other expenses of sale, and second, to the Obligations in such order as CB&T shall elect, in its sole discretion. CB&T shall return any excess to Borrower and Borrower shall remain liable for any deficiency to the fullest extent permitted by law.

16.3 Standards for Determining Commercial Reasonableness. Borrower and CB&T agree that the following conduct by CB&T with respect to any disposition of Collateral shall conclusively be deemed commercially reasonable (but other conduct by CB&T, including, but not limited to, CB&T's use in its sole discretion of other or different times, places and manners of noticing and conducting any disposition of Collateral shall not be deemed unreasonable): Any public or private disposition (i) as to which on no later than the tenth calendar day prior thereto written notice thereof is mailed or personally delivered to Borrower and, with respect to any public disposition, on no later than the tenth calendar day prior thereto notice thereof describing in general non-specific terms, the Collateral to be disposed of is published once in a newspaper of general circulation in the county where the sale is to be conducted (provided that no notice of any public or private disposition need be given to the Borrower if the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market); (ii) which is conducted at any place designated by CB&T, with or without the Collateral being present; and (iii) which commences at any time between 8:00 a.m. and 5:00 p.m. Without limiting the generality of the foregoing, Borrower expressly agrees that, with respect to any disposition of accounts, instruments and general intangibles, it shall be commercially reasonable for CB&T to direct any prospective purchaser thereof to ascertain directly from Borrower any and all information concerning the same, including, but not limited to, the terms of payment, aging and delinquency, if any, the financial condition of any obligor or account debtor thereon or guarantor thereof, and any collateral therefor.

17. DEFINITIONS.

17.1 Defined Terms. As used in this Agreement, the following terms have the definitions set forth below:

“Affiliate” means any Person controlling, controlled by or under common control with Borrower. For purposes of this definition, “control” means the possession, directly or indirectly, of the power to direct or cause direction of the management and policies of any Person, whether through ownership of common or preferred stock or other equity interests, by contract or otherwise. Without limiting the generality of the foregoing, each of the following shall be an Affiliate: any officer or director of Borrower, any shareholder or subsidiary of Borrower, and any other Person with whom or which Borrower has common shareholders, officers or directors.

“Base LIBOR” means, for any Interest Period, the published rate per annum, if any, determined by Bank (rounded upward, if necessary, to the nearest one-sixteenth of one percent (.0625%)) at which U.S. Dollar deposits in an amount equal or comparable to the proposed LIBOR Rate Borrowing and for a term equal to such Interest Period are offered in the London interbank market as set forth in the Wall Street Journal, on the day which is two (2) Business Days prior to the first day of such Interest Period.

“Borrowing” means a borrowing under this Agreement consisting of a LIBOR Rate Borrowing or a Prime Rate Borrowing provided to Borrower in accordance with the provisions set forth herein.

“Business Day” means any day on which commercial banks in Los Angeles, California are open for business.

“Capital Expenditures” means all expenditures made and liabilities incurred for the acquisition of any fixed asset or improvement, replacement, substitution or addition thereto which has a useful life of more than one year and including, without limitation, those arising in connection with Capital Leases.

“Capital Lease” means any lease of property by Borrower that, in accordance with generally accepted accounting principles, should be capitalized for financial reporting purposes and reflected as a liability on the balance sheet of Borrower.

“Closing Date” means the date of the initial advance made by CB&T pursuant to this Agreement.

“Code” means the Uniform Commercial Code as adopted and in effect in the State of California from time to time.

“Collateral” has the meaning set forth in Section 4.1 above.

“Commercial Tort Claim” means all “commercial tort claims,” as such term is defined in the Code, now owned or hereafter acquired by Borrower.

“Current Assets” at any date means the amount at which the current assets of Borrower would be shown on a balance sheet of Borrower as at such date, prepared in accordance with generally accepted accounting principles, provided that amounts due from Affiliates and investments in Affiliates shall be excluded therefrom.

“Current Liabilities” at any date means the amount at which the current liabilities of Borrower would be shown on a balance sheet of Borrower as at such date, prepared in accordance with generally accepted accounting principles.

“Customer” means a borrower to which Borrower has made available loans or other extensions of credit pursuant to Customer Loan Documents.

“Customer Loan Collateral” means any and all property (whether personal property, real property, or both, and whether owned by a Customer or any other person) that secures a Customer's obligations under Customer Loan Documents or any Customer Obligor's guaranty of a Customer's obligations under Customer Loan Documents.

“Customer Loan Documents” means, collectively, each loan agreement, security agreement, promissory note or other agreement including amendments or modifications thereof between Borrower and a Customer providing for loans or extensions of credit by Borrower to or the benefit of such Customer and evidencing, or otherwise providing for, such Customer's

obligation to repay such loans or extension of credit to Customer and all instruments, security agreements, deeds of trust, mortgages, guaranties, financing statements and other documents evidencing any security for such obligations.

“Customer Obligor” means a guarantor, pledgor or other person (other than a Customer) obligated on a Customer Receivable.

“Customer Overadvances” means extension of credit made to a Customer by Borrower which exceed the dollar or percentage limitations on advances set forth in the relevant Customer Loan Documents.

“Customer Receivables” means all obligations and indebtedness (including without limitation obligations for unpaid principal, accrued interest, fees, cost reimbursements and other obligations) from time to time owing to Borrower by Customers under Customer Loan Documents.

“Deposit Accounts” has the meaning set forth in the Code.

“Documents” means all “documents,” as such term is defined in the Code, now owned or hereafter acquired by Borrower, wherever located, including all bills of lading, dock warrants, dock receipts, warehouse receipts, and other documents of title, whether negotiable or non-negotiable.

“Earnings Before Interest and Taxes” for any fiscal period of Borrower means the net income of Borrower for such fiscal period, plus interest expense and provision for income taxes for such fiscal period, and minus non-recurring miscellaneous income and expense, all calculated in accordance with generally accepted accounting principles, consistently applied.

“Eligible Customer Receivables” means Customer Receivables arising in the ordinary course of Borrower's business from the loans made by Borrower, which CB&T, in its sole judgment, shall deem eligible based on such considerations as CB&T may from time to time deem appropriate. Without limiting the foregoing, a Customer Receivable shall not be deemed to be an Eligible Customer Receivable if a Customer Receivable derives from (i) Customer Receivables in which the Customer is in default of or has breached its obligations under Customer Loan Documents, or with respect to which any scheduled payment of interest, principal or fees is more than thirty (30) days past due, irrespective of whether such delinquency is an event of default under the Customer Loan Documents or such default has been waived; (ii) Customer Receivables with respect to which Borrower has not properly perfected its liens or security interests with respect to the underlying Customer Loan Collateral (and shall be free of any liens or security interests other than Borrower's liens or security interests); (iii) any Customer Receivable that has a term in excess of ninety (90) days; (iv) any Customer Receivable that has been renewed more than once or renewed without the prior verification of the renewal criteria by CB&T; (v) Customer Receivables with respect to which the Customer (or an affiliate of the Customer) is an officer, shareholder, director, employee or agent of Borrower, or is a subsidiary of, related to or affiliated with, or has common officers or directors with the

Borrower; (vi) Customer Receivables with respect to which the Customer is the United States, or any department, agency or instrumentality of the United States; (vii) Customer Receivables with respect to which there is asserted a defense, counterclaim, discount or setoff, whether well founded or otherwise; (viii) Customer Receivables with respect to which the Customer or any Customer Obligor, is insolvent in any way; (ix) Customer Receivables documented with Customer Loan Documents that differ in any material way from the forms thereof that have been previously approved by CB&T; (x) that portion of Eligible Customer Receivables consisting of Customer Overadvances or designated as “unearned interest”; (xi) that portion of Customer Receivables consisting of extensions of credit to a Customer other than revolving advances or Customer term loans in excess of ninety (90) days; and (xii) all other Customer Receivables or portions of Customer Receivables deemed ineligible by CB&T in its reasonable discretion.

“Equipment” means all of Borrower's present and hereafter acquired machinery, molds, machine tools, motors, furniture, equipment, furnishings, fixtures, trade fixtures, motor vehicles, tools, parts, dies, jigs, goods and other tangible personal property (other than Inventory) of every kind and description used in Borrower's operations or owned by Borrower and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located.

“ERISA” means the Employment Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

“ERISA Affiliate” means each trade or business (whether or not incorporated and whether or not foreign) which is or may hereafter become a member of a group of which Borrower is a member and which is treated as a single employer under ERISA Section 4001(b)(1), or IRC Section 414.

“Event of Default” means any of the events set forth in Section 16.1 of this Agreement.

“Fixtures” means all “fixtures” as such term is defined in the Code, now owned or hereafter acquired by Borrower.

“General Intangibles” means all general intangibles of Borrower, whether now owned or hereafter created or acquired by Borrower, including, without limitation, all choses in action, causes of action, corporate or other business records, Deposit Accounts, inventions, designs, drawings, blueprints, patents, patent applications, trademarks and the goodwill of the business symbolized thereby, names, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, security and other deposits, rights in all litigation presently or hereafter pending for any cause or claim (whether in contract, tort or otherwise), and all judgments now or hereafter arising therefrom, all claims of Borrower against CB&T, rights to purchase or sell real or personal property, rights as a licensor or licensee of any kind, royalties, telephone numbers, proprietary information, purchase orders, and all insurance policies and claims (including without limitation credit, liability, property and other insurance) tax refunds and claims, computer programs, discs, tapes and tape files, claims under any

Customer Loan Collateral or under any other guaranties, security interests or other security held by or granted to Borrower to secure payment of any of the Receivables by an account debtor, all rights to indemnification and all other intangible property of every kind and nature (other than Receivables).

“Goods” means all “goods,” as such term is defined in the Code, now owned or hereafter acquired by Borrower, wherever located, including embedded software to the extent included in “goods” as defined in the Code, manufactured homes, standing timber that is cut and removed for sale and unborn young of animals.

“Guarantor” means Collectors Universe, Inc., a Delaware corporation.

“Indebtedness” means all of Borrower's present and future obligations, liabilities, debts, claims and indebtedness, contingent, fixed or otherwise, however evidenced, created, incurred, acquired, owing or arising, whether under written or oral agreement, operation of law or otherwise, and includes, without limiting the foregoing (i) the Obligations, (ii) obligations and liabilities of any Person secured by a lien, claim, encumbrance or security interest upon property owned by Borrower, even though Borrower has not assumed or become liable therefor, (iii) obligations and liabilities created or arising under any lease (including Capital Leases) or conditional sales contract or other title retention agreement with respect to property used or acquired by Borrower, even though the rights and remedies of the lessor, seller or lender are limited to repossession, (iv) all unfunded pension fund obligations and liabilities and (v) deferred taxes.

“Intellectual Property” means all of the following now owned or hereafter acquired by Borrower: (a) patents, trademarks, trade dress, trade names, service marks, copyrights, trade secrets and all other intellectual property or Licenses thereof; and (b) all Proceeds of the foregoing.

“Interest Period” shall have the meaning set forth in Section 3.1(b).

“Inventory” means all of Borrower's now owned and hereafter acquired goods, merchandise or other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise or other personal property, and all documents of title or other documents representing them.

“Investment Property” has the meaning set forth in the Code.

“IRC” means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

“Letter of Credit Rights” means “letter-of-credit rights” as such term is defined in the Code, now owned or hereafter acquired by Borrower, including rights to payment or performance under a letter of credit, whether or not Borrower, as beneficiary, has demanded or is entitled to demand payment or performance.

“LIBOR Rate” means, as of the date of determination thereof, the rate per annum (rounded upward, if necessary, to the nearest one-hundredth of one percent (.01%)), determined as the quotient of: (i) the Base LIBOR for the relevant Interest Period; divided by (ii) the number equal to one hundred percent (100%) minus the LIBOR Reserve Percentage as of such date. The LIBOR Rate shall be adjusted automatically on the effective date of any change in the LIBOR Reserve Percentage, such adjustment to affect any LIBOR Rate Borrowings outstanding on such effective date. Each determination of a LIBOR Rate by Bank shall be conclusive and final in the absence of manifest error.

“LIBOR Rate Borrowing” means any Borrowing designated by Borrower as bearing the LIBOR Rate.

“LIBOR Reserve Percentage” means, as of the date of determination thereof, the percentage, as determined by Bank in accordance with its usual procedures (which determination shall be conclusive in the absence of manifest error), which is in effect on such date as prescribed by the Board of Governors of the Federal Reserve System for determining the reserve requirements (including, without limitation, supplemental, marginal, and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as “eurocurrency liabilities”) of a member bank in the Federal Reserve System.

“License” means any license under any written agreement now owned or hereafter acquired by Borrower granting the right to use any Intellectual Property or other license of rights or interests now held or hereafter acquired by Borrower.

“Loan Documents” means, collectively, this Agreement, any note or notes executed by Borrower and payable to CB&T, and any other agreement entered into in connection with this Agreement (which does not include any Customer Loan Document), together with all alterations, amendments, changes, extensions; modifications, refinancings, refundings, renewals, replacements, restatements, or supplements, of or to any of the foregoing.

“Loan Party” means Borrower, each Guarantor, and each other party (other than CB&T) to any Loan Document.

“Multiemployer Plan” means a “multiemployer plan” as defined in ERISA Sections 3(37) or 4001(a)(3) or IRC Section 414(0) which covers employees of Borrower or any ERISA Affiliate.

“Net Worth” at any date means the Borrower's net worth as determined in accordance with generally accepted accounting principles, consistently applied.

“Obligations” means all present and future loans, advances, debts, liabilities, obligations, covenants, duties and indebtedness at any time owing by Borrower to CB&T, whether evidenced by this Agreement, any note or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, banker's acceptance, loan, guaranty, indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment and any participation by CB&T in Borrower's debts owing to others),

absolute or contingent, due or to become due, including, without limitation, all interest, charges, expenses, fees, attorney's fees, expert witness fees, examination fees, collateral monitoring fees, closing fees, facility fees, Minimum Interest Charges and any other sums chargeable to Borrower hereunder or under any other agreement with CB&T.

“Overlines” has the meaning set forth in Section 1.3 hereof.

“Payment Intangibles” means all “payment intangibles” as such term is defined in the Code, now owned or hereafter acquired by Borrower.

“PBGC” means the Pension Benefit Guarantee Corporation.

“Permitted Acquisitions” means acquisitions made by the Borrower that do not exceed \$5,000,000 in the aggregate in any fiscal year.

“Permitted Encumbrance” means each of the liens, mortgages and other security interests set forth on the Schedule and incorporated herein by this reference.

“Person” means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, government, or any agency or political division thereof, or any other entity.

“Plan” means any plan described in ERISA Section 3(2) maintained for employees of Borrower or any ERISA Affiliate, other than a Multiemployer Plan.

“Prepared Financials” means the opening balance sheet of Borrower as of the date set forth in the Schedule, and as of each subsequent date on which balance sheets are delivered to CB&T from time to time hereunder, and the related statements of operations, changes in stockholder's equity and changes in cash flow for the periods ended on such dates.

“Prime Rate” means the variable rate of interest per annum as adjusted from time to time, corresponding to the rate most recently announced by CB&T at its headquarters office as its “prime rate”, with the understanding that CB&T's “prime rate” is only one of CB&T's base rates and serves as a basis upon which effective rates of interest are calculated for loans making reference thereto and may not be the lowest of CB&T's base rates. In the event that the Prime Rate announced is, from time to time, changed, adjustment in the rate of interest payable hereunder on all outstanding Loans shall be made as of 12:01 a.m., Los Angeles, California time, on the effective date of the change in the Prime Rate.

“Prime Rate Borrowing” means any Borrowing designated by Borrower as bearing the Prime Rate.

“Prohibited Transaction” means any transaction described in Section 406 of ERISA which is not exempt by reason of Section 408 of ERISA, and any transaction described in Section 4975(c) of the IRC which is not exempt by reason of Section 4975(c)(2) of the IRC.

“Receivable Loans” has the meaning set forth in the Schedule.

“Receivables” means all of Borrower's now owned and hereafter acquired accounts (whether or not earned by performance), proceeds of any letters of credit naming Borrower as beneficiary, contract rights, chattel paper, instruments, documents and all other forms of obligations at any time owing to Borrower (including all Customer Receivables), all guaranties and other security therefor, whether secured or unsecured, all merchandise returned to or repossessed by Borrower, and all rights of stoppage in transit and all other rights or remedies of an unpaid vendor, lienor or secured party.

“Reportable Event” means a reportable event described in Section 4043 of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, or a cessation of operations described in Section 4068 of ERISA.

“Supporting Obligations” means all “supporting obligations” as such term is defined in the Code, including letters of credit and guaranties issued in support of Accounts, Chattel Paper, Documents, General Intangibles, Instruments, or Investment Property.

“Term” has the meaning set forth on the Schedule.

“Total Facility” has the meaning set forth on the Schedule.

17.2 Other Terms. All accounting terms used in this Agreement, unless otherwise indicated, shall have the meanings given to such terms in accordance with generally accepted accounting principles, consistently applied. All other terms contained in this Agreement, unless otherwise indicated, shall have the meanings provided by the Code, to the extent such terms are defined therein.

18. MISCELLANEOUS.

18.1 Recourse to Security; Certain Waivers. All Obligations shall be payable by Borrower as provided for herein and, in full, at the termination of this Agreement; recourse to security shall not be required at any time. Borrower waives presentment and protest of any instrument and notice thereof, notice of default and, to the extent permitted by applicable law, all other notices to which Borrower might otherwise be entitled.

18.2 No Waiver by CB&T. Neither CB&T's failure to exercise any right, remedy or option under this Agreement, any supplement, the Loan Documents or other agreement between CB&T and Borrower nor any delay by CB&T in exercising the same shall operate as a waiver. No waiver by CB&T shall be effective unless in writing and then only to the extent stated. No waiver by CB&T shall affect its right to require strict performance of this Agreement. CB&T's rights and remedies shall be cumulative and not exclusive.

18.3 Binding on Successor and Assigns. All terms, conditions, promises, covenants, provisions and warranties shall inure to the benefit of and bind CB&T's and Borrower's respective representatives, successors and assigns.

18.4 Severability. If any provision of this Agreement shall be prohibited or invalid under applicable law, it shall be ineffective only to such extent, without invalidating the remainder of this Agreement.

18.5 Amendments; Assignments. This Agreement may not be modified, altered or amended, except by an agreement in writing signed by Borrower and CB&T. Borrower may not sell, assign or transfer any interest in this Agreement or any other Loan Document, or any portion thereof, including, without limitation, any of Borrower's rights, title, interests, remedies, powers and duties hereunder or thereunder. Borrower hereby consents to CB&T's participation, sale, assignment, transfer or other disposition, at any time or times hereafter, of this Agreement and any of the other Loan Documents, or of any portion hereof or thereof, including, without limitation, CB&T's rights, title, interests, remedies, powers and duties hereunder or thereunder. In connection therewith, CB&T may disclose all documents and information which CB&T now or hereafter may have relating to Borrower or Borrower's business. To the extent that CB&T assigns its rights and obligations hereunder to a third party, CB&T shall thereafter be released from such assigned obligations to Borrower and such assignment shall effect a novation between Borrower and such third party.

18.6 Integration. This Agreement, together with the Schedule (which is a part hereof) and the other Loan Documents, reflect the entire understanding of the parties with respect to the transactions contemplated hereby.

18.7 Governing Law; Waivers. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN ANY OF THE LOAN DOCUMENTS, IN ALL RESPECTS, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND THE OBLIGATIONS ARISING HEREUNDER AND THEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE, WITHOUT REGARD TO THE PRINCIPLES THEREOF REGARDING CONFLICTS OF LAWS, AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. BORROWER HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN LOS ANGELES COUNTY, CALIFORNIA SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN BORROWER AND CB&T PERTAINING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR TO ANY MATTER ARISING OUT OF OR RELATED TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS; PROVIDED, THAT CB&T, AND BORROWER ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF LOS ANGELES COUNTY, CALIFORNIA; AND FURTHER PROVIDED, THAT NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE CB&T FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO COLLECT THE OBLIGATIONS, TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR

OTHER COURT ORDER IN FAVOR OF CB&T. BORROWER EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND BORROWER HEREBY WAIVES ANY OBJECTION WHICH IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. BORROWER HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS AND OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO BORROWER AT THE ADDRESS SET FORTH ON THE FIRST PAGE OF THIS AGREEMENT AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE EARLIER OF BORROWER'S ACTUAL RECEIPT THEREOF OR THREE DAYS AFTER DEPOSIT IN THE U.S. MAIL, PROPER POSTAGE PREPAID.

18.8 Survival. All of the representations and warranties of Borrower contained in this Agreement shall survive the execution, delivery and acceptance of this Agreement by the parties. No termination of this Agreement or of any guaranty of the Obligations shall affect or impair the powers, obligations, duties, rights, representations, warranties or liabilities of the parties hereto and all shall survive any such termination.

18.9 Evidence of Obligations. Each Obligation may, in CB&T's discretion, be evidenced by notes or other instruments issued or made by Borrower to CB&T. If not so evidenced, such Obligation shall be evidenced solely by entries upon CB&T's books and records.

18.10 Collateral Security. The Obligations shall constitute one loan secured by the Collateral. CB&T may, in its sole discretion, (i) exchange, enforce, waive or release any of the Collateral, (ii) apply Collateral and direct the order or manner of sale thereof as it may determine, and (iii) settle, compromise, collect or otherwise liquidate any Collateral in any manner without affecting its right to take any other action with respect to any other Collateral.

18.11 Application of Collateral. Except as otherwise provided herein, CB&T shall have the continuing and exclusive right to apply or reverse and re-apply any and all payments to any portion of the Obligations in such order and manner as CB&T shall determine in its sole discretion. To the extent that Borrower makes a payment or CB&T receives any payment or proceeds of the Collateral for Borrower's benefit which is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by CB&T.

18.12 Loan Requests. Each oral or written request for a loan by any Person who is an officer of Borrower, or has been designated in writing by an officer of Borrower, shall be made to CB&T on or prior to 11:00 a.m., Los Angeles time, on the Business Day on which the proceeds thereof are requested to be paid to Borrower and shall be conclusively presumed to be

made by a Person authorized by Borrower to do so and the crediting of a loan to Borrower's operating account shall conclusively establish Borrower's obligation to repay such loan. Unless and until Borrower otherwise directs CB&T in writing, all loans shall be wired to Borrower's operating account set forth on the Schedule.

18.13 Notices. Any notice required hereunder shall be in writing and addressed to the Borrower and CB&T at their addresses set forth at the beginning of this Agreement. Notices hereunder shall be deemed received on the earlier of receipt, whether by mail, personal delivery, facsimile, or otherwise, or three (3) Business Days after deposit in the United States mail, postage prepaid.

18.14 Brokerage Fees. Borrower represents and warrants to CB&T that, with respect to the financing transaction herein contemplated, no Person, other than Houlihan, Lokey, Howard & Zukin, is entitled to any brokerage fee or other commission and Borrower agrees to indemnify and hold CB&T harmless against any and all such claims.

18.15 Disclosure. No representation or warranty made by Borrower in this Agreement, or in any financial statement, report, certificate or any other document furnished in connection herewith contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein not misleading. There is no fact known to Borrower or which reasonably should be known to Borrower which Borrower has not disclosed to CB&T in writing with respect to the transactions contemplated by this Agreement which materially and adversely affects the business, assets, operations, prospects or condition (financial or otherwise), of Borrower.

18.16 Captions. The Section titles contained in this Agreement are without substantive meaning and are not part of this Agreement.

18.17 Injunctive Relief. Borrower recognizes that, in the event Borrower fails to perform, observe or discharge any of its Obligations under this Agreement, any remedy at law may prove to be inadequate relief to CB&T. Therefore, CB&T, if it so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

18.18 Counterparts. This Agreement may be executed in one or more counterparts, each of which taken together shall constitute one and the same instrument.

18.19 Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.

18.20 Time of Essence. Time is of the essence for the performance by Borrower of the Obligations set forth in this Agreement.

18.21 Limitation Of Actions. Borrower agrees that any claim or cause of action by Borrower against CB&T, or any of CB&T's directors, officers, employees, agents, accountants or attorneys, based upon, arising from, or relating to this Agreement, or any other present or future

agreement, or any other transaction contemplated hereby or thereby or relating hereto or thereto, or any other matter, cause or thing whatsoever, whether or not relating hereto or thereto, occurred, done, omitted or suffered to be done by CB&T, or by CB&T's directors, officers, employees, agents, accountants or attorneys, whether sounding in contract or in tort or otherwise, shall be barred unless asserted by Borrower by the commencement of an action or proceeding in a court of competent jurisdiction by the filing of a complaint within one year after the first act, occurrence or omission upon which such claim or cause of action, or any part thereof, is based and service of a summons and complaint on an officer of CB&T or any other person authorized to accept service of process on behalf of CB&T, within 30 days thereafter. Borrower agrees that such one-year period of time is a reasonable and sufficient time for Borrower to investigate and act upon any such claim or cause of action. The one-year period provided herein shall not be waived, tolled, or extended except by a specific written agreement of CB&T. This provision shall survive any termination of this Loan Agreement or any other agreement.

18.22 Liability. Neither CB&T nor any CB&T Affiliate shall be liable for any indirect, special, incidental or consequential damages in connection with any breach of contract, tort or other wrong relating to this Agreement or the Obligations or the establishment, administration or collection thereof (including without limitation damages for loss of profits, business interruption, or the like), whether such damages are foreseeable or unforeseeable, even if CB&T has been advised of the possibility of such damages. Neither CB&T, nor any CB&T Affiliate shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by the Borrower through the ordinary negligence of CB&T, or any CB&T Affiliate. "CB&T Affiliate" shall mean CB&T's directors, officers, employees, agents, attorneys or other person or entity affiliated with or representing CB&T.

18.23 Notice Of Breach By CB&T. Borrower agrees to give CB&T written notice of (i) any action or inaction by CB&T or any attorney of CB&T in connection with any Loan Documents that may be actionable against CB&T or any attorney of CB&T or (ii) any defense to the payment of the Obligations for any reason, including, but not limited to, commission of a tort or violation of any contractual duty or duty implied by law. Borrower agrees that unless such notice is fully given as promptly as possible (and in any event within thirty (30) days) after Borrower has knowledge, or with the exercise of reasonable diligence should have had knowledge, of any such action, inaction or defense, Borrower shall not assert, and Borrower shall be deemed to have waived, any claim or defense arising therefrom.

BORROWER:

COLLECTORS FINANCE CORPORATION

By:
Title:

Federal Employer Identification No.: _____

CALIFORNIA BANK & TRUST

By:
Title:

Schedule to Loan and Security Agreement

Borrower: Collectors Finance Corporation

Address: 1921 East Alton Avenue
Santa Ana, California 92705

Date: June 30, 2005

This Schedule forms an integral part of the Loan and Security Agreement between the above Borrower and CALIFORNIA BANK & TRUST ("CB&T") dated the above date (the "Loan Agreement"), and all references herein and therein to "this Agreement" shall be deemed to refer to said Loan Agreement and to this Schedule. In the event of any inconsistencies between the Loan Agreement and this Schedule, the terms and provisions of this Schedule shall prevail.

TOTAL FACILITY (Section 1.1): \$7,000,000

1. LOANS (Section 1.2):

A. Revolving Loan: A revolving line of credit consisting of loans against Borrower's Eligible Customer Receivables ("Receivable Loans") in an aggregate outstanding principal amount not to exceed the lesser of:

- (i) the amount of the Total Facility, or
- (ii) 85% of the aggregate principal amount of all Eligible Customer Receivables.

2. CONDITIONS PRECEDENT (Section 2.1):

The obligation of CB&T to make the initial advance hereunder is subject to the fulfillment, to the satisfaction of CB&T and its counsel, of each of the following conditions, in addition to the conditions set forth in Sections 2.1 and 2.2 above: (a) CB&T shall have received a landlord waiver, in form and substance acceptable to CB&T in its sole discretion, for the property located on 1921 East Alton Avenue, Santa Ana, California 92705, (b) there shall have been no material adverse change in the business, operations, profits or prospects of Borrower or

any Guarantor, or in the condition of the assets of Borrower or any Guarantor, between December 31, 2004 and the date hereof; and (c) Borrower shall cause the conditions precedent set forth in Section 2.1 of this Agreement and set forth above in this Schedule to be satisfied on or before _____, 2005.

3. FEES (Section 3.4):

A. Unused Line Fee. On the first day of each quarter commencing after the date hereof, Borrower shall pay to CB&T an unused line fee equal to a quarter of one percent (0.25%), per annum, of the average daily unused portion of the Total Facility during the preceding quarter. The unused line fee will be prorated for the first quarter if the Facility is available for less than the full quarter.

B. Commitment Fee. Borrower agrees to pay to CB&T a commitment fee in the amount of \$10,000, which fee shall be fully earned and payable on the Closing Date.

C. Examination Fees. Borrower agrees to pay to CB&T an examination fee in the amount of \$750 per person per day, plus reasonable out of pocket expenses, in connection with each audit or examination of Borrower performed by CB&T prior to or after the date hereof.

D. Transaction Fee. On or prior to the closing of the transactions under this Agreement, Borrower shall reimburse CB&T for any reasonable out of pocket expenses incurred prior to the Closing Date less any amounts previously deposited with CB&T.

4. REPORTING REQUIREMENTS (Section 5.2):

A. Within ninety (90) days after the end of each fiscal year, Borrower shall provide CB&T with the Borrower's annual financial statements.

B. Within thirty (30) days after the end of each month, Borrower shall provide CB&T with the Borrower's interim financial statements.

C. Within fifteen (15) days after the filing thereof, Borrower shall provide CB&T with the Borrower's federal and state income tax returns.

D. Within thirty (30) days following the end of each month, Borrower shall provide CB&T with a monthly borrowing base certificate detailing Eligible Customer Receivables and Borrower's borrowing availability under the Total Facility.

E. Within thirty (30) days following the end of each month, Borrower shall provide CB&T monthly with an officer's certificate regarding compliance by Customers and Customer Obligors with the requirements of their Customer Loan Documents as required by Section 5.2(viii)(b) of the Agreement.

F. Within ten (10) days of such acceleration, Borrower shall provide CB&T with notice of any acceleration by Borrower of the Customer Receivables owed to Borrower by any of its Customers.

G. Within ninety (90) days of the end of each fiscal year, Borrower shall cause Guarantor to provide CB&T with the Guarantor's annual audited financial statement.

H. Within thirty (30) days of the end of each month, Borrower shall cause Guarantor to provide CB&T with the Guarantor's interim financial statements.

I. Within fifteen (15) days after the filing thereof, Borrower shall cause Guarantor to provide CB&T with the Guarantor's federal and state income tax returns.

J. Borrower shall upon request from CB&T provide CB&T the originals of (i) all executed Customer Loan Documents for each Customer Receivable; and (ii) any amendment to any Customer Loan Document pertaining to existing Customer Receivables prior to delivering such amendment.

K. Within thirty (30) days of the end of each month, Borrower shall provide CB&T loan summary status reports, which reports shall include: Customer Receivable and accounts payable agings.

L. Borrower shall provide CB&T such other collateral or portfolio reports as CB&T may reasonably request.

5. BORROWER INFORMATION:

Borrower's State of Incorporation (Section 11.1): California

Fictitious Names/Prior Corporate Names (Section 11.2): None

Borrower Locations (Section 11.16): 1921 East Alton Avenue
Santa Ana, California 92705

Permitted Encumbrances (Section 17.1): None, other than (i) liens for current taxes not yet due and payable, (ii) carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlord's and other similar liens if payment is not yet due on the underlying obligation, (iii) liens arising in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations, (iv) liens related to any interest or title of a vendor or lessor in property subject to an operating lease and vendors' liens on inventory arising in the ordinary course of business; or (v) liens incidental to the conduct of the Borrower's business or the lease of real property, including easements, rights of way, zoning and similar restrictions, and subleases granted to others.

6. DISBURSEMENT (Section 18.12):

Unless and until Borrower otherwise directs CB&T in writing, all loans shall be credited to Borrower's operating account number _____ at CB&T.

7. ADDITIONAL PROVISIONS:

In addition to all other terms and conditions in this Agreement, Borrower further agrees and warrants to the following:

A. The Borrower is primarily engaged in the business of making short term loans secured by personal property that in connection with such loans had been submitted for certification to Guarantor or one of its Affiliates

B. Borrower warrants and represents that all present and future Customer Loans have been and will be made in accordance with the laws of the State of California including, without limitation, the laws governing commercial finance lenders and brokers, also known as the Finance Lenders' Law.

C. Prior to the initial funding, Borrower will submit to CB&T copies of its standard Customer Loan Documents. Further, prior to funding by CB&T against any Eligible Customer Receivables, Borrower will submit to CB&T a copy of the final form of the Customer Loan Documents for the respective Eligible Customer Receivable.

D. Borrower may amend, modify, waive or give any consent under the provisions of the Customer Loan Documents, or perform or permit performance in any manner other than as contemplated in the provisions of the Customer Loan Documents, so long as Borrower notifies CB&T of and delivers to CB&T the Customer Loan Documents evidencing such amendment, modification, waiver or consent immediately thereafter.

E. Borrower is the sole owner of the Customer Loan Documents and all rights thereunder, free and clear of all liens, security interests, mortgages, adverse claims or challenges of any kind whatsoever.

F. Borrower has full power and authority to assign, transfer and grant a security interest in its rights to the Customer Loan Documents, the Customer Receivables, and the Customer Loan Collateral to CB&T.

G. The Customer Loan Documents have been duly executed and delivered by the respective Customers and Customer Obligors to Borrower for valuable consideration and the same constitute the valid, legal and binding obligations of the Customers or Customer Obligors in respect thereof, free and clear of all known defenses, disputes, claims, offsets or counterclaims of any kind.

H. Borrower has a first priority perfected security interest in the Customer Loan Collateral.

I. Each of the Customer Loan Documents is genuine and bears the original signature of a Customer or Customer Obligor in respect thereof.

J. There are no representations, warranties, terms, covenants or conditions, whether oral or written, that vary any of the representations, warranties, terms, covenants or conditions in any of the Customer Loan Documents.

K. Except as Borrower may from time to time notify CB&T in writing within three (3) days after Borrower's knowledge thereof, neither Borrower nor any Customer or Customer Obligor (a) is in default or breach of its monetary obligations under any of the Customer Loan Documents, (b) is in default or breach of its obligations under any of the Customer Loan Documents which would result in an acceleration of such obligations or a termination or decrease in the amount of advances available under such Customer Loan Documents or (c) will dissolve or become insolvent or unable to pay their respective debts as they mature.

BORROWER:
COLLECTORS FINANCE CORPORATION

CB&T:
CALIFORNIA BANK & TRUST

By: _____
Title:

By: _____
Title:

California Bank & Trust

Continuing Guaranty

Borrower: Collectors Finance Corporation, a California corporation

Guarantor: Collectors Universe, Inc., a Delaware corporation

Date: June 30, 2005

This Continuing Guaranty (this "Guaranty") is executed by the above-named guarantor ("Guarantor"), as of the above date, in favor of CALIFORNIA BANK & TRUST, a California banking corporation ("CB&T"), with offices at 550 South Hope Street, 3rd Floor, Los Angeles, California 90071, with respect to the Indebtedness (as hereinafter defined) of the above-named borrowers (jointly and severally, the "Borrower").

1. Continuing Guaranty. Guarantor hereby unconditionally guarantees and promises to pay on demand to CB&T, at the address indicated above, or at such other address as CB&T may direct, in lawful money of the United States, and to perform for the benefit of CB&T, as and for Guarantor's own debt, all Indebtedness of Borrower now or hereafter owing to or held by CB&T, until the Indebtedness has been indefeasibly paid in full in accordance with Section 12 hereof. As used herein, the term "Indebtedness" is used in its most comprehensive sense and shall mean and include without limitation: (a) any and all debts, duties, obligations, liabilities, representations, warranties and guaranties of Borrower under that certain Loan and Security Agreement of even date herewith heretofore, now, or hereafter made, incurred, or created, however arising, whether voluntary or involuntary, due or not due, absolute or contingent, liquidated or unliquidated, certain or uncertain, determined or undetermined, monetary or nonmonetary, written or oral, and whether Borrower may be liable individually or jointly with others, and regardless of whether recovery thereon may be or hereafter become barred by any statute of limitations, discharged or uncollectible in any bankruptcy, insolvency or other proceeding, or otherwise unenforceable; and (b) any and all amendments and modifications, of any or all of the foregoing, including without limitation amendments and modifications which are evidenced by any new or additional instruments, documents or agreements; and (c) any and all attorneys' fees, court costs, and collection charges incurred in endeavoring to collect or enforce any of the foregoing against Borrower, Guarantor, or any other person liable thereon (whether or not suit be brought) and any other expenses of, for or incidental to collection thereof; provided, however, that unless this Guaranty is renewed by Guarantor, Indebtedness shall not include any of the foregoing relating to loans made by CB&T to Borrower after the date hereof. As used herein, the term "Borrower" shall include any successor to the business and assets of Borrower, and shall also include Borrower in its capacity as a debtor or debtor in possession under the federal Bankruptcy Code, and any trustee, custodian or receiver for Borrower or any of its assets, should Borrower hereafter become the subject of any bankruptcy or insolvency proceeding, voluntary or involuntary; and all indebtedness, liabilities and obligations incurred by any such person shall be included in the Indebtedness guaranteed hereby. This Guaranty is given in consideration for credit and other financial accommodations which may, from time to time, be given by CB&T to Borrower in CB&T's sole discretion, but Guarantor acknowledges and agrees that acceptance by CB&T of this Guaranty shall not constitute a commitment of any kind by CB&T to extend such credit or other financial accommodation to Borrower or to permit Borrower to incur Indebtedness to CB&T.

2. Performance Under This Guaranty. In the event that Borrower fails to make any payment of any Indebtedness on or before the due date thereof, or perform, keep, observe or fulfill any obligation, agreement or covenant included in the Indebtedness on or before the due date thereof, Guarantor immediately shall cause such Indebtedness to be paid, performed, kept, observed, or fulfilled, as the case may be.

3. Waivers. Guarantor hereby waives: (a) presentment for payment, notice of dishonor, demand, protest, and notice thereof as to any instrument, and, to the extent permitted by law, all other notices and demands to which Guarantor might be entitled, including without limitation notice of all of the following: the acceptance hereof; the creation, existence, or acquisition of any Indebtedness; the amount of the Indebtedness from time to time outstanding; any foreclosure sale or other disposition of any property which secures any or all of the Indebtedness or which secures the obligations of any other guarantor of any or all of the Indebtedness; any adverse change in Borrower's financial position; any other fact which might increase Guarantor's risk; any default, partial payment or non-payment of all or any part of the Indebtedness; the occurrence of any other Event of Default (as hereinafter defined); any and all agreements and arrangements between CB&T and Borrower and any changes, modifications, or extensions thereof, and any revocation, modification or release of any guaranty of any or all of the Indebtedness by any person (including without limitation any other person signing this Guaranty); (b) any right to require CB&T to institute suit against, or to exhaust its rights and remedies against, Borrower or any other person, or to proceed against any property of any kind which secures all or any part of the Indebtedness, or to exercise any right of offset or other right with respect to any reserves, credits or deposit accounts held by or maintained with CB&T or any indebtedness of CB&T to Borrower, or to exercise any other right or power, or pursue any other remedy CB&T may have; (c) any defense arising by reason of any disability or other defense of Borrower or any other guarantor or any endorser, co-maker or other person (other than payment in full of the Indebtedness), or by reason of the cessation from any cause whatsoever of any liability of Borrower or any other guarantor or any endorser, co-maker or other person, with respect to all or any part of the Indebtedness, or by reason of any act or omission of CB&T or others which directly or indirectly results in the discharge or release of Borrower or any other guarantor or any other person or any Indebtedness or any security therefor, whether by operation of law or otherwise; (d) any defense arising by reason of any failure of CB&T to obtain, perfect, maintain or keep in force any security interest in, or lien or encumbrance upon, any property of Borrower or any other person; (e) any defense based upon any failure of CB&T to give Guarantor notice of any sale or other disposition of any property securing any or all of the Indebtedness, or any defects in any such notice that may be given, or any failure of CB&T to comply with any provision of applicable law in enforcing any security interest in or lien upon any property securing any or all of the Indebtedness including, but not limited to, any failure by CB&T to dispose of any property securing any or all of the Indebtedness in a commercially reasonable manner; (f) any defense based upon or arising out of any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against Borrower or any other guarantor or any endorser, co-maker or other person, including without limitation any discharge of, or bar against collecting, any of the Indebtedness (including without limitation any interest thereon), in or as a result of any such proceeding; and (g) the benefit of any and all statutes of limitation with respect to any action based upon, arising out of or related to this Guaranty. Until all of the Indebtedness has been paid, performed, and discharged in full, nothing shall discharge or satisfy the liability of Guarantor hereunder except the full performance and payment of all of the Indebtedness. If any claim is ever made upon CB&T for repayment or recovery of any amount or amounts received by CB&T in payment of or on account of any of the Indebtedness, because of any claim that any such payment constituted a preferential transfer or fraudulent conveyance, or for any other reason whatsoever, and CB&T repays all or part of said amount by reason of any judgment, decree or order of any court or administrative body having jurisdiction over CB&T or any of its property, or by reason of any settlement or compromise of any such claim effected by CB&T with any such claimant (including without limitation the Borrower), then and in any such event, Guarantor agrees that any such judgment, decree, order, settlement and compromise shall be binding upon Guarantor, notwithstanding any

revocation or release of this Guaranty or the cancellation of any note or other instrument evidencing any of the Indebtedness, or any release of any of the Indebtedness, and Guarantor shall be and remain liable to CB&T under this Guaranty for the amount so repaid or recovered, to the same extent as if such amount had never originally been received by CB&T, and the provisions of this sentence shall survive, and continue in effect, notwithstanding any revocation or release of this Guaranty. Until such time as the Indebtedness is paid in full, Guarantor hereby expressly and unconditionally postpones all rights of subrogation, reimbursement and indemnity of every kind against Borrower, and all rights of recourse to any assets or property of Borrower, and all rights to any collateral or security held for the payment and performance of any Indebtedness, including (but not limited to) any of the foregoing rights which Guarantor may have under any present or future document or agreement with any Borrower or other person, and including (but not limited to) any of the foregoing rights which Guarantor may have under any equitable doctrine of subrogation, implied contract, or unjust enrichment, or any other equitable or legal doctrine. Neither CB&T, nor any of its directors, officers, employees, agents, attorneys or any other person affiliated with or representing CB&T shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by Guarantor or any other party through the ordinary negligence of CB&T, or any of its directors, officers, employees, agents, attorneys or any other person affiliated with or representing CB&T.

4. Consents. Guarantor hereby consents and agrees that, without notice to or by Guarantor and without affecting or impairing in any way the obligations or liability of Guarantor hereunder, CB&T may, from time to time before or after revocation of this Guaranty, do any one or more of the following in CB&T's sole and absolute discretion: (a) accelerate, accept partial payments of, compromise or settle, renew, extend the time for the payment, discharge, or performance of, refuse to enforce, and release all or any parties to, any or all of the Indebtedness; (b) grant any other indulgence to Borrower or any other person in respect of any or all of the Indebtedness or any other matter; (c) accept, release, waive, surrender, enforce, exchange, modify, impair, or extend the time for the performance, discharge, or payment of, any and all property of any kind securing any or all of the Indebtedness or any guaranty of any or all of the Indebtedness, or on which CB&T at any time may have a lien, or refuse to enforce its rights or make any compromise or settlement or agreement therefor in respect of any or all of such property; (d) substitute or add, or take any action or omit to take any action which results in the release of, any one or more endorsers or guarantors of all or any part of the Indebtedness, including, without limitation one or more parties to this Guaranty, regardless of any destruction or impairment of any right of contribution or other right of Guarantor; (e) amend, alter or change in any respect whatsoever any term or provision relating to any or all of the Indebtedness, including the rate of interest thereon; (f) apply any sums received from Borrower, any other guarantor, endorser, or co-signer, or from the disposition of any collateral or security, to any indebtedness whatsoever owing from such person or secured by such collateral or security, in such manner and order as CB&T determines in its sole discretion, and regardless of whether such indebtedness is part of the Indebtedness, is secured, or is due and payable; (g) apply any sums received from Guarantor or from the disposition of any collateral or security securing the obligations of Guarantor, to any of the Indebtedness in such manner and order as CB&T determines in its sole discretion, regardless of whether or not such Indebtedness is secured or is due and payable. Guarantor consents and agrees that CB&T shall be under no obligation to marshal any assets in favor of Guarantor, or against or in payment of any or all of the Indebtedness. Guarantor further consents and agrees that CB&T shall have no duties or responsibilities whatsoever with respect to any property securing any or all of the Indebtedness which is not in the possession of CB&T. Without limiting the generality of the foregoing, CB&T shall have no obligation to monitor, verify, audit, examine, or obtain or maintain any insurance with respect to, any property securing any or all of the Indebtedness.

5. Account Stated. CB&T's books and records showing the account between it and the Borrower shall be admissible in evidence in any action or proceeding as prima facie proof of the items therein set forth. CB&T's monthly statements rendered to Borrower shall be binding upon Guarantor (whether or not Guarantor receives copies thereof), and shall constitute an account stated between CB&T and Borrower, unless CB&T receives a written statement of Borrower's exceptions within 30 days after the statement was mailed to Borrower. Guarantor assumes full responsibility for obtaining copies of such monthly statements from Borrower, if Guarantor desires such copies.

6. Exercise of Rights and Remedies; Foreclosure of Trust Deeds. Guarantor consents and agrees that, without notice to or by Guarantor and without affecting or impairing in any way the obligations or liability of Guarantor hereunder, CB&T may, from time to time, exercise any right or remedy it may have with respect to any or all of the Indebtedness or any property securing any or all of the Indebtedness or any guaranty thereof, including without limitation, judicial foreclosure, nonjudicial foreclosure, exercise of a power of sale, and taking a deed, assignment or transfer in lieu of foreclosure as to any such property, and Guarantor expressly waives any defense based upon the exercise of any such right or remedy, notwithstanding the effect thereof upon any of Guarantor's rights, including without limitation, any destruction of Guarantor's right of subrogation against Borrower and any destruction of Guarantor's right of contribution or other right against any other guarantor of any or all of the Indebtedness or against any other person, whether by operation of Sections 580a, 580d or 726 of the California Code of Civil Procedure, or any comparable provisions of the laws of any other jurisdiction, or any other statutes or rules of law now or hereafter in effect, or otherwise. Pursuant to Section 2856 of the California Civil Code, Guarantor waives all rights and defenses that Guarantor may have because the Indebtedness is secured by real property. This means, among other things: (a) CB&T may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower or any other guarantor; and (b) if CB&T forecloses on any real property collateral pledged by Borrower or any other guarantor: (i) the amount of the Indebtedness may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; and (ii) CB&T may collect from Guarantor even if CB&T, by foreclosing on such real property collateral, has destroyed any right Guarantor may have to collect from Borrower or such other guarantor. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because the Indebtedness is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure.

7. *Right to Attachment Remedy.* Guarantor agrees that, notwithstanding the existence of any property securing any or all of the Indebtedness, CB&T shall have all of the rights of an unsecured creditor of Guarantor, including without limitation the right to obtain a temporary protective order and writ of attachment against Guarantor with respect to any sums due under this Guaranty. Guarantor further agrees that in the event any property secures the obligations of Guarantor under this Guaranty, to the extent that CB&T, in its sole and absolute discretion, determines prior to the disposition of such property that the amount to be realized by CB&T therefrom may be less than the indebtedness of the Guarantor under this Guaranty, CB&T shall have all the rights of an unsecured creditor against Guarantor, including without limitation the right of CB&T, prior to the disposition of said property, to obtain a temporary protective order and writ of attachment against Guarantor. Guarantor waives the benefit of Section 483.010(b) of the California Code of Civil Procedure and of any and all other statutes and rules of law now or hereafter in effect requiring CB&T to first resort to or exhaust all such collateral before seeking or obtaining any attachment remedy against Guarantor. CB&T shall have no liability to Guarantor as a result thereof, whether or not the actual deficiency realized by CB&T is less than the anticipated deficiency on the basis of which CB&T obtains a temporary protective order or writ of attachment.

8. *Indemnity.* Guarantor hereby agrees to indemnify and hold CB&T harmless from and against any and all claims, debts, liabilities, demands, obligations, actions, causes of action, penalties, costs and expenses (including without limitation attorneys' fees), of every nature, character and description, which CB&T may sustain or incur based upon or arising out of any of the Indebtedness, any actual or alleged failure to collect and pay over any withholding or other tax relating to Borrower or its employees, any relationship or agreement between CB&T and Borrower, any actual or alleged failure of CB&T to comply with any writ of attachment or other legal process relating to Borrower or any of its property, or any other matter, cause or thing whatsoever occurred, done, omitted or suffered to be done by CB&T relating in any way to Borrower or the Indebtedness (except any such amounts sustained or incurred as the result of the gross negligence or willful misconduct of CB&T or any of its directors, officers, employees, agents, attorneys, or any other person affiliated with or representing CB&T). Notwithstanding any provision in this Guaranty to the contrary, the indemnity agreement set forth in this Section shall survive any termination or revocation of this Guaranty and shall for all purposes continue in full force and effect.

9. *Subordination.* Any and all rights of Guarantor under any and all debts, liabilities and obligations owing from Borrower to Guarantor, including any security for and guaranties of any such obligations, whether now existing or hereafter arising, are hereby subordinated in right of payment to the prior payment in full of all of the Indebtedness. Notwithstanding the foregoing, until an Event of Default has occurred, Guarantor may receive payments in respect of any such subordinated obligations while Indebtedness is outstanding. If any Event of Default has occurred, Borrower and any assignee, trustee in bankruptcy, receiver, or any other person having custody or control over any or all of Borrower's property are hereby authorized and directed to pay to CB&T the entire unpaid balance of the Indebtedness before making any payments whatsoever to Guarantor, whether as a creditor, shareholder, or otherwise; and insofar as may be necessary for that purpose, Guarantor hereby assigns and transfers to CB&T solely as security for the obligations of Guarantor under this Section 9 all rights to any and all debts, liabilities and obligations owing from Borrower to Guarantor, including any security for and guaranties of any such obligations, whether now existing or hereafter arising, including without limitation any payments out of the business or assets of Borrower. Any amounts received by Guarantor in violation of the foregoing provisions shall be received and held as trustee for the benefit of CB&T and shall forthwith be paid over to CB&T to be applied to the Indebtedness in such order and sequence as CB&T shall in its sole discretion determine, without limiting or affecting any other right or remedy which CB&T may have hereunder or otherwise and without otherwise affecting the liability of Guarantor hereunder. Guarantor hereby expressly waives any right to set-off or assert any counterclaim against Borrower.

10. Continuing Guaranty. This Guaranty includes Indebtedness arising under successive transactions continuing, compromising, extending, increasing, modifying, releasing, or renewing the Indebtedness, changing the interest rate, payment terms, or other terms and conditions thereof, or creating new or additional Indebtedness after prior Indebtedness has been satisfied in whole or in part. Guarantor hereby waives and agrees not to assert any right Guarantor has under Section 2815 of the California Civil Code, or otherwise, to revoke this Guaranty as to future Indebtedness.

11. Independent and Primary Liability. This Guaranty is a primary and original obligation of Guarantor, is not merely the creation of a surety relationship, and is an absolute, unconditional, and continuing guaranty of payment and performance which shall remain in full force and effect without respect to future changes in conditions, including any change of law or any invalidity or irregularity with respect to any of the agreements between Borrower and CB&T. Guarantor agrees that Guarantor is severally and not jointly and severally liable, with any other guarantor of the Indebtedness, to CB&T, to the extent set forth in Section 2 hereof, that the obligations of Guarantor hereunder are independent of the obligations of Borrower or any other guarantor, and that a separate action may be brought against Guarantor whether such action is brought against Borrower or any other guarantor or whether Borrower or any such other guarantor is joined in such action. Guarantor agrees that Guarantor's liability hereunder shall be immediate and shall not be contingent upon the exercise or enforcement by CB&T of whatever remedies it may have against Borrower or any other guarantor, or the enforcement of any lien or realization upon any security CB&T may at any time possess. Guarantor agrees that any release which may be given by CB&T to Borrower or any other guarantor shall not release Guarantor (other than as a result of payment in full of the Indebtedness). The liability of Guarantor hereunder shall not be affected, revoked, impaired, or reduced by any one or more of the following: (a) any direction as to the application of payment by Borrower or by any other party; or (b) any other continuing or restrictive guaranty or undertaking or any limitation on the liability of any other guarantor (whether under this Guaranty or under any other agreement); or (c) any payment on or reduction of any such other guaranty or undertaking; or (d) any revocation, amendment, modification or release of any such other guaranty or undertaking. Guarantor hereby expressly represents that he was not induced to give this Guaranty by the fact that there are or may be other guarantors either under this Guaranty or otherwise, and Guarantor agrees that any release of any one or more of such other guarantors shall not release Guarantor from his obligations hereunder either in full or to any lesser extent.

12. Indefeasible Payment. The Indebtedness shall not be considered indefeasibly paid for purposes of this Guaranty unless and until all payments to CB&T are no longer subject to any right on the part of any person, including Borrower, Borrower as a debtor in possession, or any trustee (whether appointed under the Bankruptcy Code or otherwise) of any of Borrower's assets, to invalidate or set aside such payments or to seek to recoup the amount of such payments or any portion thereof, or to declare same to be fraudulent or preferential. In the event that, for any reason, any portion of such payments to CB&T is set aside or restored, whether voluntarily or involuntarily, after the making thereof, then the obligation intended to be satisfied thereby shall be revived and continued in full force and effect as if said payment or payments had not been made, and Guarantor shall be liable for the full amount CB&T is required to repay plus any and all costs and expenses (including attorneys' fees and expenses and attorneys' fees and expenses incurred pursuant to proceedings arising under the Bankruptcy Code) paid by CB&T in connection therewith.

13. Financial Condition of Borrower. Guarantor is fully aware of the financial condition of Borrower and is executing and delivering this Guaranty at Borrower's request and based solely upon his own independent investigation of all matters pertinent hereto, and Guarantor is not relying in any manner upon any representation or statement of CB&T with respect thereto. Guarantor represents and warrants that he is in a position to obtain, and Guarantor hereby assumes full responsibility for obtaining, any additional information concerning Borrower's financial condition and any other matter pertinent hereto as Guarantor may desire, and Guarantor is not relying upon or expecting CB&T to furnish to him any information now or hereafter in CB&T's possession concerning the same or any other matter. By executing this Guaranty, Guarantor knowingly accepts the full range of risks encompassed within a contract of continuing guaranty, which risks Guarantor acknowledges include without limitation the possibility that Borrower will incur additional Indebtedness for which Guarantor will be liable hereunder after Borrower's financial condition or ability to pay such Indebtedness has deteriorated and/or after bankruptcy or insolvency proceedings have been commenced by or against Borrower. Guarantor shall have no right to require CB&T to obtain or disclose any information with respect to the Indebtedness, the financial condition or character of Borrower, the existence of any collateral or security for any or all of the Indebtedness, the filing by or against Borrower of any bankruptcy or insolvency proceeding, the existence of any other guaranties of all or any part of the Indebtedness, any action or non-action on the part of CB&T, Borrower, or any other person, or any other matter, fact, or occurrence.

14. Reports and Financial Statements of Guarantor. Guarantor shall, at its sole cost and expense, at any time and from time to time, prepare or cause to be prepared, and provide to CB&T upon CB&T's request (i) within ninety (90) days of the end of each fiscal year, copies of the Guarantor's annual audited financial statements and reports concerning Guarantor for such periods of time as CB&T may designate, (ii) within thirty (30) days of the end of each month, copies of the Guarantor's interim financial statements (iii) any other information concerning Guarantor's business, financial condition or affairs as CB&T may request, and (iv) within fifteen (15) days after the filing thereof, copies of any and all foreign, federal, state and local tax returns and reports of or relating to Guarantor as CB&T may from time to time request. Guarantor hereby intentionally and knowingly waives any and all rights and privileges it may have not to divulge or deliver said tax returns, reports and other information which are requested by CB&T hereunder or in any litigation in which CB&T may be involved relating directly or indirectly to Borrower or to Guarantor. Guarantor further agrees immediately to give written notice to CB&T of any adverse change in Guarantor's financial condition. All reports and information furnished to CB&T hereunder shall be complete, accurate and correct in all respects. Whenever requested, Guarantor shall further deliver to CB&T a certificate signed by Guarantor warranting and representing that all reports, financial statements and other documents and information delivered or caused to be delivered to CB&T under this Guaranty, are complete, correct and thoroughly and accurately present the financial condition of Guarantor, and that there exists on the date of delivery of said certificate to CB&T no condition or event which constitutes an Event of Default under this Guaranty.

15. Representations and Warranties. Guarantor hereby represents and warrants to CB&T that: (i) the execution, delivery and performance of this Guaranty do not result in a breach of or constitute a default under any contract, obligation, indenture or other instrument to which Guarantor is a party or by which Guarantor is bound or affected; and (ii) there is no law, rule or regulation, nor is there any judgment, decree or order of any court or governmental authority binding on Guarantor which would be contravened by the execution, delivery, performance or enforcement of this Guaranty and the other agreements, instruments and documents executed by Guarantor in connection herewith (collectively, with this Guaranty, the "Guarantor Loan Documents"). Upon their execution and delivery in accordance with their respective terms, the Guarantor Loan Documents will constitute legal, valid and binding agreements and obligations of Guarantor enforceable against Guarantor in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, and similar laws and equitable principles affecting the enforcement of creditors' rights generally; (iv) no approval, consent, exemption or other action by, or notice to or filing with, any governmental authority is necessary in connection with the execution, delivery, performance or enforcement of the Guarantor Loan Documents; and (v) it is in Guarantor's direct interest to assist Borrower in procuring credit, because Borrower is an affiliate of Guarantor, furnishes goods or services to Guarantor, purchases or acquires goods or services from Guarantor, and/or otherwise has a direct or indirect corporate or business relationship with Guarantor.

16. Financial Covenants and Other Covenants.

- (a) Guarantor shall maintain at all times a maximum Total Liabilities to Tangible Net Worth ratio of 0.75:1.00, measured quarterly or such other ratio as CB&T may approve in writing following any merger, consolidation or acquisition approved by CB&T or any Permitted Acquisition;
- (b) Guarantor shall not experience two (2) consecutive quarterly pre-tax losses (exclusive of any expense associated with goodwill impairment) measured quarterly; and
- (c) Guarantor shall not experience a pre-tax loss in any fiscal year (exclusive of any expense associated with goodwill impairment).
- (d) Guarantor shall not merge or consolidated with or acquire any other person without CB&T's prior written consent other than the Permitted Acquisitions.
- (e) Guarantor shall not declare or pay cash dividends upon any of its stock or distribute any of its property or redeem, retire, purchase or acquire directly or indirectly any of its stock; provided, however, Guarantor may declare or pay cash dividends upon its stock or distribute any of its property or redeem, retire, purchase or acquire directly or indirectly any of its stock so long as such cash dividends, property distributions, or stock redemptions, retirements or purchases do not exceed Guarantor's annual net profit to be measured on an annual basis.

“Permitted Acquisitions” means acquisitions made by the Guarantor that do not exceed Five Million Dollars (\$5,000,000) in the aggregate in any fiscal year.

“Tangible Net Worth” means the book value of Guarantor's assets, less, goodwill, patents, trademarks, copyrights, franchises, formulas, leasehold interests, leasehold improvements, non-compete agreements, engineering plans, deferred tax benefits, organization costs, amounts due from affiliates, and any other assets of Guarantor that would be treated as intangible assets on Guarantor's balance sheet prepared in accordance with GAAP, less Total Liabilities.

“Total Liabilities” means, as of the date of determination, all obligations of the Guarantor that should be classified as liabilities on a balance sheet in accordance with GAAP.

Notwithstanding the foregoing, no default shall exist with respect to Guarantor not satisfying Section 16(a), (b) and (e) as a result of an acquisition, consolidation or merger not approved by CB&T for a period of three (3) months from the date of such acquisition, consolidation or merger.

17. Costs. Whether or not suit be instituted, Guarantor agrees to reimburse CB&T on demand for all attorneys' fees and all other costs and expenses incurred by CB&T in enforcing this Guaranty, or arising out of or relating in any way to this Guaranty, or in enforcing any of the Indebtedness against Borrower, Guarantor, or any other person, or in connection with any property of any kind securing all or any part of the Indebtedness. Without limiting the generality of the foregoing, and in addition thereto, Guarantor shall reimburse CB&T on demand for all attorneys' fees and costs CB&T incurs in any way relating to Guarantor, Borrower or the Indebtedness, in order to: obtain legal advice; enforce or seek to enforce any of its rights; commence, intervene in, respond to, or defend any action or proceeding; file, prosecute or defend any claim or cause of action in any action or proceeding (including without limitation any probate claim, bankruptcy claim, third-party claim, secured creditor claim, reclamation complaint, and complaint for relief from any stay under the Bankruptcy Code or otherwise); protect, obtain possession of, sell, lease, dispose of or otherwise enforce any security interest in or lien on any property of any kind securing any or all of the Indebtedness; or represent CB&T in any litigation with respect to Borrower's or Guarantor's affairs. In the event either CB&T or Guarantor files any lawsuit against the other predicated on a breach of this Guaranty, the prevailing party in such action shall be entitled to recover its attorneys' fees and costs of suit from the non-prevailing party.

18. Notices. Any notice which a party shall be required or shall desire to give to the other hereunder (except for notice of revocation, which shall be governed by Section 10 of this Guaranty) shall be given by personal delivery or by telecopier or by depositing the same in the United States mail, first class postage pre-paid, addressed to CB&T at its address set forth in the heading of this Guaranty and to Guarantor at his address set forth under his signature hereon, and such notices shall be deemed duly given on the date of personal delivery or one day after the date telecopied or three business days after the date of mailing as aforesaid. CB&T and Guarantor may change their address for purposes of receiving notices hereunder by giving written notice thereof to the other party in accordance herewith. Guarantor shall give CB&T immediate written notice of any change in his address.

19. Claims. Guarantor agrees that any claim or cause of action by Guarantor against CB&T, or any of CB&T's directors, officers, employees, agents, accountants or attorneys, based upon, arising from, or relating to this Guaranty, or any other present or future agreement between CB&T and Guarantor or between CB&T and Borrower, or any other transaction contemplated hereby or thereby or relating hereto or thereto, or any other matter, cause or thing whatsoever, whether or not relating hereto or thereto, occurred, done, omitted or suffered to be done by CB&T, or by CB&T's directors, officers, employees, agents, accountants or attorneys, whether sounding in contract or in tort or otherwise, shall be barred unless asserted by Guarantor by the commencement of an action or proceeding in a court of competent jurisdiction within Los Angeles County, California, by the filing of a complaint within one year after the first act, occurrence or omission upon which such claim or cause of action, or any part thereof, is based and service of a summons and complaint on an officer of CB&T or any other person authorized to accept service of process on behalf of CB&T, within 30 days thereafter. Guarantor agrees that such one year period is a reasonable and sufficient time for Guarantor to investigate and act upon any such claim or cause of action. The one year period provided herein shall not be waived, tolled, or extended except by a specific written agreement of CB&T. This provision shall survive any termination of this Guaranty or any other agreement.

20. Construction; Severability. If more than one person has executed this Guaranty, the term "Guarantor" as used herein shall be deemed to refer to all and any one or more such persons and their obligations hereunder shall be joint and several. Without limiting the generality of the foregoing, if more than one person has executed this Guaranty, this Guaranty shall in all respects be interpreted as though each person signing this Guaranty had signed a separate Guaranty, and references herein to "other guarantors" or words of similar effect shall include without limitation other persons signing this Guaranty. As used in this Guaranty, the term "property" is used in its most comprehensive sense and shall mean all property of every kind and nature whatsoever, including without limitation real property, personal property, mixed property, tangible property and intangible property. Words used herein in the masculine gender shall include the neuter and feminine gender, words used herein in the neuter gender shall include the masculine and feminine, words used herein in the singular shall include the plural and words used in the plural shall include the singular, wherever the context so reasonably requires. If any provision of this Guaranty or the application thereof to any party or circumstance is held invalid, void, inoperative or unenforceable, the remainder of this Guaranty and the application of such provision to other parties or circumstances shall not be affected thereby, the provisions of this Guaranty being severable in any such instance.

21. General Provisions. CB&T shall have the right to seek recourse against Guarantor to the full extent provided for herein and in any other instrument or agreement evidencing obligations of Guarantor to CB&T, and against Borrower to the full extent of the Indebtedness. No election in one form of action or proceeding, or against any party, or on any obligation, shall constitute a waiver of CB&T's right to proceed in any other form of action or proceeding or against any other party. The failure of CB&T to enforce any of the provisions of this Guaranty at any time or for any period of time shall not be construed to be a waiver of any such provision or the right thereafter to enforce the same. All remedies hereunder shall be cumulative and shall be in addition to all rights, powers and remedies given to CB&T by law or under any other instrument or agreement. Time is of the essence in the performance by Guarantor of each and every obligation under this Guaranty. If Borrower is a corporation, partnership or other entity, Guarantor hereby agrees that CB&T shall have no obligation to inquire into the power or authority of Borrower or any of its officers, directors, partners, or agents acting or purporting to act on its behalf, and any Indebtedness made or created in reliance upon the professed exercise of any such power or authority shall be included in the Indebtedness guaranteed hereby. This Guaranty is the entire and only agreement between Guarantor and CB&T with respect to the guaranty of the Indebtedness of Borrower by Guarantor, and all representations, warranties, agreements, or undertakings heretofore or contemporaneously made, which are not set forth herein, are superseded hereby. No course of dealings between the parties, no usage of the trade, and no parole or extrinsic evidence of any nature shall be used or be relevant to supplement or explain or modify any term or provision of this Guaranty. There are no conditions to the full effectiveness of this Guaranty. The terms and provisions hereof may not be waived, altered, modified, or amended except in a writing executed by Guarantor and a duly authorized officer of CB&T. All rights, benefits and privileges hereunder shall inure to the benefit of and be enforceable by CB&T and its successors and assigns and shall be binding upon Guarantor and his heirs, executors, administrators, personal representatives, successors and assigns. Section headings are used herein for convenience only. Guarantor acknowledges that the same may not describe completely the subject matter of the applicable Section, and the same shall not be used in any manner to construe, limit, define or interpret any term or provision hereof.

22. Governing Law; Venue and Jurisdiction. This instrument and all acts and transactions pursuant or relating hereto and all rights and obligations of the parties hereto shall be governed, construed, and interpreted in accordance with the internal laws of the State of California without regard for principles of conflicts of laws. In order to induce CB&T to accept this Guaranty, and as a material part of the consideration therefor, Guarantor (i) agrees that all actions or proceedings relating directly or indirectly hereto shall, at the option of CB&T, be litigated in courts located within Los Angeles County, California; (ii) consents to the jurisdiction of any such court and consents to the service of process in any such action or proceeding by personal delivery or any other method permitted by law; and (iii) waives any and all rights Guarantor may have to transfer or change the venue of any such action or proceeding.

23. Mutual Waiver of Right to Jury Trial. CB&T AND GUARANTOR HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION, CLAIM, LAWSUIT OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (i) THIS GUARANTEE OR ANY SUPPLEMENT OR AMENDMENT THERETO; OR (ii) ANY BREACH, CONDUCT, ACTS OR OMISSIONS OF CB&T OR GUARANTOR OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSON AFFILIATED WITH OR REPRESENTING CB&T OR GUARANTOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE

24. Receipt of Copy. Guarantor acknowledges receipt of a copy of this Guaranty.

COLLECTORS–UNIVERSE, INC.
a Delaware Corporation

By:
Name:
Title

ACCEPTED AND AGREED

CALIFORNIA BANK & TRUST
a California banking corporation

By:
Name:
Title

EXHIBIT 21.1

SUBSIDIARIES OF REGISTRANT

<u>Name</u>	<u>State of Incorporation/Organization</u>	<u>Collectors Universe Ownership Percentage</u>
Professional Coin Grading Services, Inc.	Delaware	100%
Collectors Finance Corporation	California	100%

In accordance with the instructions set forth in Paragraph (b) of Item 601 of Regulation S-K, there has been omitted those subsidiaries that, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of June 30, 2005.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated September 2, 2005, accompanying the consolidated financial statements and schedule for the fiscal year ended June 30, 2005 and management's assessment of the effectiveness of internal control over financial reporting included in the Annual Report on Form 10-K of Collectors Universe, Inc. and subsidiaries for the year ended June 30, 2005. We hereby consent to the incorporation by reference of said reports in Registration Statements No. 333-34554, No. 333-34556, No. 333-34558, No. 333-85962 and No. 333-121035 of Collectors Universe, Inc. and subsidiaries, each filed with the Securities and Exchange Commission on Form S-8.

/s/ GRANT THORNTON LLP

Irvine, California
September 12, 2005

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Collectors Universe, Inc.

We consent to the incorporation by reference in Registration Statements No. 333-34554, No. 333-34556, No. 333-34558, No. 333-85962 and No. 333-121035 of Collectors Universe, Inc., each filed with the Securities and Exchange Commission on Form S-8, of our report dated September 23, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to a change in accounting for goodwill and other intangible assets effective July 1, 2002) relating to the consolidated financial statements of Collectors Universe, Inc. as of June 30, 2004 and for each of the two years in the period ended June 30, 2004 appearing in this Annual Report on Form 10-K of Collectors Universe, Inc. for the year ended June 30, 2005.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
September 12, 2005

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
UNDER
SECTION 302 OF THE SARBANES–OXLEY ACT**

I, Michael R. Haynes, Chief Executive Officer of Collectors Universe, Inc., certify that:

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

Date: September 13, 2005		/s/ MICHAEL R. HAYNES
		Michael R. Haynes
		Chief Executive Officer

**CERTIFICATIONS OF CHIEF FINANCIAL OFFICER
UNDER
SECTION 302 OF THE SARBANES–OXLEY ACT**

I, Michael J. Lewis, Chief Financial Officer of Collectors Universe, Inc., certify that:

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

Date: September 13, 2005		/s/ MICHAEL J. LEWIS
		Michael J. LEWIS
		Chief Financial Officer

COLLECTORS UNIVERSE, INC.

Annual Report on Form 10-K
for the Year ended June 30, 2005

CERTIFICATION OF PERIODIC REPORT

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, who is the Chief Executive Officer of Collectors Universe, Inc. (the "Company"), hereby certifies that (i) the Annual Report on Form 10-K for the year ended June 30, 2005, as filed by the Company with the Securities and Exchange Commission (the "Annual Report"), to which this Certification is an Exhibit, fully complies with the applicable requirements of Section 13(a) and 15(d) of the Exchange Act; and (ii) the information contained in this Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 13, 2005		/s/ MICHAEL R. HAYNES
		Michael R. Haynes
		Chief Executive Officer

COLLECTORS UNIVERSE, INC.

Annual Report on Form 10-K
for the Year ended June 30, 2005

CERTIFICATION OF PERIODIC REPORT

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, who is the Chief Financial Officer of Collectors Universe, Inc. (the “Company”), hereby certifies that (i) the Annual Report on Form 10-K for the year ended June 30, 2005, as filed by the Company with the Securities and Exchange Commission (the “Annual Report”), to which this Certification is an Exhibit, fully complies with the applicable requirements of Section 13(a) and 15(d) of the Exchange Act; and (ii) the information contained in this Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 13, 2005		/s/ MICHAEL J. LEWIS
		Michael J. Lewis
		Chief Financial Officer