

**Collector's Universe (CLCT: \$16.89\*)**

52wk range: 12.84 – 18.80  
Volume – 43,182  
Market Cap – 133.36 million  
P/E – 26.17  
EPS – 0.65

**Its All About Growth**

The market's up..Wait a minute, now it's down.. Point is, we are in nothing short of a roller coaster market. With catalysts of doom such as the debt ceiling, Europe and the threat of another recession, it's pretty obvious why we see up/down markets pretty much by the minute.

This month, I am looking to invest into a company that has solid fundamentals and has impressive growth. This is what I want to see because if a stock can maintain a strong backbone in times like this and push forward in times of red, well that's a stock for me.

Let's get right into it.

Have a great month.

Tim Fields  
Editor In Chief  
Untapped Wealth



## **Snapshot**

Collectors Universe, Inc. (Collectors Universe) provides authentication and grading services to dealers and collectors of high-value coins, trading cards, event tickets, autographs, memorabilia and stamps (collectibles).

Some of the Company's brands include Professional Coin Grading Service (PCGS), which is the brand name for its independent coin authentication and grading service; Professional Sports Authenticator (PSA), which is the brand name for its independent sports and trading cards authentication and grading service; PSA/DNA Authentication Services (PSA/DNA), which is the brand name for its independent authentication and grading service for vintage autographs and memorabilia, and Professional Stamp Experts (PSE), which is the brand name for its independent stamp authentication and grading service. It principally generates revenues from the fees paid for its authentication and grading services.

Collectors Universe is engaged in the business of providing third-party authentication, grading and related services for rare and high-value collectibles consisting of coins, trading cards, stamps, sports memorabilia and autographs. The Company also publishes magazines that provide market prices and information for certain collectibles and high-value assets, that is accessible on its Websites and sell advertising in those magazines and on those Websites; own the certified Coin Exchange (CCE) subscription business, which operates an online market for graded collectible coins for dealers who subscribe to this service, and promote, manage and operate collectibles trade shows.

### **PCGS Coin Authentication and Grading Services**

Recognizing the need for third-party authentication and grading services, the Company launched professional coin grading service. The Company places each coin that it authenticates and grades in a tamper-evident, clear plastic holder, which bears its logo. Collectors Universe also provides 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.

### **PSA Trading Authentication and Grading Services**

The Company launched Professional Sports Authenticator (PSA), which instituted a authentication and grading system for trading cards. Its independent trading card experts certify the authenticity of and assign quality grades to trading cards using a numeric system with a scale from 1-to-10 that it developed, together with an adjectival system to describe their condition.

#### PSA/DNA Autograph Authentication and Grading Services

The Company launched 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. Its vintage autograph authentication service involves the rendering of an opinion of authenticity by an industry expert based on an analysis of the signed object, such as the signed document or autographed item of memorabilia, to confirm its consistency with similar materials or items that existed during the signer's lifetime; a comparison of the signature submitted for authentication with exemplars of such signatures, and a handwriting analysis. Collectors Universe also offers grading services for autographs, beginning with baseballs containing a single signature or autograph.

#### PSE Stamp Authentication and Grading Services

Collectors Universe launched professional stamp experts (PSE) as its independent, third-party stamp authentication and grading service. It uses both an adjectival system and a numeric scale from 1-to-100 to grade stamps. It assigns 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.

#### CCE Certified Coin Exchange and Collectors Corner

The Company had acquired the CCE, a subscription-based, business-to-business Internet bid-ask market for third-party certified coins. The CCE Website has approximately 100,000 bid and ask prices for certified coins at [www.certifiedcoinexchange.com](http://www.certifiedcoinexchange.com). As of June 30, 2010, the Company had approximately 100,000 collectibles, consisting primarily of coins, trading cards and stamps that we have certified, which are offered for sale on Collectors Corner.

#### Publications and Advertising

The Company publishes authoritative price guides, rarity reports and other collectibles data to provide collectors with information. Its publications also enable it to market its services, create increased brand awareness and to generate advertising revenues. Collectors Universe publishes the Sports Market Report on a monthly basis primarily for distribution to approximately 6,500 PSA Collectors Club members and the Stamp Market Quarterly for distribution to approximately 1,200 stamp dealers and collectors. It sells advertising to dealers and vendors for placement in its publications. It manages a Collectors Universe Website and individual Websites for its authentication and grading

services. On those Websites, it offers collectible content, relevant to the marketplace for that specific authentication and grading service, some of which is available for a fee and some of which is available without charge. It sells advertising to dealers and vendors on these two Websites and on the Websites it maintains for PSA/DNA in autographs, PSE in stamps and CCE and Collectors Corner in coins.

The Company competes with Numismatic Guaranty Corporation of America, Independent Coin Grading, ANACS, Beckett Trading Card Grading Corporation, Trading Card Guaranty, LLC, James Spence Authentication, Philatelic Foundation, the American Philatelic Society.

**Collectors Universe, Inc.**

■ CLCT



**Key Highlights**

Collectors Universe Declares Quarterly Cash Dividend of \$0.325 per Common Share- announced that, pursuant to its previously adopted dividend policy, the Board of Directors has declared the Company's quarterly cash dividend of \$0.325 per share of common stock for the first quarter of fiscal 2012. The cash dividend will be paid on August 26, 2011 to stockholders of record on August 12, 2011.

Collectors Universe Reports Record Third Quarter Revenues and Operating Income—  
(from the press release)

- Net service revenues increased 17% in this year's third quarter to a record \$12.6 million (excluding product sales of \$263,000), driven primarily by a 21% increase in coin service revenues to \$8.8 million from \$7.3 million in the prior year third

- quarter. The increase in coin service revenues was primarily the result of a \$1.2 million or 40% increase in modern coin grading revenues and a \$0.5 million or 206% increase in world coin grading revenues in the quarter.
- The gross profit margin for this year's third quarter, excluding product sales, was 63% of revenues, compared to 61% for the third quarter of last year, reflecting the increased percentage of higher margin coin revenues in this year's third quarter and operating leverage in our business.
  - Operating income increased by 31% in this year's third quarter to a record \$3.3 million from \$2.5 million in the third quarter of last year. Our operating margin was 26% of revenues in the current third quarter, compared with 23% of revenues in the prior third quarter.
  - Income from continuing operations was \$2.0 million, or \$0.25 per diluted share, and \$4.1 million, or \$0.52 per diluted share, for the third quarter and nine months of fiscal 2011, compared to \$2.4 million, or \$0.32 per diluted share, and \$5.8 million, or \$0.76 per diluted share, for the third quarter and nine months of fiscal year 2010. The current period results reflect income tax provisions of \$1.4 million for the quarter and \$2.7 million for the nine months, compared to immaterial income tax provisions for the same prior year periods. The increase in the tax provision for 2011 resulted from the release of valuation allowances against deferred tax assets at June 30, 2010. Cash payments for taxes continue to be minimal.
  - The Company's cash position at March 31, 2011 was \$21.2 million, compared with \$20.3 million at June 30, 2010. The net cash generated of \$0.9 million in the nine months ended March 31, 2011, comprised of cash generated from continuing operations of \$8.2 million and proceeds received from the exercise of stock options of \$0.9 million, net of payments of \$7.4 million for cash dividends paid to stockholders, \$0.5 million for discontinued operations and \$0.3 million for capital expenditures.
  - On April 25, 2011, we announced our quarterly cash dividend of \$0.325 per share, to be paid on May 27, 2011 to stockholders of record on May 13, 2011.

### **Industry Snapshot**

The primary determinants of the prices of, and the willingness of sellers, purchasers and collectors to purchase high-value or high-priced collectibles or other high-value assets, are their authenticity, quality and rarity. 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. The rarity of a collectible relates to its uniqueness and depends primarily on the number of identical collectibles of equivalent or better quality that become available for purchase from time to time. 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 and rarity directly affect value and price, usually on an exponential basis, with higher quality and rare collectibles generally attracting dramatically higher prices than those of lower quality and lesser rarity. 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 Collector's Universe of 9, on their PSA grading scale of 1-to-10, was sold at public auction in 2006 for \$282,588. By comparison, a similar 1952 Mickey Mantle baseball card that received a PSA grade of 8 was sold at public auction, also in 2006, for \$72,057.

Until the advent of independent third-party authentication and grading, most prospective buyers, including experienced collectibles dealers and retailers, insisted on physically examining high-priced collectibles before consummating transactions. However, unlike professionals in the trade, most purchasers and collectors lacked the experience and knowledge needed to determine, with confidence, the authenticity, quality or rarity, and hence the value, of high-priced collectibles, even when they had the opportunity to examine them physically. Therefore, they had to rely on representations made by sellers regarding authenticity, quality and rarity. 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.

### **Risk Factors**

- A decline in the popularity of high-value collectibles and a resulting decrease in submissions for Collector's Universe's services could adversely impact their business.
- Revenues and income depend significantly on revenues generated by their 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 revenues and results of operations.
- Declines in general economic conditions could result in decreased demand for the company's services, which could adversely affect operating results.
- Temporary popularity of some collectibles may result in short-term increases, followed by decreases, in the volume of submissions for the company's services, which could cause revenues to fluctuate.
- CLCT's top five customers account for approximately 12% of our total net revenues.

### **Investment rationale**

With Collector's Universe, I want to not capitalize on an industry per say but more on fundamentals and true growth in an time where growth and stock movement is dictated by the market itself and not fundamentals alone. This company seems to be an anomaly and given its past performance (see chart

above), I believe that we'll see a tried and true winner here.

Despite how I feel about this stock, be sure that you keep a 20% stop/loss intact.

Tim Fields  
Editor In Chief  
Untapped Wealth

\*Indicates Initial recommended price