



CEO CFO

Interviews & News!

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Collectors Universe Is Certifying Annually About \$2 Billion Of The Total High-Value Asset Marketplaces Of Coins, Diamonds And Other Similar Assets



Services
Business Services
(CLCT-NASDAQ)

Collectors Universe, Inc.

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Michael R. Haynes
Chief Executive Officer

BIO:

Michael R. Haynes has been the Company's Chief Executive Officer since January 2003. Prior to joining Collectors Universe, he had served as president, chief operating officer or chief financial officer of eight different companies en-

gaged in the collectibles, precious metals, specialty retail, distribution, e-commerce and manufacturing businesses, including Greg Manning Auctions, Inc., where he served as President and Chief Financial Officer from 1994 to 1995 and Heritage Numismatic Auctions, where he served as President from 1974 to 1990. Mr. Haynes also was 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. Mr. Haynes also is a CPA.

Company Profile:

Collectors Universe, Inc. is a leading provider of value added services to the high-value collectibles and diamond and colored gemstones markets. The Company authenticates and grades collectible coins, sports cards, autographs, stamps, currency, diamonds and colored gemstones. The Company also compiles and publishes authoritative information about United States and world coins, collectible sports cards and sports memorabilia, collectible stamps, diamonds and colored gemstones. This information is accessible to collectors and dealers at the Company's web site, <http://www.collectors.com>, and is also published in print.

Interview conducted by:
Lynn Fosse, Senior Editor
CEO CFOinterviews.com

CEO CFO: Mr. Haynes, how long have you been with Collectors Universe and what is your vision for the company?

Mr. Haynes: "I started with Collectors Universe in January of 2003, so it has been a little over four years. However, I have been a part of the 'high-value-asset' industry for about 30 years in various functions, as either a seller, retailer, wholesaler or even as an auctioneer. Therefore, I have a lot of experience in these markets. Basically, what Collectors Universe does is they are an authentication and quality rating firm for tangible high-value-assets and they perform a service similar to what Standard & Poors or Moody's might do for credit instruments. For example, if you are an issuer of a bond, you and your investment banker would take the bond and all of your financial information to Moody's, who would review everything and assign a quality rating on your credit instrument. However, they do not value it or say something like, 'this should sell for 5.75 on the market'. They would say, 'this is a single A, double A or triple A version or whatever their terminology might be. Once the asset is rated, and then the investment bank will take it out to market with that rating, so that in this short hand communication buyers of the asset will know, because they know what a AA is and have a view of what AA rates should be. This is offered at this rate, which fits in this range. This is what we do, but for more tangible assets; typically high-value or concentrated-value assets.

We began over 20 years ago with rare coins and then expanded into sports cards; you perhaps have heard of the Honus Wagner card that just recently sold for more than \$2.5 million. We certified that card, both its authenticity and its quality. We then moved into autographs; not just of sports figures, but also famous people. We've done everything from Babe

Ruth to Astronauts, Presidents and political figures. We've also done rare paper currency, which is another field of endeavor where you have high-value-assets. Stamps are also a popular high-value-asset and it is necessary to authenticate the stamp to make sure that it is a genuine stamp. Then they have a state of preservation or quality rating. Recently we've entered into the diamond market; we have a company that offers authenticity and quality ratings of diamonds and lastly a market of colored gemstones, such as ruby, sapphire, and emeralds. Therefore, we do this across a whole wide range of items. When you add up the annual turnover in all of our markets; coin, sports cards and gemstones, all of these markets at retail in the United States, through all of the various sources, you are talking about total market sales in the neighborhood of \$45 to \$55 billion US, being sold in the United States. We are probably certifying around \$2 billion of that total possible marketplace on an annual basis."

CEOCFO: What does certifying these items involve and how are you creating your revenues?

Mr. Haynes: "Certification is a process where we physically examine the item, first verifying its authenticity and then secondly, it's relative state of preservation or its quality rating. There are some scales or popular ratings systems available in some markets, but most often, we have to develop them ourselves. Then we stand behind that with our warranty of accuracy that we have properly evaluated the item for its authenticity and quality; the marketplace then sets the values."

CEOCFO: So each item is physically examined.

Mr. Haynes: "Yes, we have to physically examine each item and going back to the Moody's example, 80% or more of our goods comes from the commercial enterprises such as an auctioneer, a dealer or retailer who wants to get the item certified before they turnaround and remarket that to a retail customer. This is because to have a third party say that the item is authentic and of a certain quality is

clearly better and has no bias as opposed to a retailer holding up an autograph of supposedly Abraham Lincoln and saying that is real and costs \$15,000.00. The consumer would then question how they would know that it is real. The seller has a vested interest in this item, so the buyer without reservation could not accept the veracity of the seller's statement. However, if that same seller holds up an item saying that is an Abraham Lincoln signature, and not because I say that it is, but because this financially strong NASDAQ listed publicly traded company says that it is and they have no interest in this transaction then the customer can have more confidence that this is really an Abraham Lincoln or one carrot round GVS-1 diamond or whatever the case may be. In addition, our fees are straight flat fees not based on value; we have no conflicts of

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interest and do not buy or sell anything. Our board of directors is also independent; so the customer can say that they have an independent authority that has examined the item and given their view."

CEOCFO: Once the item leaves your facility, how do you authenticate that this is the same item that you examined?

Mr. Haynes: "For coins and sports cards, stamps and currency, we actually encapsulate the product in a tamper evident holder, so that our language, which explains it is and its authenticity, is also encased in this plastic container. They are about a little bit larger than the size of a credit card, so you can imagine a coin being sandwiched in-between two plastic halves. The plastic is clear so you can see the coin, currency, or card underneath it. For autographs we utilize a special synthetic DNA that has been uniquely formulated for us and we apply it to the item that carries the autograph and we can

determine whether or not we have actually certified this particular autograph, because the DNA glows lime green under a particular wavelength of light. We have a flashlight that is a little bit like a laser gun and we can see if we have ever looked at this piece. We also have the ability to chemically examine the DNA to make sure that it is the same DNA that we issued. For diamonds we own a process called Gemprint, that takes a non-invasive fingerprint of the diamond. It is its optical reflective pattern that is unique for every diamond and we store that just like we would store a fingerprint. We can then match a diamond fingerprint to any diamond that we have certified, as we would know its certificate number. For gemstones, full color images of every gemstone that we certify, so that we can not only match the color perfectly, but also some of the various cuts and flaws in the color gemstones."

CEOCFO: Tell us a little bit more about your revenue model.

Mr. Haynes: "We have a fee structure that is a flat fee that has a FedEx component to it. The faster you want the item returned the more you will pay, because we charge a premium fee for a quicker turnaround.

Our turnaround times vary; for our normal service in some of our markets we have about a 45-day wait, but you can buy that down to 1 business day by agreeing to pay a higher fee to have the item returned quicker."

CEOCFO: How big is the market and what is the competition?

Mr. Haynes: "I mentioned earlier that we have \$45 to \$55 billion in product that is traded in the United States on an annual basis in the markets that we serve. We currently are processing about \$2 billion of value through our hands on an annual basis, so of all the goods that trade whether they are certified or uncertified, carry a competitor's brand or our brand, we are about 2.5 to 5% of the market. We have competition, but none that covers all of the markets that we cover 100%. Basically, each of the 7 markets that we are in, have competitors inside of that mar-

ket. They are almost like silo markets. We have somewhere between 50% and 85% market share of all the goods certified in most of the markets that we are in. So we have a significant share. In the diamond market, we are still relatively small where we have less than 1% share, and that is a large market at about \$35 billion a year of goods that are bought and sold in the United States. However, we are looking to grow our share in that market and we are making solid progress."

CEOCFO: What do you need to do to grow your business and will you need to raise funds to do that?

Mr. Haynes: "We did a secondary offering in early calendar 2005, so we are fully funded. We have a very large cash position that we are deploying to help us grow our brands and continue to expand into other markets as well. When we began our company, we only had one market that we were serving and we are now serving 7 markets. We look to continue to expand into other markets for these types of tangible high-value-assets. We also have a very high dividend rate on the stock; currently it is around 7% yield on our annual dividend. We generate cash, we don't need any cash, so we are paying that out in a substantial dividend at \$1.00 a share on an annual basis. Therefore, we are self-sustained at least for the moment and for the foreseeable future. Our growth patterns are not only organic inside of each of these 7 markets that we are in, but also to add new markets as we continue to grow."

CEOCFO: With regard to organic growth, is third party use increasing?

Mr. Haynes: "In order to grow organically, for the most part this is associated with continuing stimulation of these markets. These markets in-and-of themselves are growing on an annual basis and as the market grows then the percentage of goods being certified is either the same or rising as a percentage of the total market. Therefore, we in many ways grow at the same rate as the surrounding market. For example, the coin market has been growing at around 8% to 10% a year over many, many decades; sometimes faster, sometimes slower. Our coin services, not

only has been growing at that rate, but sometimes faster than that rate, as adoption or usage of third party certification becomes more widely consumed inside of that market. We have 7 markets that are growing at various rates and the consumption or use of third party is increasing in each of these seven markets."

CEOCFO: How do people find out about Collectors Universe?

Mr. Haynes: "It depends on which market. Our product is originally contracted for by the commercial side, so we utilize both a push and a pull marketing strategy to grow our business. We work with the dealers, auctioneers and retailers to further convince them that third party certification is an important element in helping them sell more goods, because it increases consumer confidence and the more confident the consumer the more product they will buy. At the same time we go to the other end of the distribution channel and we talk to the retailers and in some cases the retail customers and suggest that they should only be buying goods that carry third party certification. In most cases, we are the leading brand or the only brand in these various markets; therefore, they should be utilizing our services so that they can make sure that they are getting a product that is properly represented and eliminate the bias of their upstream seller."

CEOCFO: Is Collectors Universe a worldwide universe or strictly in the United States?

Mr. Haynes: "All of our offices are in the United States; we have one in Southern California and one in New York City, but our products are being sold for the most part in the G-7, around the globe. That would include Western Europe, Pacific Rim as well as in the United States."

CEOCFO: In closing, address potential investors, why they should consider Collectors Universe, and what you will do to increase market share.

Mr. Haynes: "There are several reasons why we are an interesting company. First, is that we have dominating brands in several key markets; in most cases having 50% share or higher, with the one exception of the diamond market, where we

have lots of room to grow. Therefore, we have leading brands in high-unit volume markets and we've got entry into this large volume diamond market, with great opportunities to grow these brands, simultaneously as the markets grow. We are also consumer oriented; we are there to help the consumer get the fair product for the price, by virtue of being the third party that evens the playing field about the knowledge of the product. That means that we are in this moral high ground and people need what we do. If you've ever tried to buy something from a jeweler or even a used car, a consumer may feel slighted, ineffective or under informed. We level that playing field by giving them information, so we have that high moral ground.

We also have large gross margins with the potential for more growth, in the 50% area and they have been consistently in the range for many, many years. Our balance sheet is very conservative, we have a large cash position, and we are paying a very attractive dividend yield; close to 7%. In addition, we have growth opportunities to continue organically in the existing markets that we are in, especially given our large market shares and as we continue to look, there are dozens of other markets that we can enter as we have successfully taken the knowledge of that one market and exported that to 7 markets.

There are other markets that we can also enter and we have the cash to do it. Our business model has been portable; we've exported our model into other markets and we believe that we can continue to do that. We also have a very strong leadership group who have been doing this now for quite some time. The company is 20 years old and it is in its original market. This is not a new idea as it has been around for a couple of decades and the issue that is faced by the consumer is, 'How do I know the seller is telling me the right information about this tangible asset that has been around literally for thousands of years.' We are in the process of solving a millennia old problem for the consumer, utilizing our expertise in business solutions."



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