

DGSE COMPANIES INC  
Form 10-Q  
November 15, 2010

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010  
or

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

For the transition period from \_\_\_ to \_\_\_

Commission File Number 1-11048

DGSE Companies, Inc.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

88-0097334  
(I.R.S. Employer  
Identification No.)

11311 Reeder Road  
Dallas, Texas 75229  
(972) 484-3662  
(Address, including zip code, and telephone  
number, including area code, of registrant's  
principal executive offices)

NONE  
(Former name, former address and former  
fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 10, 2010

Class	Outstanding
Common stock, \$.01 par value per share	9,833,635

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## DGSE Companies, Inc. and Subsidiaries

## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements.

## CONSOLIDATED BALANCE SHEETS

	September 30, 2010 Unaudited	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 620,773	\$ 1,446,724
Trade receivables	822,048	649,310
Inventories	16,027,897	17,766,285
Prepaid expenses	945,656	807,298
Prepaid federal income tax	631,419	639,372
Total current assets	19,047,793	21,308,989
Marketable securities- available for sale	\$ —	45,000
Property and equipment, net	4,813,836	4,713,142
Deferred income taxes	417,987	1,731,175
Goodwill	837,117	837,117
Intangible assets	2,464,006	2,464,006
Other assets	299,202	260,904
Non-current assets of discontinued operations	295,617	295,617
	\$ 28,175,558	\$ 31,655,950
<b>LIABILITIES</b>		
Current Liabilities:		
Notes payable	\$ —	\$ 48,569
Current maturities of long-term debt	293,799	310,714
Line of credit	2,979,886	3,195,000
Accounts payable – trade	714,176	1,472,663
Accrued expenses	347,664	492,710
Customer deposits	1,187,580	2,092,593
Total current liabilities	5,523,105	7,612,249
Long-term debt, less current maturities	2,738,005	11,605,143
	8,261,110	19,217,392
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$.01 par value; 30,000,000 shares authorized; 9,863,635 and 9,863,635 shares issued and outstanding at the end of each period in 2010 and 2009, respectively	98,637	98,637
Additional paid-in capital	18,698,091	18,698,091
Retained earnings (deficit)	1,117,720	(6,358,170)
	19,914,448	12,438,558

\$ 28,175,558 \$ 31,655,950

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

## DGSE Companies, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS  
Unaudited

	Nine months ended September 30,	
	2010	2009
<b>Revenue</b>		
Sales	\$ 56,201,530	\$ 63,254,038
<b>Costs and expenses</b>		
Cost of goods sold	48,097,685	53,677,847
Selling, general and administrative expenses	7,486,053	6,770,875
Depreciation and amortization	236,098	196,145
	55,819,836	60,644,867
Operating income	381,694	2,609,171
<b>Other expense (income)</b>		
Other income	( 8,831,872)	—
Interest expense	369,568	608,241
Earnings before income taxes	8,843,998	2,000,930
Income tax expense	1,368,108	430,385
Net earnings from continuing operations	7,475,890	1,570,545
<b>Discontinued operations:</b>		
Loss from discontinued operations (less applicable income benefit tax of \$201,241 in 2009)	—	(381,784)
Net earnings	\$ 7,475,890	\$ 1,188,761
<b>Earnings per common share – basic</b>		
From continuing operations	\$ 0.76	\$ 0.16
From discontinued operations	\$ —	\$ (0.04)
Net earnings per common share	\$ 0.76	\$ .012
<b>Earnings per common share – diluted</b>		
From continuing operations	\$ 0.72	\$ 0.16
From discontinued operations	\$ —	\$ (0.04)
Net earnings per common share	\$ 0.72	\$ 0.12
<b>Weighted average number of common shares</b>		
Basic	9,833,635	9,833,635

Diluted	10,398,670	9,833,635
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The accompanying notes are an integral part of these consolidated financial statements

## DGSE Companies, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS  
Unaudited

	Three months ended September 30,	
	2010	2009
<b>Revenue</b>		
Sales	\$ 18,108,477	\$ 16,280,397
<b>Costs and expenses</b>		
Cost of goods sold	15,344,631	13,286,097
Selling, general and administrative expenses	2,440,108	2,185,049
Depreciation and amortization	99,794	78,463
	17,884,533	15,549,609
Operating income	223,944	730,788
<b>Other expense (income)</b>		
Other income	—	—
Interest expense	85,435	223,685
Earnings before income taxes	138,509	507,103
Income tax expense	—	197,202
Net earnings from continuing	138,509	309,901
<b>Discontinued operations:</b>		
Loss from discontinued operations (less applicable income tax benefit of \$13,647 in 2009)	—	40,160
Net earnings	\$ 138,509	\$ 269,741
<b>Earnings per common share – basic</b>		
From continuing operations	\$ 0.01	\$ 0.03
From discontinued operations	\$ —	\$ —
Net earnings per common share	\$ 0.01	\$ 0.03
<b>Earnings per common share – diluted</b>		
From continuing operations	\$ 0.01	\$ 0.03
From discontinued operations	\$ —	\$ —
Net earnings per common share	\$ 0.01	\$ 0.03
<b>Weighted average number of common shares</b>		
Basic	9,833,635	9,833,635



Diluted	10,398,670	9,833,635
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The accompanying notes are an integral part of these consolidated financial statements

## DGSE COMPANIES, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,	
	2010	2009
	Unaudited	
<b>Cash flows from operating activities</b>		
Net earnings	\$ 7,475,890	\$ 1,188,761
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	236,098	196,145
Deferred income taxes	1,313,188	20,038
Gain on elimination of long term debt	(9,198,570)	—
Noncash legal settlement	385,000	—
Gain (loss) on disposal of discontinued operations	—	(381,784)
Gain (loss) on sale of marketable securities	(17,440)	—
(Increase) decrease in operating assets and liabilities		
Trade receivables	(172,738)	916,567
Inventories	1,738,388	448,917
Prepaid expenses and other current assets	(138,358)	(28,520)
Prepaid federal income taxes	7,953	94,603
Other assets	(38,298)	(49,176)
Accounts payable and accrued expenses	(903,533)	(992,151)
Customer deposits	(905,013)	(769,535)
Net cash provided (used in) by operating activities	(217,433)	643,865
<b>Cash flows from investing activities</b>		
Proceeds from sale of discontinued operations	—	1,324,450
Proceeds from sale of marketable securities	62,400	—
Purchase of property and equipment	(287,340)	(290,352)
Net cash provided by (used in) investing activities	(224,940)	1,034,098
<b>Cash flows from financing activities</b>		
Repayments of line of credit	(365,113)	—
Proceeds from notes payable	1,000,000	—
Repayments of notes payable	(1,018,465)	(736,188)
Net cash provided by (used in) financing activities	(383,578)	(736,188)
Net(decrease) increase in cash and equivalents	(825,951)	941,775
Cash and cash equivalents at beginning of period	1,446,724	244,429
Cash and cash equivalents at end of period	\$ 620,773	\$ 1,186,204

## Supplemental disclosures:

Interest paid for the nine months ended September 30, 2010 and 2009 was \$ 369,568 and \$608,241, respectively. Income taxes paid for the nine months ended September 30, 2010 and 2009 was \$0 and \$0, respectively

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



DGSE COMPANIES, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation.

The accompanying unaudited condensed consolidated financial statements of DGSE Companies, Inc. and Subsidiaries include the financial statements of DGSE Companies, Inc. and its wholly-owned subsidiaries, DGSE Corporation, Charleston Gold and Diamond Exchange, Inc., Superior Galleries Inc., Superior Precious Metals, Inc., and American Gold and Diamond Exchange, Inc. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included.

The interim financial statements of DGSE Companies, Inc. included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Commission's rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. We suggest that these financial statements be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2009. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly its results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Certain reclassifications were made to the prior year's consolidated financial statements to conform to the current year presentation.

In December 2008, we decided to discontinue the live auction segment of our business activities. This decision was based on the substantial losses being incurred by this operating segment during 2008. As a result, certain sections of the Consolidated Financial Statements and related notes have been reclassified to present the results of the auction segment activities as discontinued operations.

In June 2009 the Company sold the assets of National Jewelry Exchange, Inc.(the Company's two pawn shops) to an unrelated third party for cash in the amount of \$ 1,324,450. The proceeds were used to retire \$400,000 of our bank debt and the balance was used for working capital. As a result, operating results from National Jewelry Exchange have been reclassified to discontinued operations for all periods presented.

In November 2009 we discontinued the independent operations of Superior Estate Buyers due to operating loss incurred during the first half of the year in the amount of \$ 87,120. This operation was restructured to include buying events in existing local operations to reduce extraordinary overhead related to remote events. As a result of the restructuring the personnel of SEB were reassigned and the Company holds approximately 10 special buying events per year.

## DGSE COMPANIES, Inc. and Subsidiaries

## (2) Earnings per share.

A reconciliation of the earnings and shares of the basic earnings per common share and diluted earnings per common share for the periods ended September 30, 2010 and 2009 is as follows:

	2010			2009		
	Three months ended September 30	Three months ended September 30	Three months ended September 30	Three months ended September 30	Three months ended September 30	Three months ended September 30
	Net Earnings	Shares	Per share	Net Earnings	Shares	Per share
Basic earnings per common share	\$ 138,765	9,833,635	\$ 0.01	\$ 269,741	9,833,635	\$ 0.03
Effect of dilutive stock options	—	565,035	(.00)	—	—	—
Diluted earnings per common share	\$ 138,765	10,398,670	\$ 0.01	\$ 269,741	9,833,635	\$ 0.03

Earnings per common share from continuing operations:

	2010			2009		
	Nine ended September 30	Nine ended September 30	Nine ended September 30	Nine months ended September 30	Nine months ended September 30	Nine months ended September 30
	Net Earnings	Shares	Per share	Net Earnings	Shares	Per share
Basic earnings per common share	\$ 7,475,890	9,833,635	\$ 0.76	\$ 1,188,761	9,833,635	\$ 0.12
Effect of dilutive stock options	—	565,085	(.04)	—	—	—
Diluted earnings per common share	\$ 7,337,125	10,398,670	\$ 0.72	\$ 1,188,761	9,833,635	\$ 0.12

For the nine months and three months ended September 30, 2010, 29,500 shares related to employee stock options were not added to the denominator because inclusion of such shares would be antidilutive.

The following table sets forth outstanding shares of common stock issued in the form of stock purchase warrants and employee stock options as of September 30

	2010	2009
Warrants issued in conjunction with acquisitions	—	438,672
Common stock options	1,498,134	1,423,134

The warrants issued in conjunction with acquisitions were issued to expire on May 29, 2014 at an exercise price of \$1.89. The warrants were terminated on May 25, 2010 in connection with the closing of the transaction authorized by the US District Court for the Northern District of Texas in the Stanford International Bank, Ltd.- settlement.



## DGSE COMPANIES, Inc. and Subsidiaries

## (3) Business segment information.

Management identifies reportable segments by product or service offered. Each segment is managed separately. Corporate and other includes certain general and administrative expenses not allocated to segments and pawn operations. The Company had no significant non cash items other than depreciation and amortization. Our operations by segment for the three months ended September 30 are as follows:

(In thousands)	Retail Jewelry	Wholesale Jewelry	Precious Metals	Rare Coins	Discontinued Operations	Corporate and Other	Consolidated
<b>Revenues</b>							
2010	\$ 5,714	\$ 626	\$ 9,200	\$ 2,568	\$ —	\$ —	18,108
2009	5,734	872	7,203	2,471	—	—	16,280
<b>Net earnings (loss)</b>							
2010	63	(26)	184	65	—	(147)	139
2009	207	(22)	61	107	(40)	(43)	270
<b>Identifiable assets</b>							
2010	22,488	1,715	1,725	1,138	295	815	28,176
2009	23,267	1,779	1,951	2,386	305	318	30,006
<b>Goodwill</b>							
2010	—	837	—	—	—	—	837
2009	—	837	—	—	—	—	837
<b>Capital Expenditures</b>							
2010	96	—	—	—	—	—	96
2009	200	—	—	—	—	—	200
<b>Depreciation and amortization</b>							
2010	100	—	—	—	—	—	—