

DGSE COMPANIES INC  
Form 10-Q/A  
March 19, 2010

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

Form 10-Q/A  
(Amendment Number 2.)

(Mark One)

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

For the quarterly period ended March 31, 2009

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 May 12, 2009:

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

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EXPLANATION

Reason for amendment:

To reflect correct dates on signature pages.

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## DGSE Companies, Inc. and Subsidiaries

## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements.

## CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2009<br>Unaudited | December 31,<br>2008 |
|---|--------------------------------|----------------------|
| <b>ASSETS</b>   |                                |                      |
| Current Assets:   |                                |                      |
| Cash and cash equivalents   | \$ 919,313                     | \$ 244,429           |
| Trade receivables   | 1,805,638                      | 2,326,337            |
| Inventories   | 16,697,062                     | 16,052,833           |
| Prepaid expenses  | 530,481                        | 533,318              |
| Prepaid federal income tax  | 639,372                        | 639,372              |
| Current assets of discontinued operations   | 506,283                        | 900,306              |
| Total current assets  | 21,098,149                     | 20,696,595           |
| Property and equipment, net   | 4,913,704                      | 4,868,306            |
| Deferred income taxes   | 1,857,901                      | 1,908,032            |
| Goodwill  | 837,117                        | 837,117              |
| Intangible assets   | 2,464,006                      | 2,492,673            |
| Other assets  | 186,684                        | 235,917              |
| Non-current assets of discontinued operations   | 305,275                        | 305,275              |
|   | \$ 31,662,836                  | \$ 31,343,915        |
| <b>LIABILITIES</b>  |                                |                      |
| Current Liabilities:  |                                |                      |
| Notes payable   | \$ 57,471                      | \$ 191,078           |
| Current maturities of long-term debt  | 399,992                        | 599,972              |
| Line of credit  | 3,595,000                      | 3,595,000            |
| Accounts payable – trade  | 413,128                        | 734,906              |
| Accrued expenses  | 491,069                        | 647,536              |
| Customer deposits   | 2,017,638                      | 1,230,991            |
| Current liabilities of discontinued operations  | 67,354                         | 33,144               |
| Total current liabilities   | 7,041,652                      | 7,032,627            |
| Long-term debt, less current maturities   | 11,796,147                     | 11,715,765           |
|   | 18,837,799                     | 18,748,392           |
| <b>STOCKHOLDERS' EQUITY</b>   |                                |                      |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 9,833,635 and 9,833,635 shares issued and outstanding at the end of each period in 2009 and 2008, respectively | 98,337                         | 98,337               |
| Additional paid-in capital  | 18,541,662                     | 18,541,662           |
| Retained deficit  | (5,814,962)                    | (6,044,476)          |

12,825,037 12,595,523

\$ 31,662,836 \$ 31,343,915

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

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## DGSE Companies, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Three months ended March 31, |               |
|---|------------------------------|---------------|
|   | 2009                         | 2008          |
|   | Unaudited                    |               |
| <b>Revenue</b>  |                              |               |
| Sales   | \$ 25,740,439                | \$ 32,049,884 |
| Consumer loan service charges   | 159,049                      | 124,320       |
|   | 25,899,488                   | 32,174,204    |
| <b>Costs and expenses</b>   |                              |               |
| Cost of goods sold  | 22,462,329                   | 28,420,016    |
| Selling, general and administrative expenses  | 2,533,767                    | 2,635,212     |
| Depreciation and amortization   | 59,351                       | 96,033        |
|   | 25,055,447                   | 31,151,261    |
| Operating income  | 844,041                      | 1,022,943     |
| <b>Other expense (income)</b>   |                              |               |
| Other income  | —                            | (2)           |
| Interest expense  | 147,084                      | 170,439       |
| Earnings before income taxes  | 696,957                      | 852,506       |
| Income tax expense  | 61,119                       | 303,563       |
| Net earnings from continuing operations   | 635,838                      | 548,943       |
| <b>Discontinued operations:</b>   |                              |               |
| Loss from discontinued operations (less applicable income tax benefit of \$39,271 and \$36,930, respectively) | 406,322                      | 71,688        |
| Net earnings  | \$ 229,516                   | \$ 477,255    |
| <b>Earnings per common share</b>  |                              |               |
| <b>Basic</b>  |                              |               |
| From continuing operations  | \$ 0.06                      | \$ 0.06       |
| From discontinued operations  | \$ (0.04)                    | \$ (0.01)     |
| Net earnings per common share   | \$ 0.02                      | \$ 0.05       |
| <b>Diluted</b>  |                              |               |
| From continuing operations  | \$ 0.06                      | \$ 0.06       |
| From discontinued operations  | \$ (0.04)                    | \$ (0.01)     |
| Net earnings per common share   | \$ 0.02                      | \$ 0.05       |
| <b>Weighted average number of common shares</b>   |                              |               |
| Basic   | 9,833,635                    | 9,498,729     |

Diluted

9,833,635

10,344,363

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

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## DGSE COMPANIES, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Three months ended March 31, |             |
|--|------------------------------|-------------|
|  | 2009                         | 2008        |
| Cash flows from operating activities   | Unaudited                    |             |
| Net earnings   | \$ 229,516                   | \$ 477,255  |
| Adjustments to reconcile net earnings to net cash provided by operating activities |                              |             |
| Depreciation and amortization  | 59,351                       | 109,836     |
| Deferred income taxes  | 50,131                       | 43,289      |
| Gain on marketable securities  | —                            | (15,300)    |
| (Increase) decrease in operating assets and liabilities                            |                              |             |
| Trade receivables  | 924,861                      | 1,266,568   |
| Inventories  | (644,229)                    | (2,608,389) |
| Prepaid expenses and other current assets  | 2,837                        | (198,117)   |
| Accounts payable and accrued expenses  | (548,977)                    | (628,160)   |
| Customer deposits  | 786,647                      | 1,643,247   |
| Federal income taxes payable   | —                            | 228,546     |
| Other assets   | 49,233                       | 17,822      |
| Net cash provided by operating activities  | 909,370                      | 336,597     |
| Cash flows from investing activities   |                              |             |
| Pawn loans made  | (348,699)                    | (317,580)   |
| Pawn loans repaid  | 189,649                      | 160,906     |
| Recovery of pawn loan principal through sale of forfeited collateral               | 148,911                      | 168,888     |
| Purchase of property and equipment   | (104,749)                    | (285,888)   |
| Net cash used in investing activities  | (114,888)                    | (273,674)   |
| Cash flows from financing activities   |                              |             |
| Proceeds from line of credit   | —                            | 750,000     |
| Payments of capital lease  | —                            | (1,986)     |
| Repayments of notes payable  | (119,598)                    | (635,210)   |
| Net cash provided by (used in) financing activities                                | (119,598)                    | 112,804     |
| NET INCREASE IN CASH AND CASH EQUIVALENTS  | 674,884                      | 175,727     |
| Cash and cash equivalents at beginning of period                                   | 244,429                      | 536,548     |
| Cash and cash equivalents at end of period   | \$ 919,313                   | \$ 712,275  |

## Supplemental disclosures:

Interest paid for the three months ended March 31, 2009 and 2008 was \$147,084 and \$174,449, respectively. Income taxes paid for the three months ended March 31, 2009 and 2008 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, National Jewelry Exchange, Inc., Charleston Gold and Diamond Exchange, Inc., Superior Galleries, Inc. Superior Precious Metals, Inc., American Gold and Diamond Exchange, Inc, and Superior Estate Buyers, 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, 2008. 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.

## (2) Inventory.

A summary of inventories is as follows:

|            | March 31, 2009 | December 31, 2008 |
|------------|----------------|-------------------|
| Jewelry    | \$ 9,419,846   | \$ 10,925,247     |
| Rare coins | 2,278,368      | 1,827,294         |
| Bullion    | 3,686,379      | 1,931,925         |
| Scrap gold | 849,891        | 636,843           |
| Other      | 462,578        | 731,524           |
| Total      | \$ 16,697,062  | \$ 16,052,833     |

## (3) Trade Receivables.

Pawn loans receivable in the amount of \$316,109 and \$306,620 as of March 31, 2009 and December 31, 2008, respectively, are included in the Consolidated Balance Sheets caption trade receivables as of these respective dates. The related pawn service charges receivable in the amount of \$100,935 and \$89,235 as of March 31, 2009 and December 31, 2008, respectively, are also included in the Consolidated Balance Sheets caption trade receivables as of these respective dates.

(4) Goodwill.

During the fourth quarter of 2008, we reflected \$8,185,443 of goodwill relating to the acquisition of Superior Galleries, Inc. in May 2007. Under SFAS No. 142, we are required to undertake an annual impairment test at our year end or when there is a triggering event. In addition to the annual impairment review, there were a number of triggering events in the fourth quarter due to the significant operating losses of Superior and the impact of the economic downturn on Superior's operations and the decline in the Company's share price resulting in a substantial discount of the market capitalization to tangible net asset value. An evaluation of the recorded goodwill was undertaken, which considered two methodologies to determine the fair-value of the entity:

- A market capitalization approach, which measure market capitalization at the measurement date.
- A discounted cash flow approach, which entails determining fair value using a discounted cash flow methodology. This method requires significant judgment to estimate the future cash flow and to determine the appropriate discount rates, growth rates, and other assumptions.

## DGSE Companies, Inc. and Subsidiaries

Each of these methodologies we believe has merit, and resulted in the determination that goodwill was impaired. Accordingly, to reflect the impairment, we recorded a non-cash charge of \$8,185,443, which eliminated the value of the goodwill related to Superior.

## (5) 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 March 31, 2009 and 2008 is as follows:

|                                   | 2009   |           |           | 2008   |            |           |
|-----------------------------------|--|-----------|-----------|--|------------|-----------|
|                                   | Three months ended March 31,<br>Net Earnings | Shares    | Per share | Three months ended March 31,<br>Net Earnings | Shares     | Per share |
| Basic earnings per common share   | \$ 229,516                                   | 9,833,635 | \$ 0.02   | \$ 477,255                                   | 9,498,729  | \$ 0.05   |
| Effect of dilutive stock options  | —  | —         | —         | —  | 845,634    | —         |
| Diluted earnings per common share | \$ 229,516                                   | 9,833,635 | \$ 0.02   | \$ 477,255                                   | 10,344,363 | \$ 0.05   |

For the three months ended March 31, 2009 1.4 million shares related to employee stock options were not added to the denominator because inclusion of such shares would be antidilutive. For the three months ended March 31, 2008 438,672 related to warrants issued in conjunction with an acquisition 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 June 30 :

|  | 2009      | 2008      |
|--|-----------|-----------|
| Warrants issued in conjunction with financing    | -         | 3,982     |
| Warrants issued in conjunction with acquisitions | 438,672   | 370,928   |
| Common stock options                             | 1,423,134 | 1,393,134 |

The warrants issued in conjunction with financing were issued to expire on July 5, 2008 and were issued at an exercise price of \$3.10. The warrants issued in conjunction with acquisitions were issued to expire on May 29, 2014 at an exercise price of \$1.89.

## DGSE Companies, Inc. and Subsidiaries

## (6) 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 March 31 were as follows:

| (In thousands)                       | Retail Jewelry | Wholesale Jewelry | Precious Metals | Rare Coins | Discontinued Operations | Corporate and Other | Consolidated |
|--------------------------------------|----------------|-------------------|-----------------|------------|-------------------------|---------------------|--------------|
| <b>Revenues</b>                      |                |                   |                 |            |                         |                     |              |
| 2009                                 | \$ 6,550       | \$ 953            | \$ 13,694       | \$ 4,142   | \$ —                    | \$ 560              | \$ 25,899    |
| 2008                                 | 6,514          | 1,358             | 16,434          | 7,306      | —                       | 562                 | 32,174       |
| <b>Net earnings (loss)</b>           |                |                   |                 |            |                         |                     |              |
| 2009                                 | 161            | (51)              | 340             | 166        | (406)                   | 20                  | 230          |
| 2008                                 | 208            | 33                | 404             | (70)       | (70)                    | (28)                | 477          |
| <b>Identifiable assets</b>           |                |                   |                 |            |                         |                     |              |
| 2009                                 | 20,880         | 1,719             | 3,710           | 2,278      | 812                     | 2,264               | 31,663       |
| 2008                                 | 21,056         | 2,074             | 1,383           | 4,544      | 1,147                   | 8,430               | 38,634       |
| <b>Goodwill</b>                      |                |                   |                 |            |                         |                     |              |
| 2009                                 | —              | 837               | —               | —          | —                       | —                   | 837          |
| 2008                                 | —              | 837               | —               | 7,337      | 778                     | —                   | 8,952        |
| <b>Capital Expenditures</b>          |                |                   |                 |            |                         |                     |              |
| 2009                                 | 105            | —                 | —               | —          | —                       | —                   | 105          |
| 2008                                 | 272            | —                 | —               | —          | 14                      | —                   | 286          |
| <b>Depreciation and amortization</b> |                |                   |                 |            |                         |                     |              |
| 2009                                 | 26             | —                 | 12              | 12         | —                       | 9                   | 59           |
| 2008                                 | 38             | —                 | 14              | 14         | —                       | 30                  | 96           |
| <b>Interest expense</b>              |                |                   |                 |            |                         |                     |              |
| 2009                                 | 117            | —                 | 15              | 15         | —                       | —                   | 147          |
| 2008                                 | 140            | —                 | 15              | 15         | —                       | —                   | 170          |
| <b>Income tax expense</b>            |                |                   |                 |            |                         |                     |              |
| 2009                                 | 19             | (5)               | 33              | 16         | —                       | (2)                 | 61           |
| 2008                                 | 117            | 18                | 184             | (11)       | —                       | (4)                 | 304          |

DGSE Companies, Inc. and Subsidiaries

(7) Stock-based Compensation.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R) for all share based payment awards to employees and directors including employee stock options granted under our employee stock option plan. In addition, we have applied the provisions of Staff Accounting Bulletin No. 107 (SAB No. 107), issued by the Securities and Exchange Commission, in our adoption of SFAS No. 123(R).

Stock-based compensation expense under SFAS No. 123(R) for the months ended March 31, 2009 and 2008, respectively, was \$0 and \$15,200, relating to employee and director stock options and our employee stock purchase plan.

Stock-based compensation expense recognized each period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Upon adoption of SFAS No. 123(R), we elected to use the Black-Scholes-Merton option-pricing formula to value share-based payments granted to employees subsequent to January 1, 2006 and elected to attribute the value of stock-based compensation to expense using the straight-line single option method.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards", which detailed an alternative transition method for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). This alternative transition method included simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC pool and Consolidated Statement of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). As of March 31, 2009, we have not recorded the tax effects of employee stock-based compensation and have made no adjustments to the APIC pool.

SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. As there have been no stock options exercised, we have not reported these excess tax benefits as of March 31, 2009.

(8) Discontinued Operations.

In November 2008 we decided to discontinue the live auction segment of the Company's business activities. This decision was based on the substantial losses being incurred by this operating segment during 2008. As a result, the operating results of the auction segment have been reclassified to discontinued operations for both 2008 and 2009. During the first quarter of 2009 and 2008 the auction segment incurred pretax losses of \$445,593 and \$108,618, respectively.

The following summarizes the carrying amount of assets and liabilities of the auction segment as of March 31, 2009:

|                     |            |
|---------------------|------------|
| Assets              |            |
| Accounts receivable | \$ 506,283 |
| Current assets      | \$ 506,283 |

|                      |            |
|----------------------|------------|
| Long-term receivable | \$ 305,275 |
| Total assets         | \$ 811,558 |
| Liabilities          |            |
| Auctions payable     | \$ 67,354  |

As a result, operating results from the auction segment have been reclassified to discontinued operations for all periods presented. As of March 31, 2009, there were no operating assets to be disposed of or liabilities to be paid in completing the disposition of these operations.

DGSE Companies, Inc. and Subsidiaries

(9) New Accounting Pronouncements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP No. 142-3”), which amends the factors that should be considered when developing renewal or extension assumptions used to determine the useful life of an intangible asset under Statement of Financial Accounting Standards No. 142 (“SFAS No. 142”), “Goodwill and Other Intangible Assets”, in order to improve consistency between SFAS No. 142 and the period of expected cash flows to measure the fair value of the asset under Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations” and other U.S. generally accepted accounting practices. Effective January 1, 2009, we adopted FSP No. 142-3. The adoption of FSP No. 142-3 has not had and is not expected to have a material impact our results of operations and financial position.

In March 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments and that the objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation, (b) how derivative instruments and related hedged items are accounted for under SFAS 133, “Accounting for Derivative Instruments and Hedging Activities” and its related interpretations, including a tabular format disclosure of the fair values of derivative instruments and their gains and losses and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We adopted SFAS 161 on January 1, 2009 and it did not have an impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141(R)”), which establishes principles for how the acquirer recognizes and measures in the financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. This statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Effective January 1, 2009, we adopted SFAS No. 141(R). No business combinations were completed in the first quarter of 2009. However, to the extent that future business combinations are material, our adoption of SFAS No. 141(R) will significantly impact our accounting and reporting for future acquisitions, principally as a result of (i) expanded requirements to value acquired assets, liabilities and contingencies at their fair values; and (ii) the requirement that acquisition-related transaction and restructuring costs be expensed as incurred rather than capitalized as a part of the cost of the acquisition.

We adopted FIN 48, “Accounting for Uncertainty in Incomes Taxes – An Interpretation of FASB Statement No. 109” (“FIN48”) on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in tax positions by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We had no unrecognized tax benefits and no accrued interest or penalties recognized as of the date of our adoption of FIN 48. During the three and six months ended June 30, 2009, there were no changes in our unrecognized tax benefits, and we had no accrued interest or penalties as of June 30, 2009.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115” (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. SFAS No. 159 is effective for fiscal years



beginning after November 15, 2007. Effective January 1, 2008, we adopted the provisions of SFAS 159 except as it applies to those nonfinancial assets and nonfinancial liabilities. Due to the fact that management has not elected to use the fair value option for eligible items, the adoption has not resulted in any financial impact on our results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. On February 12, 2008, the FASB issued FASB Staff Position FAS 157-2, which delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We adopted the provisions of SFAS 157 partially on January 1, 2008 and on January 1, 2009 relating to nonfinancial assets and nonfinancial liabilities and it did not have a significant impact on our results of operations or financial position.

DGSE Companies, Inc. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

The statements, other than statements of historical facts, included in this report are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "would," "expect," "intend," "could," "estimate," "should," "anticipate" or "believe." We believe that the expectations reflected in such forward-looking statements are accurate. However, we cannot assure you that these expectations will occur. Our actual future performance could differ materially from such statements. Factors that could cause or contribute to these differences include, but are not limited to:

- uncertainties regarding price fluctuations in the price of gold and other precious metals;
- our ability to manage inventory fluctuations and sales;
- changes in governmental rules and regulations applicable to the specialty financial services industry;
- the results of any unfavorable litigation;
- interest rates;
- economic pressures affecting the disposable income available to our customers;
- our ability to maintain an effective system of internal controls;
- the other risks detailed from time to time in our SEC reports.

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2008. You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Our Business

We buy and sell jewelry, bullion products and rare coins. Our customers include individual consumer, dealers and institutions throughout the United States. In addition, we make collateralized loans to individuals in the State of Texas. Our products and services are marketed through our facilities in Dallas and Euless, Texas; Mt. Pleasant, South Carolina; Woodland Hills, California and through our internet web sites DGSE.com; CGDEinc.com; SGBH.com; SuperiorPreciousMetals.com; SuperiorEstateBuyers.com; USBullionExchange.com; Americangoldandsilverexchange.com; and FairchildWatches.com.

We operate eight primary internet sites and over 900 related landing sites on the World Wide Web. Through the various sites we operate a virtual store, real-time auction of rare coin and jewelry products, free quotations of current prices on all commonly traded precious metal and related products, trading in precious metals, a mechanism for selling unwanted jewelry, rare coins and precious metals and wholesale prices and information exclusively for dealers on pre-owned fine watches. Over 7,500 items are available for sale on our internet sites including \$2,000,000 in

diamonds.

Our wholly-owned subsidiary, National Jewelry Exchange, Inc, (dba National Pawn), operates two pawn shops in Dallas, Texas. We have focused the subsidiary's operations on sales and pawn loans of jewelry products.

In June 2008, we moved Superior Galleries' operations from Beverly Hills to Woodland Hills, California. Superior's principal line of business is the sale of rare coins on a retail and wholesale basis. Superior's retail and wholesale operations are conducted in virtually every state in the United States. Superior also conducted live and internet auctions for customers seeking to sell their own coins prior to management's decision to discontinue the live auction operations. Superior markets its services nationwide through broadcast and print media and independent sales agents, as well as on the internet through third party websites, and through its own website at SGBH.com.

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Americangoldandsilverexchange.com, the over 900 proprietary Internet sites related to the home page of Americangoldandsilverexchange.com along with our existing locations in Texas, California and South Carolina, provide customers from all over the United States with a seamless and secure way to value and sell gold, silver, rare coins, jewelry, diamonds and watches.

Superior Estate Buyers brings our unique expertise in the purchase of gold, silver, diamonds, rare coins and other collectibles to local markets with a team of traveling professionals for short-term buying events. During 2008 Superior Estate Buyers held approximately 24 such buying events. It is our expectation that, over time, this activity will be expanded significantly with the objective of having teams conducting events on a continuous basis.

Superior Precious Metals is the retail precious metals arm of DGSE. Professional account managers provide a convenient way for individuals and companies to buy and sell precious metals and rare coins. This activity is supported by the internally developed account management and trading platform created as part of DGSE's USBullionExchange.com precious metals system.

Critical Accounting Policies and Estimates

The following discussion addresses our most critical accounting policies, which are those that are both important to the portrayal of our financial condition and results of operations and that require significant judgment or use of complex estimates.

**Inventories.** Jewelry and other inventories are valued at the lower of cost or market. Bullion is valued at the lower-of-cost-or-market (average cost). See also "Critical Accounting Estimates".

**Impairment of Long-Lived and Amortized Intangible Assets.** The Company performs impairment evaluations of its long-lived assets, including property, plant and equipment and intangible assets with finite lives, including the customer base acquired in the Superior acquisition, whenever business conditions or events indicate that those assets may be impaired. When the estimated future undiscounted cash flows to be generated by the assets are less than the carrying value of the long-lived assets, the assets are written down to fair market value and a charge is recorded to current operations. Based on our evaluations no impairment was required as of December 31, 2008.

**Impairment of Goodwill and Indefinite-Lived Intangible Assets.** Goodwill and indefinite-lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The Company performs its annual review at the beginning of the fourth quarter of each fiscal year.

The Company evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. Estimated cash flows and related goodwill are grouped at the reporting unit level. A reporting unit is an operating segment or, under certain circumstances, a component of an operating segment that constitutes a business. When estimated future discounted cash flows are less than the carrying value of the net assets and related goodwill, an impairment test is performed to measure and recognize the amount of the impairment loss, if any. Impairment losses, limited to the carrying value of goodwill, represent the excess of the carrying amount of a reporting unit's goodwill over the implied fair value of that goodwill. In determining the estimated future cash flows, the Company considers current and projected future levels of income as well as business trends, prospects and market and economic conditions.

The Company cannot predict the occurrence of certain events that might adversely affect the carrying value of goodwill and indefinite-lived intangible assets. Such events may include, but are not limited to, the impact of the

economic environment, a material negative change in relationships with significant customers, or strategic decisions made in response to economic and competitive conditions. See “Critical Accounting Estimates.”

**Revenue Recognition.** Revenue is generated from wholesale and retail sales of rare coins, precious metals, bullion and second-hand jewelry. The recognition of revenue varies for wholesale and retail transactions and is, in large part, dependent on the type of payment arrangements made between the parties. The Company recognizes sales on an F.O.B. shipping point basis.

The Company sells rare coins to other wholesalers/dealers within its industry on credit, generally for terms of 14 to 60 days, but in no event greater than one year. The Company grants credit to new dealers based on extensive credit evaluations and for existing dealers based on established business relationships and payment histories. The Company generally does not obtain collateral with which to secure its accounts receivable when the sale is made to a dealer. The Company maintains reserves for potential credit losses based on an evaluation of specific receivables and its historical experience related to credit losses. See “Critical Accounting Estimates”.

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Revenues for monetary transactions (i.e., cash and receivables) with dealers are recognized when the merchandise is shipped to the related dealer.

The Company also sells rare coins to retail customers on credit, generally for terms of 30 to 60 days, but in no event greater than one year. The Company grants credit to new retail customers based on extensive credit evaluations and for existing retail customers based on established business relationships and payment histories. When a retail customer is granted credit, the Company generally collects a payment of 25% of the sales price, establishes a payment schedule for the remaining balance and holds the merchandise as collateral as security against the customer's receivable until all amounts due under the credit arrangement are paid in full. If the customer defaults in the payment of any amount when due, the Company may declare the customer's obligation in default, liquidate the collateral in a commercially reasonable manner using such proceeds to extinguish the remaining balance and disburse any amount in excess of the remaining balance to the customer.

Under this retail arrangement, revenues are recognized when the customer agrees to the terms of the credit and makes the initial payment. We have a limited-in-duration money back guaranty policy (as discussed below).

In limited circumstances, the Company exchanges merchandise for similar merchandise and/or monetary consideration with both dealers and retail customers, for which the Company recognizes revenue in accordance with SFAS 153, "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29 ." When the Company exchanges merchandise for similar merchandise and there is no monetary component to the exchange, the Company does not recognize any revenue. Instead, the basis of the merchandise relinquished becomes the basis of the merchandise received, less any indicated impairment of value of the merchandise relinquished. When the Company exchanges merchandise for similar merchandise and there is a monetary component to the exchange, the Company recognizes revenue to the extent of monetary assets received and determine the cost of sale based on the ratio of monetary assets received to monetary and non-monetary assets received multiplied by the cost of the assets surrendered.

The Company has a return policy (money-back guarantee). The policy covers retail transactions involving graded rare coins only. Customers may return graded rare coins purchased within 7 days of the receipt of the rare coins for a full refund as long as the rare coins are returned in exactly the same condition as they were delivered. In the case of rare coin sales on account, customers may cancel the sale within 7 days of making a commitment to purchase the rare coins. The receipt of a deposit and a signed purchase order evidences the commitment. Any customer may return a coin if they can demonstrate that the coin is not authentic, or there was an error in the description of a graded coin.

Revenues from the sale of consigned goods are recognized as commission income on such sale if the Company is acting as an agent for the consignor. If in the process of selling consigned goods, the Company makes an irrevocable payment to a consignor for the full amount due on the consignment and the corresponding receivable from the buyer(s) has not been collected by the Company at that payment date, the Company records that payment as a purchase and the sale of the consigned good(s) to the buyer as revenue as the Company has assumed all collection risk.

Pawn loans ("loans") are made with the collateral of tangible personal property for one month with an automatic 60-day extension period. Pawn service charges are recorded at the time of redemption at the greater of \$15 or the actual interest accrued to date. If the loan is not repaid, the principal amount loaned plus accrued interest (or the fair value of the collateral, if lower) becomes the carrying value of the forfeited collateral ("inventories") which is recovered through sales to customers.

**Income Taxes.** Income taxes are estimated for each jurisdiction in which we operate. This involves assessing the current tax exposure together with temporary differences resulting from differing treatment of items for tax and financial statement accounting purposes. Any resulting deferred tax assets are evaluated for recoverability based on estimated future taxable income. To the extent that recovery is deemed not likely, a valuation allowance is recorded. See "Critical Accounting Estimates".

**Taxes Collected From Customers**

In June of 2006, the FASB issued Emerging Issues Task Force 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-03"). The consensus reached in EITF 06-03 allows companies to adopt a policy of presenting taxes in the income statement on either a gross basis (included in revenues and costs) or net basis (excluded from revenues). Taxes within the scope of EITF 06-03 would include taxes that are imposed on a revenue transaction between a seller and a customer, for example, sales taxes, use taxes, value-added taxes and some types of excise taxes. The Company has consistently recorded all taxes within the scope of EITF 06-03 on a net basis.

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Inventories. The Company acquires a majority of its retail jewelry inventory from individuals that is pre-owned. The Company acquires the jewelry based on its own internal estimate of the fair market value of the items offered for sale considering factors such as the current spot market prices of precious metals and current demand for the items offered for sale. Because the overall market value for precious metals fluctuates, these fluctuations could have either a positive or negative impact to the profitability of the Company. The Company monitors these fluctuations to evaluate any impairment to its retail jewelry inventory.

Allowance for Doubtful Accounts. The allowance for doubtful accounts requires management to estimate a customer's ability to satisfy its obligations. The estimate of the allowance for doubtful accounts is particularly critical in the Company's wholesale coin segment where a significant amount of the Company's trade receivables are recorded. The Company evaluates the collectability of receivables based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific reserve is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Additional reserves are established based upon the Company's perception of the quality of the current receivables, including the length of time the receivables are past due, past experience of collectability and underlying economic conditions. If the financial condition of the Company's customers were to deteriorate resulting in an impairment of their ability to make payments, additional reserves would be required.

Impairment of Goodwill and Indefinite-Lived Intangible Assets. In evaluating the recoverability of goodwill, it is necessary to estimate the fair value of the reporting units. The estimate of fair value of intangible assets is generally determined on the basis of discounted future cash flows. The estimate of fair value of the reporting units is generally determined on the basis of discounted future cash flows supplemented by the market approach. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The rate used to discount estimated cash flows is a rate corresponding to the Company's cost of capital, adjusted for risk where appropriate, and is dependent upon interest rates at a point in time. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner to cause further impairment of goodwill, which could have a material impact on the Company's results of operations.

During the 4th quarter of 2008, given the sustained decline in the price of the Company's Common Stock during 2008 when its share price approximated book value, continued operating losses within the auction segment, as well as further deterioration in credit markets and the macro-economic environment, the Company determined that the appropriate triggers had been reached to perform additional impairment testing on goodwill and its indefinite-lived intangible assets.

To derive the fair value of its reporting units, the Company performed extensive valuation analyses, utilizing both income and market approaches. Under the income approach, the Company determined fair value based on estimated future cash flows discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Estimated future cash flows were based on the Company's internal projection models, industry projections and other assumptions deemed reasonable by management. For the impairment analysis, the Company used a weighted-average cost of capital of 20% and a terminal growth rate of 3%. Under the market approach, the Company evaluated the fair value of its reporting units based on the overall actual market capitalization trend of the Company as compared to the net book value of the Company. Changes in estimates or the application of alternative assumptions could produce significantly



different results.

As a result of this analysis, \$8,185,443 of goodwill was written off during the 4th quarter of fiscal 2008 relating to the goodwill resulting from the Superior Galleries acquisition. The evaluation of other long-lived intangible assets relating to the Superior Galleries acquisition, including tradenames, were not written off due to new business generated from the Superior Galleries, Inc.'s acquired tradenames through the establishment of two new entities, Superior Estate Buyers and Superior Precious Metals, which attracted approximately \$9.8 million and \$1.8 million, respectively, in revenues in their first full year of operations in 2008. These charges were driven by current projections and valuation assumptions that reflected the Company's belief that the Superior Galleries, Inc. wholesale auction and coin segments would not sustain adequate growth and profitability to generate cash flow, especially in the current downturn in the economy.

The analysis of the wholesale watch sales division resulting from the acquisition of Fairchild with a carrying value of goodwill of \$837,117 resulted in no impairment as its estimated future discounted cash flows significantly exceeded the net assets and related goodwill.

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Income Taxes. The Company records deferred income tax assets and liabilities for differences between the book basis and tax basis of the related net assets. The Company records a valuation allowance, when appropriate, to adjust deferred tax asset balances to the amount management expects to realize. Management considers, as applicable, the amount of taxable income available in carryback years, future taxable income and potential tax planning strategies in assessing the need for a valuation allowance. The Company has recorded the net present value of the future expected benefits of the net operating loss (NOL) carryforward related to its subsidiary Superior Galleries, Inc. due to IRS loss limitation rules. The Company will require future taxable income to fully realize the net deferred tax asset resulting from the NOL.

As of January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48"). The adoption did not have a material impact on the Company's consolidated financial statements or effective tax rate and did not result in any unrecognized tax benefits.

Interest costs and penalties related to income taxes are classified as interest expense and general and administrative costs, respectively, in the Company's consolidated financial statements. For the years ended December 31, 2008 and 2007, the Company did not recognize any interest or penalty expense related to income taxes. It is determined not to be reasonably likely for the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months. The Company is currently subject to a three year statute of limitations by major tax jurisdictions. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction.

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Results of Operations

Three Months Ended March 31, 2009 compared to Three Months Ended March 31, 2008

Sales decreased by \$6,275,000 or 19.5%, during the three months ended March 31, 2009 as compared to 2008. This decrease was primarily the result of a \$3,164,000, or 43.3%, decrease in rare coin sales, a \$2,740,000, or 16.7%, decrease in the sale of precious metal products, and \$405,000, or 29.8%, decrease in our wholesale jewelry sales during the first quarter of 2009 as compared to 2008. The decreases in precious metals, rare coin and jewelry sales were due to a less volatile market (\$5,000,000) and lower gold prices (\$500,000). The decrease in wholesale jewelry sales was due to the sluggish retail environment. Consumer loan service fees increased \$35,000, or 27.9%, in the first quarter of 2009 as compared to the first quarter of 2008. This increase is primarily attributable to the second pawn location we opened in November 2007 as well as increased loan activity in our initial location. Cost of goods as a percentage of sales decreased from 88.7% in 2008 to 87.3% in 2009. This decrease was due to the decrease in rare coin and precious metals revenue as a percentage of total sales.

Selling, general and administrative expenses decreased by \$101,000, or 3.8%, during the three months ended March 31, 2009 as compared to 2008. This decrease was primarily due to the discontinued auction operations of Superior Galleries that occurred during the fourth quarter of 2008. Depreciation and amortization decreased by \$36,682, or 38.2%, during the first quarter of 2009 due to certain assets reaching full depreciation during 2008. The decrease in interest expense was due to a lower prime rate.

Income tax expense is directly affected by the levels of pretax income and non-deductible permanent differences

Income taxes are provided at the rate of 34.00 % and 35.61% for 2009 and 2008, respectively.

Historically, changes in the market prices of precious metals have had a significant impact on both revenues and cost of sales in the rare coin and precious metals segments in which we operate. It is expected that due to the commodity nature of these products, future price changes for precious metals will continue to be indicative of our performance in these business segments. Changes in sales and cost of sales in the retail and wholesale jewelry segments are primarily influenced by the national economic environment. It is expected that this trend will continue in the future due to the nature of these product.

Liquidity and Capital Resources

During the three months ended March 31, 2009 and 2008 cash flows from operating activities totaled \$909,370 and \$336,597, respectively. Cash flows from operating activities during 2009 were primarily the result of a increase in inventory (\$644,229), a decrease in accounts payable and accrued expenses (\$548,977), a increase in customer deposits \$786,647 and a decrease in trade receivables \$924,861. The increase in inventory and customer deposits was due to a late first quarter increase in demand for precious metal products. The decrease in trade receivables was a result of a decrease in the sales of wholesale jewelry products. During 2008 the \$336,597 cash flows from operating activities were primarily used to fund the negative cash flows from investing activities.

During the three months ended March 31, 2009 and 2008 cash flows from investing activities totaled (\$114,888) and (\$273,674), respectively. During 2009 the primary use of cash from investing activities was the result of cash used to purchase property and equipment (\$104,749) and the increase in pawn loans made net of pawn loans paid (\$158,450). During 2008 the Company invested \$285,888 in property and equipment.

During the three months ended March 31,, 2009 and 2008 cash flows from financing activities totaled (\$119,598) and \$112,804, respectively. The use of cash during 2009 was the result of repayment of loans to Texas Capital Bank. These sources of cash during 2008 were the result of borrowings against the Stanford International Bank line of credit (\$750,000). These funds were used to repay notes payable.

We expect capital expenditures to total approximately \$100,000 during the next twelve months. It is anticipated that these expenditures will be funded from working capital. As of March 31, 2009 there were no commitments outstanding for capital expenditures.

In the event of significant growth in retail and or wholesale jewelry sales, the demand for additional working capital will expand due to a related need to stock additional jewelry inventory and increases in wholesale accounts receivable. Historically, vendors have offered us extended payment terms to finance the need for jewelry inventory growth and our management believes that we will continue to do so in the future. Any significant increase in wholesale accounts receivable will be financed under a new bank credit facility or from short-term loans from individuals.

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Our ability to finance our operations and working capital needs are dependent upon management's ability to negotiate extended terms or refinance its debt. We have historically renewed, extended or replaced short-term debt as it matures and management believes that we will be able to continue to do so in the near future.

From time to time, we have adjusted our inventory levels to meet seasonal demand or in order to meet working capital requirements. Management is of the opinion that if additional working capital is required, additional loans can be obtained from individuals or from commercial banks. If necessary, inventory levels may be adjusted in order to meet unforeseen working capital requirements.

Upon the consummation of our acquisition of Superior, and after the exchange by Stanford of \$8.4 million of Superior debt for shares of Superior common stock, Superior amended and restated its credit facility with Stanford. The amended and restated commercial loan and security agreement, which we refer to as the loan agreement, decreased the available credit line from \$19.89 million to \$11.5 million, reflecting the \$8.4 million debt exchange. Interest on the outstanding principal balance will continue to accrue at the prime rate, as reported in the Wall Street Journal or, during an event of default, at a rate 5% greater than the prime rate as so reported.

Loan proceeds can only be used for customer loans inventory purchases and receivables consistent with specified loan policies and procedures and for permitted inter-company transactions. Permitted inter-company transactions are loans or dividends paid to us or our other subsidiaries. We guaranteed the repayment of these permitted inter-company transactions pursuant to a secured subordinated guaranty in favor of Stanford. In connection with the secured guarantee, Stanford and Texas Capital Bank, N.A., our primary lender, entered into an intercreditor agreement with us, and we entered into a subordination agreement with Superior, both of which subordinate Stanford's security interests and repayment rights to those of Texas Capital Bank. As of December 31, 2008, approximately \$9.2 million was outstanding under this credit facility and there were no intercompany transactions outstanding.

This credit facility matures on May 1, 2011, provided that in case any of several customary events of default occurs, Stanford may declare the entire principal amount of both loans due immediately and take possession and dispose of the collateral described below. An event of default includes, among others, the following events: failure to make a payment when due under the loan agreement; breach of a covenant in the loan agreement or any related agreement; a representation or warranty made in the loan agreement or related agreements is materially incorrect; a default in repayment of borrowed money to any person; a material breach or default under any material contract; certain bankruptcy or insolvency events; and a default under a third-party loan. Superior is obligated to repay the first revolving loan from the proceeds of the inventory or other collateral purchased with the proceeds of the loan.

The loans are secured by a first priority security interest in substantially all of Superior's assets, including inventory, accounts receivable, promissory notes, books and records and insurance policies, and the proceeds of the foregoing. In addition, pursuant to the limited secured guaranty and intercreditor arrangements described above, Stanford would have a second-order security interest in all of our accounts and inventory to the extent of intercompany transactions.

The loan agreement includes a number of customary covenants applicable to Superior, including, among others: punctual payments of principal and interest under the credit facility; prompt payment of taxes, leases and other indebtedness; maintenance of corporate existence, qualifications, licenses, intellectual property rights, property and assets; maintenance of satisfactory insurance; preparation and delivery of financial statements for us and separately for Superior in accordance with generally accepted accounting principles, tax returns and other financial information; inspection of offices and collateral; notice of certain events and changes; use of proceeds; notice of governmental orders which may have a material adverse effect, SEC filings and stockholder communications; maintenance of

property and collateral; and payment of Stanford expenses.

In addition, Superior has agreed to a number of negative covenants in the loan agreement, including, among others, covenants not to: create or suffer a lien or other encumbrance on any collateral, subject to customary exceptions; incur, guarantee or otherwise become liable for any indebtedness, subject to customary exceptions; acquire indebtedness of another person, subject to customary exceptions and permitted inter-company transactions; issue or acquire any shares of its capital stock; pay dividends other than permitted inter-company transactions or specified quarterly dividends, or directors' fees; sell or abandon any collateral except in the ordinary course of business or consolidate or merge with another entity; enter into affiliate transactions other than in the ordinary course of business on fair terms or permitted inter-company transactions; create or participate in any partnership or joint venture; engage in a new line of business; pay principal or interest on subordinate debt except as authorized by the credit facility; or make capital expenditures in excess of \$100,000 per fiscal year

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We have been informed that on February 19, 2009, a US district court placed SIBL under the supervision of a receiver and that the court enjoined SIBL's creditors and other persons from taking certain actions related to SIBL or its assets. In addition, on the same date, Antiguan Financial Services Regulatory Commission appointed a Receiver for Stanford International Bank Ltd. This action was subsequently ratified by the High Court of Justice in Antigua and Barbuda. As a result of SIBL's current status, we do not believe that Superior will be able to borrow additional funds under either revolving loan, including any amounts Superior is obligated to repay to SIBL pursuant to the repayment provisions applicable to the first revolving note. We believe that certain terms of agreements entered into by us, Superior and/or SIBL and its affiliates in connection with our acquisition of Superior have been breached by SIBL or its affiliates, and we are evaluating available remedies, including but not limited to damages from responsible parties. While Superior does not currently require additional funds under the SIBL credit facility, should the need arise and Superior is unable to replace this credit facility the operations and performance of Superior could be materially adversely affected.

On October 17, 2007, we closed on the purchase of our new headquarters location. As a result, we assumed a new loan with a remaining principal balance of \$2,323,484 and an interest rate of 6.70%. The loan has required monthly payments of \$20,192 with the final payment due on August 1, 2016

In December 2005, we entered into a revolving credit facility with Texas Capital Bank, N.A., which currently permits borrowings up to a maximum principal amount of \$4,300,000 and has a maturity date of June 22, 2009. Borrowings under the revolving credit facility are collateralized by a general security interest in substantially all of our assets (other than the assets of Superior). As of March 31, 2009, approximately \$4,300,000 was outstanding under the term loan and revolving credit facility. If we were to default under the terms and conditions of the revolving credit facility, Texas Capital Bank would have the right to accelerate any indebtedness outstanding and foreclose on our assets in order to satisfy our indebtedness. Such a foreclosure could have a material adverse effect on our business, liquidity, results of operations and financial position.

The covenants associated with our credit facility with Texas Capital Bank, N.A. exclude Superior Galleries are as follows:

| As of March 31, 2009                            | Requirement               | Actual calculation |
|---|---------------------------|--------------------|
| Minimum tangible net worth                      | 6,500,000                 | 12,052,694         |
| Maximum total liabilities to tangible net worth | Not to exceed 1.50        | .62                |
| Minimum debt service coverage                   | Must be greater than 1.35 | 2.30               |

| Contractual Cash Obligations      | Payments due by period |              |               |              |              |
|-----------------------------------|------------------------|--------------|---------------|--------------|--------------|
|                                   | Total                  | 2009         | 2010 - 2011   | 2012 - 2013  | Thereafter   |
| Notes payable                     | \$ 57,471              | \$ 57,471    | \$ —          | \$ —         | —            |
| Long-term debt and capital leases | 15,791,139             | 3,994,992    | 9,403,271     | 469,381      | 1,923,495    |
| Operating Leases                  | 2,492,978              | 498,736      | 1,237,026     | 757,216      | —            |
| Total                             | \$ 18,341,588          | \$ 4,551,199 | \$ 10,640,297 | \$ 1,226,597 | \$ 1,923,495 |

In addition, we estimate that we will pay approximately \$950,000 in interest during the next twelve months.

Off-Balance Sheet Arrangements.

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and gold values. We are also exposed to regulatory risk in relation to its pawn loans. We do not use derivative financial instruments.



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Our earnings and financial position may be affected by changes in gold values and the resulting impact on pawn lending and jewelry sales. The proceeds of scrap sales and our ability to liquidate excess jewelry inventory at an acceptable margin are dependent upon gold values. The impact on our financial position and results of operations of a hypothetical change in gold values cannot be reasonably estimated.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective.

Changes in internal controls. For the quarter ended March 31, 2009, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II- OTHER INFORMATION

## Item 3. Legal Proceedings

We may, from time to time, be involved in various claims, lawsuits, disputes with third parties, actions involving allegations of discrimination, or breach of contract actions incidental to the operation of its business. Except as set forth above, we are not currently involved in any such litigation which we believe could have a material adverse effect on our financial condition or results of operations, liquidity or cash flows.

## Item 5. Other Information.

None.

## Item 6. Exhibits and Reports on Form 8-K.

## Exhibits:

| Exhibit No. | Description   | Filed Herein | Incorporated by Reference | Form   | Date Filed with SEC | Exhibit No. |
|-------------|---|--------------|---------------------------|--------|---------------------|-------------|
| 2.1         | Amended and Restated Agreement and Plan of Merger and Reorganization, dated as of January 6, 2007 |              | ×                         | 8-K    | January 9, 2007     | 2.1         |
| 2.2         | Limited Joinder Agreement, dated as of January 6, 2007  |              | ×                         | 8-K    | January 9, 2007     | 2.9         |
| 3.1         | Articles of Incorporation dated September 17, 1965  |              | ×                         | 8-A12G | June 23, 1999       | 3.1         |
| 3.2         | Certificate of Amendment to Articles of Incorporation, dated October 14, 1981                     |              | ×                         | 8-A12G | June 23, 1999       | 3.2         |
| 3.3         | Certificate of Resolution, dated October 14, 1981   |              | ×                         | 8-A12G | June 23, 1999       | 3.3         |
| 3.4         | Certificate of Amendment to Articles of Incorporation, dated July 15, 1986                        |              | ×                         | 8-A12G | June 23, 1999       | 3.4         |
| 3.5         | Certificate of Amendment to Articles of Incorporation, dated August 23, 1998                      |              | ×                         | 8-A12G | June 23, 1999       | 3.5         |
| 3.6         | Certificate of Amendment to Articles of Incorporation, dated June 26, 1992                        |              | ×                         | 8-A12G | June 23, 1999       | 3.6         |



## DGSE Companies, Inc. and Subsidiaries

|      |  |   |        |                 |      |
|------|--|---|--------|-----------------|------|
| 3.7  | Certificate of Amendment to Articles of Incorporation, dated June 26, 2001   | × | 8-K    | July 3, 2001    | 1.0  |
| 3.8  | Certificate of Amendment to Articles of Incorporation, dated May 22, 2007  | x | 8-K    | May 31, 2007    | 3.1  |
| 3.9  | By-laws, dated March 2, 1992   | × | 8-A12G | June 23, 1999   | 3.7  |
| 4.1  | Specimen Common Stock Certificate  | × | S-4    | January 6, 2007 | 4.1  |
| 10.1 | Renewal, Extension And Modification Agreement dated January 28, 1994, by and among DGSE Corporation and Michael E. Hall And Marian E. Hall | × | 10-KSB | March 1995      | 10.2 |
| 10.2 | Lease Agreement dated June 2, 2000 by and between SND Properties and Charleston Gold and Diamond Exchange, Inc.                            | × | 10-KSB | March 29, 2001  | 10.1 |
| 10.3 | Lease agreement dated October 5, 2004 by and between Beltline Denton Road Associates and Dallas Gold & Silver Exchange                     | × | 10-K   | April 15, 2005  | 10.2 |
| 10.4 | Lease agreement dated December 1, 2004 by and between Stone Lewis Properties and Dallas Gold & Silver Exchange                             | × | 10-K   | April 15, 2005  | 10.3 |
| 10.5 | Lease agreement dated November 18, 2004 by and between Hinkle Income Properties LLC and American Pay Day Centers, Inc.                     | × | 10-K   | April 15, 2005  | 10.4 |
| 10.6 | Lease Agreement dated January 17, 2005 by and between Belle-Hall Development Phase III Limited Partnership and DGSE Companies, Inc.        | × | S-4    | January 6, 2007 | 10.6 |
| 10.7 | Sale agreement dated executed July 5, 2007 by and between DGSE Companies, Inc. and Texas Department of Transportation                      | × | 8-K    | July 11, 2007   | 10.1 |



## DGSE Companies, Inc. and Subsidiaries

|       |   |   |       |                 |      |
|-------|---|---|-------|-----------------|------|
| 10.8  | Purchase agreement dated July 5, 2007 by and between DGSE Companies, Inc. and 11311 Reeder Road Holdings, LP                  | × | 8-K   | July 11, 2007   | 10.2 |
| 10.9  | Loan Agreement, dated as of December 22, 2005, between DGSE Companies, Inc. and Texas Capital Bank, N.A.                      | × | 8-K/A | August 17, 2006 | 10.1 |
| 10.10 | Third Amendment to Loan Agreement, dated as of May 10, 2007, by and between DGSE Companies, Inc. and Texas Capital Bank, N.A. | × | 8-K   | May 9, 2007     | 3.0  |
| 10.11 | Support Agreement, DGSE stockholders, dated as of January 6, 2007   | × | 8-K   | January 9, 2007 | 99.1 |
| 10.12 | Securities Exchange Agreement, dated as of January 6, 2007  | × | 8-K   | January 9, 2007 | 99.2 |
| 10.13 | Warrant to DiGenova, issued January 6, 2007   | × | 8-K   | January 9, 2007 | 99.3 |
| 10.14 | Support Agreement, Superior stockholders, dated as of January 6, 2007   | × | 8-K   | January 9, 2007 | 99.5 |
| 10.15 | Asset purchase agreement, dated May 9, 2007, by and between DGSE Companies, Inc. and Eules Gold & Silver, Inc.                | × | 8-K   | May 9, 2007     | 1.0  |
| 10.16 | Subordinated Promissory Note dated May 9, 2007  | × | 8-K   | May 9, 2007     | 2.0  |
| 10.17 | Registration Rights Agreement with Stanford International Bank Ltd., dated as of May 30, 2007                                 | × | 8-K   | May 31, 2007    | 99.1 |
| 10.18 | Corporate Governance Agreement with Dr. L.S. Smith and Stanford International Bank Ltd., dated as of May 30, 2007             | × | 8-K   | May 31, 2007    | 99.2 |

## DGSE Companies, Inc. and Subsidiaries

|       |  |   |     |              |      |
|-------|--|---|-----|--------------|------|
| 10.19 | Escrow Agreement with American Stock Transfer & Trust Company and Stanford International Bank Ltd., as stockholder agent, dated as of May 30, 2007                 | × | 8-K | May 31, 2007 | 99.3 |
| 10.20 | Form of Warrants   | × | 8-K | May 31, 2007 | 99.4 |
| 10.21 | Amended and Restated Commercial Loan and Security Agreement, by and between Superior Galleries Inc. and Stanford International Bank Ltd., dated as of May 30, 2007 | × | 8-K | May 31, 2007 | 99.5 |
| 10.22 | Employment Agreement with L.S. Smith, dated as of May 30, 2007   | × | 8-K | May 31, 2007 | 99.6 |
| 10.23 | Employment Agreement with William H. Oyster, dated as of May 30, 2007  | × | 8-K | May 31, 2007 | 99.7 |
| 10.24 | Employment Agreement with John Benson, dated as of May 30, 2007  | × | 8-K | May 31, 2007 | 99.8 |
| 31.1  | Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Dr. L.S. Smith       | × |     |              |      |
| 31.2  | Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by John Benson          | × |     |              |      |
| 32.1  | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Dr. L.S. Smith                            | × |     |              |      |
| 32.2  | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by John Benson                               | × |     |              |      |

Reports on Form 8-K :

None.

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SIGNATURES

In accordance with Section 13 and 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DGSE Companies, Inc.

By: /s/ L. S. Smith  
L. S. Smith  
Chairman of the Board,  
Chief Executive Officer and  
Secretary

Dated: March 19, 2010

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By: /s/ L. S. Smith  
L. S. Smith  
Chairman of the Board,  
Chief Executive Officer and  
Secretary

Dated: March 19, 2010

By: /s/ W. H. Oyster  
W. H. Oyster  
Director, President and  
Chief Operating Officer

Dated: March 19, 2010

By: /s/ John Benson  
John Benson  
Chief Financial Officer  
(Principal Accounting Officer)

Dated: March 19, 2010

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