

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   
Non-accelerated filer

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 o NO p

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,<br>2010<br>Unaudited | December 31,<br>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 |
|---------|------------|-----------|

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 |
|---------|------------|-----------|

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                       |              |
| Cash flows from operating activities   |                                 |              |
| 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      |
| Cash flows from investing activities   |                                 |              |
| 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    |
| Cash flows from financing activities   |                                 |              |
| 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<br>Jewelry | Wholesale<br>Jewelry | Precious<br>Metals | Rare<br>Coins | Discontinued<br>Operations | Corporate<br>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               | —                    | —                  | —             | —                          | —                      | 100          |
| 2009                                 | 78                | —                    | —                  | —             | —                          | —                      | 78           |
| <b>Interest expense</b>              |                   |                      |                    |               |                            |                        |              |
| 2010                                 | 85                | —                    | —                  | —             | —                          | —                      | 85           |
| 2009                                 | 66                | 26                   | 66                 | 66            | —                          | —                      | 224          |
| <b>Income tax expense</b>            |                   |                      |                    |               |                            |                        |              |
| 2010                                 | —                 | —                    | —                  | —             | —                          | —                      | —            |
| 2009                                 | 169               | (12)                 | (12)               | 77            | (12)                       | (13)                   | 197          |

## DGSE COMPANIES, Inc. and Subsidiaries

Our operations by segment for the Nine months ended September 30 are as follows:

| (In thousands)                       | Retail<br>Jewelry | Wholesale<br>Jewelry | Precious<br>Metals | Rare<br>Coins | Discontinued<br>Operations | Corporate<br>and Other | Consolidated |
|--------------------------------------|-------------------|----------------------|--------------------|---------------|----------------------------|------------------------|--------------|
| <b>Revenues</b>                      |                   |                      |                    |               |                            |                        |              |
| 2010                                 | \$ 17,524         | \$ 1,845             | \$ 29,288          | \$ 7,545      | \$ —                       | \$ —                   | 56,202       |
| 2009                                 | 17,881            | 2,672                | 31,227             | 11,474        | —                          | —                      | 63,254       |
| <b>Net earnings (loss)</b>           |                   |                      |                    |               |                            |                        |              |
| 2010                                 | (474)             | (28)                 | 549                | 216           | —                          | 7,213                  | 7,476        |
| 2009                                 | 689               | (99)                 | 481                | 600           | (382)                      | (100)                  | 1,189        |
| <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                                 | 233               | —                    | —                  | —             | —                          | —                      | 233          |
| 2009                                 | 290               | —                    | —                  | —             | —                          | —                      | 290          |
| <b>Depreciation and amortization</b> |                   |                      |                    |               |                            |                        |              |
| 2010                                 | 236               | —                    | —                  | —             | —                          | —                      | 236          |
| 2009                                 | 196               | —                    | —                  | —             | —                          | —                      | 196          |
| <b>Interest expense</b>              |                   |                      |                    |               |                            |                        |              |
| 2010                                 | 370               | —                    | —                  | —             | —                          | —                      | 370          |
| 2009                                 | 175               | 83                   | 175                | 175           | —                          | —                      | 608          |
| <b>Income tax expense</b>            |                   |                      |                    |               |                            |                        |              |
| 2010                                 | —                 | —                    | —                  | —             | —                          | 1,337                  | 1,337        |
| 2009                                 | 421               | (27)                 | 132                | 164           | (160)                      | (100)                  | 430          |
| <b>Non-cash item:</b>                |                   |                      |                    |               |                            |                        |              |
| Gain on forgiveness of debt          |                   |                      |                    |               |                            |                        |              |
| 2010                                 | —                 | —                    | —                  | —             | —                          | 9,198                  | 9,198        |
| 2009                                 | —                 | —                    | —                  | —             | —                          | —                      | —            |

## (4) Stock-based Compensation.

We account for all share-based payment awards to employees and directors, including stock options granted under our employee stock option plan, using the fair value recognition provisions of ASC Topic 718, Compensation—Stock Compensation (ASC 718) and the provisions of Staff Accounting Bulletin No. 107, issued by the SEC. We use the



Black-Scholes-Merton option-pricing formula to value share-based payments granted to employees and attribute the value of stock-based compensation to expense using the straight-line single option method. Stock-based compensation expense recognized each period includes: (1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the measurement date fair value estimate in accordance with the original provisions of SFAS No. 123, and (2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the measurement date fair value estimate in accordance with the provisions of ASC 718. Stock-based compensation expense recognized each period is based on the greater of the value of the portion of share-based payment awards under the straight-line method or the value of the portion of share-based payment awards that is ultimately expected to vest during the period. In accordance with ASC 718, we estimate forfeitures at the time of grant and revise our estimates, if necessary, in subsequent periods if actual forfeitures differ materially from those estimates. Stock-based compensation expense under ASC 718 for the nine months ended September 30, 2010 and 2009 was \$0 and \$48,100, respectively relating to employee and director stock options.

## DGSE COMPANIES, Inc. and Subsidiaries

ASC 718 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. Due to our historical net operating loss position, we have not recorded these excess tax benefits at September 30, 2010 and December 31, 2009.

## (6) 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 all periods presented. During the first nine months of 2010 and 2009 the auction segment incurred pretax losses of \$0 and \$512,136, respectively.

The following summarizes the carrying amount of assets and liabilities of the auction segment as of September 30, 2010 and 2009:

|                       |           |                |
|-----------------------|-----------|----------------|
| <b>Assets</b>         |           |                |
| Accounts receivable   | \$        | —              |
| <b>Current assets</b> | <b>\$</b> | <b>—</b>       |
| <br>                  |           |                |
| Long-term receivable  | \$        | 295,617        |
| <b>Total assets</b>   | <b>\$</b> | <b>295,617</b> |
| <b>Liabilities</b>    |           |                |
| Auctions payable      | \$        | —              |

As of September 30, 2010, there were no operating assets to be disposed of or liabilities to be paid in completing the disposition of these 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.

DGSE COMPANIES, Inc. and Subsidiaries

(7) New Accounting Pronouncements.

Effective August 1, 2009, we adopted Statement of Financial Accounting Standard (“SFAS”) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162 (“SFAS 168”), effective for our fiscal quarter ended October 31, 2009. SFAS 168 established the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) as the single source of authoritative non-governmental accounting principles to be applied in the preparation of financial statements in conformity with GAAP. Although SFAS 168 does not change GAAP, the adoption of SFAS 168 impacted our financial statements since all future references to authoritative accounting literature are now in accordance with SFAS 168, except for the following standards, which will remain authoritative until they are integrated into the ASC: SFAS 164, Not-for-Profit Entities: Mergers and Acquisitions; SFAS 166, Accounting for Transfers of Financial Assets; SFAS 167, Amendments to FASB Interpretation No. 46R; and SFAS 168.

In April 2009, the FASB issued accounting standards under ASC Topic 825, Financial Instruments, which extend the annual financial statement disclosure requirements for financial instruments to interim reporting periods of publicly traded companies. We adopted this standard effective August 1, 2009.

In August 2009, the FASB issued Accounting Standards Update 2009-05, Measuring Liabilities at Fair Value (“ASU 2009-05”), which is effective for the first reporting period (including interim periods) following issuance. ASU 2009-05 clarifies the application of certain valuation techniques in circumstances in which a quoted price in an active market for the identical liability is not available. We adopted this standard effective November 1, 2009.

In January 2010, the FASB issued Accounting Standards Update 2010-06, Improving Disclosures about Fair Value Measurements (“ASU 2010-06”). ASU 2010-06 provides more robust disclosures about the transfers between Levels 1 and 2, the activity in Level 3 fair value measurements and clarifies the level of disaggregation and disclosure related to the valuation techniques and inputs used. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010. We do not expect a material impact from the adoption of this guidance on our consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update 2010-09, Amendments to Certain Recognition and Disclosure Requirements (“ASU 2010-09”). ASU 2010-09 amends the guidance issued in ASC 855, Subsequent Events, by not requiring SEC filers to disclose the date through which an entity has evaluated subsequent events. ASU 2010-09 was effective upon issuance. There was not a material impact from the adoption of this guidance on our consolidated financial statements.

(8) Settlement of Litigation.

On January 27, 2010, DGSE Companies, Inc. (“DGSE”) and Stanford International Bank, LTD (“SIBL”), which prior to the closing of certain settlement agreements discussed below was a beneficial owner of a significant equity interest in DGSE, a primary lender to a wholly owned subsidiary of DGSE and subject to certain agreements with DGSE and its Chairman, entered into a Purchase and Sale Agreement and a Debt Conversion Agreement to settle DGSE’s lawsuit against SIBL. On May 25, 2010, DGSE and SIBL and a third party entered in a closing agreement to finalize the settlement agreements upon the approval of the settlement by the United States District Court for the Northern District of Texas which has jurisdiction for the assets of SIBL. Upon closing of the transaction, SIBL terminated all agreements, converted all of its subsidiary's debt, interest and other expenses for 1,000 shares of DGSE common stock provided to its subsidiary, and sold 3,000,000 shares of common stock to DGSE’s assignee, NTR Metals for

\$3,000,000 under a Partial Assignment Agreement. Pursuant to the partial assignment of the Company's rights as a Buyer to NTR under the Company-SIBL Purchase Agreement, NTR acquired directly from SIBL 3,000,000 Shares of the Company (the "NTR Acquired Interest"). The parties agreed that the remaining portion of the SIBL Equity Interest (i.e. 377,361 Shares) be transferred as designated by the Company. SIBL cancelled 422,814 additional warrants to purchase additional shares of DGSE as part of the settlement agreement. As a result of the transaction, the Company recognized a gain of \$9,198,570 related to the cancellation of debt.

On February 26, 2010, Superior Galleries, Inc. ('Superior') entered into a settlement agreement for a lawsuit filed by its previous landlord, DBKK, LLC for \$385,000 to be paid over three years bearing interest at 8%. The Company's settlement with DBBK was a risk management decision based on an original claim in the amount of \$806,000. The lawsuit resulted from a lease transaction entered into by certain officers of Superior. As of September 30, 2010, the Company has recorded \$385,000 loss related to the settlement of this litigation in other (income) expense.

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(9) 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 carry-back 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) carry-forward 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"), as codified by ASC 740, "Income Taxes.". 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 period ended September 30, 2009, 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.

On January 27, 2010, DGSE Companies, Inc. ("DGSE") and Stanford International Bank, LTD ("SIBL") as discussed herein, entered into a settlement agreement that resulted in the Company through it's wholly owned susidiary recognizing a gain of \$9,198,570 related to the cancellation of debt owed to SIBL. The transaction was treated for tax reporting purposes under the insolvency exemption under Section 108, as the stand alone subsidiary, Superior Galleries, was deemed insolvent as its liabilities exceeded it assets by approximately \$11 million before the debt was forgiven in the settlement agreement. Accordingly, the gain was not included in gross income for income tax reporting purposes as the gain excluded did not exceed the amount by which Superior Galleries was insolvent. The non-recognition rules under Section 108, required a utilization of NOL's equivalent to the amount of "non-recognized" Cancellation of Debt (COD) income of \$9,198,570. The Superior Galleries NOL acquired primarily through the acquisition in May 2007 resulted in the recording of a deferred tax asset with a valuation allowance recorded against it. The valuation recorded was due to the fact that, as of the acquisition date, the entire NOL could not be fully utilized due to the Section 382 limitation. In the current period, this valuation allowance was reversed since the NOL was used in this period to offset the COD income on the Stanford settlement. The provisions of SEC. 108 provided utilization of the net operatin losses of the insolvent subsidiary in excess of net operation losses orginally estimated by the company to be useable to provide future tax benefit. Superior's exchange of DGSE shares provided by its parent settle the debt in exchange for the cancellation of the debt, and DGSE assigned its right to NTR Metals to acquire Stanford's 3,376,361 shares in exchange for \$3,600,000.

(10) Subsequent Events.

The Company entered into agreements to sell securities through an exempt offering to certain accredited investors in August 2010. The Company filed a Form I.) "Notice of Exempt Offering of Securities" in accordance with SEC regulations to report the offering. The private placement of units, with each unit consisting of (1) 24,286 shares of common stock and (2) \$50,000 of indebtedness of the company, evidenced by notes convertible into common stock, for a purchase price of \$100,000 per unit, generated aggregate of proceeds of \$500,000. The shares of common stock

were issued in October 2010. The resulting transaction will be recorded in the 4th quarter of 2010.

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;

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- 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, 2009. 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. 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](http://DGSE.com); [CGDEinc.com](http://CGDEinc.com); [SGBH.com](http://SGBH.com); [SuperiorPreciousMetals.com](http://SuperiorPreciousMetals.com); [SuperiorEstateBuyers.com](http://SuperiorEstateBuyers.com); [USBullionExchange.com](http://USBullionExchange.com); [Americangoldandsilverexchange.com](http://Americangoldandsilverexchange.com); and [FairchildWatches.com](http://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.

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 jewelry, rare coins and bullion 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](http://SGBH.com).

[Americangoldandsilverexchange.com](http://Americangoldandsilverexchange.com), the over 900 proprietary Internet sites related to the home page of [Americangoldandsilverexchange.com](http://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 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](http://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”.



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**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 September 30, 2010.

**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".

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 ASC 845, "Nonmonetary Transactions." 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.

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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.

**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.** FASB Accounting Guidance 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 this guidance 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 this guidance on a net basis.

**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. .

DGSE COMPANIES, Inc. and Subsidiaries

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.

**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 carry-back 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) carry-forward 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"), as codified by ASC 740, "Income Taxes.". 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, 2009 and 2008 and for the nine-months ended September 30, 2010, 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 September 30, 2010 compared to Three Months Ended September 30, 2009

Sales increased by \$1,828,000 or 11.0%, during the three months ended September 30, 2010 as compared to 2009. This increase was primarily the result of a \$1,997,000 or 27.4% increase in precious metal, due to higher prices in all metal markets. Sales from all other segments were relative stable during the quarter. Cost of goods as a percentage of sales was increased to 84.7% in 2010 from 81.6% in 2009 due to the increase in precious metal sales which have lower margins compared to our other segments.

Selling, general and administrative expenses increased by \$255,059 or 11.7%, during the three months ended September 30, 2010 as compared to 2009. This increase was primarily due to higher advertising and payroll related cost. The decrease in interest expense is due to lower interest rates on our line of credit and due the transaction concluded with the Receiver in the matter of Stanford International Bank LTD

Income tax expense is directly affected by the levels of pretax income and non-deductible permanent differences. The Company's effective tax rate for the three months ended June 30, 2010 and 2009 were 18.0% and 16.0%, 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.

Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009

Sales decreased by \$7,052,000 or 11.1%, during the nine months ended September 30, 2010 as compared to 2009. This decrease was primarily the result of a \$357,000, or 1.9%, decrease in retail jewelry sales, a 1,939,000, or 6.2%, decrease in the sale of precious metal products, a \$3,929,000 or 34.2% decrease in rare coin sales and a \$827,000, or 30.9% decrease in our wholesale jewelry sales. The decreases in precious metals and rare coin sales were due to a decrease in demand resulting from a less volatile gold market. The decrease in jewelry sales was due to the sluggish retail environment. Cost of goods as a percentage of sales was 85.6% in 2010 vs. 84.9% in 2009.

Selling, general and administrative expenses increased by \$715,178 or 10.6%, during the six months ended June 30, 2010 as compared to 2009. This increase was primarily due to higher advertising and payroll related cost. The decrease in interest expense is due to lower interest rates on our line of credit.

Other income during 2010 was a result of the transaction concluded with the Receiver in the matter of Stanford International Bank LTD

Income tax expense is directly affected by the levels of pretax income and non-deductible permanent differences. The Company's effective tax rate for the nine months ended September 30, 2010 and 2009 were 15.5% and 21.5%, respectively.

Liquidity and Capital Resources

During the nine months ended September 30, 2010 and 2009 cash flows from operating activities totaled (\$217,433) and \$643,865, respectively. During 2010 the (\$217,433) cash flows from operating activities were primarily the result of the decrease in current liabilities (\$1,808,546) which was partly offset by a 1,738,388 decrease in inventory. Cash flows from operating activities during 2009 were primarily the result of a decrease in inventory \$448,917, a decrease in accounts payable and accrued expenses (\$992,151), a decrease in customer deposits (\$769,535) and a decrease in trade receivables 916,567. The decrease in inventory and customer deposits was due to a decrease 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 the nine months ended September 30 2010 and 2009 cash flows from investing activities totaled (\$224,940) and \$1,034,098, respectively. During 2010 the Company invested \$287,340 in property and equipment. During 2009 the primary source of cash from investing activities was the result of cash received from the sale of the Company's pawn shops in June 2009.

DGSE COMPANIES, Inc. and Subsidiaries

During the nine months ended September 30, 2010 and 2009 cash flows from financing activities totaled (\$383,578) and (\$736,181), respectively. The use of cash during 2010 and 2009 was the result of repayment of loans.

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 September 30, 2010 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.

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.

On May 27, 2010, the Company announced that Texas Capital Bank has agreed to renew and increase the size of its current credit facility. The new facility is composed of a \$3.5 million revolving note and a \$1.0 million term loan provided immediate availability to finance current operations. The agreement was finalized and funded June 2, 2010. 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 September 30, 2010, approximately \$3.9 million 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. This credit facility matures in June 2011.

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

| As of September 30, 2009                        | Requirement               | Actual calculation |
|---|---------------------------|--------------------|
| Minimum tangible net worth                      | 17,750,000                | 17,981,577         |
| Maximum total liabilities to tangible net worth | Not to exceed .75         | .44                |
| Minimum debt service coverage                   | Must be greater than 1.40 | 1.43               |

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.



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 accrued 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.

On January 27, 2010, DGSE and Stanford International Bank, LTD (“SIBL”), which was the beneficial owner of a significant equity interest in DGSE, a primary lender to a wholly owned subsidiary of DGSE and subject to certain agreements with DGSE and its Chairman, entered into definitive agreements whereby SIBL would terminate all agreements, convert all of its debt through its subsidiary, interest and other expenses and sell all of its equity interests including common stock and warrants to DGSE or its assignees.

## DGSE COMPANIES, Inc. and Subsidiaries

On January 27, 2010, DGSE Companies, Inc. (“DGSE”) and Stanford International Bank, LTD (“SIBL”), which prior to the closing of certain settlement agreements discussed below was a beneficial owner of a significant equity interest in DGSE, a primary lender to a wholly owned subsidiary of DGSE and subject to certain agreements with DGSE and its Chairman, entered into a Purchase and Sale Agreement and a Debt Conversion Agreement to settle DGSE’s lawsuit against SIBL. On May 25, 2010, DGSE and SIBL and a third party entered in a closing agreement to finalize the settlement agreements upon the approval of the settlement by the United States District Court for the Northern District of Texas which has jurisdiction for the assets of SIBL. Upon closing of the transaction, SIBL terminated all agreements, converted all of its subsidiary's debt, interest and other expenses for 1,000 shares of DGSE common stock provided to its subsidiary and sold 3,000,000 shares of common stock to DGSE’s assignee, NTR Metals for \$3,000,000 under a Partial Assignment Agreement. Pursuant to the partial assignment of the Company’s rights as a Buyer to NTR under the Company-SIBL Purchase Agreement, NTR acquired directly from SIBL 3,000,000 Shares of the Company (the “NTR Acquired Interest”). The parties agreed that the remaining portion of the SIBL Equity Interest (i.e. 377,361 Shares) be transferred as designated by the Company. SIBL cancelled 422,814 additional warrants to purchase additional shares of DGSE as part of the settlement agreement. As a result of the transaction, the Company recognized a gain of \$9,198,570 related to the cancellation of debt.

| Contractual Cash Obligations      | Total        | Payments due by period |              |             |              |
|-----------------------------------|--------------|------------------------|--------------|-------------|--------------|
|                                   |              | 2010                   | 2011 - 2012  | 2013 – 2014 | Thereafter   |
| Line of credit                    | \$ 2,979,886 | \$ —                   | \$ 2,979,886 | \$ —        | \$ —         |
| Long-term debt and capital leases | 3,031,804    | 80,768                 | 489,859      | 484,608     | 1,976,569    |
| Operating Leases                  | 1,736,195    | 151,190                | 1,248,447    | 302,486     | 34,072       |
| Total                             | \$ 7,747,885 | \$ 231,958             | \$ 4,718,192 | \$ 787,094  | \$ 2,010,641 |

In addition, we estimate that we will pay approximately \$400,000 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.

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.

DGSE COMPANIES, Inc. and Subsidiaries

Changes in internal controls. For the quarter ended June 30, 2010, 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.

## DGSE COMPANIES, Inc. and Subsidiaries

## 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<br>Articles of Incorporation, dated<br>June 26, 1992 | × | 8-A12G June 23, 1999 | 3.6 |
|-----|--|---|----------------------|-----|

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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  | × | 8-K    | July 11, 2007   | 10.1 |

DGSE Companies, Inc. and Texas  
Department of Transportation



## 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 Euleless 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: November 14, 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: November 14, 2010

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

Dated: November 14, 2010

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

Dated: November 14, 2010