

Edgar Filing: DGSE COMPANIES INC - Form 10QSB

DGSE COMPANIES INC
Form 10QSB
November 12, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

(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, 2004

Transition Report under 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.
(Name of small business issuer)

Nevada

(State or other jurisdiction
of incorporation or organization)

88-0097334

(I.R.S. Employer Identification
Number)

2817 Forest Lane, Dallas, Texas

(Address of principal executive offices)

75234

(Zip Code)

(Issuer's telephone number, including area code) (972) 484-3662

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at October 26, 2004 |
|-------------------------------|---------------------------------|
| Common Stock, \$.01 per value | 4,913,290 |

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

DGSE Companies, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

| | (Unaudited) | |
|---|-----------------------|----------------------|
| ASSETS | September 30, 2004 | December 31, 2003 |
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 244,913 | \$ 735,293 |
| Trade receivables | 796,019 | 774,586 |
| Other receivables | -- | 204,430 |
| Inventories | 7,074,398 | 6,673,865 |
| Prepaid expenses | 200,379 | 149,277 |
| | ----- | ----- |
| Total current assets | 8,315,709 | 8,537,451 |
| MARKETABLE SECURITIES - AVAILABLE FOR SALE | 140,002 | 243,446 |
| PROPERTY AND EQUIPMENT - AT COST, NET | 977,577 | 989,966 |
| DEFERRED INCOME TAX BENEFIT | 12,428 | -- |
| GOODWILL | 837,117 | 1,151,120 |
| OTHER ASSETS | 299,297 | 149,546 |
| | ----- | ----- |
| | \$ 10,582,130 | \$ 11,071,529 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Notes payable | \$ 2,591,758 | \$ 541,546 |
| Current maturities of long-term debt | 190,845 | 197,315 |
| Accounts payable - trade | 317,745 | 859,269 |
| Accrued expenses | 130,408 | 705,756 |
| Customer deposits | 110,624 | 150,088 |
| Federal income taxes payable | 412,672 | 512,991 |
| | ----- | ----- |
| Total current liabilities | 3,754,052 | 2,966,965 |
| Long-term debt, less current maturities | 1,137,796 | 2,719,482 |
| Deferred income taxes | -- | 22,743 |
| | ----- | ----- |
| Total liabilities | 4,891,848 | 5,709,190 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$.01 par value; authorized 10,000,000 shares; issued and outstanding 4,913,290 shares at eptember 30, 2004 and December 31, 2003 | 49,133 | 49,133 |
| Additional paid-in capital | 5,708,760 | 5,708,760 |

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| | | |
|--|---------------|---------------|
| Accumulated other comprehensive (loss) | (68,273) | -- |
| Retained earnings (deficit) | 662 | (395,554) |
| | ----- | ----- |
| Total shareholders' equity | 5,690,282 | 5,362,339 |
| | \$ 10,582,130 | \$ 11,071,529 |
| | ===== | ===== |

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 September 30,
(Unaudited)

| | 2004 | 2003 |
|--|--------------|--------------|
| | ----- | ----- |
| Revenue | | |
| Sales | \$ 6,239,150 | \$ 5,449,372 |
| Pawn services charges | 68,463 | 46,846 |
| | ----- | ----- |
| | 6,307,613 | 5,496,218 |
| Costs and expenses | | |
| Cost of goods sold | 4,973,392 | 4,285,006 |
| Selling, general and administrative expenses | 987,094 | 884,931 |
| Depreciation and amortization | 35,031 | 21,390 |
| | ----- | ----- |
| | 5,995,517 | 5,191,327 |
| Operating income | 312,096 | 304,891 |
| | ----- | ----- |
| Other income (expense) | | |
| Gain on sale of assets | 39,098 | -- |
| Interest expense | (73,005) | (73,005) |
| | ----- | ----- |
| Total other income (expense) | (33,907) | (73,005) |
| Income before income taxes | 278,189 | 231,886 |
| Income tax expense | 94,584 | 78,841 |
| | ----- | ----- |
| Net income from continuing operations | 183,605 | 153,045 |
| Loss from discontinued operations, net of income taxes | (73,864) | (58,239) |
| | ----- | ----- |
| Net income | \$ 109,741 | \$ 94,806 |
| | ===== | ===== |

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| | | |
|---|-----------|-----------|
| Earnings per common share | | |
| Basic and diluted | | |
| From continuing operations | \$.04 | \$.03 |
| From discontinued operations | (.02) | (.01) |
| | ----- | ----- |
| | \$.02 | \$.02 |
| | ===== | ===== |
| Weighted average number of common shares: | | |
| Basic | 4,913,290 | 4,913,290 |
| Diluted | 5,155,141 | 4,913,290 |

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
Nine months ended September 30,
(Unaudited)

| | 2004 | 2003 |
|--|---------------|---------------|
| | ----- | ----- |
| Revenue | | |
| Sales | \$ 19,160,794 | \$ 16,221,338 |
| Pawn services charges | 163,177 | 130,358 |
| | ----- | ----- |
| | 19,323,971 | 16,351,696 |
| Costs and expenses | | |
| Cost of goods sold | 15,414,425 | 13,029,294 |
| Selling, general and administrative expenses | 2,792,576 | 2,623,105 |
| Depreciation and amortization | 107,428 | 106,488 |
| | ----- | ----- |
| | 18,314,429 | 15,758,887 |
| Operating income | 1,009,542 | 592,809 |
| | ----- | ----- |
| Other income (expense) | | |
| Gain on sale of assets | 39,098 | -- |
| Interest expense | (218,063) | (214,040) |
| | ----- | ----- |
| Total other income (expense) | (178,965) | (214,040) |
| Income before income taxes | 830,577 | 378,769 |

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| | | |
|--|------------|------------|
| Income tax expense | 282,396 | 128,781 |
| | ----- | ----- |
| Net income from continuing operations | 548,181 | 249,988 |
| Loss from discontinued operations, net of income taxes | (151,965) | (117,042) |
| | ----- | ----- |
| Net income | \$ 396,216 | \$ 132,946 |
| | ===== | ===== |
| Earnings per common share | | |
| Basic and diluted | | |
| From continuing operations | \$.11 | \$.05 |
| From discontinued operations | (.03) | (.02) |
| | ----- | ----- |
| | \$.08 | \$.03 |
| | ===== | ===== |
| Weighted average number of common shares: | | |
| Basic | 4,913,290 | 4,913,290 |
| Diluted | 5,159,458 | 4,913,290 |

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
 Nine months ended September 30,
 (Unaudited)

| | 2004 | 2003 |
|---|-------------|------------|
| | ----- | ----- |
| Cash Flows From Operations | | |
| Reconciliation of net loss to net cash used in operating activities | | |
| Net income (loss) | \$ 396,216 | \$ 132,946 |
| Depreciation and amortization | 107,428 | 128,178 |
| Gain on sale of assets | (32,529) | -- |
| Deferred taxes | -- | 156,495 |
| Other | 8,704 | (8,013) |
| (Increase) decrease in operating assets and liabilities | | |
| Trade receivables | 221,074 | 187,552 |
| Inventories | (400,533) | (731,923) |
| Prepaid expenses and other current assets | (51,102) | (91,764) |
| Accounts payable and accrued expenses | (1,116,872) | (537,741) |
| Change in customer deposits | (39,464) | 128,079 |
| Federal income taxes payable | (100,319) | (258,274) |
| | ----- | ----- |
| Total net cash used in operating activities | (1,007,397) | (894,465) |

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| | | |
|--|------------|-----------|
| Cash flows from investing activities | | |
| Purchase of property and equipment | (95,039) | (16,583) |
| Proceeds from sale of assets | 150,000 | -- |
| | ----- | ----- |
| Net cash (used) provided by investing activities | 54,961 | (16,583) |
| | | |
| Cash flows from financing activities | | |
| Proceeds from notes issued | 1,068,660 | 759,054 |
| Payments on notes payable | (606,604) | (302,282) |
| | ----- | ----- |
| Net cash provided by financing activities | 462,056 | 456,772 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (490,380) | (454,276) |
| Cash and cash equivalents at beginning of year | 735,293 | 498,408 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 244,913 | \$ 44,132 |
| | ===== | ===== |

Supplemental disclosures:

Interest paid for the nine months ended September 30, 2004 and 2003 was \$218,063 and \$ 214,040, respectively.

Income taxes paid for the nine months ended September 30, 2004 and 2003 were \$304,430 and \$174,683, respectively.

In July 2004 the Company sold the goodwill and trade name of Silverman Consultants, Inc. for \$ 150,000 in cash and a note with a discounted value of \$ 197,162.

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

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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., Silverman Consultants, Inc. and Charleston Gold and Diamond Exchange, Inc. In July 2004 the Company sold the goodwill and trade name of Silverman Consultants, Inc. and discontinued the operations of this subsidiary. As a result, operating results for this subsidiary have been reclassified to discontinued operations for all periods presented. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The Company's operating results for the nine months ended September 30, 2004, are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2003. Certain reclassifications were made to the prior year's consolidated financial

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statements to conform to the current year presentation.

(2) - Earnings per share

No schedule provided for the periods ended September 30, 2004 and 2003 because the effect on earnings per share is not dilutive.

(3) - Business segment information

The Company's operations by business segment for the three months ended September 30, were as follows:

| | Jewelry ----- | Discontinued Operations ----- | Corporate & Other ----- | Consolidated ----- |
|----------------------------------|------------------|-------------------------------------|-------------------------------|-----------------------|
| Revenues | | | | |
| 2004 | \$ 6,307,613 | -- | -- | \$ 6,307,613 |
| 2003 | \$ 5,496,218 | -- | -- | \$ 5,496,218 |
| Net income (loss) | | | | |
| 2004 | \$ 179,594 | \$ (73,864) | \$ 4,011 | \$ 109,741 |
| 2003 | \$ 159,799 | \$ (58,239) | \$ (6,754) | \$ 94,806 |
| Identifiable assets | | | | |
| 2004 | \$ 10,172,811 | \$ 10,932 | \$ 398,387 | \$ 10,582,130 |
| 2003 | \$ 9,858,205 | \$ 422,910 | \$ 230,730 | \$ 10,511,845 |
| Capital expenditures | | | | |
| 2004 | \$ 26,392 | \$ -- | \$ -- | \$ 26,392 |
| 2003 | \$ 6,483 | \$ -- | \$ -- | \$ 6,483 |
| Depreciation and amortization | | | | |
| 2004 | \$ 33,156 | \$ -- | \$ 1,875 | \$ 35,031 |
| 2003 | \$ 21,390 | \$ -- | \$ -- | \$ 21,390 |

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The Company's operations by business segment for the nine months ended September 30, were as follows:

| | Jewelry ----- | Discontinued Operations ----- | Corporate & Other ----- | Consolidated ----- |
|-------------------|------------------|-------------------------------------|-------------------------------|-----------------------|
| Revenues | | | | |
| 2004 | \$ 19,323,971 | \$ -- | \$ -- | \$ 19,323,971 |
| 2003 | \$ 16,351,696 | \$ -- | \$ -- | \$ 16,351,696 |
| Net income (loss) | | | | |
| 2004 | \$ 586,673 | \$ (151,965) | \$ (38,492) | \$ 396,216 |
| 2003 | \$ 264,254 | \$ (117,042) | \$ (14,266) | \$ 132,946 |

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| | | | | | | |
|-------------------------------|---------------|------------|------------|---------------|--|--|
| Identifiable assets | | | | | | |
| 2004 | \$ 10,172,811 | \$ 10,932 | \$ 398,387 | \$ 10,582,130 | | |
| 2003 | \$ 9,858,205 | \$ 422,910 | \$ 230,730 | \$ 10,511,845 | | |
| Capital expenditures | | | | | | |
| 2004 | \$ 95,039 | \$ -- | \$ -- | \$ 95,039 | | |
| 2003 | \$ 16,583 | \$ -- | \$ -- | \$ 16,583 | | |
| Depreciation and amortization | | | | | | |
| 2004 | \$ 101,803 | \$ -- | \$ 5,625 | \$ 107,428 | | |
| 2003 | \$ 106,488 | \$ -- | \$ -- | \$ 106,488 | | |

(4) Other Comprehensive income:

Other comprehensive income is as follows:

| | Before Tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount |
|--|----------------------|-----------------------------|----------------------|
| | ----- | | |
| Other comprehensive income at December 31, 2003 | \$ -- | \$ -- | \$ -- |
| Unrealized holding gains arising during the Three months ended March 31, 2004 | 106,373 | (36,167) | 70,206 |
| | ----- | | |
| Other comprehensive income at March 31, 2004 | 106,373 | (36,167) | 70,206 |
| Unrealized holding losses during the Three months ended June 30, 2004 | (86,020) | 29,247 | (56,773) |
| | ----- | | |
| Other comprehensive income at June 30, 2004 | 20,353 | (6,920) | 13,433 |
| Unrealized holding losses during the Three months ended September 30, 2004 | (123,796) | 42,090 | (81,706) |
| | ----- | | |
| Other comprehensive loss at September 30, 2004 | \$ (103,443) | \$ 35,170 | \$ (68,273) |
| | ===== | | |
| 7 | | | |
| Other comprehensive income loss at December 31, 2002 | \$ (1,728,130) | \$ 593,180 | \$ (1,134,950) |
| Unrealized holding gains arising during the Three months ended March 31, 2003 | 75,278 | (25,594) | 49,684 |
| | ----- | | |
| Other comprehensive income (loss) at March 31, 2003 | (1,652,852) | 567,586 | (1,085,266) |
| Unrealized holding losses arising during the Three months ended June 30, 2003 | (46,260) | 15,728 | (30,532) |

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| | | | |
|---|----------------|------------|----------------|
| Other comprehensive income (loss) at June 30, 2003 | \$ (1,699,112) | \$ 583,314 | \$ (1,115,798) |
| Unrealized holding (loss) arising during the Three months ended September 30, 2003 | (15,970) | 5,430 | (10,540) |
| Other comprehensive income (loss) at September 30, 2003 | \$ (1,715,082) | \$ 588,744 | \$ (1,126,338) |

(5) Stock-based Compensation:

The Company accounts for stock-based compensation to employees using the intrinsic value method. Accordingly, compensation cost for stock options to employees is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the stock.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------|
| | 2004 | 2003 |
| Net income(loss) as reported | \$ 396,216 | \$ 132,946 |
| Deduct: Total stock-based employee compensation Expense determined under fair value based method For all awards, net of related tax effects | -- | -- |
| Pro forma net loss | \$ 396,216 | \$ 132,946 |

Earnings per share:

| | | |
|-----------------------|-------|-------|
| Basic - as reported | \$.08 | \$.03 |
| Basic - pro forma | \$.08 | \$.03 |
| Diluted - as reported | \$.08 | \$.03 |
| Diluted pro forma | \$.08 | \$.03 |

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants after 1998, expected volatility of 70% to 96%, risk-free rate of 3.9% to 6.6%, no dividend yield and expected life of 5 to 8 years.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION Results of Operations

Quarter ended September 30, 2004 vs 2003:

Sales for the third quarter of 2004 increased by \$ 789,778 or 14.5% when compared to the corresponding quarter of 2003. This was the result of a \$ 209,447 increase in jewelry sales and a \$ 580,331 increase in precious metals sales. These changes were due to a nation-wide improvement in the retail environment and price increases in precious metal products. Pawn service fees increased by 46.1% due to an increase in loan volume. Cost of sales increased primarily due to the increase in sales. Gross margins decreased from 21.4% in 2003 to 20.32% in 2004 due to the increase in sales of precious metal products. Selling, general and administrative expenses increased \$ 102,163 or 11.5% during the 2004 quarter due primarily to higher payroll and related cost.

Income taxes are provided at the corporate rate of 34% for both 2004 and 2003

Loss from discontinued operations during 2004 and 2003 in the amount of \$ 73,864 and \$ 58,239 net of income taxes is the combined results of three subsidiaries of the Company, DLS Financial Services, Inc., eye media, inc. and Silverman Consultants, Inc. The operations of these companies have been discontinued.

Nine months ended September 30, 2004 vs 2003:

Sales for the nine months ended September 30, 2004 increased by \$ 2,939,456 or 18.1% when compared to the corresponding period of 2003. This was the result of a \$ 1,573,869 increase in jewelry sales and a \$ 1,365,587 increase in precious metals sales. These changes were due to a nation-wide improvement in the retail environment and price increases in precious metal products.. Pawn service fees increased by 25.2% due to an increase in loan volume. Cost of sales increased primarily due to the increase in sales. Gross margins were 19.7% in 2003 compared to 19.6% in 2004. Selling, general and administrative expenses increased \$ 169,471 or 6.5% for the first nine months of 2004 due primarily to higher payroll and related costs.

Income taxes are provided at the corporate rate of 34% for both 2004 and 2003

Loss from discontinued operations during 2004 and 2003 in the amount of \$ 151,965 and \$ 117,042 net of income taxes is the combined results of three subsidiaries of the Company, DLS Financial Services, Inc., eye media, inc. and Silverman Consultants, Inc. The operations of these companies have been discontinued.

Liquidity and Capital Resources

The Company's short-term debt totaled \$2,782,603 as of September 30, 2004. The ability of the Company to finance its operations and working capital needs are dependent upon management's ability to negotiate extended terms or refinance its short-term debt. The Company has historically renewed, extended or replaced short-term debt as it matures and management believes that it will be able to do so in the future as short-term debt matures.

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Management of the Company expects capital expenditures to total approximately \$50,000 during the balance of 2004. It is anticipated that these expenditures will be funded from working capital.

From time to time, management has adjusted the Company's 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 or a portion of the Company's investments in marketable securities may be liquidated in order to meet working capital requirements.

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| Contractual Cash Obligations ----- | Payments due by year end ----- | | | | |
|---------------------------------------|-----------------------------------|---------------|---------------|---------------|-----------|
| Total ----- | 2004 ----- | 2005 ----- | 2006 ----- | 2007 ----- | |
| Notes payable | \$2,591,758 | \$ 266,758 | \$2,325,000 | -- | -- |
| Long-term debt and capital leases | 1,328,641 | 47,711 | \$ 544,138 | \$ 137,906 | \$ 135,33 |
| Federal income taxes | 412,672 | 412,672 | -- | -- | -- |
| Operating leases | 236,980 | 58,523 | 148,205 | 18,886 | 11,36 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$4,570,051 | \$ 785,664 | \$3,017,343 | \$ 156,792 | \$ 146,69 |
| | ===== | ===== | ===== | ===== | ===== |

This report contains forward-looking statements which reflect the view of Company's management with respect to future events. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from such expectations are a down turn in the current strong retail climate and the potential for fluctuations in precious metals prices. The forward-looking statements contained herein reflect the current views of the Company's management and the Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those contemplated by such forward-looking statements.

ITEM 3. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There are no significant changes in our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation. Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to

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ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

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

- 31.1 Certificate of L.S. Smith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Chief Executive Officer.
- 31.2 Certificate of John Benson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Chief Financial Officer .
- 32.2 Certificate of L.S. Smith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Chief Executive Officer.
- 32.2 Certificate of John Benson pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Chief Financial Officer.

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Reports on Form 8-K: Form 8-K dated July 30, 2004 - Item reported - Acquisition or Disposition of Assets
 Form 8-K dated October 14, 2004 - Item reported Change in Certifying Accountants
 Form 8-K/A-1 dated October 22, 2004 - Item reported Change in Certifying Accountants
 Form 8-K/A-2 dated November 1, 2004 - Item reported Change in Certifying Accountants

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 12, 2004

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

Dated: November 12, 2004

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L. S. Smith
Chairman of the Board,
Chief Executive Officer and
Secretary

By: /s/ W. H. Oyster

Dated: November 12, 2004

W. H. Oyster
Director, President and
Chief Operating Officer

By: /s/ John Benson

Dated: November 12, 2004

John Benson
Chief Financial Officer
(Principal Accounting Officer)